

The City of
COVINGTON
WASHINGTON



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014**

COMPREHENSIVE ANNUAL FINANCIAL REPORT



CITY OF COVINGTON, WASHINGTON

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014

SUBMITTED BY THE
FINANCE DEPARTMENT

ROB HENDRICKSON, FINANCE DIRECTOR

CASEY PARKER, SENIOR ACCOUNTANT

LINDSAY HAGEN, ACCOUNTANT I

STACI CLES, SENIOR ACCOUNTING CLERK

VIVIANA SALAZAR, FINANCE ASSISTANT

**CITY OF COVINGTON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

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INTRODUCTORY



City of Covington
16720 SE 271st St. Suite 100
Covington, WA 98042

City Hall – 253.480.2400
www.covingtonwa.gov

August 27, 2015

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, 2014. 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, and Covington Chamber of Commerce.

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, 2014, 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, 2014, had an estimated population of 18,480. 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 to assure compliance with all legal requirements 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 and 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 which is submitted to council for review in early October and adoption by December 31. The council must hold public hearings prior to adoption. An annual budget is adopted for all funds on a basis consistent with GAAP and 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.

Local Economy

The City ended 2014 on a high note. Three of the City's four main revenues were higher than 2013. Sales tax collections came in at their highest level since incorporation. In year over year comparisons, retail sales increased by 4.6%, construction decreased 49.9%, food services were up 5.3%, and the all other categories increased 38.5%.

Utility tax collections exceeded 2013 by \$34,120 which was 101% of budget.

Real estate excise tax (REET) came in at \$418,703 which was 94.2% of budget. There were eight new home sales, 292 existing home sales, four land only sales, four buildings, and one commercial sale through December.

Property taxes came in higher than budget at \$2,458,371 or 101.3% of budget.

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 90% design in 2015.

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 185th 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, 2013. 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.

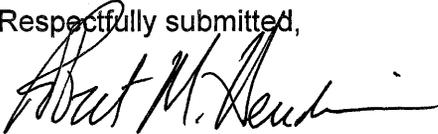
A certificate of achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the certificate of achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 I, Staci Cles – senior accounting clerk, and Vivi Salazar – finance assistant, 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,

A handwritten signature in black ink, appearing to read "Robert M. Hendrickson", written in a cursive style.

Robert M. Hendrickson
Finance Director

CITY OF COVINGTON CITY COUNCIL



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



Marlla 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

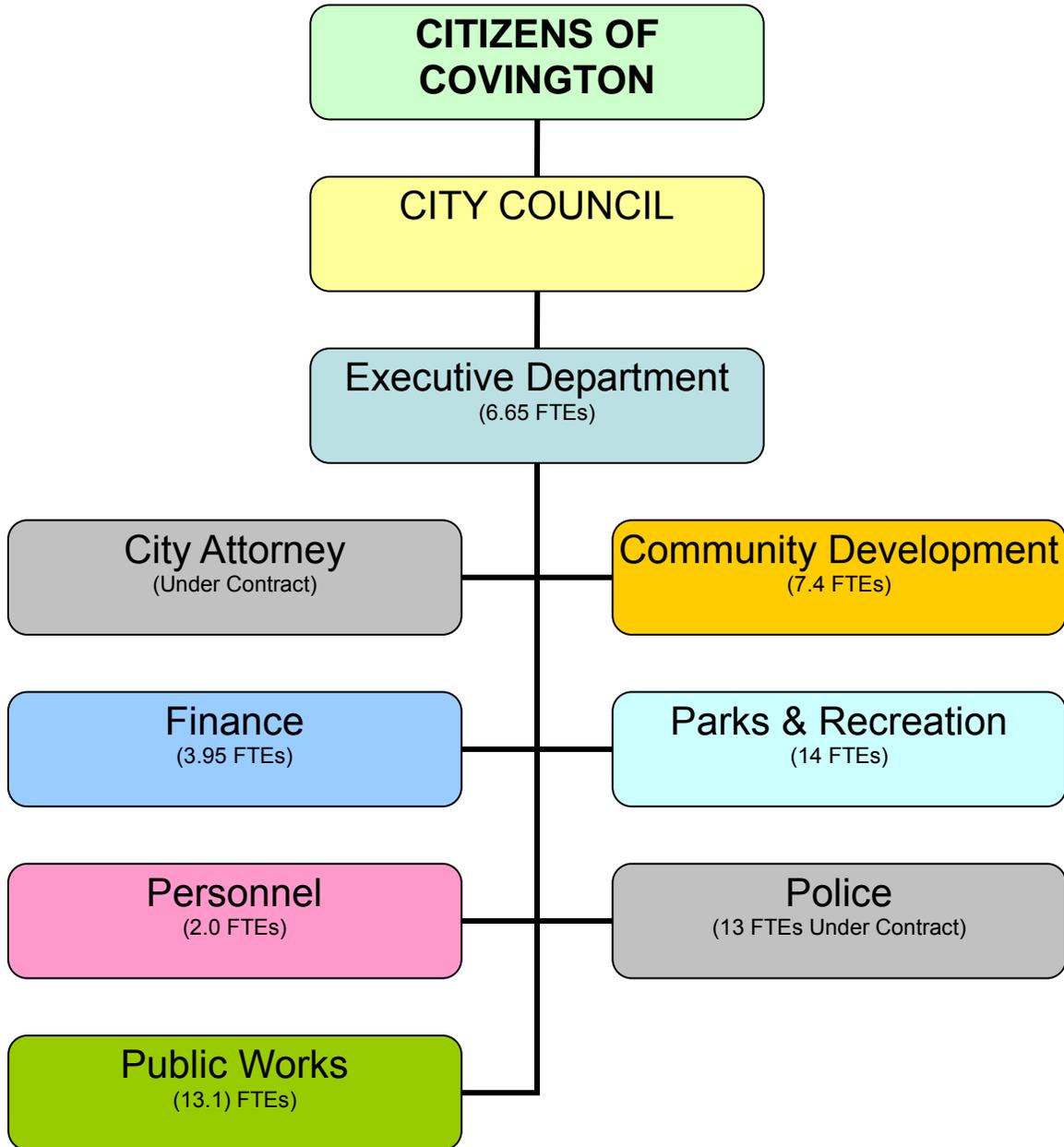
INTERIM CITY MANAGER **ROBERT HENDRICKSON**

FINANCE DEPARTMENT STAFF

ROBERT HENDRICKSON
CASEY PARKER
LINDSAY HAGEN
STACI CLES
VIVIANA SALAZAR

FINANCE DIRECTOR
DEPUTY FINANCE DIRECTOR/SENIOR ACCOUNTANT
ACCOUNTANT I
SENIOR ACCOUNTING CLERK
FINANCE ASSISTANT

~ **CITY OF COVINGTON** ~
ORGANIZATION CHART by FUNCTION
January 2014





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, 2013

Executive Director/CEO

FINANCIAL

City of Covington

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2014



Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

August 27, 2015

Mayor and City Council
City of Covington
Covington, Washington

REPORT ON THE 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, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street, Development Services, Parks funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of Prior Year Misstatement

As discussed in Note 14 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Matters of Emphasis

As discussed in Note 15, the City has elected to change its method of accounting for the revenue recognition period of expenditure driven grants in 2014. 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 14 through 23 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 financial statements and supplementary information on pages 68 through 79 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory, Managerial Funds Budget and Actual, and Statistical Sections are 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 27, 2015, 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 blue ink that reads "Jan M. Jutte". The signature is written in a cursive, flowing style.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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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, 2014. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 to 5 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities on December 31, 2014 by \$57,949,798 (net position). Of the total net position, \$12,106,320 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 \$2,799,518. A significant portion of this increase is due to capital asset infrastructure.
- As of December 31, 2014, the City's governmental funds reported a combined ending fund balance of \$10,747,001. Of this, \$6,336,223 is in the General Fund, \$514,491 is in the Street Fund, \$1,912,002 is in the Development Services Fund, \$214,256 is in the Parks Fund, and \$1,770,029 is in the Capital Investment Program Fund.
- As of December 31, 2014, the unassigned portion of the General Fund's fund balance is \$5,195,475. 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 1st ¼% Fund, and Real Estate Excise Tax 2nd ¼% Fund.
- As of December 31, 2014, the City's business-type activities reported a total net position of \$8,665,774. 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 and Covington Water District. The government-wide financial statements can be found on pages 25 to 26 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 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, Street Fund, Development Services Fund, Parks Fund, Local Improvement District 99-01 Fund, and the Capital Investment Program Fund. Data from two funds, which include the Local Improvement District 99-01 Guaranty Fund and Long-Term Debt Service 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 1st 1/4% Fund, and Real Estate Excise Tax 2nd 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 34 to 36 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 38 to 65 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 86.

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, 2014, the City's total net position is \$57,949,798. 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 12,331,466	\$ 12,124,061	\$ 2,637,976	\$ 2,410,573	\$ 14,969,442	\$ 14,534,634
Capital assets	<u>51,047,134</u>	<u>49,942,225</u>	<u>6,143,485</u>	<u>5,560,564</u>	<u>57,190,619</u>	<u>55,502,789</u>
Total assets	<u>63,378,600</u>	<u>62,066,286</u>	<u>8,781,461</u>	<u>7,971,137</u>	<u>72,160,061</u>	<u>70,037,423</u>
Total assets and deferred outflows	<u>63,378,600</u>	<u>62,066,286</u>	<u>8,781,461</u>	<u>7,971,137</u>	<u>72,160,061</u>	<u>70,037,423</u>
Long-term liabilities outstanding	12,976,839	13,752,513	79,721	74,262	13,056,560	13,826,775
Other liabilities	<u>1,117,737</u>	<u>1,002,390</u>	<u>35,966</u>	<u>57,978</u>	<u>1,153,703</u>	<u>1,060,368</u>
Total liabilities	<u>14,094,576</u>	<u>14,754,903</u>	<u>115,687</u>	<u>132,240</u>	<u>14,210,263</u>	<u>14,887,143</u>
Total liabilities and deferred inflows	<u>14,094,576</u>	<u>14,754,903</u>	<u>115,687</u>	<u>132,240</u>	<u>14,210,263</u>	<u>14,887,143</u>
Net position:						
Net investment in capital assets	38,500,066	36,588,574	6,143,485	5,560,564	44,643,551	42,149,138
Restricted	1,199,927	1,754,150	-	-	1,199,927	1,754,150
Unrestricted	<u>9,584,031</u>	<u>8,968,659</u>	<u>2,522,289</u>	<u>2,278,333</u>	<u>12,106,320</u>	<u>11,246,992</u>
Total net position	<u>\$ 49,284,024</u>	<u>\$ 47,311,383</u>	<u>\$ 8,665,774</u>	<u>\$ 7,838,897</u>	<u>\$ 57,949,798</u>	<u>\$ 55,150,280</u>

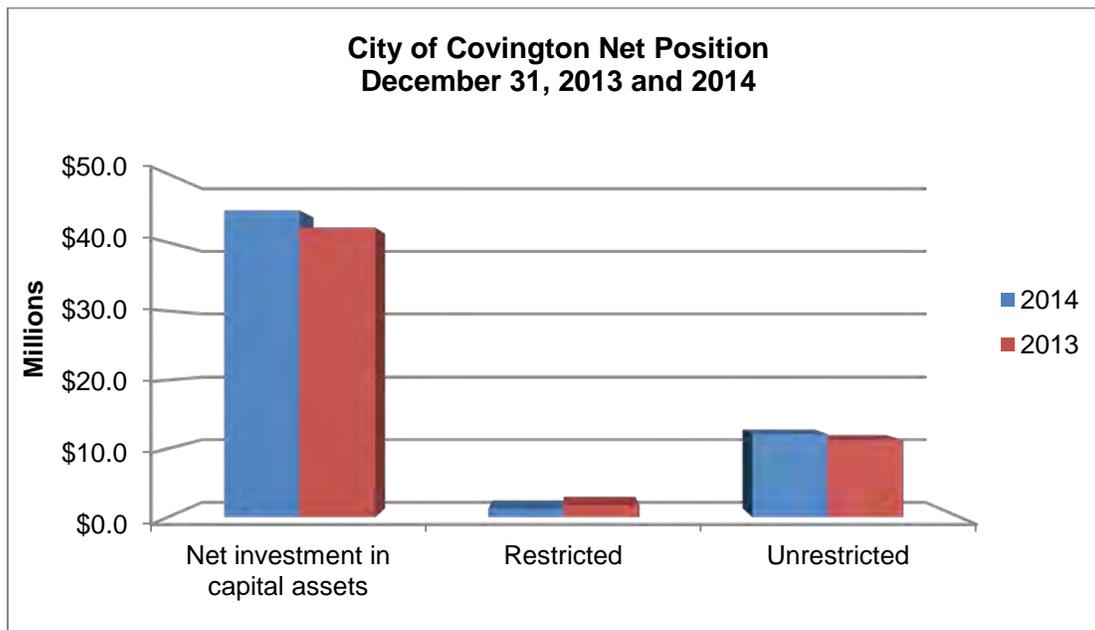
Overall the City's financial position has improved. The City's net position increased \$2,799,518 during the current fiscal year. A significant portion of this increase is due to an increase in capital assets.

Of the total net position, \$44,643,551 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, net investment in capital assets reflect 77% (\$44,643,551) 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, \$1,199,927 (2.1%) 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, \$12,106,320 (20.9%), may be used to meet the City’s ongoing obligations to citizens and creditors.



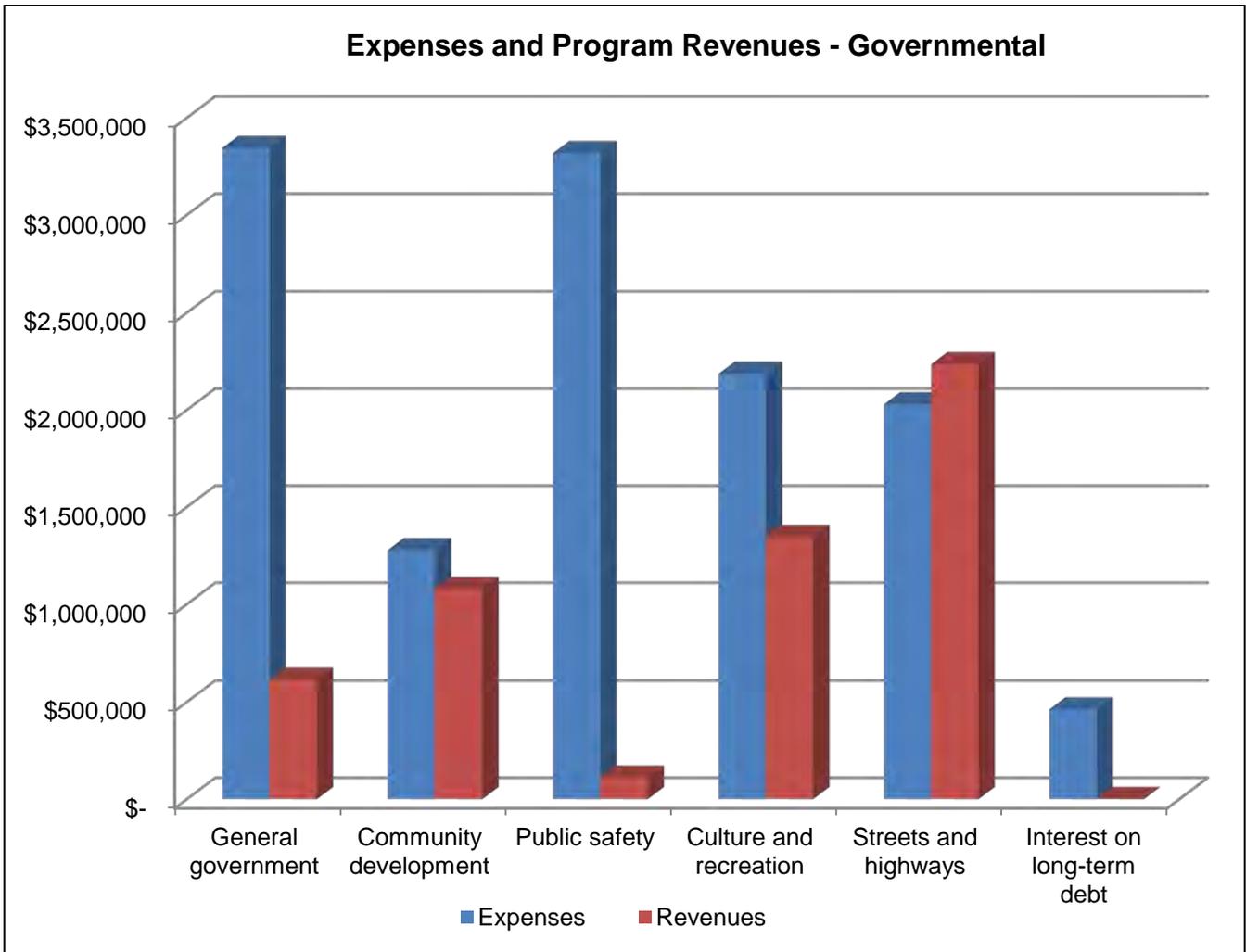
Governmental Activities. During the current fiscal year, net position for governmental activities increased \$1,972,641 from the prior fiscal year for an ending net position of \$49,284,024. Total revenues increased by \$888,701 and expenses increased by \$666,534.

See page 65 of the Notes to the Financial Statements for more details about the prior period adjustment.

Business-type Activities. During the current fiscal year, net position for business-type activities increased \$826,877 from the prior fiscal year for an ending net position of \$8,665,774. Total revenues increased by \$666,572 and expenses increased by \$54,658.

Condensed Statement of Changes in Net Position. 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					
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,622,262	\$ 2,228,287	\$ 1,810,536	\$ 1,727,845	\$ 4,432,798	\$ 3,956,132
Operating grants and contributions	478,330	464,023	-	29,726	478,330	493,749
Capital grants and contributions	2,281,824	1,967,136	639,539	26,887	2,921,363	1,994,023
General revenues:						
Property taxes	2,465,695	2,283,558	-	-	2,465,695	2,283,558
Sales taxes	3,355,340	3,348,925	-	-	3,355,340	3,348,925
Utility tax	2,094,654	2,060,534	-	-	2,094,654	2,060,534
Other taxes	1,199,162	1,247,865	-	-	1,199,162	1,247,865
Other intergovernmental	247,737	235,384	-	-	247,737	235,384
Other	<u>81,742</u>	<u>102,333</u>	<u>4,271</u>	<u>3,316</u>	<u>86,013</u>	<u>105,649</u>
Total revenues	<u>14,826,746</u>	<u>13,938,045</u>	<u>2,454,346</u>	<u>1,787,774</u>	<u>17,281,092</u>	<u>15,725,819</u>
Expenses:						
General government	3,344,049	3,346,797	-	-	3,344,049	3,346,797
Community development	1,277,451	1,445,728	-	-	1,277,451	1,445,728
Public safety	3,317,809	3,111,381	-	-	3,317,809	3,111,381
Culture and recreation	2,184,930	1,682,194	-	-	2,184,930	1,682,194
Streets and highways	2,027,787	1,867,457	-	-	2,027,787	1,867,457
Interest on long-term debt	460,990	492,925	-	-	460,990	492,925
Surface water management	<u>-</u>	<u>-</u>	<u>1,767,139</u>	<u>1,712,481</u>	<u>1,767,139</u>	<u>1,712,481</u>
Total expenses	<u>12,613,016</u>	<u>11,946,482</u>	<u>1,767,139</u>	<u>1,712,481</u>	<u>14,380,155</u>	<u>13,658,963</u>
Increase in net position before transfers	2,213,730	1,991,563	687,207	75,293	2,900,937	2,066,856
Transfers - internal activities	(139,670)	(122,528)	139,670	122,528	-	-
Increase in net position	2,074,060	1,869,035	826,877	197,821	2,900,937	2,066,856
Net position, January 1	47,311,383	45,102,759	7,838,897	7,777,543	55,150,280	52,880,302
Prior period adjustment	<u>(101,419)</u>	<u>339,589</u>	<u>-</u>	<u>(136,467)</u>	<u>(101,419)</u>	<u>203,122</u>
Net position, December 31	<u>\$ 49,284,024</u>	<u>\$ 47,311,383</u>	<u>\$ 8,665,774</u>	<u>\$ 7,838,897</u>	<u>\$ 57,949,798</u>	<u>\$ 55,150,280</u>



Property taxes increased by \$182,137 (8.0%) over fiscal year 2013. The increase is due in part to a relevy from 2013. The City property tax rate per \$1,000 of assessed value decreased from \$1.54758 in 2013 to \$1.53016 for 2014 due primarily to an increase in assessed valuation.

Sales tax revenue for 2014 increased by \$6,415 (0.2%) over fiscal year 2013. In year over year comparisons, retail sales increased by 4.6%, construction decreased by 49.9%, food services increased 5.3%, and all other categories increased 38.5%.

Utility taxes increased by \$34,120 (1.7%) over fiscal year 2013. This increase can be attributed to a recently completed audit of cable utility tax which brought in additional revenue.

General government saw a decrease of \$2,748 (-0.08%) in expenses in 2014 over 2013. This minimal difference is the result of several increases and decreases in different departments that netted out to this small decrease.

Community development saw a decrease of \$168,277 (-11.6%). The decrease is attributed to the comprehensive plan update which was in process in 2013.

Public safety saw an increase of \$206,428 (6.6%) due to an increase in the police contract.

Culture and recreation expenses saw a significant increase of \$502,736 (29.9%). This can be attributed to the addition of athletics programs and a one-time capital project.

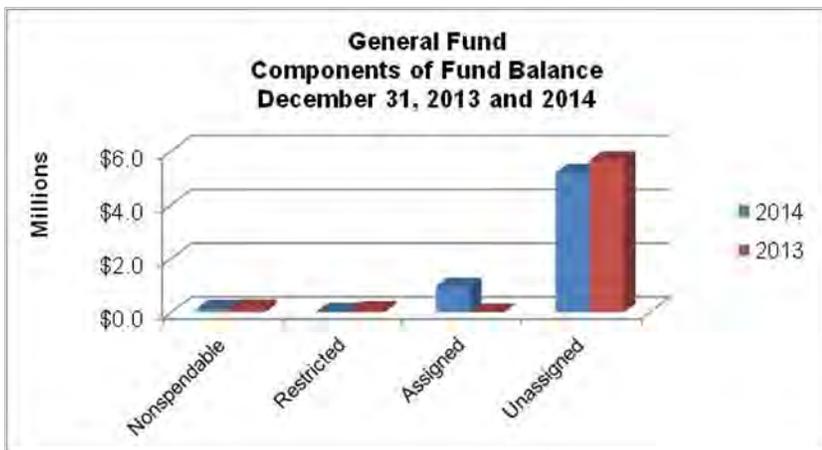
The expenses for streets and highways showed an increase of \$160,330 (8.6%) in 2014 over 2013. This increase is due mainly to an increase in depreciation.

Interest on long-term debt decreased as the City continued making payments on the outstanding long-term debt. See page 59 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.



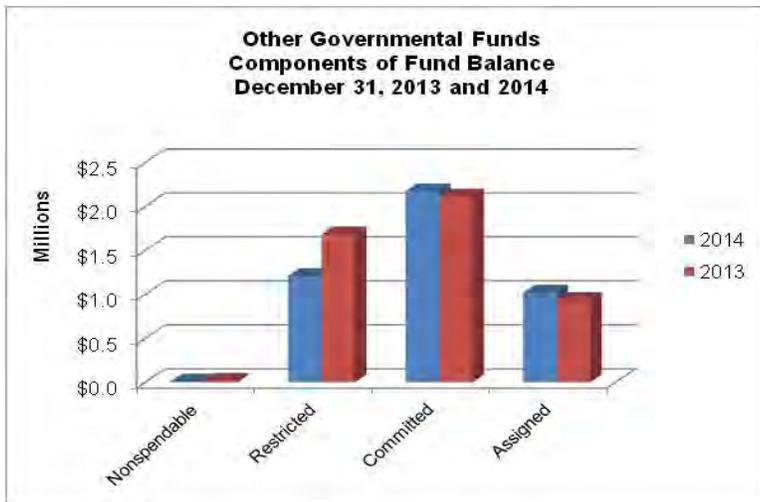
As of December 31, 2014, the City of Covington’s governmental funds reported a combined ending fund balance of \$10,747,001 which is an increase of \$75,973 over 2013. Of the total fund balance, \$152,984 is non-spendable, \$1,239,389 is restricted, \$2,173,283 is committed, and \$1,985,870 is assigned. The balance, \$5,195,475 is unassigned and available for spending at the City’s discretion.

The General Fund is the chief operating fund of the City. For 2014, the General Fund fund balance increased by \$419,467 from \$5,916,756 in 2013 to \$6,336,223 for 2014. 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 73.2% of total General Fund expenditures, while total fund balance represents approximately 89.3% 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 \$455,851. Forecasted tax revenues came in over budget while management under spent expenditures.

The Street Fund is used to account for State shared gasoline tax, which is restricted for street purposes, as well as the street maintenance services themselves. The Street Fund fund balance increased \$46,625 from \$467,866 in 2013 to \$514,491 in 2014. This was due primarily to a professional services contract that was terminated mid-year.

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 \$1,891,229 in 2013, increased by \$20,773 to \$1,912,002 in 2014. The increase is due to increased commercial permit activity in 2014.



The Parks Fund is used to account for the parks revenues associated with aquatics, recreation, and athletic programs. The Parks Fund fund balance, which was \$301,478 in 2013, decreased by \$87,222 in 2014. This decrease is mainly due to one-time expenditures.

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 \$260 in 2013, decreased to \$0 in 2014.

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 \$221,991 from \$2,093,439 in 2013 to \$1,770,029 in 2014. The decrease is a result of projects being completed during the year. This fund also had a prior period adjustment in the amount of \$(101,419) details can be found in note 14 on page 65.

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 2014 is \$8,665,774 which is an increase of \$826,877 from 2013’s net position of \$7,838,897. This includes an unrestricted amount of \$2,522,289 and a net investment in capital assets of \$6,143,485.

General Fund Budgetary Highlights

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

Original budget compared to final budget. The 2014 General Fund budget amendment consisted of updating the estimated beginning fund balance to the actual beginning fund balance, adding unanticipated grant revenue and increasing transfers out to the Park Fund for athletics programs.

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
Charges for goods and services	543,997	677,909	133,912
Miscellaneous	40,050	90,910	50,860

The increase in charges for goods and services was due primarily to monies received from the Kent School District to help fund a new School Resource Officer.

Miscellaneous charges saw an increase that was primarily due to retirement forfeitures and increased technology surcharge fees.

Capital Assets

As of December 31, 2014 the City's investment in capital assets is \$57,190,619 (net of depreciation), \$51,047,134 for governmental activities and \$6,143,485 for business-type activities.

Additional information regarding capital assets can be found in the notes to the financial statements on page 53.

Debt Administration

As of December 31, 2014 the City's long-term debt outstanding is \$13,056,560.

Additional information on long term-debt can be found in the notes to the financial statements on pages 59 to 62.

Summary

In the 2014 budget, the General Fund is utilized to support streets, parks and recreation, the 2007 transportation bond debt payments, and the Costco payback (which ends in 2015). That policy is being extended into 2015. The council made a conscious effort in June to spend down some of the fund balance in the general fund with one-time projects. Other costs have been added such as personnel and athletics which impacts the long-term fund balance as well.

By continuing to strategically manage the fund balance through well thought-out placement of ongoing programs and personnel, and limiting one-time costs to those goods and services that create efficiencies, the General Fund can remain viable through 2020 as well as the funds it supports. It can, however, be eroded quickly with the addition of just a few ongoing programs which was demonstrated earlier this year. Bear in mind those other funds should be made to be as self-sufficient as possible so the General Fund can provide other services not currently available such as additional police.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

City of Covington
Statement of Net Position
December 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 8,214,879	\$ 2,071,361	\$ 10,286,240
Investments	2,213,017	200,490	2,413,507
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	321,715	-	321,715
Special Assessments	138,442	-	138,442
Interest	13,464	624	14,088
Property Taxes	58,226	-	58,226
Intergovernmental	1,331,425	230,631	1,562,056
Internal Balances	(134,105)	134,105	-
Prepaid Items	174,403	765	175,168
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	1,925,730	473,510	2,399,240
Capital Assets Net of Depreciation:			
Buildings	518,763	9,192	527,955
Improvements Other than Buildings	197,778	4,363	202,141
Machinery and Equipment	575,592	32,836	608,428
Infrastructure	<u>27,675,053</u>	<u>4,623,349</u>	<u>32,298,402</u>
Total Assets	<u>63,378,600</u>	<u>8,781,461</u>	<u>72,160,061</u>
Total Assets and Deferred Outflows	<u>63,378,600</u>	<u>8,781,461</u>	<u>72,160,061</u>
Liabilities			
Accounts Payable	441,715	16,188	457,903
Accrued Interest Payable	184,549	-	184,549
Accrued Payroll/Benefits	56,061	9,845	65,906
Due to Other Governmental Entities	258,505	9,933	268,438
Performance Bonds	6,801	-	6,801
Unearned Revenue	170,106	-	170,106
Long-Term Liabilities			
Due Within One Year			
Compensated Absences	305,201	55,828	361,029
General Obligation Bonds	619,824	-	619,824
Other Long-Term Debt	214,896	-	214,896
Due in More Than One Year			
Compensated Absences	124,570	23,893	148,463
General Obligation Bonds	9,778,288	-	9,778,288
Other Long-Term Debt	<u>1,934,060</u>	<u>-</u>	<u>1,934,060</u>
Total Liabilities	<u>14,094,576</u>	<u>115,687</u>	<u>14,210,263</u>
Total Liabilities and Deferred Inflows	<u>14,094,576</u>	<u>115,687</u>	<u>14,210,263</u>
Net Position			
Net Investment in Capital Assets	38,500,066	6,143,485	44,643,551
Restricted for:			
Debt Service	30,640	-	30,640
Capital Improvement Projects	1,169,287	-	1,169,287
Unrestricted	<u>9,584,031</u>	<u>2,522,289</u>	<u>12,106,320</u>
Total Net Position	<u>\$ 49,284,024</u>	<u>\$ 8,665,774</u>	<u>\$ 57,949,798</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, 2014

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
Governmental Activities:							
General Government	\$ 3,344,049	\$ 514,777	\$ 98,636	\$ -	\$ (2,730,636)	\$ -	\$ (2,730,636)
Community Development	1,277,451	1,078,674	-	-	(198,777)	-	(198,777)
Public Safety	3,317,809	110,138	-	-	(3,207,671)	-	(3,207,671)
Culture and Recreation	2,184,930	843,756	5,675	496,540	(838,959)	-	(838,959)
Streets and Highways	2,027,787	74,917	374,019	1,785,284	206,433	-	206,433
Interest on Long-Term Debt	460,990	-	-	-	(460,990)	-	(460,990)
Total Governmental Activities	<u>12,613,016</u>	<u>2,622,262</u>	<u>478,330</u>	<u>2,281,824</u>	<u>(7,230,600)</u>	<u>-</u>	<u>(7,230,600)</u>
Business-type Activities:							
Surface Water Management	1,767,139	1,810,536	-	639,539	-	682,936	682,936
Total Business-type Activities	<u>1,767,139</u>	<u>1,810,536</u>	<u>-</u>	<u>639,539</u>	<u>-</u>	<u>682,936</u>	<u>682,936</u>
Total Primary Government	<u>\$ 14,380,155</u>	<u>\$ 4,432,798</u>	<u>\$ 478,330</u>	<u>\$ 2,921,363</u>	<u>(7,230,600)</u>	<u>682,936</u>	<u>(6,547,664)</u>
General Revenues:							
Taxes:							
Property Tax					2,465,695	-	2,465,695
Sales Tax					3,355,340	-	3,355,340
Utility Tax					2,094,654	-	2,094,654
Local Criminal Justice					436,034	-	436,034
Real Estate Excise Tax					418,703	-	418,703
Property Tax Parks Expansion Levy					34,534	-	34,534
Franchise Fee (Taxes)					309,891	-	309,891
Criminal Justice					55,704	-	55,704
Liquor Board Profits					160,825	-	160,825
Liquor Excise Tax					31,208	-	31,208
Interest Income					18,582	4,271	22,853
Miscellaneous					63,160	-	63,160
Transfers - internal activities					(139,670)	139,670	-
Total General Revenues and Transfers					<u>9,304,660</u>	<u>143,941</u>	<u>9,448,601</u>
Change in Net Position					2,074,060	826,877	2,900,937
Net Position, January 1					<u>47,311,383</u>	<u>7,838,897</u>	<u>55,150,280</u>
Prior Period Adjustment					(101,419)	-	(101,419)
Net Position, December 31					<u>\$ 49,284,024</u>	<u>\$ 8,665,774</u>	<u>\$ 57,949,798</u>

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

City of Covington
Balance Sheet
Governmental Funds
December 31, 2014

	Special Revenue Funds				Capital Project Funds		Other Governmental Funds	Total Governmental Funds
	General	Street	Development Services	Parks	Local Improvement District 99-01	Capital Investment Program		
Assets								
Cash and Cash Equivalents	\$ 3,739,666	\$ 417,481	\$ 1,453,477	\$ 133,976	\$ -	\$ 1,909,948	\$ -	\$ 7,654,548
Investments	1,715,060	-	497,957	-	-	-	-	2,213,017
Receivables (net of allowances for uncollectibles, where applicable):								
Accounts	225,796	68,809	7,570	19,540	-	-	-	321,715
Special Assessments	-	-	-	-	138,442	-	-	138,442
Interest	5,190	-	-	-	6,645	-	-	11,835
Property Taxes	58,226	-	-	-	-	-	-	58,226
Intergovernmental	722,929	60,593	10,006	225,452	-	312,445	-	1,331,425
Prepaid Items	144,389	1,135	95	7,365	-	-	-	152,984
Total Assets	\$ 6,611,256	\$ 548,018	\$ 1,969,105	\$ 386,333	\$ 145,087	\$ 2,222,393	\$ -	\$ 11,882,192
Liabilities								
Accounts Payable	\$ 113,164	\$ 21,257	\$ 3,336	\$ 143,216	\$ -	\$ 159,180	\$ -	\$ 440,153
Accrued Payroll/Benefits	18,568	6,533	9,281	21,401	-	278	-	56,061
Due to Other Funds	185	51	84	132	-	-	-	452
Due to Other Governmental Entities	78,640	5,686	37,601	7,328	-	129,050	-	258,305
Performance Bonds	-	-	6,801	-	-	-	-	6,801
Unearned Revenue	6,250	-	-	-	-	163,856	-	170,106
Total Liabilities	\$ 216,807	\$ 33,527	\$ 57,103	\$ 172,077	\$ -	\$ 452,364	\$ -	\$ 931,878
Deferred Inflows of Resources								
Unavailable Revenue - Property Taxes	58,226	-	-	-	-	-	-	58,226
Unavailable Revenue - Special Assessment	-	-	-	-	145,087	-	-	145,087
Total Deferred Inflows of Resources	\$ 58,226	\$ -	\$ -	\$ -	\$ 145,087	\$ -	\$ -	\$ 203,313
Fund Balances								
Nonspendable	144,389	1,135	95	7,365	-	-	-	152,984
Restricted	30,640	-	-	-	-	1,208,749	-	1,239,389
Committed	-	-	1,911,907	206,891	-	54,485	-	2,173,283
Assigned	965,719	513,356	-	-	-	506,795	-	1,985,870
Unassigned	5,195,475	-	-	-	-	-	-	5,195,475
Total Fund Balances	\$ 6,336,223	\$ 514,491	\$ 1,912,002	\$ 214,256	\$ -	\$ 1,770,029	\$ -	\$ 10,747,001
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,611,256	\$ 548,018	\$ 1,969,105	\$ 386,333	\$ 145,087	\$ 2,222,393	\$ -	

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 (\$56,161,230) are shown net of Accumulated Depreciation (\$5,647,268). Capital Assets are included in the Statement of Net Position. 50,513,962

Other long-term assets such as property tax receivable (\$58,226) and special assessment receivable (\$145,087) 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. 203,313

Long-term liabilities such as compensated absences (\$429,771), General Obligation Bond Payable (\$10,376,693), Public Works Trust Fund Loan (\$2,148,956), and Accrued Interest Payable (\$184,549) are not due and payable in the current period and, therefore, are not reported in the governmental funds. (13,139,969)

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. 959,717

Net position of governmental activities \$ 49,284,024

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, 2014

	Special Revenue Funds				Capital Project Funds		Other Governmental Funds	Totals Governmental Funds
	General	Street	Development Services	Parks	Local Improvement District 99-01	Capital Investment Program		
Revenues								
Taxes	\$ 8,226,248	\$ -	\$ -	\$ 536,854	\$ -	\$ 34,534	\$ -	\$ 8,797,636
Licenses and Permits	75,165	234,726	341,924	-	-	-	-	651,815
Intergovernmental	346,373	374,019	-	130,919	-	966,073	-	1,817,384
Charges for Goods and Services	220,883	74,887	727,567	692,495	-	46,907	-	1,762,739
Fines and Forfeitures	98,536	-	138	-	-	-	-	98,674
Special Assessments	-	-	-	-	35,663	-	-	35,663
Interest Income	14,115	391	1,871	157	8	2,040	-	18,582
Interfund Services Payment	457,026	-	-	-	-	-	-	457,026
Miscellaneous	90,910	30	29	151,261	-	-	-	242,230
Total Revenues	<u>9,529,256</u>	<u>684,053</u>	<u>1,071,529</u>	<u>1,511,686</u>	<u>35,671</u>	<u>1,049,554</u>	<u>-</u>	<u>13,881,749</u>
Expenditures								
Current:								
General Government	3,380,294	-	-	-	-	-	-	3,380,294
Community Development	401,376	-	1,050,756	-	-	-	-	1,452,132
Public Safety	3,301,701	-	-	-	-	-	-	3,301,701
Culture and Recreation	-	-	-	2,072,281	-	-	-	2,072,281
Streets and Highways	-	862,564	-	-	-	-	-	862,564
Capital Outlay:								
General Government	-	-	-	-	-	-	-	-
Public Safety	16,108	-	-	-	-	-	-	16,108
Culture and Recreation	-	-	-	70,274	-	327,718	-	397,992
Streets and Highways	-	35,475	-	-	-	910,757	-	946,232
Debt Service:								
Principal	-	-	-	-	-	-	803,950	803,950
Interest	-	-	-	-	-	-	474,465	474,465
Total Expenditures	<u>7,099,479</u>	<u>898,039</u>	<u>1,050,756</u>	<u>2,142,555</u>	<u>-</u>	<u>1,238,475</u>	<u>1,278,415</u>	<u>13,707,719</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,429,777</u>	<u>(213,986)</u>	<u>20,773</u>	<u>(630,869)</u>	<u>35,671</u>	<u>(188,921)</u>	<u>(1,278,415)</u>	<u>174,030</u>
Other Financing Sources (Uses)								
Transfers In	59,420	281,775	-	570,093	-	-	1,314,346	2,225,634
Transfers Out	(2,069,730)	(23,489)	-	(27,483)	(35,931)	(33,070)	(35,931)	(2,225,634)
Compensation from Loss of Assets	-	2,325	-	1,037	-	-	-	3,362
Total Other Financing Sources (Uses)	<u>(2,010,310)</u>	<u>260,611</u>	<u>-</u>	<u>543,647</u>	<u>(35,931)</u>	<u>(33,070)</u>	<u>1,278,415</u>	<u>3,362</u>
Net Change in Fund Balances	419,467	46,625	20,773	(87,222)	(260)	(221,991)	-	177,392
Fund Balances, January 1	<u>5,916,756</u>	<u>467,866</u>	<u>1,891,229</u>	<u>301,478</u>	<u>260</u>	<u>2,093,439</u>	<u>-</u>	<u>10,671,028</u>
Prior Period Adjustment (Note 14)	-	-	-	-	-	(101,419)	-	(101,419)
Fund Balances, December 31	<u>\$ 6,336,223</u>	<u>\$ 514,491</u>	<u>\$ 1,912,002</u>	<u>\$ 214,256</u>	<u>\$ -</u>	<u>\$ 1,770,029</u>	<u>\$ -</u>	<u>\$ 10,747,001</u>

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, 2014

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

Net Change in Fund Balances - total Governmental funds (see page 28)	\$ 177,392
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	(21,694)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	991,290
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 \$1,278,489 less current year depreciation of (\$1,296,916).	(18,427)
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 (\$30,910).	(30,910)
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.	803,950
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 \$13,475. Amortization of bond premium \$2,633.	16,108
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.	38,601 <u>119,863</u>
Change in net position of governmental activities (see page 26)	<u>\$ 2,074,060</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, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Taxes	\$ 7,818,114	\$ 7,818,114	\$ 7,807,545	\$ (10,569)
Licenses and Permits	75,000	75,000	75,165	165
Intergovernmental	284,455	325,455	346,373	20,918
Charges for Goods and Services	543,997	543,997	677,909	133,912
Fines and Forfeitures	156,500	156,500	98,536	(57,964)
Interest Income	16,400	16,400	7,592	(8,808)
Miscellaneous	40,050	40,050	90,910	50,860
Total Revenues	<u>8,934,516</u>	<u>8,975,516</u>	<u>9,104,030</u>	<u>128,514</u>
Expenditures				
Current:				
General Government:				
City Council	437,039	437,039	438,612	1,573
Council Contingency	50,000	50,000	-	(50,000)
City Court	637,650	637,650	418,483	(219,167)
City Manager	947,902	957,902	1,034,099	76,197
Finance	553,731	553,731	490,385	(63,346)
City Attorney	92,400	92,400	111,436	19,036
Personnel	360,301	367,051	382,622	15,571
Solid Waste	-	-	998	998
Central Services	530,993	554,493	503,659	(50,834)
Total General Government	<u>3,610,016</u>	<u>3,650,266</u>	<u>3,380,294</u>	<u>(269,972)</u>
Community Development:				
Total Community Development	<u>464,814</u>	<u>464,814</u>	<u>401,376</u>	<u>(63,438)</u>
Public Safety:				
Total Public Safety	<u>3,247,046</u>	<u>3,247,796</u>	<u>3,301,701</u>	<u>53,905</u>
Capital Outlay:				
General Government	-	-	-	-
Public Safety	-	-	16,108	16,108
Total Expenditures	<u>7,321,876</u>	<u>7,362,876</u>	<u>7,099,479</u>	<u>(263,397)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,612,640</u>	<u>1,612,640</u>	<u>2,004,551</u>	<u>391,911</u>
Other Financing Sources (Uses)				
Transfers In	36,491	36,491	35,931	(560)
Transfers Out	(1,621,376)	(1,741,312)	(1,584,631)	156,681
Compensation Loss of Asset	-	-	-	-
Total Other Financing Sources (Uses)	<u>(1,584,885)</u>	<u>(1,704,821)</u>	<u>(1,548,700)</u>	<u>156,121</u>
Net Change in Fund Balances	27,755	(92,181)	455,851	548,032
Fund Balances, January 1	<u>3,785,530</u>	<u>4,026,805</u>	<u>4,026,805</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 3,813,285</u>	<u>\$ 3,934,624</u>	<u>\$ 4,482,656</u>	<u>\$ 548,032</u>

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

City of Covington
Street Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended December 31, 2014

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Licenses and Permits	\$ 220,000	\$ 220,000	\$ 234,726	\$ 14,726
Intergovernmental	369,240	369,240	374,019	4,779
Charges for Goods and Services	6,000	21,000	74,887	53,887
Interest Income	400	400	391	(9)
Miscellaneous	-	-	30	30
Total Revenues	595,640	610,640	684,053	73,413
Expenditures				
Current:				
Streets and Highways	920,287	920,287	862,564	(57,723)
Capital Outlay:				
Streets and Highways	29,650	29,650	35,475	5,825
Total Expenditures	949,937	949,937	898,039	(51,898)
Excess (Deficiency) of Revenues Over Expenditures	(354,297)	(339,297)	(213,986)	125,311
Other Financing Sources (Uses)				
Transfers In	279,330	279,330	281,775	2,445
Transfers Out	-	(15,000)	(23,489)	(8,489)
Compensation for Loss of Assets	-	-	2,325	2,325
Total Other Financing Sources (Uses)	279,330	264,330	260,611	(3,719)
Net Change in Fund Balance	(74,967)	(74,967)	46,625	121,592
Fund Balances, January 1	406,717	467,866	467,866	-
Fund Balances, December 31	\$ 331,750	\$ 392,899	\$ 514,491	\$ 121,592

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, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Licenses and Permits	\$ 325,000	\$ 325,000	\$ 341,924	\$ 16,924
Charges for Goods and Services	619,868	619,868	727,567	107,699
Fines and Forfeitures	-	-	138	138
Interest Income	1,300	1,300	1,871	571
Miscellaneous	-	-	29	29
Total Revenues	946,168	946,168	1,071,529	125,361
Expenditures				
Current:				
Community Development	1,074,662	1,074,662	1,050,756	(23,906)
Total Expenditures	1,074,662	1,074,662	1,050,756	(23,906)
Excess (Deficiency) of Revenues Over Expenditures	(128,494)	(128,494)	20,773	149,267
Fund Balances, January 1	1,833,562	1,891,229	1,891,229	-
Fund Balances, December 31	\$ 1,705,068	\$ 1,762,735	\$ 1,912,002	\$ 149,267

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, 2014

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Taxes	\$ 561,120	\$ 561,120	\$ 536,854	\$ (24,266)
Intergovernmental	64,296	121,476	130,919	9,443
Charges for Goods and Services	554,475	625,779	692,495	66,716
Interest Income	400	400	157	(243)
Miscellaneous	137,010	137,010	151,261	14,251
Total Revenues	<u>1,317,301</u>	<u>1,445,785</u>	<u>1,511,686</u>	<u>65,901</u>
Expenditures				
Current:				
Culture and Recreation:				
Parks Maintenance	370,786	370,786	323,649	(47,137)
Aquatics	833,571	876,571	1,024,908	148,337
Athletics	-	131,723	132,031	308
Recreation and Special Events	227,638	230,638	236,863	6,225
Parks Administration	406,264	406,264	354,830	(51,434)
Total Culture and Recreation	<u>1,838,259</u>	<u>2,015,982</u>	<u>2,072,281</u>	<u>56,299</u>
Capital Outlay:				
Culture and Recreation	<u>23,360</u>	<u>58,457</u>	<u>70,274</u>	<u>11,817</u>
Total Expenditures	<u>1,861,619</u>	<u>2,074,439</u>	<u>2,142,555</u>	<u>68,116</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(544,318)</u>	<u>(628,654)</u>	<u>(630,869)</u>	<u>(2,215)</u>
Other Financing Sources (Uses)				
Transfers In	604,384	688,720	570,093	(118,627)
Transfers Out	(27,483)	(27,483)	(27,483)	-
Compensation from Loss of Assets	-	-	1,037	1,037
Total Other Financing Sources (Uses)	<u>576,901</u>	<u>661,237</u>	<u>543,647</u>	<u>(117,590)</u>
Net Change in Fund Balance	32,583	32,583	(87,222)	(119,805)
Fund Balances, January 1	<u>257,581</u>	<u>301,478</u>	<u>301,478</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 290,164</u>	<u>\$ 334,061</u>	<u>\$ 214,256</u>	<u>\$ (119,805)</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, 2014

	Business-Type Activities	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 2,071,361	\$ 560,331
Investments	200,490	-
Receivables (net of allowances for uncollectibles, where applicable):		
Due from Other Funds	-	531
Interest	624	-
Intergovernmental	230,631	1,629
Prepaid Items	765	-
Total Current Assets	2,503,871	562,491
Noncurrent Assets:		
Capital Assets:		
Land	993,232	-
Intangible Assets	7,003	-
Work in Progress	473,510	-
Buildings	13,131	-
Improvements Other than Buildings	17,238	54,188
Machinery and Equipment	64,962	754,468
Infrastructure	5,367,705	-
Accumulated Depreciation	(793,296)	(275,484)
Total Capital Assets (net of accumulated depreciation)	6,143,485	533,172
Total Assets	8,647,356	1,095,663
Total Assets and Deferred Outflows	8,647,356	1,095,663
Liabilities		
Current Liabilities:		
Accounts Payable	16,188	1,562
Accrued Payroll/Benefits	9,845	-
Compensated Absences	55,828	-
Due to Other Funds	79	-
Due to Other Governmental Entities	9,933	200
Total Current Liabilities	91,873	1,762
Noncurrent Liabilities:		
Compensated Absences	23,893	-
Total NonCurrent Liabilities	23,893	-
Total Liabilities	115,766	1,762
Total Liabilities and Deferred Inflows	115,766	1,762
Net Position		
Net Investment in Capital Assets	6,143,485	533,172
Unrestricted	2,388,105	560,729
Total Net Position	\$ 8,531,590	\$ 1,093,901

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.

134,184

Net position of business-type activities \$ 8,665,774

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, 2014

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	Governmental
	Surface Water Management	Activities- Internal Service Funds
Operating Revenues:		
Surface Water Management Fees	\$ 1,807,521	\$ -
Intergovernmental	2,200	-
Unemployment Charges	-	45,573
Fuel and Maintenance Assessments	-	43,864
Furnishing Assessments	-	7,800
Equipment Replacement Assessments	-	101,027
Miscellaneous	815	-
Total Operating Revenues	<u>1,810,536</u>	<u>198,264</u>
Operating Expenses:		
Cost of Services	1,563,890	-
Unemployment Benefits Paid	-	1,189
Vehicle Fuel	-	14,729
Repairs and Maintenance of Vehicles	-	29,135
Depreciation	176,141	65,255
Total Operating Expenses	<u>1,740,031</u>	<u>110,308</u>
Operating Income (Loss)	<u>70,505</u>	<u>87,956</u>
Nonoperating Revenues (Expenses)		
Interest Income	4,271	505
Interest Expense	(33,189)	-
Gain or (Loss) From Disposition of Assets	(71,901)	584
Total Nonoperating Revenues (Expenses)	<u>(100,819)</u>	<u>1,089</u>
Income Before Contributions	(30,314)	89,045
Capital Contributions:		
General Fund	-	16,108
Street Fund	-	35,475
Parks Fund	-	23,917
Capital Investment Project Fund	139,670	-
Surface Water Management Fund	-	71,901
Developers	525,265	-
Capital Grants	114,274	-
Total Capital Contributions	<u>779,209</u>	<u>147,401</u>
Change in Net Position	748,895	236,446
Net Position, January 1	<u>7,782,695</u>	<u>857,455</u>
Net Position, December 31	<u>\$ 8,531,590</u>	<u>\$ 1,093,901</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>77,982</u>	
Change in net position of business-type activities	<u>\$ 826,877</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, 2014

	Business-Type Activities	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
Cash Flows from Operating Activities		
Cash Received from Interfund Services Provided	\$ -	\$ 201,944
Cash Received from Customers	1,748,220	-
Payments Made to Suppliers	(548,154)	(49,259)
Payments for Interfund Services Used	(479,067)	-
Payments Made to Employees	(576,292)	-
Cash Paid for Unemployment Assessments	-	1,355
Other Receipts (Payments)	815	-
Net Cash Provided by Operating Activities	145,522	154,040
Cash Flows from Capital and Related Financing Activities		
Capital Grants	85,866	-
Capital Assets Purchased for Own Use	(168,906)	-
Interest Paid	(33,189)	-
Vehicle Replacement	-	(50,817)
Net Cash Received (used) for Capital Activities	(116,229)	(50,817)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	200,000	-
Purchase of Investments	(200,427)	-
Interest Received	3,376	504
Net Cash Provided by Investing Activities	2,949	504
Net Increase (Decrease) in Cash and Cash Equivalents	32,242	103,727
Cash and Cash Equivalents, January 1	2,039,119	456,604
Cash and Cash Equivalents, December 31	\$ 2,071,361	\$ 560,331
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 70,505	\$ 87,956
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase)/Decrease in Due from Other Funds	-	1,476
(Increase)/Decrease in Due from Other Governments	(95,839)	2,544
(Increase)/Decrease in Other Assets	8,328	-
Increase/(Decrease) in Accounts Payable	139	(3,262)
Increase/(Decrease) in Accrued Payroll/Benefits	(9,397)	-
Increase/(Decrease) in Due to Other Funds	(163)	-
Increase/(Decrease) in Due to Other Governmental Entities	(4,192)	71
Depreciation	176,141	65,255
Total Adjustments to Net Cash Provided by Operating Activities	75,017	66,084
Net Cash Provided by Operating Activities	\$ 145,522	\$ 154,040
Noncash Capital Activities		
Capital Contributions:		
General Fund	\$ -	\$ 16,108
Street Fund	-	35,475
Parks Fund	-	23,917
Capital Investment Project Fund	139,670	-
Surface Water Management Fund	-	71,901
Developers	525,265	-
Capital Grants	28,408	-
Total Capital Contributions	\$ 693,343	\$ 147,401

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, 2014)

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 and Covington Chamber of Commerce.

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

- *Street Fund.* To account for the State collected gasoline tax, which is restricted for street purposes.
- *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 receipted into the Development Services Fund and all Aquatic Center revenues receipted into the Parks Fund for purposes of GASB 54.
- *Parks Fund.* To account for the parks revenues associated with aquatics, recreation, and athletic programs.

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 anytime during the year and follows the same process as the original budget adoption, including a public hearing.

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

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

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 1st 1/4% Fund, and Real Estate Excise Tax 2nd 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 30 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 1st 1/4% Fund, and Real Estate Excise Tax 2nd 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 1st 1/4% Fund, and Real Estate Excise Tax 2nd 1/4% Fund on pages 82 to 85. On the following page you will find these funds combined 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	1st Qtr% Fund	2nd Qtr% Fund	General
						Fund
Revenues						
Taxes	\$ 7,807,545	\$ -	\$ -	\$ 212,149	\$ 206,554	\$8,226,248
Licenses and Permits	75,165	-	-	-	-	75,165
Intergovernmental	346,373	-	-	-	-	346,373
Charges for Goods and Services	220,883	-	-	-	-	220,883
Fines and Forfeitures	98,536	-	-	-	-	98,536
Interest Income	7,592	3,235	3,216	36	36	14,115
Interfund Services Payment	457,026	-	-	-	-	457,026
Miscellaneous	90,910	-	-	-	-	90,910
Total Revenues	<u>9,104,030</u>	<u>3,235</u>	<u>3,216</u>	<u>212,185</u>	<u>206,590</u>	<u>9,529,256</u>
Expenditures						
Current:						
General Government:						
City Council	438,612	-	-	-	-	438,612
City Court	418,483	-	-	-	-	418,483
City Manager	1,034,099	-	-	-	-	1,034,099
Finance	490,385	-	-	-	-	490,385
City Attorney	111,436	-	-	-	-	111,436
Personnel	382,622	-	-	-	-	382,622
Solid Waste	998	-	-	-	-	998
Central Services	503,659	-	-	-	-	503,659
Total General Government	<u>3,380,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,380,294</u>
Community Development:						
Total Community Development	<u>401,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,376</u>
Public Safety:						
Total Public Safety	<u>3,301,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,301,701</u>
Capital Outlay:						
Public Safety	<u>16,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,108</u>
Total Expenditures	<u>7,099,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,099,479</u>
Excess (Deficiency) of Revenues						
Over Expenditures	<u>2,004,551</u>	<u>3,235</u>	<u>3,216</u>	<u>212,185</u>	<u>206,590</u>	<u>2,429,777</u>
Other Financing Sources (Uses)						
Transfers In	35,931	23,489	-	-	-	59,420
Transfers Out	(1,584,631)	(2,444)	-	(244,471)	(238,184)	(2,069,730)
Compensation Loss of Asset	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>(1,548,700)</u>	<u>21,045</u>	<u>-</u>	<u>(244,471)</u>	<u>(238,184)</u>	<u>(2,010,310)</u>
Net Change in Fund Balances	455,851	24,280	3,216	(32,286)	(31,594)	419,467
Fund Balances, January 1	<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>
Fund Balances, December 31	<u>\$ 4,482,656</u>	<u>\$1,401,351</u>	<u>\$ 421,576</u>	<u>\$ 15,320</u>	<u>\$ 15,320</u>	<u>\$6,336,223</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, 2014 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, 2014 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's Fund Balance Policy adopted by Resolution 11-10 grants 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, 2014, the carrying amount of the City's deposits was \$10,286,240, and the total bank balance was \$10,285,640. 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, 2014, the City's total deposits and cash equivalents, including investment in the State Treasurer's Pool, consisted of the following:

Operating Accounts	\$	129,666
State Treasurer's Pool		10,064,268
Forfeiture Account		91,706
Petty Cash		<u>600</u>
Total Cash and Cash Equivalents	\$	<u>10,286,240</u>

B. Investments

The City's investment policy developed by the Finance Department is adopted by the City Council. Authority to manage the investment program is derived from City of Covington Resolution number 07-11. This resolution gives the Finance Director authority to invest in

any of the securities identified as eligible investments as defined by State statute with primary emphasis of safety, principal, liquidity, and yield.

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

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

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

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

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

Interest Rate Risk: As a means of minimizing risk of loss arising from interest rate fluctuations, the City’s investment policy requires that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and the State Investment Pool, the City will invest no more than twenty-five percent (25%) of its total investment portfolio in a single security type or with a single financial institution. Unless specifically matched to a certain cash flow, or estimated to meet cash flow needs, the City

will not directly invest in securities maturing more than three (3) years from the date of purchase.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity</u>				<u>Credit Rating</u>
		<u>3 Months or Less</u>	<u>3 to 12 Months</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	
U.S. Agency Securities	\$2,308,457	\$359,830	\$ -	\$ -	\$ 1,948,627	AAA/Aaa
Municipal Securities	105,050	-	-	105,050	-	AA1
State of Washington Local Governmental Investment Pool (LGIP)	-	-	-	-	-	Unrated
Total	<u>\$2,413,507</u>	<u>\$359,830</u>	<u>\$ -</u>	<u>\$105,050</u>	<u>\$ 1,948,627</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, 2014 all of the \$2,413,507 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 2014 was \$1.53016 per \$1,000 of assessed valuation, including exempt properties, of \$1,625,611,637 for a total regular levy of \$2,469,634.

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

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 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	\$ 19,213,328	\$ -	\$ -	\$ 19,213,328
Intangibles	940,890	-	-	940,890
Work in Progress	<u>1,284,851</u>	<u>788,365</u>	<u>(147,486)</u>	<u>1,925,730</u>
Total capital assets, not being depreciated	<u>21,439,069</u>	<u>788,365</u>	<u>(147,486)</u>	<u>22,079,948</u>
Capital assets, being depreciated:				
Buildings	716,215	-	-	716,215
Improvements other than buildings	672,594	-	-	672,594
Machinery and equipment	850,494	244,576	(18,141)	1,076,929
Infrastructure	<u>30,841,009</u>	<u>1,588,887</u>	<u>(5,696)</u>	<u>32,424,200</u>
Total capital assets being depreciated	<u>33,080,312</u>	<u>1,833,463</u>	<u>(23,837)</u>	<u>34,889,938</u>
Less accumulated depreciation for:				
Buildings	(161,641)	(35,811)	-	(197,452)
Improvements other than buildings	(426,823)	(47,993)	-	(474,816)
Machinery and equipment	(445,801)	(72,405)	16,869	(501,337)
Infrastructure	<u>(3,542,891)</u>	<u>(1,207,462)</u>	<u>1,206</u>	<u>(4,749,147)</u>
Total accumulated depreciation	<u>(4,577,156)</u>	<u>(1,363,671)</u>	<u>18,075</u>	<u>(5,922,752)</u>
Total capital assets, being depreciated net	<u>28,503,156</u>	<u>469,792</u>	<u>(5,762)</u>	<u>28,967,186</u>
Governmental activities capital assets, net	<u>\$ 49,942,225</u>	<u>\$ 1,258,157</u>	<u>\$ (153,248)</u>	<u>\$ 51,047,134</u>

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

Governmental Activities

General Government	\$ 38,778
Community Development	904
Public Safety	-
Culture and Recreation	92,460
Streets and Highways	1,166,274
Capital assets held by the government's Internal Service Funds	<u>65,255</u>

Total depreciation expense - governmental activities \$1,363,671

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>294,235</u>	<u>190,376</u>	<u>(11,101)</u>	<u>473,510</u>
Total capital assets, not being depreciated	<u>1,294,470</u>	<u>190,376</u>	<u>(11,101)</u>	<u>1,473,745</u>
Capital assets, being depreciated:				
Buildings	13,131	-	-	13,131
Improvements other than buildings	17,238	-	-	17,238
Machinery and equipment	64,962	71,901	(71,901)	64,962
Infrastructure	<u>4,787,918</u>	<u>579,787</u>	<u>-</u>	<u>5,367,705</u>
Total capital assets being depreciated	<u>4,883,249</u>	<u>651,688</u>	<u>(71,901)</u>	<u>5,463,036</u>
Less accumulated depreciation for:				
Buildings	(3,283)	(656)	-	(3,939)
Improvements other than buildings	(12,086)	(789)	-	(12,875)
Machinery and equipment	(28,160)	(3,966)	-	(32,126)
Infrastructure	<u>(573,626)</u>	<u>(170,730)</u>	<u>-</u>	<u>(744,356)</u>
Total accumulated depreciation	<u>(617,155)</u>	<u>(176,141)</u>	<u>-</u>	<u>(793,296)</u>
Total capital assets, being depreciated net	<u>4,266,094</u>	<u>475,547</u>	<u>(71,901)</u>	<u>4,669,740</u>
Business-type activities capital assets, net	<u>\$ 5,560,564</u>	<u>\$ 665,923</u>	<u>\$ (83,002)</u>	<u>\$ 6,143,485</u>

NOTE 5: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS

The City of Covington has active construction projects as of December 31, 2014.

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	\$ 197,738	\$ 26,980
Covington Community Park	Goodfellow Bros., Inc.	1,359,710	72,338
Jenkins Creek Park	Gray & Osborne, Inc.	43,545	56,310
SR 516 Safety Widening	Tetra Tech, Inc.	1,278,315	169,644
		<u>\$ 2,879,308</u>	<u>\$ 325,272</u>

The City has no other significant commitments.

NOTE 6: PENSION PLANS

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

At incorporation 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 tax deferred. 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, 2014 through December 31, 2014, was \$3,463,515. The City's total payroll for the same period was \$3,704,798. The table below shows the required percentage contribution and the total actual contributions for 2014 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%	\$114,296
Employer	7.5%	\$259,764

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, 2014 there were 121 plan members.

B. Social Security Replacement Plan

At incorporation 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 tax deferred. 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, 2014 through December 31, 2014 was \$3,704,798. The City's total payroll for the same period was \$3,704,798. The table below shows the required percentage contribution and the total actual contributions for 2014 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%	\$229,697
Employer	5.6%	\$207,469

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, 2014 there were 210 plan members.

NOTE 7: HEALTH AND WELFARE

The City of Covington is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office

NOTE 8: RISK MANAGEMENT

The City of Covington is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 175 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 9: LONG-TERM DEBT AND LEASES

A. Long-Term Debt

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

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

Compensated absences are reported in the Government-wide Statements – Statement of Net Position. As of December 31, 2014, the City obligated \$148,463 as the portion of compensated absences not expected to be funded with current available expendable resources, \$124,570 in governmental activities, and \$23,893 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 outstanding short-term debt.

The following schedule details the long-term liability activity and balances of the City as of December 31, 2014.

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 1/1/14</u>	<u>Debt Issued in 2014</u>	<u>Debt Redemption in 2014</u>	<u>Debt Outstanding 12/31/2014</u>	<u>Due Within One Year</u>
Governmental activities:										
General obligation bonds - Councilmanic: 2007A (Tax-Exempt)	4.15%	Long-Term Debt Service	6/5/2007	11/1/2027	\$ 10,000,000	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000	430,000
Add: bond premium 2007T (Taxable)	5.43%	Long-Term Debt Service	6/5/2007	11/1/2015	52,655 2,505,000	34,350 740,000	- -	2,633 570,000	31,717 170,000	- 170,000
2008 (Tax-Exempt)	4.00%	Long-Term Debt Service	6/10/2008	6/1/2023	308,068	215,449	-	19,054	196,395	19,824
Compensated absences						398,862	82,824	51,915	429,771	305,201
Other Long-Term Debt: DCTED Public Works Trust Fund Loan	0.50%	Long-Term Debt Service	7/1/2004	6/1/2024	<u>3,785,500</u>	<u>2,363,852</u>	<u>-</u>	<u>214,896</u>	<u>2,148,956</u>	<u>214,896</u>
Total Governmental Activities					<u>\$ 16,651,223</u>	<u>\$ 13,752,513</u>	<u>\$ 82,824</u>	<u>\$ 858,498</u>	<u>\$ 12,976,839</u>	<u>\$ 1,139,921</u>

Changes in Long-Term Liabilities Business-type Activities

<u>Description</u>	<u>Debt Outstanding 1/1/14</u>	<u>Debt Issued in 2014</u>	<u>Debt Redemption in 2014</u>	<u>Debt Outstanding 12/31/2014</u>	<u>Due Within One Year</u>
Business-type activities:					
Compensated absences	\$ 74,261	\$ 14,307	\$ 8,847	\$ 79,721	\$ 55,828
Total Business-type activities	<u>\$ 74,261</u>	<u>\$ 14,307</u>	<u>\$ 8,847</u>	<u>\$ 79,721</u>	<u>\$ 55,828</u>

As of December 31, 2014, 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>	
2015	\$ 619,824	\$ 431,438	\$ 214,896	\$ 10,745	\$ 1,276,903
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	738,226	313,540	214,896	6,447	1,273,109
2020-2024	4,128,937	1,099,635	1,074,479	16,117	6,319,168
2025-2029	<u>2,840,000</u>	<u>237,394</u>	<u>-</u>	<u>-</u>	<u>3,077,394</u>
Total	<u>\$ 10,366,395</u>	<u>\$ 3,202,975</u>	<u>\$ 2,148,959</u>	<u>\$ 59,096</u>	<u>\$ 15,777,425</u>

B. Operating Leases

In March 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. 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 \$347,974 for the year ended December 31, 2014.

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

Fiscal Year	
<u>Ending</u>	<u>Amount</u>
2015	\$ 356,673
2016	365,590
2017	374,730
Total	<u>\$ 1,096,993</u>

NOTE 10: CONTINGENCIES AND LITIGATION

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

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

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

NOTE 11: INTERFUND BALANCES AND TRANSFERS

The composition of interfund activity as of December 31, 2014, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Unemployment Insurance - Internal Service Fund	General	\$ 185
	Street	51
	Development Services	84
	Parks	132
	Surface Water Management - Enterprise Fund	<u>79</u>
		<u>\$ 531</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>Street Fund</u>	<u>Parks Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Transfer Out:					
General Fund	\$ -	\$248,705	\$570,093	\$ 1,250,932	\$2,069,730
Street Fund	23,489	-	-	-	23,489
Parks Fund	-	-	-	27,483	27,483
Local Improvement District 99-01 Fund	-	-	-	35,931	35,931
Capital Investment Program Fund	-	33,070	-	-	33,070
Nonmajor Governmental	<u>35,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,931</u>
 Total Transfers	 <u>\$ 59,420</u>	 <u>\$281,775</u>	 <u>\$570,093</u>	 <u>\$ 1,314,346</u>	 <u>\$2,225,634</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 transfer from the Street Fund was payback of funds provided for a street study. The transfer from the Parks Fund was for debt service. The transfer from the Local Improvement District 99-01 Fund was to move excess monies. The transfer

from the Capital Investment Program Fund was for a purchase of machinery and equipment. The transfer from the nonmajor governmental funds was to transfer excess monies.

NOTE 12: RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$1,199,927 of restricted component of net position, of which \$30,640 is restricted for debt service and \$1,169,287 is restricted for capital improvement projects.

NOTE 13: GOVERNMENTAL FUND BALANCES

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

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Street</u>	<u>Development Services</u>	<u>Parks</u>	<u>Capital Investment Program</u>	
<u>Fund Balance</u>						
Fund Balances:						
Nonspendable:						
Prepays	\$ 144,389	\$ 1,135	\$ 95	\$ 7,365	\$ -	\$ 152,984
Restricted for:						
Debt Service	30,640	-	-	-	-	30,640
Capital Improvement Projects	-	-	-	-	1,208,749	1,208,749
Committed to:						
Development Services	-	-	1,911,907	-	-	1,911,907
Parks and Recreation	-	-	-	206,891	-	206,891
Capital Improvement Projects	-	-	-	-	54,485	54,485
Assigned to:						
Projected Budgetary Deficit	965,719	-	-	-	506,795	1,472,514
Street Maintenance	-	513,356	-	-	-	513,356
Unassigned	<u>5,195,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,195,475</u>
Total Fund Balances	<u>\$6,336,223</u>	<u>\$ 514,491</u>	<u>\$ 1,912,002</u>	<u>\$214,256</u>	<u>\$ 1,770,029</u>	<u>\$10,747,001</u>

NOTE 14: PRIOR PERIOD ADJUSTMENTS

The City is recognizing \$101,419 for a prior period adjustment of an expenditure received for a capital improvement project that was completed in a previous year. This correction is reflected in the governmental fund statements as well as the Statement of Activities.

NOTE 15: CHANGE IN ACCOUNTING PRINCIPLE

The City will begin using a different revenue recognition period for expenditure driven grants. Based on historical results and management's expectations regarding grant reimbursements, a longer availability period of 120 days is being adopted. There is no effect on beginning net position or fund balance at the government-wide or fund level.

NOTE 16: SUBSEQUENT EVENTS

On February 14, 2015 a loss was incurred to one of the City's facilities due to fire which was determined to be arson. The loss is valued at over \$100,000 and will be accounted for in the 2015 financial statements.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds

City of Covington
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	Debt Service Funds		
	Local Improvement District 99-01 Guaranty	Long-Term Debt Service	Total Nonmajor Governmental Funds
Assets and other Debits			
Cash and Cash Equivalents	\$ -	\$ -	\$ -
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	-	-	-
Intergovernmental	-	-	-
Prepaid Items	-	-	-
Total Assets	\$ -	\$ -	\$ -
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
Accrued Payroll/Benefits	-	-	-
Due to Other Funds	-	-	-
Due to Other Governmental Entities	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Nonspendable	-	-	-
Assigned	-	-	-
Total Fund Balances	-	-	-
Total Liabilities and Fund Balances	\$ -	\$ -	\$ -

City of Covington
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended December 31, 2014

	Debt Service Funds		Total Nonmajor Governmental Funds
	Local Improvement District 99-01 Guaranty	Long-Term Debt Service	
Revenues			
Licenses and Permits	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Charges for Goods and Services	-	-	-
Interest Income	-	-	-
Miscellaneous	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Current:			
Streets and Highways	<u>-</u>	<u>-</u>	<u>-</u>
Capital Outlay:			
General Government	-	-	-
Community Development	-	-	-
Public Safety	-	-	-
Culture and Recreation	-	-	-
Streets and Highways	-	-	-
Debt Service:			
Principal	-	803,950	803,950
Interest	<u>-</u>	<u>474,465</u>	<u>474,465</u>
Total Expenditures	<u>-</u>	<u>1,278,415</u>	<u>1,278,415</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>(1,278,415)</u>	<u>(1,278,415)</u>
Other Financing Sources (Uses)			
Transfers In	35,931	1,278,415	1,314,346
Transfers Out	(35,931)	-	(35,931)
Compensation from Loss of Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,278,415</u>	<u>1,278,415</u>
Net Change in Fund Balances	-	-	-
Fund Balances, January 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service

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

Non-major Funds

Local Improvement District 99-01 Guaranty Fund – This fund is required under State law to provide a means of paying LID bond debt service obligations in the event there are insufficient resources in the LID Control Fund to do so.

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

City of Covington
 Local Improvement District 99-01 Guaranty Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances
 Budget and Actual
 For the Fiscal Year Ended December 31, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Interest Income	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers In	36,491	36,491	35,931	(560)
Transfers Out	<u>(36,491)</u>	<u>(36,491)</u>	<u>(35,931)</u>	<u>560</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Covington
 Long-Term Debt Service Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances
 Budget and Actual
 For the Fiscal Year Ended December 31, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Total Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures				
Debt Service:				
Principal	803,950	803,950	803,950	-
Interest	474,465	474,465	474,465	-
Total Expenditures	1,278,415	1,278,415	1,278,415	-
Excess (Deficiency) of Revenues Over Expenditures	(1,278,415)	(1,278,415)	(1,278,415)	-
Other Financing Sources (Uses)				
Transfer In	1,278,415	1,278,415	1,278,415	-
Total Other Financing Sources (Uses)	1,278,415	1,278,415	1,278,415	-
Net Change in Fund Balance	-	-	-	-
Fund Balances, January 1	-	-	-	-
Fund Balances, December 31	\$ -	\$ -	\$ -	\$ -

Capital Projects

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 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, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Special Assessments	\$ 36,991	\$ 36,991	\$ 35,663	\$ (1,328)
Interest Income	-	-	8	8
Total Revenues	<u>36,991</u>	<u>36,991</u>	<u>35,671</u>	<u>(1,320)</u>
Expenditures				
Capital Outlay:				
Streets and Highways	<u>500</u>	<u>500</u>	-	<u>(500)</u>
Total Expenditures	<u>500</u>	<u>500</u>	-	<u>(500)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>36,491</u>	<u>36,491</u>	<u>35,671</u>	<u>(820)</u>
Other Financing Sources (Uses)				
Transfer In	-	-	-	-
Transfer Out	<u>(36,491)</u>	<u>(36,491)</u>	<u>(35,931)</u>	<u>560</u>
Total Other Financing Sources (Uses)	<u>(36,491)</u>	<u>(36,491)</u>	<u>(35,931)</u>	<u>560</u>
Net Change in Fund Balance	-	-	(260)	(260)
Fund Balances, January 1	<u>-</u>	<u>260</u>	<u>260</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 260</u>	<u>\$ -</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, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Taxes	\$ -	\$ 35,055	\$ 34,534	\$ (521)
Intergovernmental	1,906,149	2,506,319	966,073	(1,540,246)
Charges for Goods and Services	-	-	46,907	46,907
Interest Income	2,500	2,500	2,040	(460)
Total Revenues	<u>1,908,649</u>	<u>2,543,874</u>	<u>1,049,554</u>	<u>(1,494,320)</u>
Expenditures				
Capital Outlay:				
Culture and Recreation	540,900	870,255	327,718	(542,537)
Streets and Highways	<u>1,681,000</u>	<u>1,986,870</u>	<u>910,757</u>	<u>(1,076,113)</u>
Total Expenditures	<u>2,221,900</u>	<u>2,857,125</u>	<u>1,238,475</u>	<u>(1,618,650)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(313,251)</u>	<u>(313,251)</u>	<u>(188,921)</u>	<u>124,330</u>
Other Financing Sources (Uses)				
Transfer In	-	-	-	-
Transfer Out	<u>(33,070)</u>	<u>(33,070)</u>	<u>(33,070)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(33,070)</u>	<u>(33,070)</u>	<u>(33,070)</u>	<u>-</u>
Net Change in Fund Balance	(346,321)	(346,321)	(221,991)	124,330
Fund Balances, January 1	<u>1,650,869</u>	<u>2,093,439</u>	<u>2,093,439</u>	<u>-</u>
Prior Period Adjustment (Note 14)	-	-	(101,419)	(101,419)
Fund Balances, December 31	<u>\$ 1,304,548</u>	<u>\$ 1,747,118</u>	<u>\$ 1,770,029</u>	<u>\$ 22,911</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, 2014

	Unemployment Insurance	Equipment Replacement	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 233,864	\$ 326,467	\$ 560,331
Due from other Funds	531	-	531
Intergovernmental receivable	-	1,629	1,629
Total Current Assets	<u>234,395</u>	<u>328,096</u>	<u>562,491</u>
Noncurrent Assets:			
Capital Assets:			
Improvements other than Buildings	-	54,188	54,188
Machinery and Equipment	-	754,468	754,468
Accumulated Depreciation	-	(275,484)	(275,484)
Total Capital Assets (net of accumulated depreciation)	<u>-</u>	<u>533,172</u>	<u>533,172</u>
Total Assets	<u>234,395</u>	<u>861,268</u>	<u>1,095,663</u>
Total Assets and Deferred Outflows	<u><u>234,395</u></u>	<u><u>861,268</u></u>	<u><u>1,095,663</u></u>
Liabilities			
Current Liabilities:			
Accounts Payable	-	1,562	1,562
Due to Other Governmental Entities	-	200	200
Total Liabilities	<u>-</u>	<u>1,762</u>	<u>1,762</u>
Total Liabilities and Deferred Inflows	<u><u>-</u></u>	<u><u>1,762</u></u>	<u><u>1,762</u></u>
Net Position			
Net Investment in Capital Assets	-	533,172	533,172
Unrestricted	<u>234,395</u>	<u>326,334</u>	<u>560,729</u>
Total Net Position	<u><u>\$ 234,395</u></u>	<u><u>\$ 859,506</u></u>	<u><u>\$ 1,093,901</u></u>

City of Covington
Internal Service Funds
Combining Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended December 31, 2014

	Unemployment Insurance	Equipment Replacement	Total
Operating Revenues:			
Unemployment Charges	\$ 45,573	\$ -	\$ 45,573
Fuel and Maintenance Assessments	-	43,864	43,864
Furnishing Assessments	-	7,800	7,800
Equipment Replacement Assessments	-	101,027	101,027
Total Operating Revenues	<u>45,573</u>	<u>152,691</u>	<u>198,264</u>
Operating Expenses:			
Unemployment Benefits Paid	1,189	-	1,189
Vehicle Fuel	-	14,729	14,729
Repairs and Maintenance of Vehicles	-	29,135	29,135
Depreciation	-	65,255	65,255
Total Operating Expenses	<u>1,189</u>	<u>109,119</u>	<u>110,308</u>
Operating Income (Loss)	<u>44,384</u>	<u>43,572</u>	<u>87,956</u>
Nonoperating Revenues (Expenses)			
Interest Revenue	199	306	505
Gain or (Loss) on Disposition of Capital Assets	-	584	584
Total Nonoperating Revenues (Expenses)	<u>199</u>	<u>890</u>	<u>1,089</u>
Capital Contributions:			
General Fund	-	16,108	16,108
Street Fund	-	35,475	35,475
Parks Fund	-	23,917	23,917
Surface Water Management Fund	-	71,901	71,901
Total Capital Contributions	<u>-</u>	<u>147,401</u>	<u>147,401</u>
Change in Net Position	44,583	191,863	236,446
Net Position, January 1	<u>189,812</u>	<u>667,643</u>	<u>857,455</u>
Net Position, December 31	<u>\$ 234,395</u>	<u>\$ 859,506</u>	<u>\$ 1,093,901</u>

City of Covington
Internal Service Funds
Combining Statement of Cash Flows
For the Fiscal Year Ended December 31, 2014

	Unemployment Insurance	Equipment Replacement	Total
Cash Flows from Operating Activities			
Cash Received from Quasi-External Transactions:			
Unemployment Contributions	\$ 47,049	\$ -	\$ 47,049
Vehicle Fuel and Maintenance Assessments	-	46,068	46,068
Furnishing Assessments	-	7,800	7,800
Vehicle Replacement Assessments	-	101,027	101,027
Total Cash Received from Quasi-External Transactions	<u>47,049</u>	<u>154,895</u>	<u>201,944</u>
Payments Made to Suppliers	-	(49,259)	(49,259)
Cash Paid for Unemployment Assessments	<u>1,355</u>	<u>-</u>	<u>1,355</u>
Net Cash Provided by Operating Activities	<u>48,404</u>	<u>105,636</u>	<u>154,040</u>
Cash Flows from Capital Activities			
Equipment Purchase	-	(50,817)	(50,817)
Net Cash Received (Used) for Capital Activities	<u>-</u>	<u>(50,817)</u>	<u>(50,817)</u>
Cash Flows from Investing Activities			
Interest Received	<u>198</u>	<u>306</u>	<u>504</u>
Net Cash Provided by Investing Activities	<u>198</u>	<u>306</u>	<u>504</u>
Net Increase (Decrease) in Cash and Cash Equivalents	48,602	55,125	103,727
Cash and Cash Equivalents, January 1	<u>185,262</u>	<u>271,342</u>	<u>456,604</u>
Cash and Cash Equivalents, December 31	<u>\$ 233,864</u>	<u>\$ 326,467</u>	<u>\$ 560,331</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	<u>\$ 44,384</u>	<u>\$ 43,572</u>	<u>\$ 87,956</u>
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	1,476	-	1,476
Increase/(Decrease) in Accounts Payable	-	(3,262)	(3,262)
Increase/(Decrease) in Due to Other Governmental Entities	-	71	71
Depreciation	-	65,255	65,255
Total Adjustments to Net Cash Provided by Operating Activities	<u>4,020</u>	<u>62,064</u>	<u>66,084</u>
Net Cash Provided by Operating Activities	<u>\$ 48,404</u>	<u>\$ 105,636</u>	<u>\$ 154,040</u>
Noncash Capital Activities			
Capital Contributions:			
General Fund	\$ -	\$ 16,108	\$ 16,108
Street Fund	-	35,475	35,475
Parks Fund	-	23,917	23,917
Surface Water Management Fund	-	71,901	71,901
Total Capital Contributions	<u>\$ -</u>	<u>\$ 147,401</u>	<u>\$ 147,401</u>

OTHER SUPPLEMENTARY INFORMATION

Managerial Funds

With the implementation of GASB Statement 54, the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1st ¼% Fund, and Real Estate Excise Tax 2nd 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 1st ¼% Fund – To account for the 1st 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 2nd ¼% Fund - To account for the 2nd 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, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Interest Income	\$ 8,600	\$ 8,600	\$ 3,235	\$ (5,365)
Total Revenues	<u>8,600</u>	<u>8,600</u>	<u>3,235</u>	<u>(5,365)</u>
Expenditures				
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>3,235</u>	<u>(5,365)</u>
Other Financing Sources (Uses)				
Transfers In	-	15,000	23,489	8,489
Transfers Out	-	-	(2,444)	(2,444)
Total Other Financing Sources (Uses)	<u>-</u>	<u>15,000</u>	<u>21,045</u>	<u>6,045</u>
Net Change in Fund Balance	8,600	23,600	24,280	680
Fund Balances, January 1	<u>1,379,768</u>	<u>1,377,071</u>	<u>1,377,071</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,388,368</u>	<u>\$ 1,400,671</u>	<u>\$ 1,401,351</u>	<u>\$ 680</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, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Interest Income	\$ -	\$ -	\$ 3,216	\$ 3,216
Total Revenues	<u>-</u>	<u>-</u>	<u>3,216</u>	<u>3,216</u>
Expenditures				
Current:				
General Government	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>3,216</u>	<u>3,216</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	3,216	3,216
Fund Balances, January 1	<u>416,932</u>	<u>418,360</u>	<u>418,360</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 416,932</u>	<u>\$ 418,360</u>	<u>\$ 421,576</u>	<u>\$ 3,216</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, 2014

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues				
Taxes	\$ 240,000	\$ 222,200	\$ 212,149	\$ (10,051)
Interest Income	100	100	36	(64)
Total Revenues	<u>240,100</u>	<u>222,300</u>	<u>212,185</u>	<u>(10,115)</u>
Expenditures				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>240,100</u>	<u>222,300</u>	<u>212,185</u>	<u>(10,115)</u>
Other Financing Sources (Uses)				
Transfers Out	<u>(240,100)</u>	<u>(222,300)</u>	<u>(244,471)</u>	<u>(22,171)</u>
Total Other Financing Sources (Uses)	<u>(240,100)</u>	<u>(222,300)</u>	<u>(244,471)</u>	<u>(22,171)</u>
Net Change in Fund Balance	-	-	(32,286)	(32,286)
Fund Balances, January 1	<u>-</u>	<u>47,606</u>	<u>47,606</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 47,606</u>	<u>\$ 15,320</u>	<u>\$ (32,286)</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, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Taxes	\$ 240,000	\$ 222,200	\$ 206,554	\$ (15,646)
Interest Income	100	100	36	(64)
Total Revenues	<u>240,100</u>	<u>222,300</u>	<u>206,590</u>	<u>(15,710)</u>
Expenditures				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>240,100</u>	<u>222,300</u>	<u>206,590</u>	<u>(15,710)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	<u>(240,100)</u>	<u>(222,300)</u>	<u>(238,184)</u>	<u>(15,884)</u>
Total Other Financing Sources (Uses)	<u>(240,100)</u>	<u>(222,300)</u>	<u>(238,184)</u>	<u>(15,884)</u>
Net Change in Fund Balance	-	-	(31,594)	(31,594)
Fund Balances, January 1	<u>-</u>	<u>46,914</u>	<u>46,914</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 46,914</u>	<u>\$ 15,320</u>	<u>\$ (31,594)</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>2014</u>	<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>
Governmental Activities										
Net Investment in Capital Assets	\$38,500,066	\$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
Restricted	1,199,927	1,754,150	1,803,923	3,341,693	899,236	819,528	335,937	8,806,853	4,766,096	5,684,386
Unrestricted	<u>9,584,031</u>	<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>
Total Governmental Activities Net Position	<u>49,284,024</u>	<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>
Business-Type Activities										
Net Investment in Capital Assets	6,143,485	5,560,564	5,508,168	-	-	-	-	-	-	-
Unrestricted	<u>2,522,289</u>	<u>2,278,333</u>	<u>2,269,375</u>	-	-	-	-	-	-	-
Total Business-Type Activities Net Position	<u>8,665,774</u>	<u>7,838,897</u>	<u>7,777,543</u>	-	-	-	-	-	-	-
Primary Government										
Net Investment in Capital Assets	44,643,551	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
Restricted	1,199,927	1,754,150	1,803,923	3,341,693	899,236	819,528	335,937	8,806,853	4,766,096	5,684,386
Unrestricted	<u>12,106,320</u>	<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>
Total Business-Type Activities Net Position	<u>\$57,949,798</u>	<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>

City of Covington
Changes in Net Position
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental Activities										
General Government	\$ 3,344,049	\$ 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
Community Development	1,277,451	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
Public Safety	3,317,809	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
Culture and Recreation	2,184,930	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
Streets and Highways	2,027,787	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
Interest on Long-Term Debt	460,990	492,925	523,969	586,828	607,373	615,379	619,402	491,504	29,916	-
Total Governmental Activities Expenses	12,613,016	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
Business-Type Activities										
Surface Water Management	1,767,139	1,712,481	1,568,984	-	-	-	-	-	-	-
Total Business-Type Activities	1,767,139	1,712,481	1,568,984	-	-	-	-	-	-	-
Total Primary Government Expenses	14,380,155	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
Program Revenues										
Governmental Activities										
Charges for Services										
General Government	514,777	499,888	549,802	229,385	190,859	223,530	184,387	152,367	120,834	82,755
Community Development	1,078,674	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
Public Safety	110,138	5,700	5,700	12,100	6,759	-	-	-	-	-
Culture and Recreation	843,756	728,148	620,086	515,174	501,461	461,341	460,354	348,832	589,093	639,282
Streets and Highways	74,917	13,082	44,527	1,677,171	1,558,598	1,418,986	1,246,132	1,104,765	993,177	837,630
Operating Grants and Contributions	478,330	464,023	498,197	531,845	540,429	609,253	578,957	510,222	448,938	726,560
Capital Grants and Contributions	2,281,824	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
Total Governmental Activities Program Revenues	5,382,416	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
Business-Type Activities										
Charges for Services	1,810,536	1,727,845	1,740,142	-	-	-	-	-	-	-
Operating Grants and Contributions	-	29,726	60,225	-	-	-	-	-	-	-
Capital Grants and Contributions	639,539	26,887	349,313	-	-	-	-	-	-	-
Total Business-Type Activities	2,450,075	1,784,458	2,149,680	-	-	-	-	-	-	-
Total Primary Government Program Revenues	7,832,491	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
Net (Expense)/Revenue										
Governmental Activities	(7,230,600)	(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)
Business-Type Activities	682,936	71,977	580,696	-	-	-	-	-	-	-
Total Primary Government Net Expense	<u>\$ (6,547,664)</u>	<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>
General Revenues and Other Changes in Net Position										
Governmental Activities										
Taxes										
Property Tax	\$ 2,465,695	\$ 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
Sales Tax	3,355,340	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
Utility Tax	2,094,654	2,060,534	2,004,827	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-
Local Criminal Justice	436,034	399,784	370,000	355,112	337,172	342,588	396,749	428,029	389,306	335,156
Real Estate Excise Tax	418,703	544,516	522,804	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361
Property Tax Parks Expansion Levy	34,534	-	46,297	111,212	-	-	-	-	-	-
Franchise Fee (Taxes)	309,891	303,565	200,952	196,256	197,813	189,337	182,289	169,772	154,128	143,806
City Assistance	-	-	-	-	-	-	-	78,977	82,296	66,900
MVFT-Criminal Justice	55,704	51,846	48,650	47,832	47,686	49,330	44,614	44,003	41,216	34,762
Liquor Board Profits	160,825	159,644	175,960	122,500	140,224	119,454	116,182	126,115	110,200	107,737
Liquor Excise Tax	31,208	23,894	44,201	85,659	86,848	85,649	83,580	79,672	74,460	64,581
Other Intergovernmental not restricted to specific program	-	-	-	-	-	-	-	-	-	9,749
Interest Income	18,582	17,993	20,059	52,383	31,041	84,278	347,958	641,261	464,875	274,206
Penalties	-	-	-	-	-	-	3,388	6,777	1,780	4,775
Donations	-	-	-	-	-	-	-	-	500	500
Miscellaneous	63,160	84,340	142,655	86,951	66,416	102,014	71,981	256,301	118,722	73,961
Loss on sale of capital asset	-	-	-	-	-	(49,111)	-	-	-	-
Transfers - internal activities	(139,670)	(122,528)	(537,117)	-	-	-	-	-	-	-
Total Governmental Activities	9,304,660	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
Business-Type Activities										
Non Operating Revenue										
Interest Income	4,271	3,316	8,691	-	-	-	-	-	-	-
Miscellaneous	-	-	(3,664)	-	-	-	-	-	-	-
Gain (Loss) on Sale of Capital Asset	-	-	212,620	-	-	-	-	-	-	-
Special Items	-	-	(900,067)	-	-	-	-	-	-	-
Transfers - internal activities	139,670	122,528	537,117	-	-	-	-	-	-	-
Total Business-Type Activities	143,941	125,844	(145,303)	-	-	-	-	-	-	-
Total Primary Government Net Expense	9,448,601	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
Change in Net Position										
Governmental Activities	2,074,060	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
Business-Type Activities	826,877	197,821	435,393	-	-	-	-	-	-	-
Total Primary Government	<u>\$ 2,900,937</u>	<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>

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	Change 2005-2014
Property	2,465,695	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	49.5%
Sales and Use	3,355,340	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	88.3%
Utility	2,094,654	2,060,534	2,004,827	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-	100.0%
Local Criminal Justice	436,034	399,784	370,000	355,112	337,172	342,588	396,749	428,029	389,306	335,156	30.1%
Real Estate Excise	418,703	544,516	522,804	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361	-64.6%
All Others	592,162	538,949	516,060	563,459	472,571	443,770	426,665	419,562	380,004	350,886	68.8%

City of Covington
Taxable Sales by Category
Last Ten Fiscal Years

	<u>2014</u>	<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>
Retail	\$2,421,441	\$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
Contracting	166,357	332,114	330,526	242,218	119,897	180,435	680,289	397,439	301,466	247,070
Food Services	376,009	357,098	348,720	334,515	317,125	308,971	290,862	275,171	231,207	216,073
Services - Other	165,413	143,968	150,870	125,154	124,960	121,771	100,224	86,171	86,931	70,331
Transportation/Communication/Utilities	118,432	91,252	82,551	73,184	72,068	70,688	86,664	90,871	60,242	65,940
Wholesale	54,665	53,542	48,999	41,599	42,521	40,946	67,002	53,282	45,688	46,400
Finance/Insurance/Real Estate	26,339	23,830	24,541	20,738	26,855	29,919	44,693	54,714	52,767	46,737
Other	<u>26,684</u>	<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>
 Total Sales Tax	<u>\$3,355,340</u>	<u>\$3,348,925</u>	<u>\$3,226,315</u>	<u>\$2,983,127</u>	<u>\$2,796,876</u>	<u>\$2,778,789</u>	<u>\$2,865,931</u>	<u>\$2,372,141</u>	<u>\$ 2,079,881</u>	<u>\$ 1,782,296</u>

Source: Washington State Department of Revenue

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

	Fiscal Year 2014				Fiscal Year 2005			
	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total
Unknown	-	0.0%	\$ 15,284	0.5%	4	0.2%	\$ 6,960	0.4%
Agriculture, Forestry, Fishing	7	0.1%	1,617	0.0%	6	0.2%	39	0.0%
Mining	5	0.1%	185	0.0%	3	0.1%	383	0.0%
Utilities	4	0.1%	661	0.0%	*	0.0%	*	0.0%
Construction	1,248	22.8%	166,357	5.0%	862	33.2%	247,070	13.9%
Manufacturing	298	5.4%	9,598	0.3%	84	3.2%	12,343	0.7%
Wholesale Trade	773	14.1%	54,665	1.6%	303	11.7%	46,400	2.6%
Retail Trade	1,628	29.7%	2,421,441	72.2%	522	20.1%	1,070,294	60.1%
Transportation and Warehousing	13	0.2%	539	0.0%	11	0.4%	2,171	0.1%
Information	207	3.8%	117,232	3.5%	110	4.2%	63,536	3.6%
Finance and Insurance	59	1.1%	9,172	0.3%	46	1.8%	6,768	0.4%
Real Estate, Rental, Leasing	147	2.7%	17,167	0.5%	81	3.1%	39,969	2.2%
Prof, Sci, Technical Svcs	220	4.0%	14,159	0.4%	89	3.4%	12,984	0.7%
Management, Education & Health Svcs	501	9.2%	38,902	1.2%	273	10.5%	20,489	1.1%
Arts, Entertain, Recreation	36	0.7%	29,615	0.9%	16	0.6%	7,817	0.4%
Accomodation and Food Svcs	69	1.3%	376,009	11.2%	46	1.8%	216,073	12.1%
Other Services	253	4.6%	37,350	1.1%	138	5.3%	29,000	1.6%
Public Administration	7	0.1%	45,387	1.4%	*	0.0%	*	0.0%
	<u>5,475</u>	<u>100.0%</u>	<u>\$ 3,355,340</u>	<u>100.0%</u>	<u>2,594</u>	<u>100.0%</u>	<u>\$ 1,782,296</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.

* Denotes data that has been withheld to avoid disclosure of individual firm information. This is required by the excise tax confidentiality statute.

Source: Washington State Department of Revenue

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

	2014	2013	2012	2011	2010	2009	2008 (Note 3)	2007 (Note 2)	2006	2005
Local Rate:										
City of Covington	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%
King County	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%
King County Mental Health	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.000%	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%	0.900%	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>						
Total Criminal Justice Tax	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>						
Total Local Rate	<u>2.100%</u>	<u>2.000%</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>						
Total City of Covington	<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%	1.174%	1.074%	0.974%	0.974%
State of Washington	<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>8.500%</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>2014</u>	<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>
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 65,411	\$ 74,391	\$ 60,372	\$ 4,000	\$ 33,944	\$ 33,141
Unreserved	-	-	-	-	2,286,179	2,226,147	2,150,676	1,300,941	884,386	2,064,632
Nonspendable	144,389	156,449	64,186	26,150	-	-	-	-	-	-
Restricted	30,640	94,520	197,366	25,164	-	-	-	-	-	-
Assigned	965,719	-	320,473	611,083	-	-	-	-	-	-
Unassigned	<u>5,195,475</u>	<u>5,665,787</u>	<u>4,911,695</u>	<u>4,220,407</u>	-	-	-	-	-	-
Total General Fund	<u>6,336,223</u>	<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>
All Other Governmental Funds										
Reserved	-	-	-	-	67,103	73,052	78,464	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
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
Nonspendable	8,595	19,532	20,727	28,200	-	-	-	-	-	-
Restricted	1,208,749	1,683,549	1,818,004	2,587,549	-	-	-	-	-	-
Committed	2,173,283	2,113,488	2,362,427	1,743,845	-	-	-	-	-	-
Assigned	<u>1,020,151</u>	<u>937,703</u>	<u>807,384</u>	<u>983,257</u>	-	-	-	-	-	-
Total All Other Governmental Funds	<u>4,410,778</u>	<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>
Total Governmental Funds	<u>\$ 10,747,001</u>	<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>

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>2014</u>	<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>
Revenues										
Taxes	\$ 8,797,636	\$ 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
Licenses and Permits	651,815	891,587	1,164,898	813,379	646,497	502,276	814,074	1,225,381	663,967	602,659
Intergovernmental	1,817,384	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
Charges for Goods and Services	1,762,739	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
Fines and Forfeitures	98,674	123,244	162,955	154,765	128,214	138,291	112,069	101,248	101,895	120,965
Special Assessments	35,663	36,992	38,321	39,650	52,122	43,869	74,271	103,285	20,973	30,673
Interest Income	18,582	17,993	20,059	52,383	30,375	75,045	459,741	641,261	464,875	274,206
Penalties	-	-	-	-	-	-	3,388	6,777	1,780	4,775
Interfund Services Payment	457,026	383,917	358,061	656,362	588,194	866,000	1,167,185	392,360	213,000	-
Miscellaneous	242,230	245,924	238,104	180,821	208,795	234,611	622,516	134,841	450,742	162,541
Total Revenues	<u>13,881,749</u>	<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>
Expenditures										
Current										
General Government	3,380,294	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
Community Development	1,452,132	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
Public Safety	3,301,701	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
Culture and Recreation	2,072,281	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
Streets and Highways	862,564	848,136	953,120	2,154,985	2,134,312	2,420,338	2,061,538	1,957,620	1,619,822	861,857
Capital Outlay										
General Government	-	12,442	-	4,297	5,973	-	21,451	12,446	66,599	-
Community Development	-	-	-	-	-	17	-	-	14,807	5,343
Public Safety	16,108	29,382	-	-	-	-	-	-	-	-
Culture and Recreation	397,992	256,182	1,531,115	73,492	126,374	357,962	750,243	195,986	181,565	458,226
Streets and Highways	946,232	635,468	680,939	407,143	2,603,995	1,983,434	10,176,804	14,699,562	5,133,615	969,598
Debt service										
Principal	803,950	806,284	782,321	773,156	466,479	272,728	398,187	169,855	70,358	-
Interest	474,465	506,348	536,843	599,481	613,308	617,106	619,718	250,598	25,869	26,132
Bond Issuance Cost	-	-	-	-	-	-	12,080	92,646	-	-
Total Expenditures	<u>13,707,719</u>	<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>
Excess of Revenues over (under) Expenditures	<u>174,030</u>	<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>
Other Financing Sources (Uses)										
Transfers In	2,225,634	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
Transfers Out	(2,225,634)	(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)
General Obligation Bond Proceeds	-	-	-	-	-	-	308,068	12,505,000	-	-
Premium on General Obligation Bonds	-	-	-	-	-	-	-	52,655	-	-
Special Assessment Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Intergovernmental Loan Proceeds	-	-	-	-	-	-	189,275	1,892,750	946,375	-
Proceeds from Sale of Capital Asset	-	-	42,106	-	-	85,669	130,942	125,015	-	223,379
Compensation from Loss of Asset	3,362	15,800	37,005	4,857	570	2,731	2,377	60,928	-	-
Total Other Financing Sources (Uses)	<u>3,362</u>	<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>
Net Change in Fund Balances	<u>\$ 177,392</u>	<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>
Debt service as a percentage of noncapital expenditures	10.35%	11.16%	12.10%	11.40%	9.39%	7.19%	8.47%	4.46%	1.12%	0.37%

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

	<u>2014</u>	<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>
Property Tax	\$2,458,371	\$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
Sales Tax	3,355,340	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
Utility Tax	2,094,654	2,060,534	2,004,827	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-
Local Criminal Justice	436,034	399,784	370,000	355,112	337,172	342,588	396,749	428,029	389,306	335,156
Real Estate Excise Tax	418,703	544,516	522,804	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361
All Others	34,534	-	46,297	111,215	31	53	25	-	-	350,886
Total Taxes	<u>\$8,797,636</u>	<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>

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)			
2005	\$ 431,731,530	\$ 865,500,097	\$ 168,276	\$ 224,000	\$ 20,753,923	\$ 13,636,097	\$ -	\$ 1,332,013,923	\$ 1.24664	\$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	1.20452	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	1.15224	28,278,992
2008	640,650,490	1,197,306,300	159,219	-	32,183,863	15,773,682	-	1,886,073,554	1.04810	36,727,701
2009	706,781,218	1,363,213,711	521,551	-	33,644,893	14,943,721	-	2,119,105,094	0.98104	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	1.15290	28,133,198
2011	666,600,332	1,019,431,097	761,334	-	28,248,339	13,854,937	-	1,728,896,039	1.36485	3,838,928
2012	616,578,144	930,283,814	762,510	-	25,032,370	13,500,701	-	1,586,157,539	1.48090	12,531,950
2013	566,151,464	929,017,114	747,801	-	25,245,781	16,292,495	-	1,537,454,655	1.54758	25,957,902
2014	595,322,736	984,665,314	738,141	-	26,629,589	18,047,054	208,803	1,625,611,637	1.53016	30,588,960

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

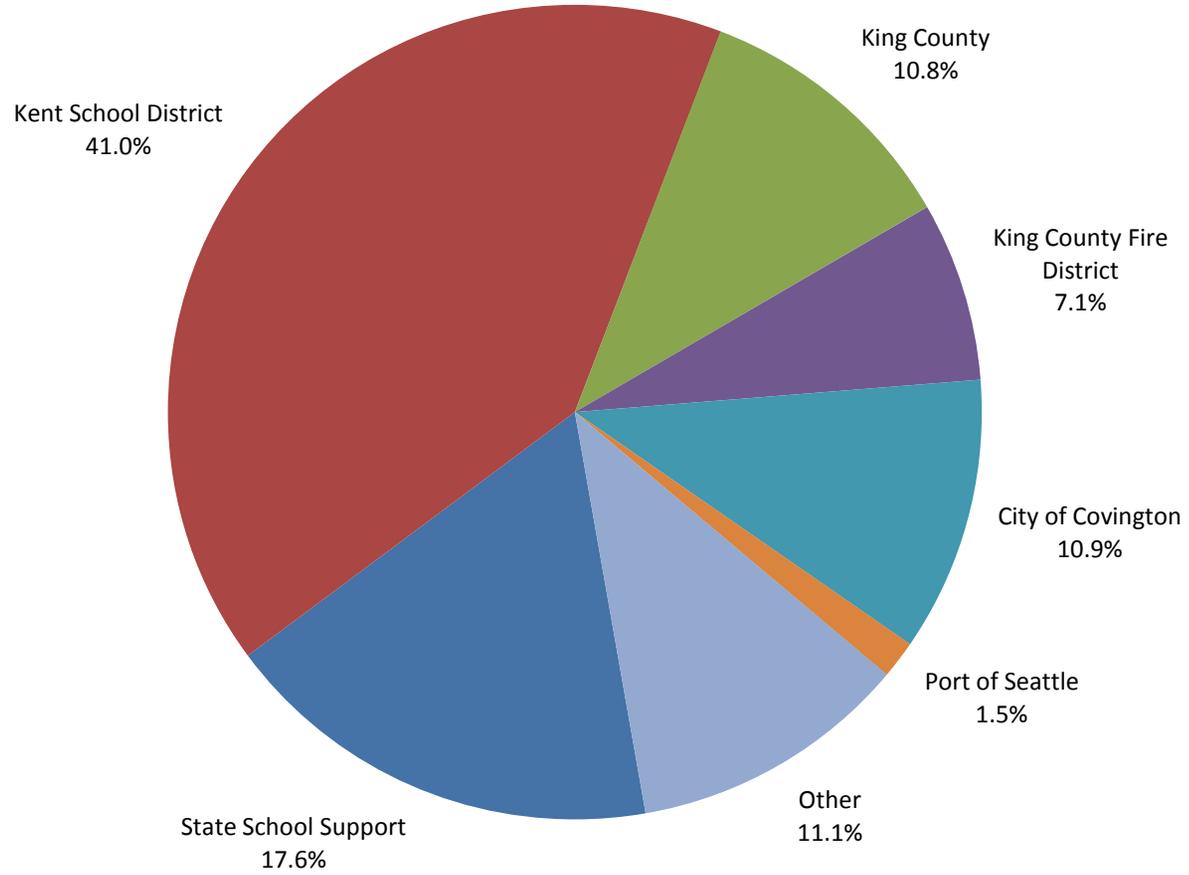
City of Covington
Direct and Overlapping Property Tax Rates (Note 1)
Per One Thousand of Assessed Valuation
Last Ten Fiscal Years

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
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
2014	1.53016	-	1.53016	5.73453	1.51605	1.00000	2.47044	0.21533	1.55393	14.02044

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

2014 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	2014			2005		
		Assessed Value	Rank	Percentage of Total Assessed Value ⁽¹⁾	Assessed Value	Rank	Percentage of Total Assessed Value ⁽¹⁾
Multicare Health Systems	Healthcare	\$ 33,377,400	1	2.05%	\$ 20,954,400	1	1.57%
TRC MM, LLC	Shopping Center	27,769,700	2	1.71%	17,304,900	2	1.30%
South Adagio Apartments, LLC	Apartments	27,393,000	3	1.69%	15,661,000	4	1.18%
Covington Esplanade, LLC	Shopping Center	25,942,700	4	1.60%	-		0.00%
Covington Group, LLC	Shopping Center	21,479,600	5	1.32%	-		0.00%
Fred Meyer Inc.	Department Store	21,221,700	6	1.31%	16,094,500	3	1.21%
Costco Wholesale Corp	Commercial	18,821,200	7	1.16%	-		0.00%
Wal-Mart Stores, Inc.	Department Store	16,169,000	8	0.99%	9,476,000	6	0.71%
Covington Commercial II, LLC	Shopping Center	15,574,600	9	0.96%	-		0.00%
Covington Retail Assoc, LLC	Shopping Center	13,500,600	10	0.83%	11,726,200	5	0.88%
Covington Shopping Center, LLC	Shopping Center	-		0.00%	6,859,000	7	0.51%
SSHI, LLC	Land	-		0.00%	3,597,000	8	0.27%
Scott, Rodger	Public Storage Facility	-		0.00%	2,645,300	9	0.20%
Walgren Co.	Commercial	-		0.00%	2,030,800	10	0.15%
Total Assessed Value of 10 Largest Taxpayers		<u>\$ 221,249,500</u>		<u>13.62%</u>	<u>\$ 106,349,100</u>		<u>7.98%</u>

Note 1: Total 2014 assessed valuation, in millions, is \$1,625,611,637, and 2005 assessed valuation is \$1,332,013,923.

* Data not available

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>	
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%	39,071	1,912,887	100.00%	
2008	1,976,869	1,935,004	97.88%	41,402	1,976,406	99.98%	
2009	2,070,064	2,014,728	97.33%	54,740	2,069,468	99.97%	
2010	2,093,086	2,008,300	95.95%	83,936	2,092,236	99.96%	
2011	1,731,739	1,643,000	94.88%	87,885	1,730,885	99.95%	
2012	2,365,325	2,336,069	98.76%	19,877	2,355,946	99.60%	
2013	2,320,393	2,290,016	98.69%	17,693	2,307,709	99.45%	
2014	2,469,634	2,436,208	98.65%	-	2,436,208	98.65%	

Sources:
King County Assessor

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

<u>Fiscal Year</u>	<u>Governmental Activities</u>			<u>Total Primary Government</u>	<u>Percentage of Personal Income</u> (Note 1)	<u>Per Capita</u> (Note 1)
	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Other Long-Term Debt</u>			
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	1.18%	737.77
2014	10,398,112	-	2,148,956	12,547,068	*	678.95

Note 1: See the Schedule of Demographic and Economic Statistics on page 106 for personal income and population data.

* Data not available at time of publication

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

Fiscal Year	General Obligation Bonds	Less Debt Service Funds	Net Bonded General Obligation Bonds	Percentage of Estimated Actual Taxable Value of Property (Note1)	Per Capita (Note 2)
2005	\$ -	\$ -	\$ -	\$ -	\$ -
2006	-	-	-	0.00%	-
2007	12,555,148	46,010	12,509,138	0.75%	727.70
2008	12,822,064	46,010	12,776,054	0.68%	735.95
2009	12,819,431	46,010	12,773,421	0.60%	728.66
2010	12,600,535	46,010	12,554,525	0.69%	711.71
2011	12,090,982	77,689	12,013,293	0.69%	681.03
2012	11,555,746	197,677	11,358,069	0.72%	639.53
2013	10,989,799	94,780	10,895,019	0.71%	601.93
2014	10,398,112	30,640	10,367,472	0.64%	561.01

Note 1: See the Schedule of Assessed and Estimated Value of Taxable Property on page 96 for property value data.

Note 2: See the Schedule of Demographic and Economic Statistics on page 106 for population data.

City of Covington
Computation of Direct and Overlapping Debt
December 31, 2014

<u>Jurisdiction</u>	<u>Net General Obligation Debt Outstanding (Note 1)</u>	<u>Percentage Applicable to Covington (Note 2)</u>	<u>Estimated Amount Applicable to Covington</u>
Direct:			
City of Covington	\$ 12,547,068	100.00%	\$ 12,547,068
Overlapping:			
King County	826,768,000	0.56%	4,629,901
King County Library	118,264,183	0.95%	1,123,510
Port of Seattle	225,420,000	0.56%	1,262,352
Tahoma School District #409	106,379,225	0.01%	10,638
Kent School District #415	156,461,139	11.48%	17,961,739
Total Overlapping Debt	<u>1,433,292,547</u>		<u>24,988,140</u>
Total Direct and Overlapping Debt	<u>\$ 1,445,839,615</u>		<u>\$ 37,535,208</u>

Note 1: Total general obligation bonds outstanding on December 31, 2014. Source: King County

Note 2: Determined by ratio of 2014 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>2014</u>	<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>
Debt Limit	\$ 121,920,873	\$ 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
Total Net Debt Applicable to Limit	<u>8,415,749</u>	<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>
Legal Debt Margin	<u>\$ 113,505,124</u>	<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>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	6.90%	8.12%	8.69%	9.68%	11.98%	7.93%	11.29%	9.04%	1.87%	1.22%
Assessed Value	\$ 1,625,611,637	\$ 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
Debt Limit										
2.5% of General Purpose Limit, Voted & Non-voted	\$ 40,640,291	\$ 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
2.5% of Utility Purpose Limit, Voted	40,640,291	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
2.5% of Open Space, Park Facilities, Voted	<u>40,640,291</u>	<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>
Total Debt Limit	<u>\$ 121,920,873</u>	<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>
Debt Applicable to Limit										
Voted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-voted	11,945,620	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
Less: Amount Set Aside for Repayment of Voted	<u>(3,529,871)</u>	<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>
General Obligation Debt										
Total Net Debt Applicable to Limit	<u>\$ 8,415,749</u>	<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>

Source: City's Financial Records

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

Special Assessment Bonds						
Fiscal Year	Special Assessment		Debt Service		Coverage	
	Collections		Principal	Interest		
2005	\$	61,585	\$	-	\$	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
2014		35,663		*	*	

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

* Bonds were paid off in 2013

City of Covington
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Per Capita Personal		Personal Income	Median Age	School Enrollment (Note 1)	Unemployment Rate (Note 2)
		Income	Income				
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	62,770	1,136,137,000	36	27,196	5.2%	
2014	18,480	*	*	*	27,484	4.2%	

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)

<u>Type of Industry</u>	<u>2013</u>			<u>2004</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
Trade, Transportation, and Utilities	224,233	1	18.19%	220,817	1	19.52%
Professional and Business Services	200,658	2	16.27%	163,533	3	14.46%
Government	167,183	3	13.56%	162,208	2	14.34%
Educational and Health Services	162,567	4	13.18%	130,075	4	11.50%
Leisure and Health Services	120,100	5	9.74%	103,525	6	9.15%
Manufacturing	105,675	6	8.57%	103,608	5	9.16%
Information	82,350	7	6.68%	68,575	8	6.06%
Financial Activities	71,533	8	5.80%	79,117	7	6.99%
Construction	<u>54,075</u>	9	<u>4.39%</u>	<u>59,317</u>	9	<u>5.24%</u>
Total	<u>1,188,374</u>		<u>96.38%</u>	<u>1,090,775</u>		<u>96.42%</u>
Total Employment	<u>1,233,017</u>			<u>1,131,067</u>		

Note 1: FY2014 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:

2013 King County Comprehensive Annual Financial Report

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

	<u>2014</u>	<u>2013 (Note 2)</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>
Function										
General Government	14	13	13	13	13	13	13	12	12	14
Community Development	7	7	8	6	10	16	16	15	15	4
Public Safety (Note 1)	-	-	-	-	-	-	-	-	-	-
Culture and Recreation	14	11	11	10	10	9	9	8	8	13
Streets and Highways	4	4	12	10	13	14	14	11	11	5
Surface Water Management	<u>8</u>	<u>8</u>	<u>-</u>							
Total	<u><u>47</u></u>	<u><u>43</u></u>	<u><u>44</u></u>	<u><u>39</u></u>	<u><u>46</u></u>	<u><u>52</u></u>	<u><u>52</u></u>	<u><u>46</u></u>	<u><u>46</u></u>	<u><u>36</u></u>

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

Note 2: 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	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
City Manager (Note 1)										
Citizen Action Requests	201	171	212	194	275	281	268	347	401	N/A
Community Room Rentals	351	221	181	141	160	295	283	230	232	N/A
Contacts by Citizens (Phone and Walk-in)	10,588	10,473	10,802	11,894	11,279	13,088	15,116	12,984	12,014	N/A
Finance (Note 1)										
AP Checks Processed	1,721	1,722	1,757	1,738	1,794	1,758	1,758	1,600	1,829	1,689
AP Invoices Processed	2,897	2,889	2,796	2,797	2,931	2,994	2,994	2,638	2,982	2,339
AP \$ (in Millions)	10	9	10	7	10	20	20	17	10	6
AR Invoices/Statements Processed	303	402	614	838	753	751	751	902	1,020	826
Payroll Checks Processed	2,497	2,361	2,194	2,007	1,976	2,201	2,201	1,950	1,900	1,787
City Clerk (Note 1)										
Public Disclosure Requests	109	110	97	85	88	97	255	288	255	205
Covington Connection E-mails Received	114	61	93	78	116	178	186	243	219	194
Media Pitches (fka Press Reelases)	37	19	40	36	57	40	71	62	47	59
Contracts/Agreements	92	103	76	61	45	63	66	35	93	64
Ordinances/Resolutions Passed	37	22	30	32	49	38	49	65	130	113
Community Development										
No. of Permits Issued	122	204	268	122	115	131	209	225	135	207
Estimated Value (in Millions)	4	22	57	39	15	8	49	89	25	36
Public Safety (Note 2)										
No. of Calls for Service	4,581	4,421	4,289	3,803	4,196	4,135	4,026	3,837	4,098	3,982
Reported Crimes	1,459	1,303	1,417	1,418	1,638	1,311	1,631	1,591	1,385	1,338
Traffic Citations	913	1,257	1,055	5,925	1,170	1,470	1,451	1,795	1,956	1,776
No. of Arrests										
Adults	423	393	441	578	602	585	403	418	368	356
Juveniles	50	70	101	80	114	148	117	86	122	141
Culture and Recreation (Note 3)										
Number of Parks	5	5	5	5	5	5	5	5	5	4
Park Acreage	135	135	135	135	135	135	135	135	135	135
Participants at Recreation Swims	25,376	26,523	23,556	20,527	22,068	18,949	21,920	15,351	33,684	32,838
Participants in Aquatic Activities	50,545	51,459	43,343	36,135	37,657	37,235	36,437	35,576	39,064	33,787
Aquatic Center Rental Hours	1,768	1,625	1,302	1,227	1,395	1,271	1,235	1,125	1,211	1,229
In-Water Attendance	111,281	110,652	92,949	81,197	87,620	81,599	83,057	73,427	96,958	91,195
Public Works (Note 1)										
Catch Basins Cleaned	1,296	1,342	248	184	956	2,265	2,265	2,100	1,841	N/A
Slope Mowing Miles	12	12	20	24	37	210	96	48	71	N/A
Landscape Mowing Miles	30	95	80	78	100	71	65	86	22	N/A
Miles of Streets Swept	1,828	1,828	2,056	843	2,274	2,054	2,290	1,192	1,754	N/A
Tons of Asphalt Used	4	11	87	269	58	95	100	94	155	N/A
Work Orders Completed	710	1,066	1,367	1,460	1,519	1,461	1,368	1,267	656	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: 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

	<u>2014</u>	<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>
Function										
Culture and Recreation										
Number of Parks	5	5	5	5	5	5	5	5	5	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	18	15	14	13	14	12	14	14	12	8

Sources:
City of Covington Parks and Public Works Departments