



**Washington State Auditor's Office**

Government that works for citizens

## **Financial Statements Audit Report**

# **City of Covington**

**King County**

**For the period January 1, 2015 through December 31, 2015**

**Published July 28, 2016**

**Report No. 1017125**





## Washington State Auditor's Office

July 28, 2016

Mayor and City Council  
City of Covington  
Covington, Washington

### Report on Financial Statements

Please find attached our report on the City of Covington's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in blue ink that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Covington**  
**King County**  
**January 1, 2015 through December 31, 2015**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Covington. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> January 1, 2014 – December 31, 2014	<b>Report Ref. No.:</b> 1015215	<b>Finding Ref. No.:</b> 2014-001				
<b>Finding Caption:</b> The City's internal controls over financial statement preparation are inadequate to ensure accurate financial reporting.						
<b>Background:</b> The City did not have a process to ensure the year-end intergovernmental revenues as reported in the fund financial statements met its revenue recognition policies. The City expended funds for two state grants during fiscal year 2014. The reimbursements for these expenditures did not meet the criteria to be considered available for use under City policy, and therefore would not be reported as revenue on the operating statement. As a result, revenues were overstated in the Capital Investment Program Fund and Park Fund.						
<b>Status of Corrective Action:</b> <table><tr><td><input checked="" type="checkbox"/> Fully Corrected</td><td><input type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>All accounts receivable are now reviewed to make sure they meet the cutoff test of either 60 days for normal accounts receivable or 120 days for expenditure driven grants receivables. After the cutoff period is met, the Senior Accountant reviews all outstanding receivables and move them out of revenue and into unavailable revenues on the balance sheet.</i>						

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Covington  
King County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Covington  
Covington, Washington

We have audited, 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2016.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

June 27, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Covington King County January 1, 2015 through December 31, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

### **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, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Development Services and Parks funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

June 27, 2016

## **FINANCIAL SECTION**

**City of Covington  
King County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Development Services Fund – 2015

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Parks Fund – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Notes to Financial Statements – 2015

## 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, 2015. 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, 2015 by \$61,100,326 (net position). Of the total net position, \$13,564,546 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 \$3,150,528. A significant portion of this increase is due to capital asset infrastructure.
- As of December 31, 2015, the city's governmental funds reported a combined ending fund balance of \$13,492,594. Of this, \$6,909,578 is in the general fund, \$3,067,126 is in the development services fund, \$268,357 is in the parks fund, and \$2,645,823 is in the capital investment program fund.
- As of December 31, 2015, the unassigned portion of the general fund's fund balance is \$6,321,299. This classification also includes unassigned fund balance from the cumulative reserve fund, contingency fund, and restricted fund balance from real estate excise tax 1<sup>st</sup> ¼% fund and real estate excise tax 2<sup>nd</sup> ¼% fund.
- As of December 31, 2015, the city's business-type activities reported a total net position of \$8,758,766.

### 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 24 to 25 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 five of the twelve funds in the *Governmental Fund Balance Sheet* and in the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance*. These are considered to be major funds and include the general fund, development services fund, parks fund, local improvement district 99-01 fund, and the capital investment program fund. Data from three funds, which includes the street fund, 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 cumulative reserve fund, contingency fund, real estate excise tax 1<sup>st</sup> 1/4% fund, and real estate excise tax 2<sup>nd</sup> 1/4% fund have been combined with the general fund per the requirements of GASB.

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 32 to 34 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 36 to 63 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, 2015, the city's total net position is \$61,100,326. Shown below is a breakdown of the city net position by category.

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 14,906,856	\$ 12,331,466	\$ 2,538,792	\$ 2,637,976	\$ 17,445,648	\$ 14,969,442
Capital assets	<u>50,483,545</u>	<u>51,047,134</u>	<u>6,369,429</u>	<u>6,143,485</u>	<u>56,852,974</u>	<u>57,190,619</u>
Total assets	<u>65,390,401</u>	<u>63,378,600</u>	<u>8,908,221</u>	<u>8,781,461</u>	<u>74,298,622</u>	<u>72,160,061</u>
Total assets and deferred outflows	<u>65,390,401</u>	<u>63,378,600</u>	<u>8,908,221</u>	<u>8,781,461</u>	<u>74,298,622</u>	<u>72,160,061</u>
Long-term liabilities outstanding	12,206,058	12,976,839	101,755	79,721	12,307,813	13,056,560
Other liabilities	<u>842,783</u>	<u>1,117,737</u>	<u>47,700</u>	<u>35,966</u>	<u>890,483</u>	<u>1,153,703</u>
Total liabilities	<u>13,048,841</u>	<u>14,094,576</u>	<u>149,455</u>	<u>115,687</u>	<u>13,198,296</u>	<u>14,210,263</u>
Total liabilities and deferred inflows	<u>13,048,841</u>	<u>14,094,576</u>	<u>149,455</u>	<u>115,687</u>	<u>13,198,296</u>	<u>14,210,263</u>
Net position:						
Net investment in capital assets	38,773,828	38,500,066	6,369,429	6,143,485	45,143,257	44,643,551
Restricted	2,392,523	1,199,927	-	-	2,392,523	1,199,927
Unrestricted	<u>11,175,209</u>	<u>9,584,031</u>	<u>2,389,337</u>	<u>2,522,289</u>	<u>13,564,546</u>	<u>12,106,320</u>
Total net position	<u>\$ 52,341,560</u>	<u>\$ 49,284,024</u>	<u>\$ 8,758,766</u>	<u>\$ 8,665,774</u>	<u>\$ 61,100,326</u>	<u>\$ 57,949,798</u>

Overall the city's financial position has improved. The city net position increased \$3,150,528 during the current fiscal year. A significant portion of this increase is due to an increase in capital asset infrastructure.

Of the total net position, \$45,143,257 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.

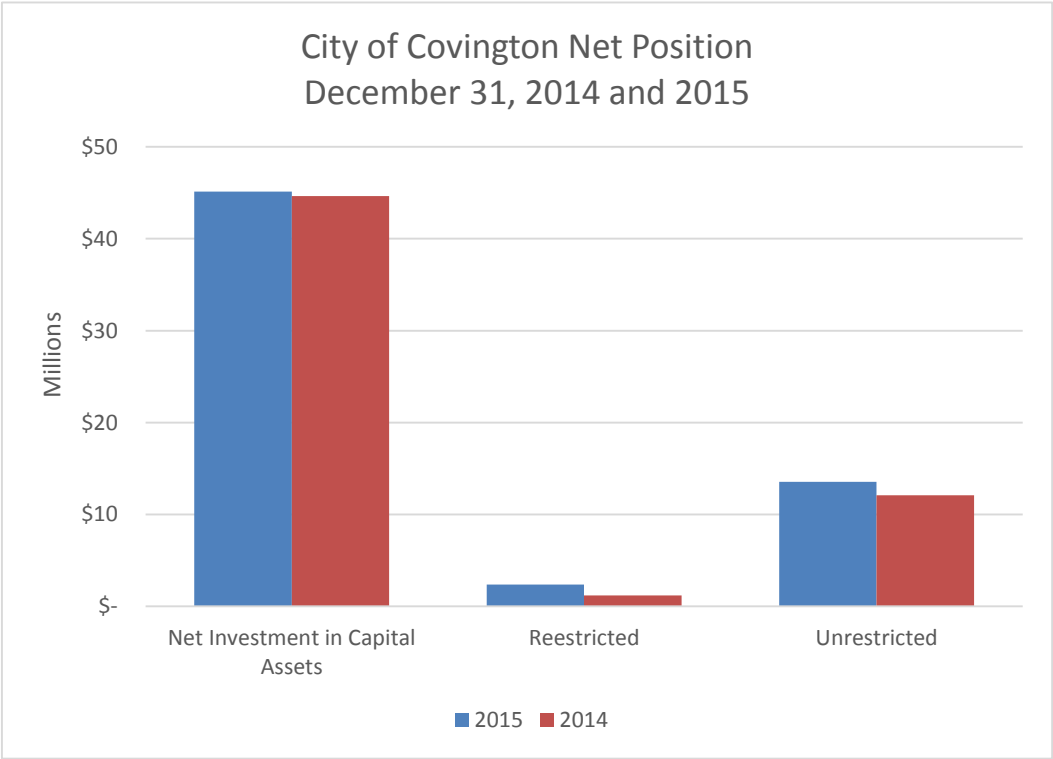


Currently, net investment in capital assets reflect 73.9% (\$45,143,257) of the total net position. Capital assets are defined as tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Examples would be land, machinery and equipment, etc. A portion of the city's net position, \$2,392,523 (3.9%) 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, \$13,564,546 (22.2%), 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 \$3,057,536 from the prior fiscal year for an ending net position of \$52,341,560. Total revenues increased by \$1,765,964 primarily due to increases in sales tax and permit activity and expenses increased by \$686,697 due mostly in part to culture and recreation.

See page 62 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 \$92,992 from the prior fiscal year for an ending net position of \$8,758,766. Total revenues decreased by \$521,450 due to a reduction in capital contributions and expenses increased by \$118,321 due to general inflationary pressures.

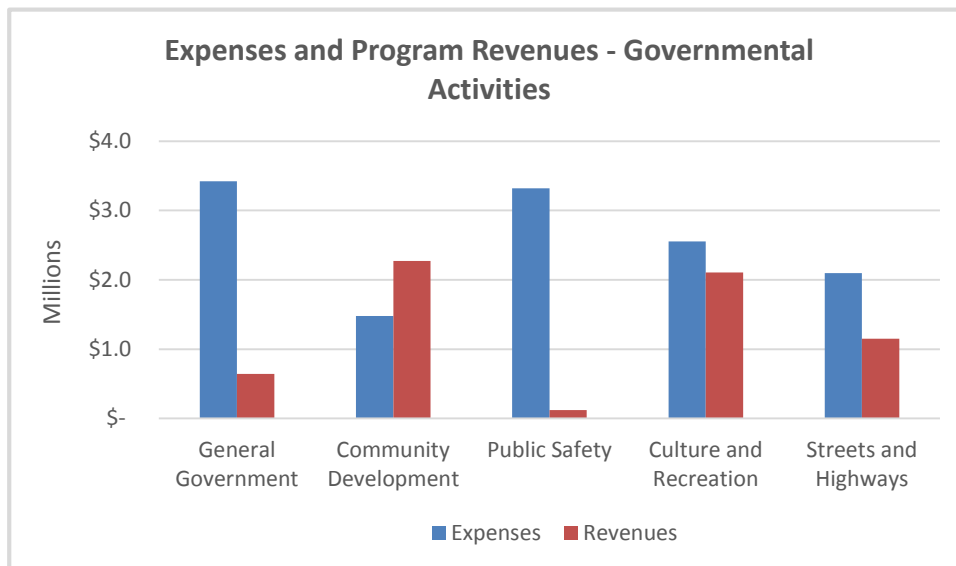




*Condensed Statement of Changes in Net Position.* Shown below is a breakdown of the key elements of the city's changes in net position.

<b>City of Covington's Changes in Net Position</b>						
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,034,729	\$ 2,622,262	\$ 1,875,668	\$ 1,810,536	\$ 5,910,397	\$ 4,432,798
Operating grants and contributions	462,040	478,330	-	-	462,040	478,330
Capital grants and contributions	1,792,534	2,281,824	52,972	639,539	1,845,506	2,921,363
General revenues:						
Property taxes	2,476,441	2,465,695	-	-	2,476,441	2,465,695
Sales taxes	3,937,865	3,355,340	-	-	3,937,865	3,355,340
Utility tax	1,992,914	2,094,654	-	-	1,992,914	2,094,654
Other taxes	1,547,699	1,199,162	-	-	1,547,699	1,199,162
Other intergovernmental	280,065	247,737	-	-	280,065	247,737
Other	<u>68,423</u>	<u>81,742</u>	<u>4,256</u>	<u>4,271</u>	<u>72,679</u>	<u>86,013</u>
Total revenues	<u>16,592,710</u>	<u>14,826,746</u>	<u>1,932,896</u>	<u>2,454,346</u>	<u>18,525,606</u>	<u>17,281,092</u>
Expenses:						
General government	3,423,354	3,344,049	-	-	3,423,354	3,344,049
Community development	1,479,181	1,277,451	-	-	1,479,181	1,277,451
Public safety	3,318,507	3,317,809	-	-	3,318,507	3,317,809
Culture and recreation	2,553,639	2,184,930	-	-	2,553,639	2,184,930
Streets and highways	2,095,145	2,027,787	-	-	2,095,145	2,027,787
Interest on long-term debt	429,887	460,990	-	-	429,887	460,990
Surface water management	<u>-</u>	<u>-</u>	<u>1,885,460</u>	<u>1,767,139</u>	<u>1,885,460</u>	<u>1,767,139</u>
Total expenses	<u>13,299,713</u>	<u>12,613,016</u>	<u>1,885,460</u>	<u>1,767,139</u>	<u>15,185,173</u>	<u>14,380,155</u>
Increase in net position before transfers and special items	3,292,997	2,213,730	47,436	687,207	3,340,433	2,900,937
Special items	197,058	-	-	-	197,058	-
Transfers - internal activities	(45,556)	(139,670)	45,556	139,670	-	-
Increase in net position	3,444,499	2,074,060	92,992	826,877	3,537,491	2,900,937
Net position, January 1	49,284,024	47,311,383	8,665,774	7,838,897	57,949,798	55,150,280
Prior period adjustment	<u>(386,963)</u>	<u>(101,419)</u>	<u>-</u>	<u>-</u>	<u>(386,963)</u>	<u>(101,419)</u>
Net position, December 31	<u>\$ 52,341,560</u>	<u>\$ 49,284,024</u>	<u>\$ 8,758,766</u>	<u>\$ 8,665,774</u>	<u>\$ 61,100,326</u>	<u>\$ 57,949,798</u>

Property taxes increased by \$10,746 (0.44%) over fiscal year 2014. The increase is due primarily to increased assessed valuation. The city property tax levy rate per \$1,000 of assessed value decreased from \$1.53016 in 2014 to \$1.31259 for 2015 due primarily to an increase in assessed valuation which has an inverse relationship with the levy rate.



Sales tax revenue for 2015 increased by \$582,525 (17.4%) over fiscal year 2014. In year over year comparisons, retail sales increased by 6.8%, construction increased by 214.8%, food services increased 9.0%, and all other categories increased 12.6%.

Utility taxes decreased by \$101,740 (-4.9%) over fiscal year 2014. This decrease can be attributed to a reduction in cell phones, land lines, electricity, and gas usage.

General government saw an increase of \$79,305 (2.4%) in expenses in 2015 over 2014. This minimal difference is the result of several increases and decreases in different departments that netted out to this small increase.

Community development saw an increase of \$201,730 (15.8%). The increase is attributed to the completion of the comprehensive plan update.

Public safety saw virtually no change with a slight increase of \$698 (0.02%), due to minimal changes in the contract.

Culture and recreation expenses saw a significant increase of \$368,709 (16.9%). This can be attributed to the expansion of athletics programs and capital projects.

The expenses for streets and highways showed an increase of \$67,358 (3.3%) in 2015 over 2014. This decrease is due mainly to completion of a capital project.

Interest on long-term debt decreased as the city continued making payments on the outstanding long-term debt. For 2016, the city initiated a refunding plan to advance refund a portion of the Limited Tax General Obligation Bonds, 2007A, to obtain the benefit of debt service savings and prepay the Limited Tax General Obligation 2008 Bonds for the purposes of prepayment. The refunding will close on June 8, 2016. See page 56 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.

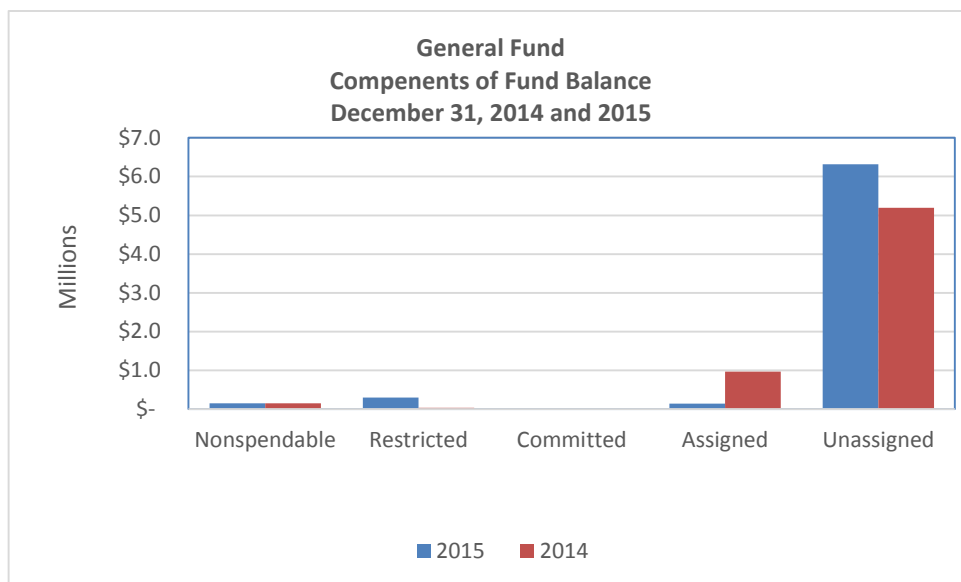
As of December 31, 2015, the City of Covington's governmental funds reported a combined ending fund balance of \$13,492,594 which is an increase of \$2,745,593 over 2014. Of the total fund balance, \$157,432 is non-spendable, \$2,446,781 is restricted, \$3,381,942 is committed, and \$1,185,940 is assigned. The balance, \$6,321,299 is unassigned and available for spending at the city's discretion.

The general fund is the city's chief operating fund. For 2015, the general fund fund balance increased by \$573,355 from \$6,336,223 in 2014 to \$6,909,578 for 2015. 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 88.6% of total general fund expenditures, while total fund balance represents approximately 96.8% of total general fund expenditures.

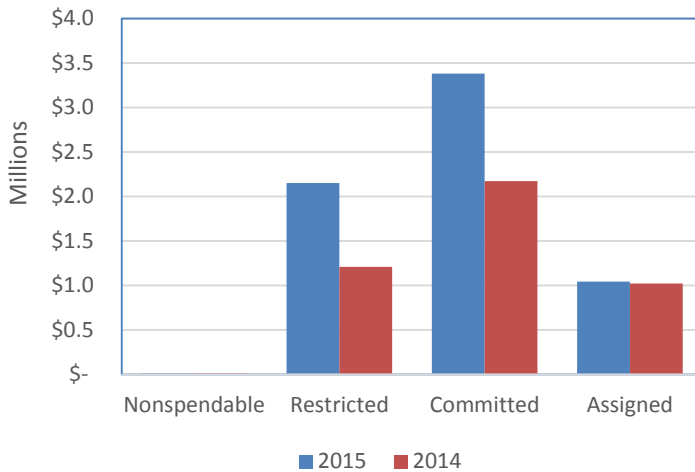
Excluding other funds which are captured in the general fund, the general fund increased in fund balance by \$293,984. Forecasted tax revenues came in over budget while management under-spent expenditures.

The development services fund is used to account for the city's building activities, which include activities such as residential and commercial building inspection, plans examination, and processing permits. The development services fund fund balance, which was \$1,912,002 in 2014, increased by \$1,155,124 to \$3,067,126 in 2015. The increase is due to a large increase in permitting activity in 2015.

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 \$214,256 in 2014, increased by \$54,101 in 2015. This increase is mainly due to increased support from the general fund.



**Other Governmental Funds  
Components of Fund Balance  
December 31, 2014 and 2015**



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 \$0 in 2014, had no change in 2015.

The capital investment program fund is used to account for the financing of major capital acquisition construction projects. The capital investment

program fund fund balance increased \$875,794 from \$1,770,029 in 2014 to \$2,645,823 in 2015. The increase is a result of an increase in mitigation fees due to higher levels of permit activity.

**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 2015 is \$8,584,184 which is an increase of \$52,594 from 2014's net position of \$8,531,590. This includes an unrestricted amount of \$2,214,755 and a net investment in capital assets of \$6,369,429.

### General Fund Budgetary Highlights

The City of Covington budgets annually on a calendar year basis.

**Original budget compared to final budget.** The 2015 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 parks 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	Budget	Actual	Δ
Taxes	\$7,883,860	\$8,268,543	\$384,683
Miscellaneous	\$43,850	\$92,033	\$48,183

The increase in taxes was due to a significant increase in sales tax collections related to construction activity. Miscellaneous revenues increased due to increased interest earning, technology surcharge, and Public Employees Retirement System Replacement forfeitures.

## **Capital Assets**

As of December 31, 2015, the city's investment in capital assets is \$56,852,974 (net of depreciation), \$50,483,545 for governmental activities and \$6,369,429 for business-type activities. This year's most significant project was completed in Jenkins Creek Park. Improvements that were constructed included: restoring and enhancing the trail system, removing architectural barriers which allowed access for seniors, handicapped, and students to access and use the park, constructing two new bridges, and establishing maintenance access.

Additional information regarding capital assets can be found in the notes to the financial statements on page 51.

## **Debt Administration**

As of December 31, 2015, the city's long-term debt outstanding is \$12,307,813, \$12,206,508 for governmental activities and \$101,755 for business-type activities.

Additional information on long term-debt can be found in the notes to the financial statements on pages 56 to 60.

## **Summary**

In the 2015 budget, the general fund was utilized to support streets, parks and recreation, the 2007 transportation bond debt payments, and the Costco payback (which ended in 2015). That policy is being extended into 2016 excluding parks and recreation which is merging with the general fund beginning in 2016.

On October 13, 2015, the city assumed the rights, powers, functions, and obligations of the Covington Transportation Benefit District (TBD). The TBD was created April 9, 2013, but the funding mechanism was not established until November 10, 2015, with collections beginning May 8, 2016. The city's assumption of the TBD and elimination of the TBD as a separate government entity will promote efficiency in government operations and administration and eliminate confusion regarding the council and TBD board members as the same representatives of two separate government entities. There are no financial elements to report as the collections have not yet started.

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 271<sup>st</sup> Street, Suite 100, Covington, WA 98042.

City of Covington  
Statement of Net Position  
December 31, 2015

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 11,098,623	\$ 1,991,211	\$ 13,089,834
Investments	2,201,690	199,860	2,401,550
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	336,343	-	336,343
Special Assessments	110,754	-	110,754
Interest	11,888	624	12,512
Property Taxes	46,743	-	46,743
Intergovernmental	1,097,889	172,608	1,270,497
Internal Balances	(173,862)	173,862	-
Prepaid Items	176,788	627	177,415
Capital Assets Not Being Depreciated:			
Land	19,583,093	994,232	20,577,325
Intangible Assets	940,890	7,003	947,893
Work In Progress	2,087,385	925,861	3,013,246
Capital Assets Net of Depreciation:			
Buildings	482,953	8,536	491,489
Improvements Other than Buildings	160,052	3,908	163,960
Machinery and Equipment	554,900	28,869	583,769
Infrastructure	26,674,272	4,401,020	31,075,292
Total Assets	65,390,401	8,908,221	74,298,622
Total Assets and Deferred Outflows	65,390,401	8,908,221	74,298,622
<b>Liabilities</b>			
Accounts Payable	347,255	24,231	371,486
Accrued Interest Payable	173,149	-	173,149
Accrued Payroll/Benefits	73,478	12,402	85,880
Due to Other Governmental Entities	110,391	11,067	121,458
Performance Bonds	6,801	-	6,801
Unearned Revenue	131,709	-	131,709
Long-Term Liabilities			
Due Within One Year			
Compensated Absences	348,150	70,055	418,205
General Obligation Bonds	650,625	-	650,625
Other Long-Term Debt	214,896	-	214,896
Due in More Than One Year			
Compensated Absences	148,191	31,700	179,891
General Obligation Bonds	9,125,030	-	9,125,030
Other Long-Term Debt	1,719,166	-	1,719,166
Total Liabilities	13,048,841	149,455	13,198,296
Total Liabilities and Deferred Inflows	13,048,841	149,455	13,198,296
<b>Net Position</b>			
Net Investment in Capital Assets	38,773,828	6,369,429	45,143,257
Restricted for:			
Debt Service	297,202	-	297,202
Capital Improvement Projects	2,095,321	-	2,095,321
Unrestricted	11,175,209	2,389,337	13,564,546
Total Net Position	\$ 52,341,560	\$ 8,758,766	\$ 61,100,326

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, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 3,423,354	\$ 576,093	\$ 64,710	\$ -	\$ (2,782,551)	\$ -	\$ (2,782,551)
Community Development	1,479,181	2,271,562	-	-	792,381	-	792,381
Public Safety	3,318,507	114,692	5,200	-	(3,198,615)	-	(3,198,615)
Culture and Recreation	2,553,639	1,031,310	368	1,076,236	(445,725)	-	(445,725)
Streets and Highways	2,095,145	41,072	391,762	716,298	(946,013)	-	(946,013)
Interest on Long-Term Debt	429,887	-	-	-	(429,887)	-	(429,887)
Total Governmental Activities	<u>13,299,713</u>	<u>4,034,729</u>	<u>462,040</u>	<u>1,792,534</u>	<u>(7,010,410)</u>	<u>-</u>	<u>(7,010,410)</u>
Business-type Activities:							
Surface Water Management	1,885,460	1,875,668	-	52,972	-	43,180	43,180
Total Business-type Activities	<u>1,885,460</u>	<u>1,875,668</u>	<u>-</u>	<u>52,972</u>	<u>-</u>	<u>43,180</u>	<u>43,180</u>
Total Primary Government	<u>\$ 15,185,173</u>	<u>\$ 5,910,397</u>	<u>\$ 462,040</u>	<u>\$ 1,845,506</u>	<u>(7,010,410)</u>	<u>43,180</u>	<u>(6,967,230)</u>
General Revenues:							
Taxes:							
Property Tax					2,476,441	-	2,476,441
Sales Tax					3,937,865	-	3,937,865
Utility Tax					1,992,914	-	1,992,914
Local Criminal Justice					479,898	-	479,898
Real Estate Excise Tax					674,352	-	674,352
Property Tax Parks Expansion Levy					69,275	-	69,275
Franchise Fee					324,174	-	324,174
Criminal Justice					57,394	-	57,394
Liquor Board Profits					161,927	-	161,927
Liquor Excise Tax					60,744	-	60,744
Interest Income					33,685	4,256	37,941
Miscellaneous					34,738	-	34,738
Special Items - Gain on Building from Insurance Proceeds					197,058	-	197,058
Transfers - internal activities					(45,556)	45,556	-
Total General Revenues, Special Items, and Transfers					<u>10,454,909</u>	<u>49,812</u>	<u>10,504,721</u>
Change in Net Position					3,444,499	92,992	3,537,491
Net Position, January 1					<u>49,284,024</u>	<u>8,665,774</u>	<u>57,949,798</u>
Prior Period Adjustment					(386,963)	-	(386,963)
Net Position, December 31					<u>\$ 52,341,560</u>	<u>\$ 8,758,766</u>	<u>\$ 61,100,326</u>

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

City of Covington  
Balance Sheet  
Governmental Funds  
December 31, 2015

	Special Revenue Funds			Capital Project Funds			
	General	Development Services	Parks	Local Improvement District 99-01	Capital Investment Program	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and Cash Equivalents	\$ 4,236,438	\$ 2,596,824	\$ 195,463	\$ -	\$ 2,830,615	\$ 506,244	\$ 10,365,584
Investments	1,697,084	504,606	-	-	-	-	2,201,690
Receivables (net of allowances for uncollectibles, where applicable):							
Accounts	229,464	13,123	21,310	-	-	72,446	336,343
Special Assessments	-	-	-	110,754	-	-	110,754
Interest	5,189	-	-	5,316	-	-	10,505
Property Taxes	46,743	-	-	-	-	-	46,743
Intergovernmental	814,460	11,412	131,276	-	76,535	64,206	1,097,889
Due from Other Funds	615	-	-	-	-	-	615
Prepaid Items	148,008	8,026	-	-	-	1,398	157,432
Total Assets	<u>\$ 7,178,001</u>	<u>\$ 3,133,991</u>	<u>\$ 348,049</u>	<u>\$ 116,070</u>	<u>\$ 2,907,150</u>	<u>\$ 644,294</u>	<u>\$ 14,327,555</u>
<b>Liabilities</b>							
Accounts Payable	\$ 145,994	\$ 20,437	\$ 47,394	\$ -	\$ 101,891	\$ 30,116	\$ 345,832
Accrued Payroll/Benefits	28,060	12,141	24,815	-	95	8,367	73,478
Due to Other Funds	287	116	172	-	-	73	648
Due to Other Governmental Entities	43,453	24,687	5,924	-	27,632	4,028	105,724
Performance Bonds	-	6,801	-	-	-	-	6,801
Unearned Revenue	-	-	-	-	131,709	-	131,709
Total Liabilities	<u>217,794</u>	<u>64,182</u>	<u>78,305</u>	<u>-</u>	<u>261,327</u>	<u>42,584</u>	<u>664,192</u>
<b>Deferred Inflows of Resources</b>							
Unavailable Revenue - Accounts Receivable	3,886	2,683	1,387	-	-	-	7,956
Unavailable Revenue - Property Taxes	46,743	-	-	-	-	-	46,743
Unavailable Revenue - Special Assessment	-	-	-	116,070	-	-	116,070
Total Deferred Inflows of Resources	<u>50,629</u>	<u>2,683</u>	<u>1,387</u>	<u>116,070</u>	<u>-</u>	<u>-</u>	<u>170,769</u>
<b>Fund Balances</b>							
Nonspendable	148,008	8,026	-	-	-	1,398	157,432
Restricted	297,202	-	-	-	2,149,579	-	2,446,781
Committed	-	3,059,100	268,357	-	54,485	-	3,381,942
Assigned	143,069	-	-	-	441,759	600,312	1,185,140
Unassigned	6,321,299	-	-	-	-	-	6,321,299
Total Fund Balances	<u>6,909,578</u>	<u>3,067,126</u>	<u>268,357</u>	<u>-</u>	<u>2,645,823</u>	<u>601,710</u>	<u>13,492,594</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,178,001</u>	<u>\$ 3,133,991</u>	<u>\$ 348,049</u>	<u>\$ 116,070</u>	<u>\$ 2,907,150</u>	<u>\$ 644,294</u>	

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

Capital Assets used in governmental activities are not financial resources, and therefore are not reported in the governmental funds. Governmental Assets (\$57,142,997) are shown net of Accumulated Depreciation (\$7,181,772). Capital Assets are included in the Statement of Net Position.	49,961,225
Other long-term assets such as property tax receivable (\$46,743), unavailable accounts receivable (\$7,956), and special assessment receivable (\$116,070) 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.	170,769
Long-term liabilities such as compensated absences (\$496,341), General Obligation Bond Payable (\$9,756,299), Public Works Trust Fund Loan (\$1,934,062), and Accrued Interest Payable (\$173,149) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(12,359,851)
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.	<u>1,076,823</u>

Net position of governmental activities \$ 52,341,560

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, 2015

	Special Revenue Funds			Capital Project Funds		Other Governmental Funds	Totals Governmental Funds
	General	Development Services	Parks	Local Improvement District 99-01	Capital Investment Program		
<b>Revenues</b>							
Taxes	\$ 8,942,895	\$ -	\$ 630,058	\$ -	\$ 69,275	\$ -	\$ 9,642,228
Licenses and Permits	76,812	1,375,392	-	-	-	247,362	1,699,566
Intergovernmental	347,154	-	2,348	-	396,120	391,762	1,137,384
Charges for Goods and Services	116,952	994,135	896,517	-	691,851	41,072	2,740,527
Fines and Forfeitures	110,976	-	-	-	-	-	110,976
Special Assessments	-	-	-	34,334	-	-	34,334
Interest Income	19,205	9,831	352	30	3,604	663	33,685
Interfund Services Payment	904,468	-	-	-	-	-	904,468
Miscellaneous	92,033	-	133,406	-	2,500	-	227,939
Total Revenues	<u>10,610,495</u>	<u>2,379,358</u>	<u>1,662,681</u>	<u>34,364</u>	<u>1,163,350</u>	<u>680,859</u>	<u>16,531,107</u>
<b>Expenditures</b>							
Current:							
General Government	3,388,057	-	-	-	-	-	3,388,057
Community Development	428,808	1,224,234	-	-	-	-	1,653,042
Public Safety	3,318,507	-	-	-	-	-	3,318,507
Culture and Recreation	-	-	2,608,749	-	-	-	2,608,749
Streets and Highways	-	-	-	-	-	1,061,290	1,061,290
Capital Outlay:							
Culture and Recreation	-	-	61,210	-	768,746	-	829,956
Streets and Highways	-	-	-	-	140,656	-	140,656
Debt Service:							
Principal	-	-	-	-	-	834,720	834,720
Interest	-	-	-	-	-	441,287	441,287
Total Expenditures	<u>7,135,372</u>	<u>1,224,234</u>	<u>2,669,959</u>	<u>-</u>	<u>909,402</u>	<u>2,337,297</u>	<u>14,276,264</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,475,123</u>	<u>1,155,124</u>	<u>(1,007,278)</u>	<u>34,364</u>	<u>253,948</u>	<u>(1,656,438)</u>	<u>2,254,843</u>
<b>Other Financing Sources (Uses)</b>							
Transfers In	44,124	-	1,088,862	-	490,920	1,792,858	3,416,764
Transfers Out	(2,945,892)	-	(27,483)	(34,364)	-	(49,201)	(3,056,940)
Compensation from Loss of Assets	-	-	-	-	197,058	-	197,058
Total Other Financing Sources (Uses)	<u>(2,901,768)</u>	<u>-</u>	<u>1,061,379</u>	<u>(34,364)</u>	<u>687,978</u>	<u>1,743,657</u>	<u>556,882</u>
Net Change in Fund Balances	573,355	1,155,124	54,101	-	941,926	87,219	2,811,725
Fund Balances, January 1	<u>6,336,223</u>	<u>1,912,002</u>	<u>214,256</u>	<u>-</u>	<u>1,770,029</u>	<u>514,491</u>	<u>10,747,001</u>
Prior Period Adjustment (Note 14)	-	-	-	-	(66,132)	-	(66,132)
Fund Balances, December 31	<u>\$ 6,909,578</u>	<u>\$ 3,067,126</u>	<u>\$ 268,357</u>	<u>\$ -</u>	<u>\$ 2,645,823</u>	<u>\$ 601,710</u>	<u>\$ 13,492,594</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, 2015

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

Net Change in Fund Balances - total Governmental funds (see page 27)	\$ 2,811,725
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	(32,544)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	286,753
	(518,660)
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 \$695,015 less current year depreciation of (\$1,213,675).	
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 (\$2,063).	(2,063)
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 (\$65,570).	(66,570)
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.	834,720
	14,033
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 \$11,400. Amortization of bond premium \$2,633.	
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.	33,622
	<u>83,483</u>
Change in net position of governmental activities (see page 25)	<u>\$ 3,444,499</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, 2015

	Budget			Variance
	Original	Final	Actual	Over (Under)
<b>Revenues</b>				
Taxes	\$ 7,883,860	\$ 7,883,860	\$ 8,268,543	\$ 384,683
Licenses and Permits	75,000	75,000	76,812	1,812
Intergovernmental	326,035	334,725	347,154	12,429
Charges for Goods and Services	1,008,040	1,008,040	1,021,420	13,380
Fines and Forfeitures	94,700	94,700	110,976	16,276
Interest Income	12,500	12,500	10,042	(2,458)
Miscellaneous	43,850	43,850	92,033	48,183
Total Revenues	<u>9,443,985</u>	<u>9,452,675</u>	<u>9,926,980</u>	<u>474,305</u>
<b>Expenditures</b>				
Current:				
General Government:				
City Council	435,387	435,387	442,806	7,419
Council Contingency	50,000	50,000	-	(50,000)
City Court	517,600	517,600	415,085	(102,515)
City Manager	953,728	953,728	926,583	(27,145)
Finance	590,140	590,140	579,790	(10,350)
City Attorney	96,000	96,000	135,518	39,518
Personnel	388,782	388,782	394,179	5,397
Solid Waste	-	-	820	820
Central Services	519,509	525,281	493,276	(32,005)
Total General Government	<u>3,551,146</u>	<u>3,556,918</u>	<u>3,388,057</u>	<u>(168,861)</u>
Community Development:				
Total Community Development	<u>409,928</u>	<u>409,928</u>	<u>428,808</u>	<u>18,880</u>
Public Safety:				
Total Public Safety	<u>3,478,449</u>	<u>3,481,367</u>	<u>3,318,507</u>	<u>(162,860)</u>
Capital Outlay:				
General Government	<u>5,060</u>	<u>5,060</u>	<u>-</u>	<u>(5,060)</u>
Total Expenditures	<u>7,444,583</u>	<u>7,453,273</u>	<u>7,135,372</u>	<u>(317,901)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,999,402</u>	<u>1,999,402</u>	<u>2,791,608</u>	<u>792,206</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	35,165	35,165	34,364	(801)
Transfers Out	<u>(3,000,286)</u>	<u>(3,080,006)</u>	<u>(2,531,988)</u>	<u>548,018</u>
Total Other Financing Sources (Uses)	<u>(2,965,121)</u>	<u>(3,044,841)</u>	<u>(2,497,624)</u>	<u>547,217</u>
Net Change in Fund Balances	(965,719)	(1,045,439)	293,984	1,339,423
Fund Balances, January 1	<u>4,176,665</u>	<u>4,482,656</u>	<u>4,482,656</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 3,210,946</u>	<u>\$ 3,437,217</u>	<u>\$ 4,776,640</u>	<u>\$ 1,339,423</u>

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

City of Covington  
Development Services Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2015

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u>
<b>Revenues</b>				
Licenses and Permits	\$ 1,017,230	\$ 1,017,230	\$ 1,375,392	\$ 358,162
Charges for Goods and Services	233,933	233,933	994,135	760,202
Interest Income	4,000	4,000	9,831	5,831
Total Revenues	<u>1,255,163</u>	<u>1,255,163</u>	<u>2,379,358</u>	<u>1,124,195</u>
<b>Expenditures</b>				
Current:				
Community Development	<u>1,099,538</u>	<u>1,099,538</u>	<u>1,224,234</u>	<u>124,696</u>
Total Expenditures	<u>1,099,538</u>	<u>1,099,538</u>	<u>1,224,234</u>	<u>124,696</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>155,625</u>	<u>155,625</u>	<u>1,155,124</u>	<u>999,499</u>
Fund Balances, January 1	<u>2,436,070</u>	<u>1,912,002</u>	<u>1,912,002</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 2,591,695</u>	<u>\$ 2,067,627</u>	<u>\$ 3,067,126</u>	<u>\$ 999,499</u>

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, 2015

	Budget			Variance
	Original	Final	Actual	Over (Under)
<b>Revenues</b>				
Taxes	\$ 542,690	\$ 542,690	\$ 630,058	\$ 87,368
Intergovernmental	-	2,348	2,348	-
Charges for Goods and Services	720,764	820,764	896,517	75,753
Interest Income	200	200	352	152
Miscellaneous	102,888	102,888	133,406	30,518
Total Revenues	<u>1,366,542</u>	<u>1,468,890</u>	<u>1,662,681</u>	<u>193,791</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation:				
Parks Maintenance	450,832	461,332	349,957	(111,375)
Aquatics	1,108,390	1,210,370	1,137,379	(72,991)
Athletics	250,659	250,659	260,840	10,181
Recreation and Special Events	322,030	389,739	377,320	(12,419)
Parks Administration	447,588	474,588	483,253	8,665
Total Culture and Recreation	<u>2,579,499</u>	<u>2,786,688</u>	<u>2,608,749</u>	<u>(177,939)</u>
Capital Outlay:				
Culture and Recreation	-	47,520	61,210	13,690
Total Expenditures	<u>2,579,499</u>	<u>2,834,208</u>	<u>2,669,959</u>	<u>(164,249)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,212,957)</u>	<u>(1,365,318)</u>	<u>(1,007,278)</u>	<u>358,040</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	1,274,313	1,426,674	1,088,862	(337,812)
Transfers Out	<u>(27,484)</u>	<u>(27,484)</u>	<u>(27,483)</u>	<u>1</u>
Total Other Financing Sources (Uses)	<u>1,246,829</u>	<u>1,399,190</u>	<u>1,061,379</u>	<u>(337,811)</u>
Net Change in Fund Balance	33,872	33,872	54,101	20,229
Fund Balances, January 1	<u>224,078</u>	<u>214,256</u>	<u>214,256</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 257,950</u>	<u>\$ 248,128</u>	<u>\$ 268,357</u>	<u>\$ 20,229</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, 2015

	Business-Type Activities	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,991,211	\$ 733,039
Investments	199,860	-
Receivables (net of allowances for uncollectibles, where applicable):		
Due from Other Funds	-	753
Interest	624	-
Intergovernmental	172,608	1,383
Prepaid Items	627	-
Total Current Assets	<u>2,364,930</u>	<u>735,175</u>
Noncurrent Assets:		
Capital Assets:		
Land	994,232	-
Intangible Assets	7,003	-
Work in Progress	925,861	-
Buildings	13,131	-
Improvements Other than Buildings	17,238	54,188
Machinery and Equipment	64,962	835,925
Infrastructure	5,367,705	-
Accumulated Depreciation	<u>(1,020,703)</u>	<u>(367,793)</u>
Total Capital Assets (net of accumulated depreciation)	<u>6,369,429</u>	<u>522,320</u>
Total Assets	<u>8,734,359</u>	<u>1,257,495</u>
Total Assets and Deferred Outflows	<u>8,734,359</u>	<u>1,257,495</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	24,231	1,423
Accrued Payroll/Benefits	12,402	-
Compensated Absences	70,055	-
Due to Other Funds	720	-
Due to Other Governmental Entities	<u>11,067</u>	<u>4,667</u>
Total Current Liabilities	<u>118,475</u>	<u>6,090</u>
Noncurrent Liabilities:		
Compensated Absences	<u>31,700</u>	<u>-</u>
Total NonCurrent Liabilities	<u>31,700</u>	<u>-</u>
Total Liabilities	<u>150,175</u>	<u>6,090</u>
Total Liabilities and Deferred Inflows	<u>150,175</u>	<u>6,090</u>
<b>Net Position</b>		
Net Investment in Capital Assets	6,369,429	522,320
Unrestricted	<u>2,214,755</u>	<u>729,085</u>
Total Net Position	<u>\$ 8,584,184</u>	<u>\$ 1,251,405</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>174,582</u>
Net position of business-type activities	<u>\$ 8,758,766</u>

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, 2015

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	Governmental
	Surface Water Management	Activities- Internal Service Funds
Operating Revenues:		
Surface Water Management Fees	\$ 1,873,396	\$ -
Intergovernmental	2,272	-
Unemployment Charges	-	48,699
Fuel and Maintenance Assessments	-	36,942
Furnishing Assessments	-	7,800
Equipment Replacement Assessments	-	121,349
Total Operating Revenues	<u>1,875,668</u>	<u>214,790</u>
Operating Expenses:		
Cost of Services	1,650,102	-
Unemployment Benefits Paid	-	10,105
Vehicle Fuel	-	11,140
Repairs and Maintenance of Vehicles	-	26,185
Depreciation	227,407	92,310
Total Operating Expenses	<u>1,877,509</u>	<u>139,740</u>
Operating Income (Loss)	<u>(1,841)</u>	<u>75,050</u>
Nonoperating Revenues (Expenses)		
Interest Income	4,256	997
Interest Expense	(32,825)	-
Gain or (Loss) From Disposition of Assets	(15,524)	-
Total Nonoperating Revenues (Expenses)	<u>(44,093)</u>	<u>997</u>
Income Before Contributions and Transfers	(45,934)	76,047
Capital Contributions and Transfers:		
Capital Contributions	458,352	81,457
Transfer Out	(359,824)	-
Total Capital Contributions and Transfers	<u>98,528</u>	<u>81,457</u>
Change in Net Position	52,594	157,504
Net Position, January 1	<u>8,531,590</u>	<u>1,093,901</u>
Net Position, December 31	<u>\$ 8,584,184</u>	<u>\$ 1,251,405</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>40,398</u>	
Change in net position of business-type activities	<u>\$ 92,992</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, 2015

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	Governmental
	Surface Water Management	Activities- Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Cash Received from Interfund Services Provided	\$ -	\$ 216,033
Cash Received from Customers	1,871,481	-
Payments Made to Suppliers	(529,538)	(40,512)
Payments for Interfund Services Used	(486,961)	-
Payments Made to Employees	(601,596)	-
Cash Paid for Unemployment Assessments	-	(5,438)
Net Cash Provided by Operating Activities	<u>253,386</u>	<u>170,083</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital Grants	116,721	-
Capital Assets Purchased for Own Use	(62,494)	-
Proceeds from Disposition of Asset	-	1,628
Interest Paid	(32,825)	-
Transfers to (from) Other Funds	(359,825)	-
Net Cash Received (used) for Capital Activities	<u>(338,423)</u>	<u>1,628</u>
<b>Cash Flows from Investing Activities</b>		
Interest Received	4,887	997
Net Cash Provided by Investing Activities	<u>4,887</u>	<u>997</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(80,150)	172,708
Cash and Cash Equivalents, January 1	2,071,361	560,331
Cash and Cash Equivalents, December 31	<u>\$ 1,991,211</u>	<u>\$ 733,039</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	<u>\$ (1,841)</u>	<u>\$ 75,050</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase)/Decrease in Accounts Receivable	-	(1,383)
(Increase)/Decrease in Due from Other Funds	-	(222)
(Increase)/Decrease in Due from Other Governments	(6,726)	-
(Increase)/Decrease in Other Assets	138	-
Increase/(Decrease) in Accounts Payable	8,041	(139)
Increase/(Decrease) in Accrued Payroll/Benefits	24,592	-
Increase/(Decrease) in Due to Other Funds	641	-
Increase/(Decrease) in Due to Other Governmental Entities	1,134	4,467
Depreciation	<u>227,407</u>	<u>92,310</u>
Total Adjustments to Net Cash Provided by Operating Activities	<u>255,227</u>	<u>95,033</u>
Net Cash Provided by Operating Activities	<u>\$ 253,386</u>	<u>\$ 170,083</u>
<b>Noncash Capital Activities</b>		
Capital Contributions:		
General Fund	\$ -	\$ 18,415
Parks Fund	-	47,519
Capital Investment Project Fund	405,380	-
Surface Water Management Fund	-	15,523
Developers	1,000	-
Capital Grants	<u>28,408</u>	<u>-</u>
Total Capital Contributions	<u>\$ 434,788</u>	<u>\$ 81,457</u>

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



## NOTES TO THE FINANCIAL STATEMENTS

*(For the Fiscal Year Ended December 31, 2015)*

### 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. A different recognition period of 120 days is used for expenditure driven grants.

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:

- *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 using the modified accrual basis of accounting.

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 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% Fund separately. However, the latter four do not meet the criteria of a special revenue fund as set forth in GASB Statement No. 54 and for reporting purposes are presented in combination with the General Fund in order to comply with GAAP. However, the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual on page 29 compares only the General Fund as adopted in the budget along with the related revenues and expenditures. It does not include the budget or actual data for the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% Funds. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual is also presented for the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% Fund on pages 82 to 85. On the following page you will find these funds combined with the General Fund for reporting purposes.

	General Fund	Cumulative Reserve Fund	Contingency Fund	Real Estate Excise Tax 1st Qtr% Fund	Real Estate Excise Tax 2nd Qtr% Fund	Total Revised General Fund
<b>Revenues</b>						
Taxes	\$ 8,268,543	\$ -	\$ -	\$ 337,276	\$ 337,076	\$ 8,942,895
Licenses and Permits	76,812	-	-	-	-	76,812
Intergovernmental	347,154	-	-	-	-	347,154
Charges for Goods and Services	116,952	-	-	-	-	116,952
Fines and Forfeitures	110,976	-	-	-	-	110,976
Interest Income	10,042	8,733	170	130	130	19,205
Interfund Services Payment	904,468	-	-	-	-	904,468
Miscellaneous	92,033	-	-	-	-	92,033
Total Revenues	<u>9,926,980</u>	<u>8,733</u>	<u>170</u>	<u>337,406</u>	<u>337,206</u>	<u>10,610,495</u>
<b>Expenditures</b>						
Current:						
General Government:						
City Council	442,806	-	-	-	-	442,806
City Court	415,085	-	-	-	-	415,085
City Manager	926,583	-	-	-	-	926,583
Finance	579,790	-	-	-	-	579,790
City Attorney	135,518	-	-	-	-	135,518
Personnel	394,179	-	-	-	-	394,179
Solid Waste	820	-	-	-	-	820
Central Services	493,276	-	-	-	-	493,276
Total General Government	<u>3,388,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,388,057</u>
Community Development:						
Total Community Development	<u>428,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,808</u>
Public Safety:						
Total Public Safety	<u>3,318,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,318,507</u>
Total Expenditures	<u>7,135,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,135,372</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,791,608</u>	<u>8,733</u>	<u>170</u>	<u>337,406</u>	<u>337,206</u>	<u>3,475,123</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	34,364	9,760	-	-	-	44,124
Transfers Out	<u>(2,531,988)</u>	<u>(5,854)</u>	<u>-</u>	<u>(204,125)</u>	<u>(203,925)</u>	<u>(2,945,892)</u>
Total Other Financing Sources (Uses)	<u>(2,497,624)</u>	<u>3,906</u>	<u>-</u>	<u>(204,125)</u>	<u>(203,925)</u>	<u>(2,901,768)</u>
Net Change in Fund Balances	293,984	12,639	170	133,281	133,281	573,355
Fund Balances, January 1	<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>
Fund Balances, December 31	<u>\$ 4,776,640</u>	<u>\$ 1,413,990</u>	<u>\$ 421,746</u>	<u>\$ 148,601</u>	<u>\$ 148,601</u>	<u>\$ 6,909,578</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 Receivable* 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 three sources: accounts receivable, 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, 2015 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, 2015 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 or 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 and Parks Fund) a minimum of 10% of operating expenditures in unrestricted fund balance. The Development Services Fund is 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, 2015, the carrying amount of the City's deposits was \$13,089,834, and the total bank balance was \$13,089,234. 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, 2015, the City's total deposits and cash equivalents, including investment in the State Treasurer's Pool, consisted of the following:

Operating Accounts	\$	80,150
State Treasurer's Pool		12,882,456
Forfeiture Account		126,628
Petty Cash		<u>600</u>
<b>Total Cash and Cash Equivalents</b>	<b>\$</b>	<b><u>13,089,834</u></b>

## B. Investments

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

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

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

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

Interest recorded in the Contingency Fund is allocated to the General Fund.

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

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity</u>				<u>Credit Rating</u>
		<u>3 Months or Less</u>	<u>3 to 12 Months</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	
U.S. Agency Securities	\$ 2,301,133	\$ -	\$ -	\$ 2,301,133	\$ -	AAA/Aaa/AA+
Municipal Securities	100,417	100,417	-	-	-	AA1/AAA
State of Washington Local Governmental Investment Pool (LGIP)	-	-	-	-	-	Unrated
Total	<u>\$ 2,401,550</u>	<u>\$ 100,417</u>	<u>\$ -</u>	<u>\$ 2,301,133</u>	<u>\$ -</u>	

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

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

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

The credit risk of the LGIP is limited to obligations of the 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, 2015, all of the \$2,401,550 in 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:

Date		Property Tax Calendar
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 2015 was \$1.31259 per \$1,000 of assessed valuation, including exempt properties, of \$1,897,180,925 for a total regular levy of \$2,479,922.

Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. Due to the property foreclosure provision in state law, no allowance for uncollectible taxes is made.

## NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 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	\$ 18,890,960	\$ 692,133	\$ -	\$ 19,583,093
Intangibles	940,890	-	-	940,890
Work in Progress	<u>1,925,730</u>	<u>497,004</u>	<u>(335,349)</u>	<u>2,087,385</u>
Total capital assets, not being depreciated	<u>21,757,580</u>	<u>1,189,137</u>	<u>(335,349)</u>	<u>22,611,368</u>
Capital assets, being depreciated:				
Buildings	1,038,583	-	(204,355)	834,228
Improvements other than buildings	672,594	10,189	-	682,783
Machinery and equipment	1,076,929	66,542	(5,307)	1,138,164
Infrastructure	<u>32,424,200</u>	<u>342,367</u>	<u>-</u>	<u>32,766,567</u>
Total capital assets being depreciated	<u>35,212,306</u>	<u>419,098</u>	<u>(209,662)</u>	<u>35,421,742</u>
Less accumulated depreciation for:				
Buildings	(518,283)	(37,347)	204,355	(351,275)
Improvements other than buildings	(474,816)	(47,915)	-	(522,731)
Machinery and equipment	(501,337)	(87,234)	5,307	(583,264)
Infrastructure	<u>(4,749,147)</u>	<u>(1,343,148)</u>	<u>-</u>	<u>(6,092,295)</u>
Total accumulated depreciation	<u>(6,243,583)</u>	<u>(1,515,644)</u>	<u>209,662</u>	<u>(7,549,565)</u>
Total capital assets, being depreciated net	<u>28,968,723</u>	<u>(1,096,546)</u>	<u>-</u>	<u>27,872,177</u>
Governmental activities capital assets, net	<u>\$ 50,726,303</u>	<u>\$ 92,591</u>	<u>\$ (335,349)</u>	<u>\$ 50,483,545</u>

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

Governmental Activities	
General Government	\$ 25,369
Community Development	903
Culture and Recreation	204,172
Streets and Highways	1,192,890
Capital assets held by the government's Internal Service Funds	<u>92,310</u>
Total depreciation expense - governmental activities	<u>\$1,515,644</u>



**Business-type Activities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 993,232	\$ 1,000	\$ -	\$ 994,232
Intangibles	7,003	-	-	7,003
Work in Progress	<u>473,510</u>	<u>452,351</u>	<u>-</u>	<u>925,861</u>
Total capital assets, not being depreciated	<u>1,473,745</u>	<u>453,351</u>	<u>-</u>	<u>1,927,096</u>
Capital assets, being depreciated:				
Buildings	13,131	-	-	13,131
Improvements other than buildings	17,238	-	-	17,238
Machinery and equipment	64,962	15,523	(15,523)	64,962
Infrastructure	<u>5,367,705</u>	<u>-</u>	<u>-</u>	<u>5,367,705</u>
Total capital assets being depreciated	<u>5,463,036</u>	<u>15,523</u>	<u>(15,523)</u>	<u>5,463,036</u>
Less accumulated depreciation for:				
Buildings	(3,939)	(656)	-	(4,595)
Improvements other than buildings	(12,875)	(455)	-	(13,330)
Machinery and equipment	(32,126)	(3,967)	-	(36,093)
Infrastructure	<u>(744,356)</u>	<u>(222,329)</u>	<u>-</u>	<u>(966,685)</u>
Total accumulated depreciation	<u>(793,296)</u>	<u>(227,407)</u>	<u>-</u>	<u>(1,020,703)</u>
Total capital assets, being depreciated net	<u>4,669,740</u>	<u>(211,884)</u>	<u>(15,523)</u>	<u>4,442,333</u>
Business-type activities capital assets, net	<u>\$ 6,143,485</u>	<u>\$ 241,467</u>	<u>\$ (15,523)</u>	<u>\$ 6,369,429</u>

**NOTE 5: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS**

The City of Covington has active construction projects as of December 31, 2015.

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 Phase II	MacLeod Reckord	\$ 224,175	\$ 26,853
Aquatic Center Addition	David A. Clark Architects, PLLC	10,930	30,955
SR 516 Safety Widening	Tetra Tech, Inc.	1,381,197	66,762
164th Ave SE	Gray & Osborne, Inc	25,235	66,407
Clements Drainage Project	Gray & Osborne, Inc	<u>40,431</u>	<u>36,123</u>
		<u>\$ 1,681,968</u>	<u>\$ 227,100</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 seasonal 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, 2015 through December 31, 2015, was \$3,768,970. The City's total payroll for the same period was \$3,967,656. The table below shows the required percentage contribution and the total actual contributions for 2015 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%	\$124,376
Employer	7.5%	\$282,673

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. If an employee separates from service prior to vesting employer contributions will be forfeited. For 2015, \$34,922 was forfeited. The City may use forfeited amounts to reduce future 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 of December 31, 2015 there were 131 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, 2015 through December 31, 2015 was \$3,967,656. The City's total payroll for the same period was \$3,967,656. The table below shows the required percentage contribution and the total actual contributions for 2015 made by the employer and employee to this qualified defined contribution plan. Contributions are made bi-weekly.

<b>Social Security Replacement</b>	<b>Percentage Contribution</b>	<b>Contribution Amount</b>
Employee	6.2%	\$245,995
Employer	5.6%	\$222,189

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 their annual 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, 2015 there were 238 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, 2015, 281 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, Asuris Northwest Health, or Group Health, dental insurance through Delta Dental of Washington or Washington Dental, 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 an 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 179 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, 2015, the City obligated \$179,891 as the portion of compensated absences not expected to be funded with current available expendable resources, \$148,191 in governmental activities, and \$31,700 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, 2015.

Changes in Long-Term Liabilities Governmental Activities

Description	Interest Rate	Fund Used to Pay Debt	Issue Date	Maturity Date	Original Debt Issued	Debt Outstanding 1/1/15	Debt Issued in 2015	Debt Redemption in 2015	Debt Outstanding 12/31/2015	Due Within One Year
<b>Governmental activities:</b>										
General obligation bonds - Councilmanic: 2007A (Tax-Exempt)	4.15%	Long- Term Debt Service	6/5/2007	11/1/2027	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 430,000	\$ 9,570,000	\$ 630,000
Add: bond premium 2007T (Taxable)	5.43%	Long- Term Debt Service	6/5/2007	11/1/2015	52,655 2,505,000	31,717 170,000	-	2,633 170,000	29,084 -	-
2008 (Tax-Exempt)	4.00%	Long- Term Debt Service	6/10/2008	6/1/2023	308,068	196,395	-	19,824	176,571	20,625
Compensated absences						429,771	100,992	34,422	496,341	348,150
Other Long-Term Debt: DCTED Public Works Trust Fund Loan	0.50%	Long- Term Debt Service	7/1/2004	6/1/2024	3,785,500	2,148,958	-	214,896	1,934,062	214,896
<b>Total Governmental Activities</b>					<u>\$ 16,651,223</u>	<u>\$ 12,976,841</u>	<u>\$100,992</u>	<u>\$ 871,775</u>	<u>\$ 12,206,058</u>	<u>\$ 1,213,671</u>

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

<u>Description</u>	<u>Debt Outstanding 1/1/15</u>	<u>Debt Issued in 2015</u>	<u>Debt Redemption in 2015</u>	<u>Debt Outstanding 12/31/2015</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 79,721	\$ 23,285	\$ 1,251	\$ 101,755	\$ 70,055
<b>Total Business-type activities</b>	<u>\$ 79,721</u>	<u>\$ 23,285</u>	<u>\$ 1,251</u>	<u>\$ 101,755</u>	<u>\$ 70,055</u>

As of December 31, 2015, 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>	
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	738,227	313,540	214,896	6,447	1,273,110
2020	769,165	284,002	214,896	5,372	1,273,435
2021-2025	4,269,771	932,783	859,582	10,745	6,072,881
2026-2030	<u>1,930,000</u>	<u>120,243</u>	<u>-</u>	<u>-</u>	<u>2,050,243</u>
<b>Total</b>	<u>\$ 9,746,571</u>	<u>\$ 2,771,536</u>	<u>\$ 1,934,062</u>	<u>\$ 48,351</u>	<u>\$ 14,500,520</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 \$357,404 for the year ended December 31, 2015.



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

<b>Fiscal Year</b>	
<b><u>Ending</u></b>	<b><u>Amount</u></b>
2016	\$ 365,590
2017	<u>374,730</u>
Total	<u>\$ 740,320</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, 2015, 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	\$ 287
	Development Services	116
	Parks	172
	Nonmajor Governmental	73
	Surface Water Management - Enterprise Fund	<u>105</u>
		<u>\$ 753</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:**

	General <u>Fund</u>	Parks <u>Fund</u>	Capital Investment Program <u>Fund</u>	Nonmajor <u>Governmental</u>	<u>Total</u>
<b>Transfer Out:</b>					
General Fund	\$ -	\$1,088,861	\$ 126,020	\$ 1,731,011	\$2,945,892
Parks Fund	-	-	-	27,483	27,483
Local Improvement District 99-01 Fund	-	-	-	34,364	34,364
Nonmajor Governmental	44,124	-	5,077	-	49,201
Enterprise Fund					
Surface Water Management Fund	-	-	359,824	-	359,824
Total Transfers	<u>\$ 44,124</u>	<u>\$1,088,861</u>	<u>\$ 490,921</u>	<u>\$ 1,792,858</u>	<u>\$3,416,764</u>

The transfers from the General Fund were for ongoing expenses that are being funded from utility tax revenues, matching funds for a capital improvement project, and a debt service transfer. 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 nonmajor governmental funds was to transfer excess monies and to repay funds provided for a street study. The transfer from the Surface Water Management Fund was for a capital improvement project.

**NOTE 12: RESTRICTED COMPONENT OF NET POSITION**

The government-wide statement of net position reports \$2,392,523 of restricted component of net position, of which \$297,202 is restricted for debt service and \$2,095,321 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 Funds</u>		
	General	Development Services	Parks	Capital Investment Program	Other Governmental Funds	Total Governmental Funds
<b><u>Fund Balance</u></b>						
Fund Balances:						
<b>Nonspendable:</b>						
Prepays	\$ 148,008	\$ 8,026	\$ -	\$ -	\$ 1,398	\$ 157,432
<b>Restricted for:</b>						
Debt Service	297,202	-	-	-	-	297,202
Capital Improvement Projects	-	-	-	2,149,579	-	2,149,579
<b>Committed to:</b>						
Development Services	-	3,059,100	-	-	-	3,059,100
Parks and Recreation	-	-	268,357	-	-	268,357
Capital Improvement Projects	-	-	-	54,485	-	54,485
<b>Assigned to:</b>						
Projected Budgetary Deficit	143,069	-	-	441,759	-	584,828
Street Maintenance	-	-	-	-	600,312	600,312
<b>Unassigned</b>	<u>6,321,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,321,299</u>
<b>Total Fund Balances</b>	<u>\$6,909,578</u>	<u>\$ 3,067,126</u>	<u>\$268,357</u>	<u>\$ 2,645,823</u>	<u>\$ 601,710</u>	<u>\$13,492,594</u>

## NOTE 14: PRIOR PERIOD ADJUSTMENTS

An asset originally purchased in 2003 was categorized as land only instead of two buildings and land. The prior period adjustment of \$320,831 is the accumulated depreciation for the buildings. Beginning balances have been restated in Note 4 to reflect the correct amounts by category. This correction is reflected in the Statement of Activities.

The City is recognizing \$66,132 for a prior period adjustment of traffic mitigation fees that were erroneously recognized as revenue in 2014. This correction is reflected in the governmental fund statements as well as the Statement of Activities.

## NOTE 15: SUBSEQUENT EVENTS

In June 2016, the City is issuing \$8,100,000 of Limited Tax General Obligation Refunding Bonds for the following purposes: advance refund a portion of the City's outstanding Limited Tax General Obligation Bonds, Series 2007A to obtain the benefit of debt service savings, prepay the Limited Tax General Obligation Bond, Series 2008, and pay costs of issuance for the bonds. Interest on the bonds will be paid semiannually on each May 1<sup>st</sup> and November 1<sup>st</sup> commencing November 1, 2016. The bonds will be mature November 1, 2027.

**NOTE 16: GOVERNMENT COMBINATIONS**

On October 13, 2015 the City assumed the rights, powers, functions, and obligations of the Covington Transportation Benefit District (TBD). The TBD was created April 9, 2013 but the funding mechanism was not established until November 10, 2015 with collections beginning May 8, 2016. The City's assumption of the TBD and elimination of the TBD as a separate government entity will promote efficiency in government operations and administration and eliminate confusion regarding the Council and TBD board members as the same representatives of two separate government entities. There are no financial elements to report as the collections have not yet started.

**NOTE 17: NONMONETARY TRANSACTIONS**

The City was awarded a nonmonetary grant award valued at \$20,000 as a pass-through grant from the Department of Agriculture Forest Services administered by the Washington State Department of Natural Resources (DNR). DNR sponsored a Puget SoundCorps crew to assist with urban forest restoration and maintenance tasks within the City.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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