



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Covington

For the period January 1, 2021 through December 31, 2021

Published October 27, 2022

Report No. 1031350



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**Office of the Washington State Auditor
Pat McCarthy**

October 27, 2022

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 activities and condition.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Covington January 1, 2021 through December 31, 2021

2021-001 The City's internal controls were inadequate for ensuring proper liability recognition for grant funds received in advance.

Background

State and federal agencies, the City Council, and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and the financial statements are accurate.

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding.

Description of Condition

The City received allocated \$5,910,958 of American Rescue Plan Act of 2021 (ARPA) grant funds, which were disbursed in two tranches. In June 2021, the City received the first distribution totaling \$2,958,366, but did not incur any eligible ARPA expenditures. In July 2022, the City received the second distribution totaling \$2,955,479, but incorrectly reported that amount in the 2021 financial statements. Our audit found a deficiency in internal controls that represents a material weakness. Specifically, the City did not properly evaluate the liability recognition criteria for the second distribution of ARPA funds received in July 2022.

Cause of Condition

The City typically receives grant funding on a reimbursement basis, under which it incurs eligible expenditures before receiving grant funding. City employees were unfamiliar with the liability recognition criteria for the second distribution of ARPA

funds. As a result, the City incorrectly reported the second distribution as unearned revenue, a liability, although it was money received in fiscal year 2022.

Effect of Condition

We found the following errors in the City's financial statements:

- The General Fund Intergovernmental Receivable was overstated by \$2,955,479, and Unearned Revenue was overstated by the same amount.
- The Governmental Activities Intergovernmental Receivable was overstated by \$2,955,479, and Unearned Revenue was overstated by the same amount.

The City subsequently corrected these errors in the financial statements.

Recommendation

We recommend the City improve its controls to ensure it properly classifies and reports grant funds received in advance in accordance with GAAP. This includes evaluating whether the City has met liability recognition criteria.

City's Response

The City of Covington appreciates the opportunity to respond to the conclusion of the Washington State Auditor's Office. We would like to thank the audit staff for their open communication throughout the audit and our ongoing working relationship. The City is committed to establishing and following effective internal controls for preparing and reviewing its financial statements.

The City of Covington, after correspondence and instruction from the State Auditor's Helpdesk, felt that the reporting for the second distribution of ARPA funds had been reported correctly. Later, during the audit, the city was informed that our accounting on the reporting period was incorrect. The City followed the instructions it was given by the Helpdesk and feels an automatic finding on this issue is therefore unwarranted.

The City understands its responsibility to have adequate procedures in place for the preparation and review of the financial statements. We thank the Washington State Audit staff for their support as the City continues to improve its financial reporting process.

Auditor's Remarks

We appreciate the City's commitment to strengthening their internal controls for financial reporting. The City's inquiry of the help desk did not include all the elements needed to accurately describe the receipt of federal funds. Answers provided by the HelpDesk are based on the specific circumstances presented and as circumstances change, the answer is subject to change. The information provided does not represent prescriptive guidance or audit assurance. Ultimately City management is responsible for the proper presentation of financial statements in accordance with the City's chosen basis of accounting. Government Audit Standards require auditors to communicate control deficiencies identified and the effects noted that, when taken together, represent a material weakness. We will review the City's internal controls in our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control, required each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objective.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Paragraph 15.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Paragraph 10.

INDEPENDENT AUDITOR'S REPORT

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 January 1, 2021 through December 31, 2021

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, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 21, 2022.

REPORT ON 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) as a basis for designing 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.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

October 21, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Covington January 1, 2021 through December 31, 2021

Mayor and City Council
City of Covington
Covington, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, as of year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Development Services funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

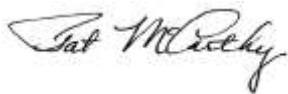
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 21, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



Pat McCarthy, State Auditor

Olympia, WA

October 21, 2022

FINANCIAL SECTION

City of Covington January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet – Governmental Funds – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2021

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to
Governmental Funds to the Statement of Activities – 2021

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – General Fund – 2021

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and
Actual – Development Services Fund – 2021

Statement of Net Position – Proprietary Funds – 2021

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2021

Statement of Cash Flows – Proprietary Funds – 2021

Statement of Fiduciary Net Position – Fiduciary Funds – 2021

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2021

Notes to Financial Statements – 2021

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, 2021. 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 and deferred inflows on December 31, 2021, by \$124,292,561 (net position). Of the total net position, \$29,095,168 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 \$22,876,676. The increase is due to several factors such as increases in capital assets, as well as cash balances. For example, the city saw increases in property taxes, sales taxes, and real estate excise taxes.
- As of December 31, 2021, the city's governmental funds reported a combined ending fund balance of \$32,801,087. Of this, \$17,385,216 is in the general fund, \$6,283,434 is in the development services fund, and \$8,350,551 is in the capital investment program fund.
- As of December 31, 2021, the unassigned portion of the general fund's fund balance is \$14,520,882. The general fund fund balance includes unassigned fund balance from the cumulative reserve fund, contingency fund, and restricted fund balance from real estate excise tax 1st ¼% fund and real estate excise tax 2nd ¼% fund.
- As of December 31, 2021, the city's business-type activities reported a total net position of \$13,992,840.

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. All of the activities of the City, except those of a fiduciary nature, are included in these statements. 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 (excluding fiduciary funds), 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 includes 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. These include, but are not limited to, the Covington Chamber of Commerce and Covington Water District. The government-wide financial statements can be found on pages 25 to 26 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Covington, like other cities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Covington can be divided into three categories: governmental funds, proprietary funds, and 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 nine individual governmental funds. Information is presented in separate columns for three of the nine 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, and the capital investment program fund. Data from two funds, which includes the street 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 1st 1/4% fund, and real estate excise tax 2nd 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 the general fund and each major special revenue 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 fund special revenue funds, capital project funds, and debt service 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.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Covington's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains one custodial fund.

The basic fiduciary fund financial statements can be found on pages 35 to 36 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 to 66 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 87.

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, 2021, the city's total net position is \$124,292,561. Shown below is a breakdown of the city net position by category.

	Governmental activities		Business-type activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 38,436,136	\$ 30,806,407	\$ 3,961,757	\$ 2,869,989	\$ 42,397,893	\$ 33,676,396
Capital assets	83,357,115	68,860,509	10,284,473	9,138,284	93,641,588	77,998,793
Total assets	121,793,251	99,666,916	14,246,230	12,008,273	136,039,481	111,675,189
Deferred outflows of resources	9,016	10,518	-	-	9,016	10,518
Total assets and deferred outflows	121,802,267	99,677,434	14,246,230	12,008,273	136,048,497	111,685,707
Long-term liabilities outstanding	7,115,419	8,210,252	175,531	190,476	7,290,950	8,400,728
Other liabilities	4,387,127	1,798,180	77,859	70,914	4,464,986	1,869,094
Total liabilities and deferred inflows	11,502,546	10,008,432	253,390	261,390	11,755,936	10,269,822
Net position:						
Net investment in capital assets	76,602,999	60,614,549	10,284,056	9,111,214	86,887,055	69,725,763
Restricted	8,310,338	6,479,137	-	-	8,310,338	6,479,137
Unrestricted	25,386,384	22,575,316	3,708,784	2,635,669	29,095,168	25,210,985
Total net position	\$ 110,299,721	\$ 89,669,002	\$ 13,992,840	\$ 11,746,883	\$ 124,292,561	\$ 101,415,885

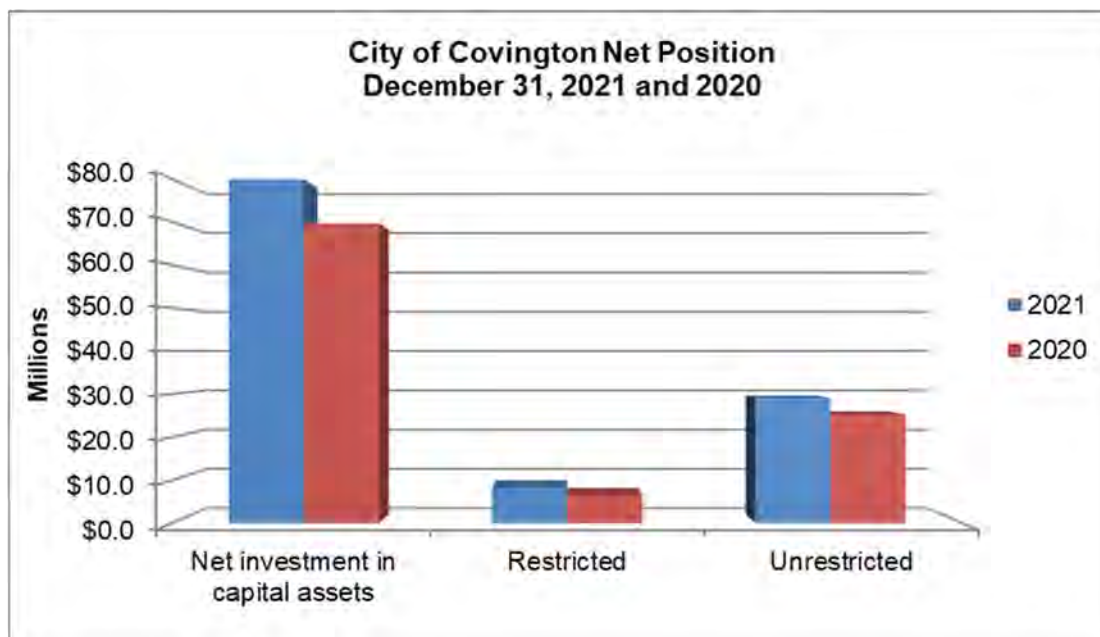
Overall, the city's financial position has improved. The city's net position increased \$22,876,676 during the current fiscal year. The increase is due to several factors such as increases in capital assets as well as cash balances. For example, the city saw record increases in sales tax collections.

Of the total net position, \$86,887,055 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 69.9% (\$86,887,055) 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, \$8,310,338 (6.7%) 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, \$29,095,168 (23.4%), may be used to meet the city's ongoing obligations to citizens and creditors.

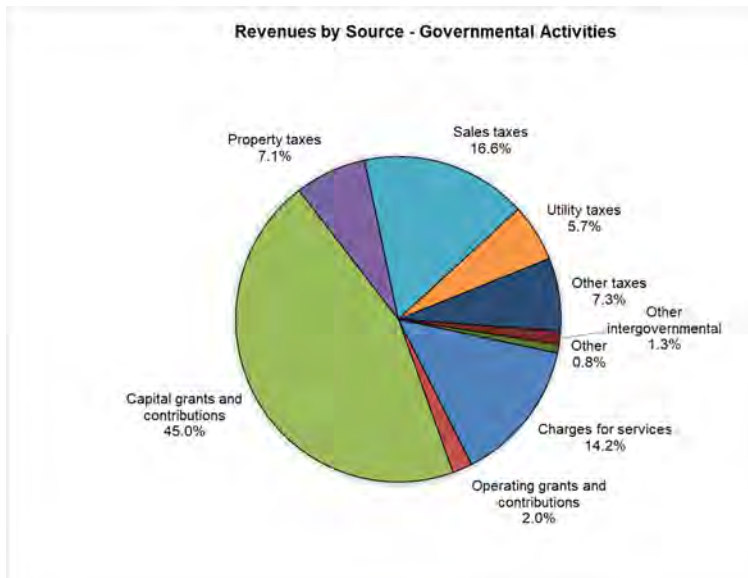
Governmental Activities. During the current fiscal year, net position for governmental activities increased \$20,630,719 from the prior fiscal year for an ending net position of \$110,299,721. Total revenues increased by \$16,004,563 primarily due to increases in capital grants and contributions for capital improvement projects, and expenses increased by \$1,523,589 due mostly in part to community development and streets and highways activities.

Business-type Activities. During the current fiscal year, net position for business-type activities increased \$2,245,957 from the prior fiscal year for an ending net position of \$13,992,840. Total revenues increased by \$477,390 due to an increase in drainage utility fees, and expenses increased by \$391,226 due to an increase in salaries and benefits.



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

	City of Covington's Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 5,872,466	\$ 3,949,829	\$ 3,298,100	\$ 2,999,152	\$ 9,170,566	\$ 6,948,981
Operating grants and contributions	814,121	1,589,361	-	-	814,121	1,589,361
Capital grants and contributions	18,566,537	5,636,558	389,714	189,087	18,956,251	5,825,645
General revenues:						
Property taxes	2,938,677	2,904,539	-	-	2,938,677	2,904,539
Sales taxes	6,813,395	5,466,406	-	-	6,813,395	5,466,406
Utility taxes	2,365,595	2,257,516	-	-	2,365,595	2,257,516
Other taxes	3,304,703	2,654,944	-	-	3,304,703	2,654,944
Other intergovernmental	238,482	234,971	-	-	238,482	234,971
Other	341,203	556,492	7,747	29,932	348,950	586,424
Total revenues	<u>41,255,179</u>	<u>25,250,616</u>	<u>3,695,561</u>	<u>3,218,171</u>	<u>44,950,740</u>	<u>28,468,787</u>
Expenses:						
General government	3,719,440	4,149,376	-	-	3,719,440	4,149,376
Community development	4,168,824	3,135,323	-	-	4,168,824	3,135,323
Public safety	5,085,511	5,006,388	-	-	5,085,511	5,006,388
Culture and recreation	3,488,797	3,063,248	-	-	3,488,797	3,063,248
Streets and highways	2,629,190	2,189,864	-	-	2,629,190	2,189,864
Interest on long-term debt	179,737	203,711	-	-	179,737	203,711
Surface water management	-	-	2,802,565	2,411,339	2,802,565	2,411,339
Total expenses	<u>19,271,499</u>	<u>17,747,910</u>	<u>2,802,565</u>	<u>2,411,339</u>	<u>22,074,064</u>	<u>20,159,249</u>
Increase in net position before transfers	21,983,680	7,502,706	892,996	806,832	22,876,676	8,309,538
Transfers - internal activities	(1,352,961)	(340,160)	1,352,961	340,160	-	-
Increase in net position	20,630,719	7,162,546	2,245,957	1,146,992	22,876,676	8,309,538
Net position, January 1	89,669,002	82,506,456	11,746,883	10,599,891	101,415,885	93,106,347
Net position, December 31	<u>\$ 110,299,721</u>	<u>\$ 89,669,002</u>	<u>\$ 13,992,840</u>	<u>\$ 11,746,883</u>	<u>\$ 124,292,561</u>	<u>\$ 101,415,885</u>



Property taxes increased by \$34,138 (1.2%) over fiscal year 2020. The increase is due primarily to increased assessed valuation. The city property tax levy rate per \$1,000 of assessed value decreased from \$1.01827 in 2020 to \$0.96150 for 2020 due primarily to an increase in assessed valuation which has an inverse relationship with the levy rate.

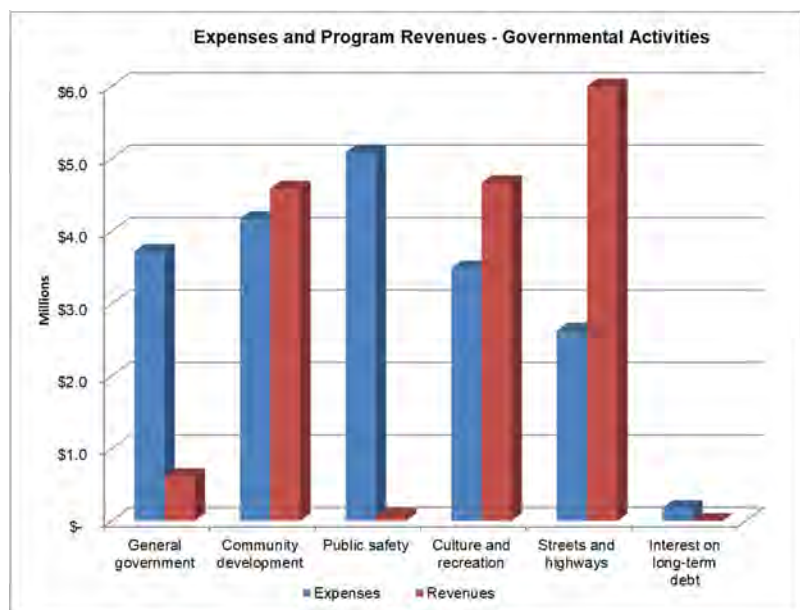
Sales tax revenue for 2021 increased by \$1,346,989 (24.6%) over fiscal year 2020. In year over year comparisons, retail sales increased by 4.5%, food services increased by 14.2%, contracting increased 47.1% and all other categories increased 22.9%.

Utility taxes increased by \$108,079 (4.8%) over fiscal year 2020. The city saw increases in all categories except for telephone utility taxes.

General government saw a decrease of 429,936 (10.4%) in expenses in 2021 over 2020. This difference is the result of decreases in COVID-19 related purchases that were provided as part of the CARES Act funding in 2020.

Community development expenses saw an increase of \$1,033,501 (33%). This difference is the result of increases in salaries and benefits, professional service contracts, and disbursement of impact fees to other local governments.

Public safety expenses saw an increase of \$79,123 (1.6%), due to changes in the contract with the King County Sheriff's Office.



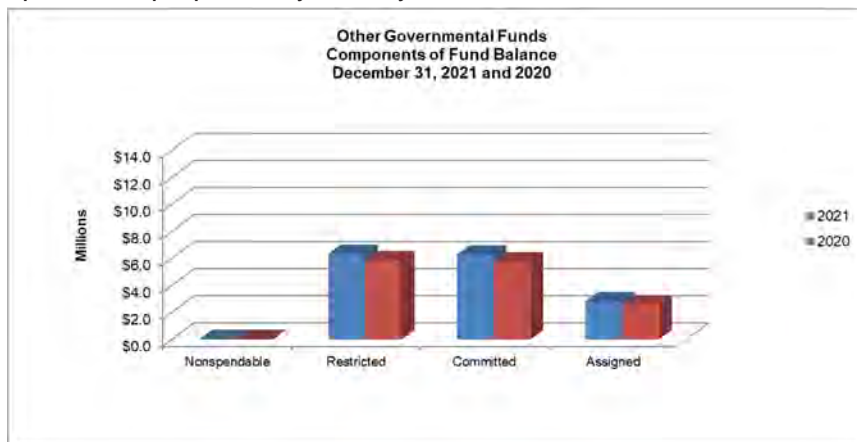
Culture and recreation expenses saw an increase of \$425,549 (13.9%). This category saw an increase in expenses due to increased program costs. As COVID-19 restrictions have eased, programing began to rise and is offset by increased revenue.

The expenses for streets and highways showed an increase of \$439,326 (20.1%) in 2021 over 2020. This increase is due to an increase salaries and benefits, as well as other services and charges.

Financial Analysis of Governmental Funds

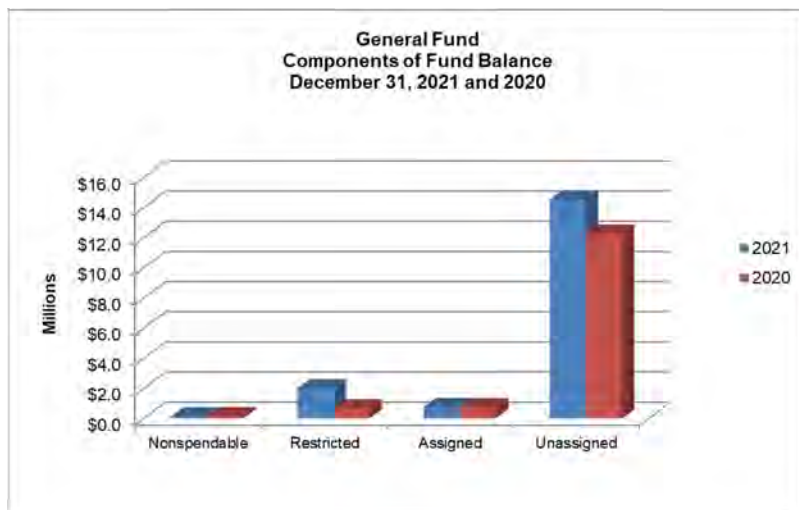
As noted earlier, the city uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, 2021, the City of Covington's governmental funds reported a combined ending fund balance of \$32,801,087 which is an increase of \$4,804,972 over 2020. Of the total fund balance, \$157,760 is non-spendable, \$8,305,404 is restricted, \$6,261,068 is committed, and \$3,555,973 is assigned. The balance of \$14,520,882 is unassigned and available for spending at the city's discretion.

The general fund is the city's chief operating fund. For 2021, the general fund fund balance increased by \$3,593,744 from \$13,791,472 in 2020 to \$17,385,216 for 2021. 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 119.7% of total general fund expenditures, while total fund balance represents approximately 143.3% of total general fund expenditures.

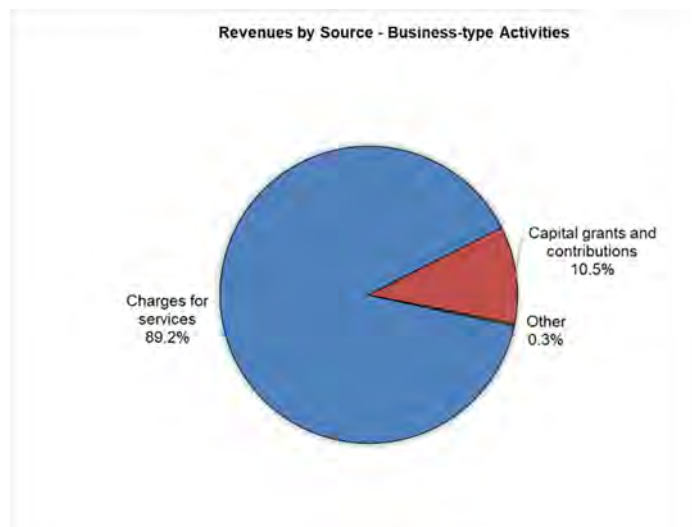


Excluding other funds which are captured in the general fund, the general fund increased in fund balance by \$2,978,586. The increase is due mostly to increases in taxes, and as restrictions related to COVID-19 have eased, increases in program revenue related to culture and recreation activities.

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 \$5,806,401 in 2020, increased by \$477,033 to \$6,283,434 in 2021. The increase is due to an increase in permitting activity in 2021.

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 \$652,818 from \$7,697,733 in 2020 to \$8,350,551 in 2021. The increase is due to an increase in collections of traffic mitigation and park impact fees.

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 2021 is \$13,992,840 which is an increase of \$2,245,957 from 2020's net position of \$11,746,883. This includes an unrestricted amount of \$3,708,784 and a net investment in capital assets of \$10,284,056.

General Fund Budgetary Highlights

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

Original budget compared to final budget. The 2021 general fund budget amendment consisted of adding unanticipated grant revenue and related expenses, and accounting for changes in transfers to other funds.

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	\$11,167,565	\$12,818,617	\$1,651,052
Intergovernmental	\$2,584,423	\$911,294	\$(1,673,129)

The increase in taxes was due to an increase in property tax collections tax collections (\$34,480), sales tax collections (\$1,310,670), local criminal justice collections (\$184,907), and utility tax collections (\$120,995). The decrease in intergovernmental revenues was due to American Rescue Plan Act of 2021 grant funds that remained unearned at year end and did not qualify for revenue recognition.

The most significant differences between estimated expenditures and actual expenditures were as follows:

Expenditure Use	Budget	Actual	Δ
City Council	\$523,307	\$207,059	\$(316,248)
City Court	\$634,730	\$365,280	\$(269,450)

The decrease in the City Council department was due to human services funds that remained unallocated at year end. The decrease in the City Court department, was due to the COVID-19 restrictions placed on

the court during the year, which reduced the number of cases processed, and reduced the amount the city paid to the court during the year.

Capital Assets

As of December 31, 2021, the city's investment in capital assets is \$86,887,055 (net of depreciation), \$76,602,999 for governmental activities and \$10,284,056 for business-type activities. This year's most significant project was the ongoing construction of the 204th Covington Connector project. This new roadway connection will provide overall benefits to the citywide street system by providing more options for vehicles traveling between SE 272nd Street and SR 18. This collector arterial will be widened to two 12-foot lanes, one 14-foot turn lane/median, and two 5-foot wide bike lanes. Each side of the roadway will also include a curb, gutter, 5-foot landscape buffer, and a 5-foot sidewalk.

Additional information regarding capital assets can be found in Note 4 – Capital Assets on page 53.

Debt Administration

As of December 31, 2021, the city's long-term debt outstanding for governmental activities is \$6,240,084. There is no outstanding long-term debt for business type activities.

Additional information on long term-debt can be found in Note 9 – Long-term Debt on pages 59 to 61.

Economic Factors and Budgetary Factors

After experiencing a significant decline in parks revenue due to the COVID-19 pandemic, we anticipate with restrictions lessening that we will see an increase in these revenues for the 2022 budget year. It remains an area that is closely monitored as each month's collections are received.

Development and construction activities within the City remain strong and are expected to continue into 2022, generating strong building permit and plan check fees revenues. However, these somewhat volatile revenues are estimated cautiously, and any excess revenues collected during the year are used strategically for one-time purposes or to increase reserves.

Surface water management rates were increased for the 2022 budget year. The rates were increased by 9% for all customers. This rate increase was necessary for capital improvements, staff, and equipment to service the surface water system.

All of these factors were considered in preparing the City of Covington's budget for the 2022 fiscal year. In the 2021 budget, the general fund was utilized to support streets, the 2016 refunding bonds for transportation bond debt payments, and the capital projects. That policy is being extended into 2022.

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions. The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on the City of Covington is unknown at this time.

The City proactively implemented safety measures, and operations have continued with many staff working remotely, and new procedures being put in place. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. While some activities, such as culture and recreation functions have been affected, the City continues to operate all major

functions and meet its public mandates. The City has remained economically stable and continues to adapt to the changing conditions.

On March 11, 2021, the American Rescue Plan Act of 2021 was signed into law. This provided funding to state and local governments. The funding could be used for revenue replacement for the provision of government services, address COVID-19 related expenditures or negative economic impacts of COVID-19, including assistance to small businesses, households, and hard-hit industries, as well as economic recovery. It could also be used for investments in water, sewer, and broadband infrastructure.

The city was awarded \$5.9 million in funding. On June 30, 2021, the City received \$2.95 million, and expects to receive the remaining \$2.95 million in 2022. The City is planning on using the funds for small business grants, utility aid, and public safety.

Requests for Information

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

City of Covington
Statement of Net Position
December 31, 2021

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Cash and Cash Equivalents	\$ 26,108,242	\$ 2,729,410	\$ 28,837,652
Investments	5,951,096	-	5,951,096
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	1,559,255	-	1,559,255
Interest	797	5,797	6,594
Property Taxes	33,880	-	33,880
Intergovernmental	5,043,318	791,878	5,835,196
Internal Balances	(418,212)	418,212	-
Prepaid Items	157,760	16,460	174,220
Capital Assets Not Being Depreciated:			
Art	67,603	-	67,603
Land	32,557,092	1,913,967	34,471,059
Intangible Assets	1,436,921	241,598	1,678,519
Work In Progress	16,613,461	2,087,874	18,701,335
Capital Assets Net of Depreciation:			
Buildings	3,285,101	4,596	3,289,697
Improvements Other than Buildings	4,603,143	503,391	5,106,534
Machinery and Equipment	1,162,954	20,759	1,183,713
Infrastructure	23,630,840	5,512,288	29,143,128
Total Assets	<u>121,793,251</u>	<u>14,246,230</u>	<u>136,039,481</u>
Deferred Outflows of Resources			
Loss On Debt Refunding	<u>9,016</u>	<u>-</u>	<u>9,016</u>
Total Deferred Outflows	<u>9,016</u>	<u>-</u>	<u>9,016</u>
Total Assets and Deferred Outflows	<u>121,802,267</u>	<u>14,246,230</u>	<u>136,048,497</u>
Liabilities			
Accounts Payable	906,569	19,677	926,246
Accrued Interest Payable	68,964	-	68,964
Accrued Payroll/Benefits	217,206	28,918	246,124
Due to Other Governmental Entities	96,813	29,264	126,077
Performance Bonds	7,500	-	7,500
Unearned Revenue	3,090,075	-	3,090,075
Long-Term Liabilities			
Due Within One Year			
Compensated Absences	624,052	121,505	745,557
General Obligation Bonds	800,000	-	800,000
Other Long-Term Debt	214,896	-	214,896
Due in More Than One Year			
Compensated Absences	251,283	54,026	305,309
General Obligation Bonds	4,795,398	-	4,795,398
Other Long-Term Debt	429,790	-	429,790
Total Liabilities and Deferred Inflows	<u>11,502,546</u>	<u>253,390</u>	<u>11,755,936</u>
Net Position			
Net Investment in Capital Assets	76,602,999	10,284,056	86,887,055
Restricted for:			
Debt Service	1,275,072	-	1,275,072
Human Services	718,916	-	718,916
Capital Improvement Projects	6,316,350	-	6,316,350
Unrestricted	<u>25,386,384</u>	<u>3,708,784</u>	<u>29,095,168</u>
Total Net Position	<u>\$ 110,299,721</u>	<u>\$ 13,992,840</u>	<u>\$ 124,292,561</u>

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

City of Covington
Statement of Activities
For the Fiscal Year Ended December 31, 2021

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		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 3,719,440	\$ 576,974	\$ 42,862	\$ -	\$ (3,099,604)	\$ -	\$ (3,099,604)
Community Development	4,168,824	4,509,420	80,000	-	420,596	-	420,596
Public Safety	5,085,511	654	69,120	-	(5,015,737)	-	(5,015,737)
Culture and Recreation	3,488,797	785,418	196,372	3,683,745	1,176,738	-	1,176,738
Streets and Highways	2,629,190	-	425,767	14,882,792	12,679,369	-	12,679,369
Interest on Long-Term Debt	179,737	-	-	-	(179,737)	-	(179,737)
Total Governmental Activities	19,271,499	5,872,466	814,121	18,566,537	5,981,625	-	5,981,625
Business-type Activities:							
Surface Water Management	2,802,565	3,298,100	-	389,714	-	885,249	885,249
Total Business-type Activities	2,802,565	3,298,100	-	389,714	-	885,249	885,249
Total Primary Government	<u>\$22,074,064</u>	<u>\$9,170,566</u>	<u>\$ 814,121</u>	<u>\$18,956,251</u>	5,981,625	885,249	6,866,874
General Revenues:							
Taxes:							
Property Tax					2,938,677	-	2,938,677
Sales Tax					6,813,395	-	6,813,395
Utility Tax					2,365,595	-	2,365,595
Local Criminal Justice					684,907	-	684,907
Vehicle License					367,313	-	367,313
Real Estate Excise Tax					1,801,706	-	1,801,706
Property Tax Parks Expansion Levy					141,127	-	141,127
Liquor Excise Tax					146,056	-	146,056
Marijuana Excise Tax					163,594	-	163,594
Franchise Fee					342,724	-	342,724
Criminal Justice					76,277	-	76,277
Liquor Board Profits					162,205	-	162,205
Interest Income					(1,521)	7,747	6,226
Transfers - internal activities					(1,352,961)	1,352,961	-
Total General Revenues and Transfers					14,649,094	1,360,708	16,009,802
Change in Net Position					20,630,719	2,245,957	22,876,676
Net Position, January 1					89,669,002	11,746,883	101,415,885
Net Position, December 31					<u>\$ 110,299,721</u>	<u>\$ 13,992,840</u>	<u>\$ 124,292,561</u>

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

City of Covington
Balance Sheet
Governmental Funds
December 31, 2021

	Special Revenue Fund		Capital Project Fund	Other	Total
	General	Development Services	Capital Investment Program	Governmental Funds	Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 14,264,205	\$ 4,395,993	\$ 4,921,818	\$ 810,699	\$ 24,392,715
Investments	3,961,696	1,989,400	-	-	5,951,096
Receivables (net of allowances for uncollectibles, where applicable):					
Accounts	608,155	15,154	868,806	66,640	1,558,755
Interest	797	-	-	-	797
Property Taxes	33,880	-	-	-	33,880
Intergovernmental	1,690,302	956	3,285,779	62,284	5,039,321
Due from Other Funds	109,209	-	-	-	109,209
Prepaid Items	<u>126,075</u>	<u>22,366</u>	<u>886</u>	<u>8,433</u>	<u>157,760</u>
Total Assets	<u>\$ 20,794,319</u>	<u>\$ 6,423,869</u>	<u>\$ 9,077,289</u>	<u>\$ 948,056</u>	<u>\$ 37,243,533</u>
Liabilities					
Accounts Payable	187,777	71,876	511,774	131,076	902,503
Accrued Payroll/Benefits	144,933	34,439	4,610	33,224	217,206
Due to Other Funds	1,445	359	46	347	2,197
Due to Other Governmental Entities	67,904	21,567	5,493	1,523	96,487
Performance Bonds	-	7,500	-	-	7,500
Unearned Revenue	<u>2,958,366</u>	<u>-</u>	<u>131,709</u>	<u>-</u>	<u>3,090,075</u>
Total Liabilities	<u>3,360,425</u>	<u>135,741</u>	<u>653,632</u>	<u>166,170</u>	<u>4,315,968</u>
Deferred Inflows of Resources					
Unavailable Revenue - Accounts Receivable	20,181	4,694	73,106	-	97,981
Unavailable Revenue - Property Taxes	<u>28,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,497</u>
Total Deferred Inflows of Resources	<u>48,678</u>	<u>4,694</u>	<u>73,106</u>	<u>-</u>	<u>126,478</u>
Fund Balances					
Nonspendable	126,075	22,366	886	8,433	157,760
Restricted	1,993,988	-	6,311,416	-	8,305,404
Committed	-	6,261,068	-	-	6,261,068
Assigned	744,271	-	2,038,249	773,453	3,555,973
Unassigned	<u>14,520,882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,520,882</u>
Total Fund Balances	<u>17,385,216</u>	<u>6,283,434</u>	<u>8,350,551</u>	<u>781,886</u>	<u>32,801,087</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 20,794,319</u>	<u>\$ 6,423,869</u>	<u>\$ 9,077,289</u>	<u>\$ 948,056</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 \$99,756,597 are shown net of Accumulated Depreciation (\$17,206,557). Capital Assets are included in the Statement of Net Position. 82,550,040

Other long-term assets such as unavailable property tax receivable \$28,497 and unavailable accounts receivable \$97,981 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. 126,478

Deferred outflows for deferred losses on refundings, \$9,016 are not reported on the government fund statements, but are reported in the Statement of Net Position. 9,016

Long-term liabilities such as compensated absences (\$875,335), General Obligation Bond Payable (\$5,595,398), Public Works Trust Fund Loan (\$644,686), and Accrued Interest Payable (\$68,964) are not due and payable in the current period and, therefore, are not reported in the governmental funds. (7,184,383)

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. 1,997,483

Net position of governmental activities \$ 110,299,721

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, 2021

	Special Revenue Fund		Capital Project Fund		
	General	Development Services	Capital Investment Program	Other Governmental Funds	Totals Governmental Funds
Revenues					
Taxes	\$ 14,620,323	\$ -	\$ 141,127	\$ 367,313	\$ 15,128,763
Licenses and Permits	151,308	1,448,555	-	257,976	1,857,839
Intergovernmental	911,294	80,000	13,222,777	425,767	14,639,838
Charges for Goods and Services	704,093	3,107,719	2,221,925	-	6,033,737
Fines and Forfeitures	60,832	1,150	-	-	61,982
Interest Income	(6,980)	(730)	5,445	744	(1,521)
Interfund Services Payment	745,572	-	-	-	745,572
Miscellaneous	148,219	-	3,230	-	151,449
Total Revenues	<u>17,334,661</u>	<u>4,636,694</u>	<u>15,594,504</u>	<u>1,051,800</u>	<u>38,617,659</u>
Expenditures					
Current:					
General Government	3,686,770	-	-	-	3,686,770
Community Development	293,631	4,159,661	-	-	4,453,292
Public Safety	5,083,922	-	-	-	5,083,922
Culture and Recreation	3,065,398	-	-	-	3,065,398
Streets and Highways	-	-	-	1,409,640	1,409,640
Capital Outlay:					
General Government	11,274	-	254,589	-	265,863
Public Safety	(6,017)	-	-	-	(6,017)
Culture and Recreation	-	-	1,941,835	-	1,941,835
Streets and Highways	-	-	12,760,267	-	12,760,267
Debt Service:					
Principal	-	-	-	989,896	989,896
Interest	-	-	-	188,548	188,548
Total Expenditures	<u>12,134,978</u>	<u>4,159,661</u>	<u>14,956,691</u>	<u>2,588,084</u>	<u>33,839,414</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,199,683</u>	<u>477,033</u>	<u>637,813</u>	<u>(1,536,284)</u>	<u>4,778,245</u>
Other Financing Sources (Uses)					
Transfer In	-	-	15,005	1,618,801	1,633,806
Transfer Out	(1,632,666)	-	-	(1,140)	(1,633,806)
Compensation from Loss of Assets	26,727	-	-	-	26,727
Total Other Financing Sources (Uses)	<u>(1,605,939)</u>	<u>-</u>	<u>15,005</u>	<u>1,617,661</u>	<u>26,727</u>
Net Change in Fund Balances	3,593,744	477,033	652,818	81,377	4,804,972
Fund Balances, January 1	<u>13,791,472</u>	<u>5,806,401</u>	<u>7,697,733</u>	<u>700,509</u>	<u>27,996,115</u>
Fund Balances, December 31	<u>\$ 17,385,216</u>	<u>\$ 6,283,434</u>	<u>\$ 8,350,551</u>	<u>\$ 781,886</u>	<u>\$ 32,801,087</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, 2021

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

Net Change in Fund Balances - total Governmental funds (see page 28)	\$ 4,804,972
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	13,464
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	1,617,363
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 \$14,961,948 less current year depreciation of (\$1,972,359).	12,989,589
Certain bond transactions like losses on refunding (\$1,503) are reported as revenues or expenditures in the governmental funds because they provide, or use, current financial resources. However, for the government-wide statements these costs are recognized or amortized (expensed) over the life of the bonds.	(1,503)
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 \$27,769.	27,769
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.	989,896
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 such as interest expense and amortization of bond premium.	87,482
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.	53,596 <u>48,091</u>
Change in net position of governmental activities	<u>\$ 20,630,719</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, 2021

	Budget			
	Original	Final	Actual	Variance
Revenues				
Taxes	\$ 11,167,565	\$ 11,167,565	\$ 12,818,617	\$ 1,651,052
Licenses and Permits	85,600	85,600	151,308	65,708
Intergovernmental	665,719	2,584,423	911,294	(1,673,129)
Charges for Goods and Services	1,436,776	1,436,776	1,449,665	12,889
Fines and Forfeitures	71,650	71,650	60,832	(10,818)
Interest Income	36,000	36,000	1,124	(34,876)
Miscellaneous	114,000	114,000	148,219	34,219
Total Revenues	<u>13,577,310</u>	<u>15,496,014</u>	<u>15,541,059</u>	<u>45,045</u>
Expenditures				
Current:				
General Government:				
City Council	523,307	523,307	207,059	(316,248)
City Court	634,730	634,730	365,280	(269,450)
City Manager	1,118,884	1,138,884	982,673	(156,211)
Finance	691,353	691,353	630,770	(60,583)
City Attorney	216,109	216,109	192,677	(23,432)
Personnel	447,628	447,628	444,452	(3,176)
Central Services	871,488	871,488	851,196	(20,292)
Disaster Recovery	-	250,000	12,663	(237,337)
Total General Government	<u>4,503,499</u>	<u>4,773,499</u>	<u>3,686,770</u>	<u>(1,086,729)</u>
Community Development:				
Total Community Development	<u>512,410</u>	<u>512,410</u>	<u>293,631</u>	<u>(218,779)</u>
Public Safety:				
Total Public Safety	<u>5,095,193</u>	<u>5,095,193</u>	<u>5,083,922</u>	<u>(11,271)</u>
Culture and Recreation				
Parks Maintenance	604,578	604,578	629,879	25,301
Aquatics	1,436,812	1,436,812	1,267,270	(169,542)
Recreation and Cultural Arts	781,084	781,084	562,495	(218,589)
Parks	625,548	625,548	605,754	(19,794)
Total Culture and Recreation	<u>3,448,022</u>	<u>3,448,022</u>	<u>3,065,398</u>	<u>(382,624)</u>
Capital Outlay:				
General Government	-	-	11,274	11,274
Public Safety	50,000	50,000	(6,017)	(56,017)
Total Expenditures	<u>13,609,124</u>	<u>13,879,124</u>	<u>12,134,978</u>	<u>(1,744,146)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(31,814)</u>	<u>1,616,890</u>	<u>3,406,081</u>	<u>1,789,191</u>
Other Financing Sources (Uses)				
Transfer In	-	25,240	-	(25,240)
Transfer Out	(699,208)	(458,722)	(454,222)	4,500
Compensation/Loss of Asset	-	-	26,727	26,727
Total Other Financing Sources (Uses)	<u>(699,208)</u>	<u>(433,482)</u>	<u>(427,495)</u>	<u>5,987</u>
Net Change in Fund Balances	(731,022)	1,183,408	2,978,586	1,795,178
Fund Balances, January 1	<u>9,935,508</u>	<u>9,935,508</u>	<u>11,135,400</u>	<u>1,199,892</u>
Fund Balances, December 31	<u>\$ 9,204,486</u>	<u>\$ 11,118,916</u>	<u>\$ 14,113,986</u>	<u>\$ 2,995,070</u>

**Reconciliation of Perspective Difference Between Budgetary Information and
Generally Accepted Accounting Principles (GAAP)**

The following funds are combined with the General Fund
for purposes of GASB Statement 54:

Cumulative Reserve Fund	1,572,187
Contingency Fund	423,971
Real Estate Excise Tax 1st 1/4% Fund	637,536
Real Estate Excise Tax 2nd 1/4% Fund	637,536
Fund Balances, December 31	<u>\$ 17,385,216</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, 2021

	<u>Budget</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Licenses and Permits	\$ 555,314	\$ 555,314	\$ 1,448,555	\$ 893,241
Intergovernmental	75,000	75,000	80,000	5,000
Charges for Goods and Services	647,140	2,650,140	3,107,719	457,579
Fines and Forfeitures	500	500	1,150	650
Interest Income	29,150	29,150	(730)	(29,880)
Total Revenues	<u>1,307,104</u>	<u>3,310,104</u>	<u>4,636,694</u>	<u>1,326,590</u>
Expenditures				
Current:				
Community Development	<u>2,478,037</u>	<u>4,481,037</u>	<u>4,159,661</u>	<u>(321,376)</u>
Total Expenditures	<u>2,478,037</u>	<u>4,481,037</u>	<u>4,159,661</u>	<u>(321,376)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,170,933)</u>	<u>(1,170,933)</u>	<u>477,033</u>	<u>1,647,966</u>
Fund Balances, January 1	<u>5,486,537</u>	<u>5,486,537</u>	<u>5,806,401</u>	<u>319,864</u>
Fund Balances, December 31	<u>\$ 4,315,604</u>	<u>\$ 4,315,604</u>	<u>\$ 6,283,434</u>	<u>\$ 1,967,830</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, 2021

	Business-Type Activities	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 2,729,410	\$ 1,715,527
Receivables (net of allowances for uncollectibles, where applicable):		
Accounts	-	500
Due from Other Funds	-	2,481
Interest	5,797	-
Intergovernmental	791,878	3,997
Prepaid Items	16,460	-
Total Current Assets	<u>3,543,545</u>	<u>1,722,505</u>
Noncurrent Assets:		
Capital Assets:		
Land	1,913,967	-
Intangible Assets	241,598	5,752
Work in Progress	2,087,874	-
Buildings	13,131	-
Improvements Other than Buildings	556,294	54,188
Machinery and Equipment	85,428	1,598,156
Infrastructure	8,079,310	-
Accumulated Depreciation	<u>(2,693,129)</u>	<u>(851,021)</u>
Total Capital Assets (net of accumulated depreciation)	<u>10,284,473</u>	<u>807,075</u>
Total Assets	<u>13,828,018</u>	<u>2,529,580</u>
Total Assets and Deferred Outflows	<u>13,828,018</u>	<u>2,529,580</u>
Liabilities		
Current Liabilities:		
Accounts Payable	19,677	4,066
Accrued Payroll/Benefits	28,918	-
Compensated Absences	121,505	-
Due to Other Funds	109,493	-
Due to Other Governmental Entities	<u>29,264</u>	<u>326</u>
Total Current Liabilities	<u>308,857</u>	<u>4,392</u>
Noncurrent Liabilities:		
Compensated Absences	<u>54,026</u>	<u>-</u>
Total Noncurrent Liabilities	<u>54,026</u>	<u>-</u>
Total Liabilities	<u>362,883</u>	<u>4,392</u>
Total Liabilities and Deferred Inflows	<u>362,883</u>	<u>4,392</u>
Net Position		
Net Investment in Capital Assets	10,284,056	807,075
Unrestricted	<u>3,181,079</u>	<u>1,718,113</u>
Total Net Position	<u>\$ 13,465,135</u>	<u>\$ 2,525,188</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>527,705</u>
Net position of business-type activities	<u>\$ 13,992,840</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, 2021

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	Governmental
	Surface Water Management	Activities- Internal Service Funds
Operating Revenues:		
Surface Water Management Fees	\$ 3,235,455	\$ -
Intergovernmental	62,394	-
Unemployment Charges	-	64,244
Fuel and Maintenance Assessments	-	49,868
Furnishing Assessments	-	7,800
Equipment Replacement Assessments	-	164,409
Miscellaneous	251	-
Total Operating Revenues	<u>3,298,100</u>	<u>286,321</u>
Operating Expenses:		
Unemployment Benefits Paid	-	3,004
Vehicle Fuel	-	18,141
Repairs and Maintenance of Vehicles	-	15,840
Cost of Services	2,213,566	10,326
Depreciation	351,013	127,379
Total Operating Expenses	<u>2,564,579</u>	<u>174,690</u>
Operating Income (Loss)	<u>733,521</u>	<u>111,631</u>
Nonoperating Revenues (Expenses):		
Interest Income	7,747	1,536
Interest Expense	(1,380)	-
Gain or (Loss) From Disposition of Assets	(266,018)	17,932
Total Nonoperating Revenues (Expenses)	<u>(259,651)</u>	<u>19,468</u>
Income Before Contributions	473,870	131,099
Capital Contributions:		
Capital Contributions	1,742,675	-
Total Capital Contributions	<u>1,742,675</u>	<u>-</u>
Change in Net Position	2,216,545	131,099
Net Position, January 1	<u>11,248,590</u>	<u>2,394,089</u>
Net Position, December 31	<u>\$ 13,465,135</u>	<u>\$ 2,525,188</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>29,412</u>	
Change in net position of business-type activities	<u>\$ 2,245,957</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, 2021

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	Governmental
	Surface Water Management	Activities- Internal Service Funds
Cash Flows from Operating Activities		
Cash Received from Interfund Services Provided	\$ -	\$ 285,802
Cash Received from Customers	3,148,659	-
Payments Made to Suppliers	(865,660)	(46,098)
Payments for Interfund Services Used	(533,285)	-
Payments Made to Employees	(780,190)	-
Cash Paid for Unemployment Assessments	-	(18,918)
Net Cash Provided by Operating Activities	<u>969,524</u>	<u>220,786</u>
Cash Flows from Noncapital Financing Activities		
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Capital Grants	50,000	-
Capital Assets Purchased for Own Use	(47,197)	-
Proceeds from Insurance Recovery	-	7,101
Proceeds from Disposition of Asset	-	17,225
Interest Paid	(1,380)	-
Equipment Purchase	-	(121,175)
Net Cash Received (used) for Capital Activities	<u>1,423</u>	<u>(96,849)</u>
Cash Flows from Investing Activities		
Interest Received	<u>26,785</u>	<u>1,536</u>
Net Cash Provided by Investing Activities	<u>26,785</u>	<u>1,536</u>
Net Increase (Decrease) in Cash and Cash Equivalents	997,732	125,473
Cash and Cash Equivalents, January 1	1,731,678	1,590,054
Cash and Cash Equivalents, December 31	<u>\$ 2,729,410</u>	<u>\$ 1,715,527</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	<u>\$ 733,521</u>	<u>\$ 111,631</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase)/Decrease in Due from Other Funds	-	(519)
(Increase)/Decrease in Intergovernmental Receivable	(149,442)	(3,997)
(Increase)/Decrease in Other Assets	6,236	-
Increase/(Decrease) in Accounts Payable	2,676	(1,776)
Increase/(Decrease) in Accrued Payroll/Benefits	(13,035)	-
Increase/(Decrease) in Due to Other Funds	9,544	-
Increase/(Decrease) in Due to Other Governmental Entities	29,011	(11,932)
Depreciation	<u>351,013</u>	<u>127,379</u>
Total Adjustments to Net Cash Provided by Operating Activities	<u>236,003</u>	<u>109,155</u>
Net Cash Provided by Operating Activities	<u>\$ 969,524</u>	<u>\$ 220,786</u>
Noncash Capital Activities		
Capital Contributions:		
Capital Investment Project Fund	\$ 1,352,961	\$ -
Developers	389,714	-

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

City of Covington
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2021

	Custodial Fund
Assets	
Cash and Cash Equivalents	\$ 40,317
Accounts Receivable	26
Total Assets	<u>40,343</u>
Total Assets and Deferred Outflows	<u>40,343</u>
Liabilities	
Accounts Payable	39,125
Due to Other Governmental Entities	<u>1,218</u>
Total Liabilities	<u>40,343</u>
Total Liabilities and Deferred Inflows	<u>40,343</u>
Net Position	
Total Net Position	<u>\$ -</u>

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

City of Covington
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended December 31, 2021

	Custodial Fund
Additions	
Contributions:	
Collections on behalf of Other Governments - Human Services	\$ 167,000
Collections on behalf of State of Washington	8,291
Total Additions	<u>175,291</u>
Deductions	
Distributions to State of Washington	8,291
Distributions to Human Services Agencies	167,000
Total Deductions	<u>175,291</u>
Changes in Net Position	-
Net Position, January 1	<u>-</u>
Net Position, December 31	<u><u>\$ -</u></u>

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

~ CITY OF COVINGTON ~

NOTES TO THE FINANCIAL STATEMENTS

(For the Fiscal Year Ended December 31, 2021)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

The City of Covington, Washington, was incorporated on August 31, 1997, and operates under the laws of the State of Washington applicable to a Non-Charter Code City with a Council-Manager form of government. The City is governed by a seven-member, elected Council 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. 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 non-fiduciary 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.

Also part of the basic financial statements, are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The focus of fund financial statements is on major funds. Non-major funds are aggregated in a column 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 and Fiduciary 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. 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.

The City reports the following major governmental funds:

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

Special Revenue Fund - The Special Revenue Fund is used to 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.

- *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.

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

- *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 proprietary fund:

Enterprise Fund - 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.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the City as a trustee or agent for individuals, private organizations, or other governmental units. The reporting focus is on net position and changes in net position and employs accounting principles similar to proprietary funds. The Fiduciary Funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

- *Custodial Fund.* The City's custodial fund functions primarily as a clearing mechanism for cash resources which are collected by the City of Covington, held for a period of time, and then disbursed to authorized recipients of the funds for, fees and taxes collected on behalf of the State and human services funds.

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 30, 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

For managerial purposes, the City of Covington treats the General Fund, Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1st 1/4% Fund, and Real Estate Excise Tax 2nd 1/4% Fund separately. However, the latter four do not meet the criteria of a special revenue fund and for reporting purposes are presented in combination with the General Fund. However, the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual on page 30 compares only the General Fund as adopted in the budget along with the related revenues and expenditures. It does not include the budget or actual data for the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1st 1/4% Fund, and Real Estate Excise Tax 2nd 1/4% Funds. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual is also presented for the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1st 1/4% Fund, and Real Estate Excise Tax 2nd 1/4% Fund on pages 83 to 86. On the following page you will find these funds combined with the General Fund for reporting purposes.

City of Covington
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended December 31, 2021

	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
Revenues						
Taxes	\$ 12,818,617	\$ -	\$ -	\$ 900,853	\$ 900,853	\$ 14,620,323
Licenses and Permits	151,308	-	-	-	-	151,308
Intergovernmental	911,294	-	-	-	-	911,294
Charges for Goods and Services	704,093	-	-	-	-	704,093
Fines and Forfeitures	60,832	-	-	-	-	60,832
Interest Income	1,124	(5,985)	(3,285)	583	583	(6,980)
Interfund Services Payment	745,572	-	-	-	-	745,572
Miscellaneous	148,219	-	-	-	-	148,219
Total Revenues	15,541,059	(5,985)	(3,285)	901,436	901,436	17,334,661
Expenditures						
Current:						
General Government:						
City Council	207,059	-	-	-	-	207,059
City Court	365,280	-	-	-	-	365,280
City Manager	982,673	-	-	-	-	982,673
Finance	630,770	-	-	-	-	630,770
City Attorney	192,677	-	-	-	-	192,677
Personnel	444,452	-	-	-	-	444,452
Central Services	851,196	-	-	-	-	851,196
Disaster Recovery	12,663	-	-	-	-	12,663
Total General Government	3,686,770	-	-	-	-	3,686,770
Community Development:						
Total Community Development	293,631	-	-	-	-	293,631
Public Safety:						
Total Public Safety	5,083,922	-	-	-	-	5,083,922
Culture and Recreation						
Parks Maintenance	629,879	-	-	-	-	629,879
Aquatics	1,267,270	-	-	-	-	1,267,270
Recreation and Cultural Arts	562,495	-	-	-	-	562,495
Parks	605,754	-	-	-	-	605,754
Total Culture and Recreation	3,065,398	-	-	-	-	3,065,398
Capital Outlay:						
General Government	11,274	-	-	-	-	11,274
Public Safety	(6,017)	-	-	-	-	(6,017)
Total Expenditures	12,134,978	-	-	-	-	12,134,978
Excess (Deficiency) of Revenues Over Expenditures	3,406,081	(5,985)	(3,285)	901,436	901,436	5,199,683
Other Financing Sources (Uses)						
Transfer In	-	-	-	-	-	-
Transfer Out	(454,222)	-	-	(589,222)	(589,222)	(1,632,666)
Compensation/Loss of Asset	26,727	-	-	-	-	26,727
Total Other Financing Sources (Uses)	(427,495)	-	-	(589,222)	(589,222)	(1,605,939)
Net Change in Fund Balances	2,978,586	(5,985)	(3,285)	312,214	312,214	3,593,744
Fund Balances, January 1	11,135,400	1,578,172	427,256	325,322	325,322	13,791,472
Fund Balances, December 31	\$ 14,113,986	\$ 1,572,187	\$ 423,971	\$ 637,536	\$ 637,536	\$ 17,385,216

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, and all short-term investments with original maturities of three months or less from the date of purchase. Included in this category are all funds invested in the Local Government Investment Pool (LGIP).

Interest earned on pooled cash and investments is prorated to the various funds. Interest earned on a specific fund's investments is credited to the fund holding the investment.

2. Investments

The City generally reports investments at fair value and recognizes the corresponding change in fair value of investments in the year in which the change occurred. It is generally the City's policy to hold investments to maturity. Investment activity is presented in Note 2.

3. Receivables

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

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 represents 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.

Interfund Loans Receivable represents amounts loaned between funds for periods not to exceed 12 months. Interfund activity is presented in Note 11 Interfund Balances and Transfers.

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

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

7. Capital Assets

Capital assets, which include art, 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 and art are recorded regardless of initial cost.

All purchased assets are valued at original cost and at estimated historical cost where no records exist. Donated capital assets are recorded at estimated acquisition 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.

Art, land, intangibles permanent in nature, 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	5-20

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

Deferred outflows of resources represent a consumption of net position (expenditures/expense) that applies to a future period and thus is shown on the Statement of Net Position until the period that it becomes an expenditure/expense. Deferred outflows of resources presented in this manner on the accompanying financial statements are related to the loss on refunded debt.

Deferred inflows of resources represent an acquisition of net position (revenue) that applies to a future period and thus is shown on the Balance Sheet/Statement of Net Position until the period that it becomes revenue. The governmental funds report unavailable revenues from two sources: accounts receivable and property taxes.

9. Compensated Absences

Compensated absences are reported in governmental funds only if they have matured (i.e., vacation, merit, comp time, and sick leave) for example, as a result of employee resignations and retirements. All 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. For purposes of calculating the portion of the liability for compensated absences related to merit 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, 2021 accrued merit balance equal to the maximum merit 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.

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, 2021 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, 2021, 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: Net investment in capital assets, restricted net position, and unrestricted net position.

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

12. Fund Balances

Fund balances presented in the governmental fund financial statements represent the difference between assets plus deferred outflows and liabilities plus deferred inflows reported within the governmental fund. Fund balance is classified into the following categories:

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) 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

Reconciliation of cash, cash equivalents, deposits, and investments to the Statement of Net Position:

	Government Wide	Fiduciary Fund
Operating Accounts	\$ 2,963,788	\$ 40,317
State Treasurer's Pool	25,841,748	-
Forfeiture Account	31,516	-
Petty Cash	600	-
Total Cash and Cash Equivalents	\$ 28,837,652	\$ 40,317

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 and fully collateralized by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC constitutes a multiple financial institution collateral pool. Under RCW 39.58, public depositories are

required to segregate and maintain eligible collateral for their unsecured public deposits in the form of securities having a value at least equal to their maximum liability.

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.

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 2017-17. 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 legality, safety, 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 instruments will be utilized unless permitted by law, and not without prior City Council approval. No derivative instruments shall be utilized without an analysis by an independent financial advisor. No derivative instruments shall be used for the purpose of interest rate speculation. The City does not currently use derivative instruments.

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

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

1. Investments Measured at Amortized Costs:

Investments in the State Treasurer's Local Government Investment Pool (*LGIP*), a qualified external investment pool, are valued at amortized cost, which is the same as the value of the pool per share. The LGIP is an unrated external investment pool and is not registered with the SEC. The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the Governmental Accounting Standards Board in Statement No. 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized costs. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. Participants in the LGIP are offered 100 percent liquidity on

a daily basis, provided notification is made within specified times. Each month, earnings from the LGIP are deposited to the City's bank account.

The State Investment Pool was authorized by State statute Chapter 294, Laws of 1986, and is managed and operated by the State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules in accordance with RCW 43.250. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

2. Investments Measured at Fair Value:

The City measures and reports investments other than the LGIP at fair value.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates, 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.

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.

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 as of December 31, 2021:

<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	\$ 5,951,096	\$ -	\$ 912,414	\$ 2,987,134	\$ 2,051,548	Aaa/AA+
Total Investments	\$ 5,951,096	\$ -	\$ 912,414	\$ 2,987,134	\$ 2,051,548	

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 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, 2021, all the \$5,951,096 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.

3. Fair Value Hierarchy:

The City measures and records its investments within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of an asset.

Fair value hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

Level 3 – Unobservable inputs for an asset or liability.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	Amount			
Debt Securities				
U.S. Agency Securities	\$ 5,951,096	\$ 5,951,096	\$ -	\$ -
Subtotals	\$ 5,951,096	\$ 5,951,096	\$ -	\$ -
Investments measured at amortized cost				
State LGIP (cash equivalents)	\$25,841,748	\$ 25,841,748	\$ -	\$ -
Total Investments (including LGIP)	\$31,792,844	\$ 31,792,844	\$ -	\$ -

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 regard 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 2021 was \$0.96150 per \$1,000 of assessed valuation, including exempt properties, of \$3,098,266,122 for a total regular levy of \$2,938,677.

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, 2021, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Art	\$ 67,603		\$ -	\$ 67,603
Land	27,339,694	5,217,398	-	32,557,092
Intangibles	1,175,815	261,106	-	1,436,921
Work in Progress	<u>5,510,107</u>	<u>12,996,857</u>	<u>(1,893,503)</u>	<u>16,613,461</u>
Total capital assets, not being depreciated	<u>34,093,219</u>	<u>18,475,361</u>	<u>(1,893,503)</u>	<u>50,675,077</u>
Capital assets, being depreciated:				
Buildings	4,255,246	4,798	(6,017)	4,254,027
Improvements other than buildings	5,665,222	761	-	5,665,983
Machinery and equipment	2,386,860	12,601	(68,709)	2,330,752
Infrastructure	<u>38,485,192</u>	<u>4,578</u>	<u>(916)</u>	<u>38,488,854</u>
Total capital assets being depreciated	<u>50,792,520</u>	<u>22,738</u>	<u>(75,642)</u>	<u>50,739,616</u>
Less accumulated depreciation for:				
Buildings	(798,226)	(170,764)	64	(968,926)
Improvements other than buildings	(870,574)	(192,266)	-	(1,062,840)
Machinery and equipment	(1,069,502)	(165,687)	67,391	(1,167,798)
Infrastructure	<u>(13,286,928)</u>	<u>(1,571,086)</u>	<u>-</u>	<u>(14,858,014)</u>
Total accumulated depreciation	<u>(16,025,230)</u>	<u>(2,099,803)</u>	<u>67,455</u>	<u>(18,057,578)</u>
Total capital assets, being depreciated net	<u>34,767,290</u>	<u>(2,077,065)</u>	<u>(8,187)</u>	<u>32,682,038</u>
Governmental activities capital assets, net	<u>\$ 68,860,509</u>	<u>\$ 16,398,296</u>	<u>\$ (1,901,690)</u>	<u>\$ 83,357,115</u>

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

Governmental Activities	
General Government	\$ 49,608
Public Safety	2,498
Culture and Recreation	542,281
Streets and Highways	1,378,037
Capital assets held by the government's Internal Service Funds	<u>127,379</u>
Total depreciation expense - governmental activities	<u>\$ 2,099,803</u>

Business-type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,564,417	\$ 349,550	\$ -	\$ 1,913,967
Intangibles	201,434	40,164	-	241,598
Work in Progress	<u>981,301</u>	<u>1,372,590</u>	<u>(266,017)</u>	<u>2,087,874</u>
Total capital assets, not being depreciated	<u>2,747,152</u>	<u>1,762,304</u>	<u>(266,017)</u>	<u>4,243,439</u>
Capital assets, being depreciated:				
Buildings	13,131	-	-	13,131
Improvements other than buildings	556,294	-	-	556,294
Machinery and equipment	85,428	-	-	85,428
Infrastructure	<u>8,078,395</u>	<u>916</u>	<u>-</u>	<u>8,079,311</u>
Total capital assets being depreciated	<u>8,733,248</u>	<u>916</u>	<u>-</u>	<u>8,734,164</u>
Less accumulated depreciation for:				
Buildings	(7,878)	(657)	-	(8,535)
Improvements other than buildings	(36,135)	(16,768)	-	(52,903)
Machinery and equipment	(58,834)	(5,835)	-	(64,669)
Infrastructure	<u>(2,239,269)</u>	<u>(327,754)</u>	<u>-</u>	<u>(2,567,023)</u>
Total accumulated depreciation	<u>(2,342,116)</u>	<u>(351,014)</u>	<u>-</u>	<u>(2,693,130)</u>
Total capital assets, being depreciated net	<u>6,391,132</u>	<u>(350,098)</u>	<u>-</u>	<u>6,041,034</u>
Business-type activities capital assets, net	<u>\$ 9,138,284</u>	<u>\$ 1,412,206</u>	<u>\$ (266,017)</u>	<u>\$ 10,284,473</u>

NOTE 5: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS

The City of Covington has active construction projects as of December 31, 2021.

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>
204th Connector	Transpo Group	\$ 1,924,251	\$ 1,429,435
204th Connector	Scarsella Bros, Inc.	11,014,645	1,584,385
212th Ave SE Stormwater Improvements	Gray & Osborne	9,834	19,066
Annual Traffic Safety	Transpo Group	12,319	54,888
Jenkins Creek Park	Sitts & Hill Engineers, Inc.	5,331	423,660
Mtc Shop	Gray & Osborne	32,611	131,389
SE 256th St Culvert	Gray & Osborne	545,748	20,950
SoCo Park	Hough Beck & Baird Inc.	23,742	405,249
SR 516 - 185th Pl SE to 192nd Ave SE	Gray & Osborne	202,889	708,596
SR 516 Covington Way	Transpo Group	663,740	936,601
SR 516 Safety Widening	WSP USA Inc.	20,802	2,772,817
		<u>\$ 14,455,912</u>	<u>\$ 8,487,036</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 MissionSquare Retirement. 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 regular part-time employees, except council members, variable hour 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, 2021 through December 31, 2021, was \$4,690,549. The City's total payroll for the same period was \$5,214,018. The table below shows the required percentage contribution and the total actual contributions for 2021 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%	\$154,788
Employer	7.5%	\$351,791

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 2021, \$8,590 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, 2021, there were 114 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 MissionSquare Retirement. 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, 2021 through December 31, 2021 was \$5,214,018. The City's total payroll for the same period was \$5,214,018. The table below shows the required percentage contribution and the total actual contributions for 2021 made by the employer and employee to this qualified defined contribution plan. Contributions are made bi-weekly.

<u>Social Security Replacement</u>	<u>Percentage Contribution</u>	<u>Contribution Amount</u>
Employee	6.2%	\$323,269
Employer	5.6%	\$291,985

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-time 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, 2021, there were 271 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 two

appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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 166 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. 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 is self-funded from the members' deductible of \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel issues and land use problems, insurance brokerage, actuarial, 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, 2021, the City obligated \$305,309 as the portion of compensated absences not expected to be funded with current available expendable resources, \$251,283 in governmental activities, and \$54,026 in business-type activities. For governmental activities, the General Fund, Street Fund, Development Services Fund, and Capital Investment Program 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, 2021.

Changes in Long-Term Liabilities Governmental Activities

Description	Interest Rate	Fund Used to Pay Debt	Issue Date	Maturity Date	Original Debt Issued	Debt		Debt Issued in 2021	Redemption in 2021	Debt Outstanding 12/31/2021	Due Within One Year
						Outstanding 1/1/21	Outstanding 12/31/21				
Governmental activities:											
General obligation bonds - Councilmanic: 2016 Refunding Bonds	2.00 - 4.00%	Long-Term Debt Service	6/8/2016	11/1/2027	\$ 8,100,000	\$ 5,845,000	\$ -	\$ 775,000	\$ -	\$ 5,070,000	\$ 800,000
Add: bond premium					898,921	586,762	-	74,910	-	511,852	-
Add: unamortized bond premium					27,093	15,804	-	2,258	-	13,546	-
Compensated absences						903,104	127,999	155,768		875,335	624,052
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	859,582	-	214,896		644,686	214,896
Total Governmental Activities					<u>\$ 12,811,514</u>	<u>\$ 8,210,252</u>	<u>\$ 127,999</u>	<u>\$ 1,222,832</u>		<u>\$ 7,115,419</u>	<u>\$ 1,638,948</u>

Changes in Long-Term Liabilities Business-type Activities

Description	Debt		Debt		Due Within One Year
	Outstanding 1/1/21	Outstanding 12/31/2021	Redemption in 2021	Outstanding 12/31/2021	
Business-type activities:					
Compensated absences	\$ 190,476	\$ 175,531	\$ 21,505	\$ 36,450	\$ 121,505
Total Business-type activities	<u>\$ 190,476</u>	<u>\$ 175,531</u>	<u>\$ 21,505</u>	<u>\$ 36,450</u>	<u>\$ 121,505</u>

As of December 31, 2021, the City's annual debt service requirements for general obligations and other governmental debt were:

Annual Debt Service Requirements to Maturity					
General Obligation			Governmental Activities Other Debt		Total Annual Requirements
Year	Bonds Principal	Interest	Principal	Interest	
2022	800,000	161,000	214,896	3,223	1,179,119
2023	825,000	137,000	214,896	2,149	1,179,045
2024	820,000	120,500	214,894	1,074	1,156,468
2025	840,000	95,900	-	-	935,900
2026	875,000	62,300	-	-	937,300
2027-2031	910,000	27,300	-	-	937,300
Total	\$ 5,070,000	\$ 604,000	\$ 644,686	\$ 6,446	\$ 6,325,132

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 three 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 \$432,824 for the year ended December 31, 2021.

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

Fiscal Year	Amount
<u>Ending</u>	<u>2022</u>
	<u>444,724</u>
Total	<u>\$444,724</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 the opinion of management, the City's insurance policies are adequate to pay all known or pending claims.

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, 2021, is as follows:

Due to/from other funds:	<u>Receivable</u>	<u>Payable</u>
Governmental Funds:		
General	\$ 109,209	\$ 1,445
Development Services	-	359
Capital Investment Program	-	46
Nonmajor Governmental Funds	-	347
Proprietary Funds:		
Surface Water Management	-	109,493
Unemployment Insurance - Internal Service Fund	<u>2,481</u>	<u>-</u>
Total Due Other Funds	<u>\$ 111,690</u>	<u>\$ 111,690</u>

Receivable and payable balance due to and due from funds consist of a utility tax payment owed from the Surface Water Management Fund to the General Fund and accrued payroll owed to the Unemployment Insurance Fund.

Interfund transfers as of December 31, 2021 were as follows:

Interfund Transfers	<u>In</u>	<u>Out</u>
Governmental Funds:		
General	\$ -	\$ 1,632,666
Capital Investment Program	15,005	-
Nonmajor Governmental Funds	<u>1,618,801</u>	<u>1,140</u>
Total Due Other Funds	<u>\$ 1,633,806</u>	<u>\$ 1,633,806</u>

The transfers from the General Fund were for ongoing expenses in the Street Fund, capital improvement projects, and a debt service transfer. The transfer from the Nonmajor fund was for a capital improvement project.

NOTE 12: RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$8,310,338 of restricted component of net position, of which \$1,275,072 is restricted for debt service, \$718,916 for human service programs, and \$6,316,350 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 Fund</u>		<u>Capital Project Fund</u>		
	General	Development Services	Capital Investment Program	Other Governmental Funds	Total Governmental Funds
<u>Fund Balance</u>					
Fund Balances:					
Nonspendable:					
Prepays	\$ 126,075	\$ 22,366	\$ 886	\$ 8,433	\$ 157,760
Restricted for:					
Debt Service	1,275,072	-	-	-	1,275,072
Human Services	718,916	-	-	-	718,916
Capital Improvement Projects	-	-	6,311,416	-	6,311,416
Committed to:					
Development Services	-	6,261,068	-	-	6,261,068
Assigned to:					
Projected Budgetary Deficit	744,271	-	2,038,249	-	2,782,520
Street Maintenance	-	-	-	773,453	773,453
Unassigned	<u>14,520,882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,520,882</u>
Total Fund Balances	<u>\$ 17,385,216</u>	<u>\$ 6,283,434</u>	<u>\$ 8,350,551</u>	<u>\$ 781,886</u>	<u>\$32,801,087</u>

NOTE 14: TAX ABATEMENT

For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual entity in which (a) one or more governments promises to forgo tax revenues to which they are otherwise entitled, and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or citizens of those governments.

Primary Government

The City enters into property tax abatement agreements with local businesses under the Multifamily Tax Exemption Program, below is a description of the program:

1. Taxes abated: Ad valorem property taxes for twelve years
2. Authority: Chapter 84.14 RCW limited eight- or twelve-year exemptions from ad valorem property taxation for qualified multifamily housing located in residential target areas to:

- a. Encourage multifamily housing opportunities within the City;
 - b. Stimulate new construction for multifamily housing in specified zoning districts to increase and improve housing opportunities; and
 - c. Accomplish the planning goals required under the Growth Management Act, Chapter 36.70A RCW, as implemented by the City's comprehensive plan.
3. Criteria: A proposed project must meet the following requirements for consideration of a property tax exemption:
- a. Location – The project must be located within one of the residential target areas as designated in CMC 3.80.030.
 - b. Size – The project must be multifamily housing consisting of at least four dwelling units within a multistory residential structure or mixed-use development. For new construction, a minimum of four new units must be constructed. For projects converting or rehabilitating existing multifamily housing, at least four additional multifamily units must be added to existing occupied multifamily housing. Existing multifamily housing that has been vacant for 12 months or more does not have to provide additional units so long as the project provides at least four units of new, converted, or rehabilitated multifamily housing.
 - c. Permanent Residential Occupancy Requirement – At least 50 percent of the space in new, converted, or rehabilitated multifamily housing must be for permanent residential housing.
 - d. Town Center District Diversity of Multifamily Unit Types – In addition to the other requirements listed above, projects located in the town center (TC) district shall be located in a multistory, mixed-use structure, as described in CMC 18.31.080, and shall provide a mix of apartment types and sizes for a variety of household types according to the following standards:
 - i. A minimum of 50 percent of the total units shall vary in size from other units by at least 250 square feet, or no more than 50 percent of the total planned units shall have the same number of bedrooms.
 - ii. In multifamily developments with 18 units or more, no more than 60 percent of the units may be studios or one-bedroom units.
 - e. Completion Deadline – New construction of multifamily housing and rehabilitation improvements must be scheduled to be completed within three years from the date of approval of the applications, or within an extension of this time limit as authorized by the Director.
 - f. Compliance with Guidelines and Standards – The project must comply with the City's comprehensive plan, zoning, environment, and building codes and any other applicable regulations in effect at the time the application is approved.
 - g. Vacancy Requirement – Existing dwelling units proposed for rehabilitation must have been unoccupied for a minimum of 12 months prior to submission of application and shall fail to comply with one or more requirements of the building code as set forth in Title 15. Applications for new construction cannot be submitted for vacant property upon which an occupied residential rental structure previously stood, unless a minimum of 12 months has elapsed from the time of the most recent occupancy.
 - h. Affordable Housing Requirement – The applicant must commit to designating at least 20 percent of the multifamily housing units as affordable housing units to low- and moderate-income households and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the City under this chapter. Projects intended exclusively for owner occupancy may meet this standard through housing affordable to moderate-income households.
 - i. If calculations for the minimum 20 percent of the multifamily housing units required under this subsection result in a fraction, then the minimum number

- of multifamily housing units for affordable housing shall be rounded up to the next whole number.
- ii. Housing units identified for households with low, affordable, or moderate annual income shall continue to be made available to low, affordable, or moderate households for the length of the exemption period.
 - i. The mix and configuration of housing units (e.g., studio, one-bedroom, two-bedroom) used to meet the requirement for affordable units under this subsection shall be substantially proportional to the mix and configuration of the total housing units in the project.
 - j. When a project includes more than one building with multifamily housing units, all of the affordable housing units are required in this subsection must not be located in the same building.
4. Mechanism: A property meeting the above criteria will be considered for a twelve-successive-year ad valorem property tax exemption on the value of improvements qualifying under chapter 3.80 beginning January 1st of the year immediately following the calendar year after issuance of the final certificate of tax exemption. The exemption does not apply to the value of the land or to the value of improvements not qualifying under this chapter, nor does the exemption apply to increases in assessed valuation and nonqualifying improvements. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to submission of the completed application required under this chapter.
 5. At the conclusion of the exemption period, any new housing costs shall be considered as new construction for the purposes of Chapter 84.55 RCW.
 6. Within 20 calendar days after the first anniversary of the date the City issued the final certificate of tax exemption and each year thereafter for the duration of the tax exemption period, the property owner shall file a notarized declaration and annual report with the Director indicating the following:
 - a. A statement of occupancy and vacancy of the multifamily units during the previous 12 months;
 - b. A certification that the property has not changed use and continues to be in compliance with the contract with the City and this chapter;
 - c. A description of any subsequent improvements or changes to the property made after the City issued the final certificate of tax exemption;
 - d. The total monthly rent of each multifamily housing unit rented or the total sale amount of each unit sold during the 12 months ending with the anniversary date;
 - e. A breakdown of the number, type, and specific multifamily housing units rented or sold during the 12 months ending with the anniversary date;
 - f. Information demonstrating the owner's compliance with the affordability requirements of this chapter, including but not limited to, the income of each renter household at the time of initial occupancy or the income of each purchaser of owner-occupied units at the time of purchase;
 - g. The value of tax exemption for the project; and
 - h. Any additional information requested by the City pursuant to meeting any reporting requirements under Chapter 84.14 RCW.
 - i. City staff may also conduct on-site verification of the declaration and reporting. Failure to submit the annual declaration and report may result in cancellation of the tax exemption and shall result in a review of exemption per RCW 84.14.110.
 7. As of December 31, 2021, two agreements under this program have been approved by the Council. For the fiscal year ended December 31, 2021, one project was in the abatement period for which the City abated gross property taxes totaling \$47,704.

NOTE 15: COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions. The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on the City of Covington is unknown at this time.

The City proactively implemented safety measures, and operations have continued with many staff working remotely, and new procedures being put in place. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. While some activities, such as culture and recreation functions have been affected, the City continues to operate all major functions and meet its public mandates. The City has remained economically stable and continues to adapt to the changing conditions.

On March 11, 2021, the American Rescue Plan Act of 2021 was signed into law. This provided funding to state and local governments. The funding could be used for revenue replacement for the provision of government services, address COVID-19 related expenditures or negative economic impacts of COVID-19, including assistance to small businesses, households, and hard-hit industries, as well as economic recovery. It could also be used for investments in water, sewer, and broadband infrastructure.

The City was awarded \$5.9 million in funding. On June 30, 2021, the City received \$2.95 million, and expects to receive the remaining \$2.95 million in 2022. The City is planning on using the funds for small business grants, utility aid, and public safety.

NOTE 16: SUBSEQUENT EVENT

On August 3, 2022, a claim was filed with the City regarding a vehicular incident, which occurred in August 2019, involving an alleged DUI driver and a pedestrian within a city construction zone. The claim has been tendered to the City's risk pool, WCIA. At this time, the probable outcome and potential estimated amount of the claim is unknown. In the opinion of management, the disposition of these matters is not presently expected to have a material adverse effect on the City's financial statements.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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