



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Covington

For the period January 1, 2024 through December 31, 2024

Published September 18, 2025

Report No. 1038066



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

September 18, 2025

Mayor and City Council
City of Covington
Covington, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Covington's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Covington January 1, 2024 through December 31, 2024

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Covington are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
15.916	Outdoor Recreation Acquisition, Development and Planning

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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, 2024 through December 31, 2024

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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2025.

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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

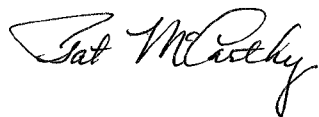
REPORT ON COMPLIANCE AND OTHER MATTERS

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*.

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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

July 30, 2025 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 11, 2025

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Covington
January 1, 2024 through December 31, 2024

Mayor and City Council
City of Covington
Covington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Covington, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2024. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance 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 opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies

and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 11, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Covington January 1, 2024 through December 31, 2024

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 and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

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, 2024, 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 and required supplementary information listed in the financial section of our report 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30,

2025 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

July 30, 2025 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 11, 2025

FINANCIAL SECTION

City of Covington January 1, 2024 through December 31, 2024

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2024

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2024

Statement of Activities – 2024

Balance Sheet - Governmental Funds – 2024

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2024

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities – 2024

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and
Actuals – General Fund – 2024

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and
Actuals – Development Services Funds - 2024

Statement of Net Position – Proprietary Funds – 2024

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –
2024

Statement of Cash Flows – Proprietary Funds – 2024

Statement of Fiduciary Net Position – Fiduciary Funds – 2024

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2024

Notes to Financial Statements – 2024

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2024

Notes to the Schedule of Expenditures of Federal Awards – 2024

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, 2024. 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, 2024, by \$182,010,131 (net position). Of the total net position, \$37,745,065 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 \$9,406,470. The increase is due to several factors such as increases in property taxes, utility taxes, the addition of a new business & occupation tax, and interest income.
- As of December 31, 2024, the city's governmental funds reported a combined ending fund balance of \$37,378,158. Of this, \$23,438,652 is in the general fund, \$3,465,010 is in the development services fund, and \$9,906,229 is in the capital investment program fund.
- As of December 31, 2024, the unassigned portion of the general fund's fund balance is \$17,531,414. 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, 2024, the city's business-type activities reported a total net position of \$23,093,482.

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 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 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 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 38 to 72 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 unaudited trend information and demographics. It begins on page 93.

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, 2024, the city's total net position is \$182,010,131. Shown below is a breakdown of the city net position by category.

	Governmental activities		Business-type activities		Total	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 41,827,242	\$ 45,748,568	\$ 6,737,457	\$ 5,386,207	\$ 48,564,699	\$ 51,134,775
Capital assets	128,172,114	118,460,004	16,666,581	15,576,032	144,838,695	134,036,036
Total assets	169,999,356	164,208,572	23,404,038	20,962,239	193,403,394	185,170,811
Deferred outflows of resources	4,508	6,010	-	-	4,508	6,010
Total assets and deferred outflows	170,003,864	164,214,582	23,404,038	20,962,239	193,407,902	185,176,821
Long-term liabilities outstanding	6,566,517	7,499,578	88,680	175,938	6,655,197	7,675,516
Other liabilities	4,520,698	4,664,242	221,876	233,402	4,742,574	4,897,644
Total liabilities and deferred inflows	11,087,215	12,163,820	310,556	409,340	11,397,771	12,573,160
Net position:						
Net investment in capital assets	119,990,674	108,546,277	16,658,593	15,560,745	136,649,267	124,107,022
Restricted	7,615,799	5,293,138	-	-	7,615,799	5,293,138
Unrestricted	31,310,176	38,211,347	6,434,889	4,992,154	37,745,065	43,203,501
Total net position	\$ 158,916,649	\$ 152,050,762	\$ 23,093,482	\$ 20,552,899	\$ 182,010,131	\$ 172,603,661

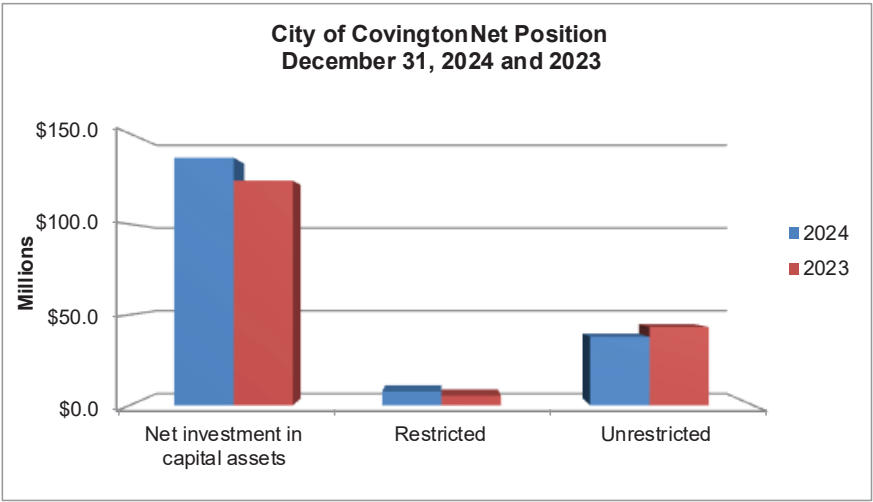
Overall, the city's financial position has improved. The city's net position increased \$9,406,470 during the current fiscal year. Factors that contributed to the changes in net position include capital asset increases due to major construction development and investments in infrastructure throughout the City of Covington, as well as increases in tax revenues and interest income.

By far the largest portion of the City’s net position, \$136,649,267, reflects the city’s net investment in capital assets less 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 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 reflects 75.1% (\$136,649,267) 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, leases, etc. A portion of the city’s net position, \$7,615,799 (4.1%), represents resources that are subject to external restrictions on how they may be used, as well as debt service reserves. The remaining balance of unrestricted net position, \$37,745,065 (20.7%), may be used to meet the city’s ongoing obligations to citizens and creditors.

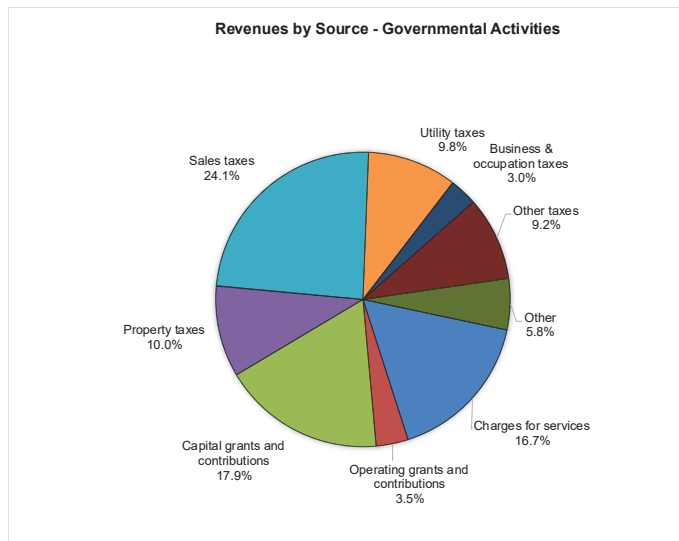
Governmental Activities. During the current fiscal year, net position for governmental activities increased \$6,865,887 from the prior fiscal year for an ending net position of \$158,916,649. Total revenues continue to exceed expenses but have decreased from 2023 by 21.8%, in part due to one-time grant funds received in 2023. Charges for services have seen an increase over 2023, and operating grants and contributions, and capital grants and contributions have seen decreases. General revenues have seen increases in all categories, due in part to implementation of a new business & occupation tax, and water and sewer utility taxes in 2024, and a full year of collections of a sales tax enacted in 2023. Expenses increased by \$961,748 or 4.0%. All categories saw increases, apart from streets and highways, and interest on long-term debt. The most notable increases being general government, and public safety, which increased 11.3% and 5.0% respectively.

Business-type Activities. During the current fiscal year, net position for business-type activities increased \$2,540,583 from the prior fiscal year for an ending net position of \$23,093,482. Total revenues decreased by \$342,937 due to decreases in capital grants and contributions, which were directly related to donations of assets from developers. Expenses increased by \$81,975 due to minor increases in salaries and benefits and surface water maintenance projects.



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	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 5,377,086	\$ 4,940,689	\$ 4,055,172	\$ 3,876,534	\$ 9,432,258	\$ 8,817,223
Operating grants and contributions	1,133,141	4,143,834	-	-	1,133,141	4,143,834
Capital grants and contributions	5,751,549	14,794,339	373,150	692,166	6,124,699	15,486,505
General revenues:						
Property taxes	3,232,142	3,175,075	-	-	3,232,142	3,175,075
Sales taxes	7,761,618	7,183,932	-	-	7,761,618	7,183,932
Utility taxes	3,161,168	2,777,333	-	-	3,161,168	2,777,333
Business & occupation taxes	979,381	-	-	-	979,381	-
Other taxes	2,968,597	2,395,827	-	-	2,968,597	2,395,827
Other	1,811,406	1,730,045	253,079	455,638	2,064,485	2,185,683
Total revenues	<u>32,176,088</u>	<u>41,141,074</u>	<u>4,681,401</u>	<u>5,024,338</u>	<u>36,857,489</u>	<u>46,165,412</u>
Expenses:						
General government	6,297,634	5,660,720	-	-	6,297,634	5,660,720
Community development	3,948,000	3,960,294	-	-	3,948,000	3,960,294
Public safety	5,998,521	5,715,561	-	-	5,998,521	5,715,561
Culture and recreation	4,787,309	4,648,610	-	-	4,787,309	4,648,610
Streets and highways	2,907,018	2,973,112	-	-	2,907,018	2,973,112
Interest on long-term debt	156,513	174,950	-	-	156,513	174,950
Surface water management	-	-	3,217,259	3,135,284	3,217,259	3,135,284
Total expenses	<u>24,094,995</u>	<u>23,133,247</u>	<u>3,217,259</u>	<u>3,135,284</u>	<u>27,312,254</u>	<u>26,268,531</u>
Increase in net position before transfers	8,081,093	18,007,827	1,464,142	1,889,054	9,545,235	19,896,881
Transfers - internal activities	(1,104,251)	(1,296,312)	1,104,251	1,296,312	-	-
Increase in net position	6,976,842	16,711,515	2,568,393	3,185,366	9,545,235	19,896,881
Net position - beginning, as previously reported, January 1	152,050,762	135,339,247	20,552,899	17,367,533	172,603,661	152,706,780
Restatement - GASB 101 implementation	(110,955)	-	(27,810)	-	(138,765)	-
Net position - beginning, as restated, January 1	<u>151,939,807</u>	<u>-</u>	<u>20,525,089</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position, December 31	<u>\$ 158,916,649</u>	<u>\$ 152,050,762</u>	<u>\$ 23,093,482</u>	<u>\$ 20,552,899</u>	<u>\$ 182,010,131</u>	<u>\$ 172,603,661</u>



Property taxes increased by \$57,067 (1.8%) over fiscal year 2023. The increase is due to the allowed 1% increase and new construction. The city property tax levy rate per \$1,000 of assessed value increased from \$0.71000 in 2023 to \$0.77684 for 2024 due to a decrease in assessed valuation which has an inverse relationship with the levy rate. Assessed value decreased 6.5% from 2023.

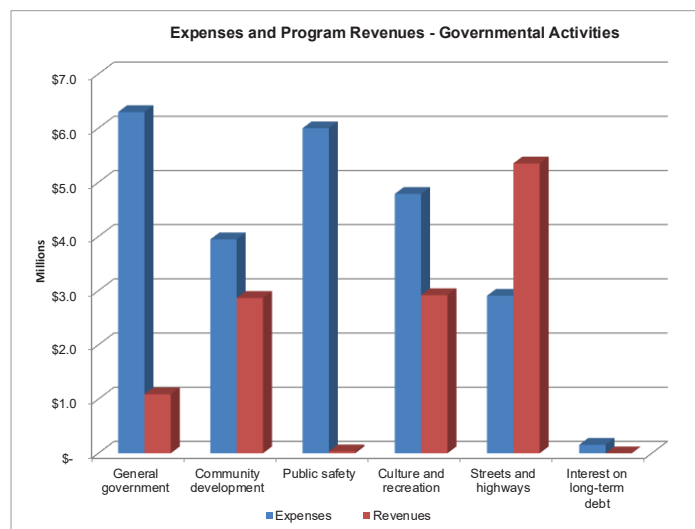
Sales tax revenue for 2024 increased by \$577,686 8.0% over fiscal year 2023, due in part to a full year of collections on a sales tax that was implemented in 2023. In year-over-year comparisons, retail sales decreased by 0.4%, food services increased by 2.3%, contracting increased 25.4% and all other categories increased 3.6%.

Utility taxes increased by \$383,835 (13.8%) over fiscal year 2023. The city implemented a new water and sewer utility tax in 2024, which accounts for the increase. The city also saw increases in all categories except for natural gas, cable, and surface water management utility taxes.

General government saw an increase of \$636,914 (11.3%) in expenses in 2024 over 2023. This difference is in part a result of increases in salaries and benefits, because of salary survey results, which were implemented in 2024. For 2024, all categories of expenses also had a 4.6% cost of living adjustment applied towards adjusted salaries.

Community development expenses saw a decrease of \$12,294 (0.3%). This minor difference is the result of decreases in fire services and fire impact fee disbursements.

Public safety expenses saw an increase of \$282,960 (5.0%), due to an increase in the contract with the King County Sherriff's Office. The major components of the contract increase were risk management costs, and general workload and calls for service increases.



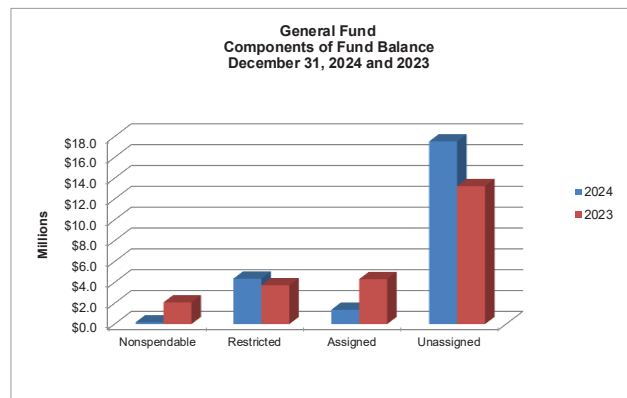
Culture and recreation expenses saw an increase of \$138,699 (3.0%). This increase is in part a result of increases in salaries and benefits, because of salary survey results, which were implemented in 2024. Across all programs, participation decreased from 134,440 participants in 2023 to 110,075 participants in 2024 or an 18.1% decrease. The decrease in participation may in part be due to implementation of resident and non-resident fees in 2024.

The expenses for streets and highways showed a decrease of \$66,094 (10.5%) in 2024 over 2023. This decrease is due to a one-time maintenance expense that occurred in 2023.

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.

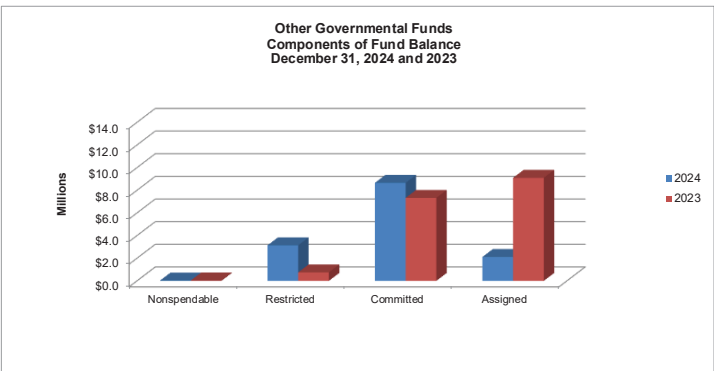


As of December 31, 2024, the City of Covington’s governmental funds reported a combined ending fund balance of \$37,378,158 which is a decrease of \$3,203,956 over 2023. Of the total fund balance, \$198,751 is non-spendable, \$7,502,367 is restricted, \$8,658,613 is committed, and \$3,487,013 is assigned. The balance of \$17,531,414 is unassigned and available for spending at the city’s discretion.

The general fund is the city’s chief operating fund. For 2024, the general fund fund balance increased by \$63,932 from \$23,374,720 in 2023 to \$23,438,652 for 2024. 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 100.1% of total general fund expenditures, while total fund balance represents approximately 133.8% of total general fund expenditures.

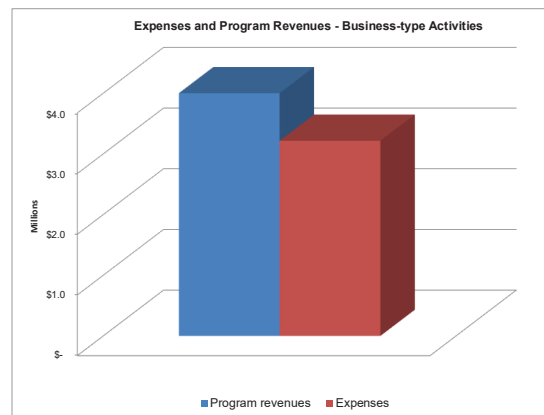
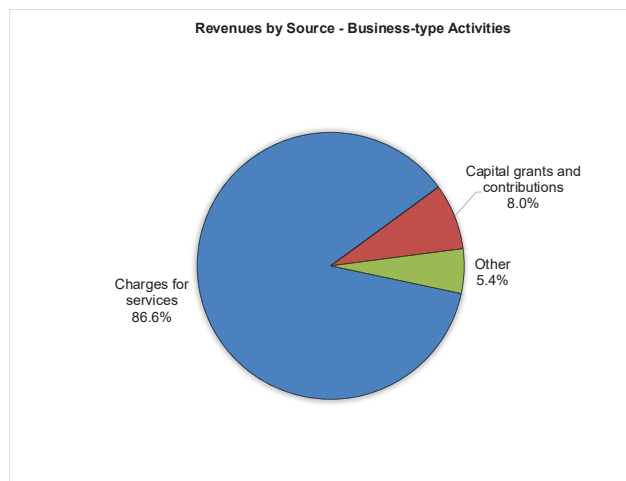
Excluding other funds which are captured in the general fund, the general fund decreased in fund balance by \$352,804. The decrease is due mostly to increases in salaries and benefits due to implementation of salary survey results, as well as increased public safety costs.



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 \$4,159,749 in 2023, decreased by \$694,739 to \$3,465,010 in 2024. Although we have seen an increase in revenues over 2023 collections, we are still experiencing expenditures exceeding revenue collections. The city has seen an increase in permitting activity with permits for single family residences at 60 compared to 27 in 2023, and all other permit categories at 398 permits issued compared to 376 in 2023.

The capital investment program fund is used to account for the financing of major capital acquisition construction projects. The capital investment program fund fund balance decreased \$2,690,648 from \$12,596,877 in 2023 to \$9,906,229 in 2024. The decrease is due to spending down funds to complete capital improvement projects.

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 2024 is \$23,093,482 which is an increase of \$2,540,583 from 2023’s net position of \$20,552,899. This includes an unrestricted amount of \$6,434,889 and a net investment in capital assets of \$16,658,593. Part of the increase is due an increase in collections of surface water drainage utility fees, as well as a transfer of assets from governmental activities for capital improvement projects.

General Fund Budgetary Highlights

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

Original budget compared to final budget. The 2024 general fund budget amendment consisted of updating the estimated beginning fund balance to actual beginning fund balances, 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	\$13,543,120	\$15,182,416	\$659,915
Interest Income	\$209,000	\$775,368	\$466,368

The increase in taxes was due to an increase in property tax collections tax collections (\$24,435), sales tax collections (\$559,407), local criminal justice collections (\$29,077), utility tax collections (\$45,668), business & occupation taxes (\$979,381) and other taxes (\$1,328).

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

Expenditure Use	Budget	Actual	Δ
Culture and Recreation	\$0	\$280,283	\$280,283
General Government	\$0	\$60,690	\$60,690

The increase between culture and recreation, as well as general government, were unbudgeted capital expenditures, of this amount, grant reimbursements in the amount of \$100,000 helped offset the expenditure.

Capital Assets

As of December 31, 2024, the city's investment in capital assets is \$136,649,267 (net of depreciation), \$119,990,674 for governmental activities and \$16,658,593 for business-type activities. This year's most significant street project was the widening and reconstruction of a portion of SE 272nd Street between Jenkins Creek and 185th Place SE. The scope of this project includes the crossing of Jenkins Creek with a new structure for the stream, widening the street from 2-lanes to 5-lanes, new curb and gutter, 8' sidewalks with a landscaped buffer, access control features, and provisions for u-turns. This year's most significant park project was improvements made to Jenkins Creek Park, which included parking, restrooms, a kiosk, a space for future public art, furnishings, lighting, signage, and landscaping.

Additional information regarding capital assets can be found in Note 5 – Capital Assets on page 56.

Debt Administration

As of December 31, 2024, the city's long-term debt outstanding is for governmental activities in the amount of \$2,918,894.

Due to strong financial management and a structurally balanced budget, the city has maintained a credit rating of Aa2 from Moody's Investor Service.

Additional information on long term-debt can be found in Note 10 – Long-Term Liabilities on pages 62 to 67.

Economic Factors and Budgetary Factors

The general fund is projected to deficit spend in 2025, with one of the main contributors being the increase to our King County Sherriff's contract which has increased \$431,285 between 2024 and 2025. We've also seen other increases related to public safety, in our court, jail, prosecution, and public defender contracts. Looking forward to the 2025 budget, the city will have a full year of collections of business and occupation tax, which is dedicated to public safety, to help address the increases.

Development and construction activities within the city have begun to increase slightly, but with mortgage rates and inflation remaining high, it remains an area that is closely monitored as each month's collections are received. These somewhat volatile revenues are estimated cautiously each year.

All of these factors were considered in preparing the City of Covington's budget for the 2025 fiscal year. In the 2025 budget, the general fund was utilized to support streets and the capital projects. That policy is being extended to 2025.

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, 2024

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Cash and Cash Equivalents	\$ 31,156,858	\$ 4,421,108	\$ 35,577,966
Investments	5,974,602	1,000,930	6,975,532
Receivables			
Accounts	2,348,322	-	2,348,322
Interest	-	15,629	15,629
Property Taxes	39,578	-	39,578
Intergovernmental	3,121,900	257,587	3,379,487
Internal Balances	(1,012,769)	1,012,769	-
Prepaid Items	198,751	29,434	228,185
Capital Assets Not Being Depreciated or Amortized:			
Art	75,563	-	75,563
Land	34,446,147	2,528,295	36,974,442
Intangible Assets - Easements	1,458,795	249,818	1,708,613
Work In Progress	30,302,540	3,956,592	34,259,132
Capital Assets Net of Depreciation and Amortization:			
Buildings	2,875,157	2,627	2,877,784
Intangible Assets - Software	20,746	-	20,746
Improvements Other than Buildings	6,076,432	453,278	6,529,710
Subscription Assets	185,216	-	185,216
Lease Assets	3,846,271	3,250	3,849,521
Machinery and Equipment	1,670,749	65,101	1,735,850
Infrastructure	<u>47,214,498</u>	<u>9,407,620</u>	<u>56,622,118</u>
Total Assets	<u>169,999,356</u>	<u>23,404,038</u>	<u>193,403,394</u>
Deferred Outflows of Resources			
Loss On Debt Refunding	<u>4,508</u>	<u>-</u>	<u>4,508</u>
Total Deferred Outflows	<u>4,508</u>	<u>-</u>	<u>4,508</u>
Total Assets and Deferred Outflows	<u>170,003,864</u>	<u>23,404,038</u>	<u>193,407,902</u>
Liabilities			
Accounts Payable	1,470,300	52,004	1,522,304
Accrued Interest Payable	48,029	-	48,029
Accrued Payroll/Benefits	346,588	51,347	397,935
Due to Other Governmental Entities	295,090	10,908	305,998
Performance Bonds	34,000	-	34,000
Unearned Revenue	226,701	-	226,701
Long-Term Liabilities			
Due Within One Year			
Compensated Absences	785,171	104,574	889,745
General Obligation Bonds	840,000	-	840,000
Other Long-Term Debt and Liabilities	474,819	3,043	477,862
Due in More Than One Year			
Compensated Absences	849,575	88,547	938,122
General Obligation Bonds	2,078,894	-	2,078,894
Other Long-Term Debt and Liabilities	<u>3,638,048</u>	<u>133</u>	<u>3,638,181</u>
Total Liabilities	<u>11,087,215</u>	<u>310,556</u>	<u>11,397,771</u>
Net Position			
Net Investment in Capital Assets	119,990,674	16,658,593	136,649,267
Restricted for:			
Capital Projects	3,217,738	-	3,217,738
Debt Service	2,566,382	-	2,566,382
Health and Human Services	1,752,946	-	1,752,946
Public Safety	78,733	-	78,733
Unrestricted	<u>31,310,176</u>	<u>6,434,889</u>	<u>37,745,065</u>
Total Net Position	<u>\$ 158,916,649</u>	<u>\$ 23,093,482</u>	<u>\$ 182,010,131</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, 2024

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 6,297,634	\$ 708,751	\$ 362,438	\$ -	\$ (5,226,445)	\$ -	\$ (5,226,445)
Community Development	3,948,000	2,689,993	177,660	-	(1,080,347)	-	(1,080,347)
Public Safety	5,998,521	1,372	33,966	-	(5,963,183)	-	(5,963,183)
Culture and Recreation	4,787,309	1,754,471	148,076	1,035,132	(1,849,630)	-	(1,849,630)
Streets and Highways	2,907,018	222,499	411,001	4,716,417	2,442,899	-	2,442,899
Interest on Long-Term Debt	156,513	-	-	-	(156,513)	-	(156,513)
Total Governmental Activities	<u>24,094,995</u>	<u>5,377,086</u>	<u>1,133,141</u>	<u>5,751,549</u>	<u>(11,833,219)</u>	<u>-</u>	<u>(11,833,219)</u>
Business-type Activities:							
Surface Water Management	<u>3,217,259</u>	<u>4,055,172</u>	<u>-</u>	<u>373,150</u>	<u>-</u>	<u>1,211,063</u>	<u>1,211,063</u>
Total Business-type Activities	<u>3,217,259</u>	<u>4,055,172</u>	<u>-</u>	<u>373,150</u>	<u>-</u>	<u>1,211,063</u>	<u>1,211,063</u>
Total Primary Government	<u>\$27,312,254</u>	<u>\$9,432,258</u>	<u>\$ 1,133,141</u>	<u>\$ 6,124,699</u>	<u>(11,833,219)</u>	<u>1,211,063</u>	<u>(10,622,156)</u>
General Revenues:							
Taxes:							
Property Tax					3,232,142	-	3,232,142
Sales Tax					7,761,618	-	7,761,618
Utility Tax					3,161,168	-	3,161,168
Business & Occupation Tax					979,381	-	979,381
Local Criminal Justice					779,077	-	779,077
Vehicle License					394,725	-	394,725
Real Estate Excise Tax					1,373,760	-	1,373,760
Property Tax Parks Expansion Levy					166,166	-	166,166
Liquor Excise Tax					148,566	-	148,566
Marijuana Excise Tax					104,975	-	104,975
Leasehold Excise Tax					1,328	-	1,328
Opioid Settlement					8,626	-	8,626
Interest Income					1,802,780	253,079	2,055,859
Transfers - internal activities					(1,104,251)	1,104,251	-
Total General Revenues and Transfers					<u>18,810,061</u>	<u>1,357,330</u>	<u>20,167,391</u>
Change in Net Position					6,976,842	2,568,393	9,545,235
Net Position - Beginning, as Previously Reported, January 1					<u>152,050,762</u>	<u>20,552,899</u>	<u>172,603,661</u>
Restatement - GASB 101 Implementation					(110,955)	(27,810)	(138,765)
Net Position - Beginning, as Restated January 1					151,939,807	20,525,089	172,464,896
Net Position, December 31					<u>\$ 158,916,649</u>	<u>\$ 23,093,482</u>	<u>\$ 182,010,131</u>

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

City of Covington
Balance Sheet
Governmental Funds
December 31, 2024

	Special Revenue Fund		Capital Project Fund	Other	Total
	General	Development Services	Investment Program	Governmental Funds	Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 12,026,381	\$ 3,614,657	\$ 12,367,056	\$ 379,161	\$ 28,387,255
Investments	5,974,602	-	-	-	5,974,602
Receivables					
Accounts	1,824,166	14,102	453,984	56,070	2,348,322
Property Taxes	39,578	-	-	-	39,578
Intergovernmental	1,740,389	38,989	1,113,893	224,883	3,118,154
Interfund Loans	2,527,593	-	-	-	2,527,593
Due from Other Funds	3,876	-	-	-	3,876
Prepaid Items	170,692	14,837	-	13,222	198,751
Total Assets	<u>\$ 24,307,277</u>	<u>\$ 3,682,585</u>	<u>\$ 13,934,933</u>	<u>\$ 673,336</u>	<u>\$ 42,598,131</u>
Liabilities					
Accounts Payable	266,188	69,415	1,078,674	51,650	1,465,927
Interest Payable	4,037	-	-	-	4,037
Interfund Loans Payable	-	-	2,527,593	-	2,527,593
Accrued Payroll/Benefits	250,086	50,509	6,686	39,307	346,588
Due to Other Funds	2,567	535	66	407	3,575
Due to Other Governmental Entities	163,237	28,266	89,882	13,705	295,090
Performance Bonds	-	34,000	-	-	34,000
Unearned Revenue	94,992	-	131,709	-	226,701
Total Liabilities	<u>781,107</u>	<u>182,725</u>	<u>3,834,610</u>	<u>105,069</u>	<u>4,903,511</u>
Deferred Inflows of Resources					
Unavailable Revenue - Accounts Receivable	57,741	34,850	194,094	-	286,685
Unavailable Revenue - Property Taxes	29,777	-	-	-	29,777
Total Deferred Inflows of Resources	<u>87,518</u>	<u>34,850</u>	<u>194,094</u>	<u>-</u>	<u>316,462</u>
Fund Balances					
Nonspendable	170,692	14,837	-	13,222	198,751
Restricted	4,362,896	-	3,139,471	-	7,502,367
Committed	-	3,450,173	5,208,440	-	8,658,613
Assigned	1,373,650	-	1,558,318	555,045	3,487,013
Unassigned	17,531,414	-	-	-	17,531,414
Total Fund Balances	<u>23,438,652</u>	<u>3,465,010</u>	<u>9,906,229</u>	<u>568,267</u>	<u>37,378,158</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 24,307,277</u>	<u>\$ 3,682,585</u>	<u>\$ 13,934,933</u>	<u>\$ 673,336</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 \$151,449,418 are shown net of Accumulated Depreciation and Amortization (\$24,582,676). Capital Assets are included in the Statement of Net Position. 126,866,742

Revenues earned but not received within the recognition period, such as unavailable property tax receivable \$29,777 and unavailable accounts receivable \$286,685 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. 316,462

Deferred outflows for deferred losses on refundings, \$4,508 are not reported on the government fund statements, but are reported in the Statement of Net Position. 4,508

Long-term liabilities such as compensated absences (\$1,634,746), General Obligation Bond Payable (\$2,918,894), Leases Payable (\$3,953,658), Subscriptions Payable (\$159,208), and Accrued Interest Payable (\$43,992) are not due and payable in the current period and, therefore, are not reported in the governmental funds. (8,710,499)

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. 3,061,278

Net position of governmental activities \$ 158,916,649

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, 2024

	<u>Special Revenue Fund</u>		<u>Capital Project Fund</u>	Other	Totals
	General	Development Services	Capital Investment Program	Governmental Funds	Governmental Funds
Revenues					
Taxes	\$ 16,556,176	\$ -	\$ 166,166	\$ 1,129,815	\$ 17,852,157
Licenses and Permits	227,720	818,441	-	221,039	1,267,200
Intergovernmental	1,045,920	-	5,314,200	411,001	6,771,121
Charges for Goods and Services	1,582,830	1,874,391	554,090	2,156	4,013,467
Fines and Forfeitures	56,415	-	-	-	56,415
Interest Income	974,814	207,335	602,856	17,775	1,802,780
Interfund Services Payment	1,002,260	-	-	-	1,002,260
Miscellaneous	220,306	-	230,594	97	450,997
Total Revenues	<u>21,666,441</u>	<u>2,900,167</u>	<u>6,867,906</u>	<u>1,781,883</u>	<u>33,216,397</u>
Expenditures					
Current:					
General Government	5,592,063	-	-	-	5,592,063
Community Development	798,145	3,564,906	-	-	4,363,051
Public Safety	5,989,577	-	-	-	5,989,577
Culture and Recreation	4,163,750	-	-	-	4,163,750
Streets and Highways	-	-	-	1,687,121	1,687,121
Debt Service:					
Principal	578,061	-	-	1,040,642	1,618,703
Interest	47,779	-	-	121,708	169,487
Capital Outlay:					
General Government	60,690	-	-	-	60,690
Community Development	-	30,000	-	-	30,000
Public Safety	6,825	-	-	-	6,825
Culture and Recreation	280,283	-	3,881,158	-	4,161,441
Streets and Highways	-	-	8,412,470	22,777	8,435,247
Total Expenditures	<u>17,517,173</u>	<u>3,594,906</u>	<u>12,293,628</u>	<u>2,872,248</u>	<u>36,277,955</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,149,268</u>	<u>(694,739)</u>	<u>(5,425,722)</u>	<u>(1,090,365)</u>	<u>(3,061,558)</u>
Other Financing Sources (Uses)					
Transfer In	112,297	-	2,847,371	1,806,865	4,766,533
Transfer Out	(4,253,132)	-	(112,297)	(602,000)	(4,967,429)
Insurance Recovery	4,000	-	-	2,373	6,373
Right-to-Use Software Subscription	30,988	-	-	-	30,988
Right-to-Use Lease Acquisition	20,511	-	-	626	21,137
Total Other Financing Sources (Uses)	<u>(4,085,336)</u>	<u>-</u>	<u>2,735,074</u>	<u>1,207,864</u>	<u>(142,398)</u>
Net Change in Fund Balances	63,932	(694,739)	(2,690,648)	117,499	(3,203,956)
Fund Balances, January 1	<u>23,374,720</u>	<u>4,159,749</u>	<u>12,596,877</u>	<u>450,768</u>	<u>40,582,114</u>
Fund Balances, December 31	<u>\$ 23,438,652</u>	<u>\$ 3,465,010</u>	<u>\$ 9,906,229</u>	<u>\$ 568,267</u>	<u>\$ 37,378,158</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, 2024

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)	\$ (3,203,956)
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	(707,072)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	(1,075,349)
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 \$12,813,669 less current year depreciation and amortization of (\$2,577,761).	10,235,909
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 (\$326,385).	(326,385)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Repayments \$1,618,704 exceeded current year issuances (\$52,125).	1,566,578
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.	91,645
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.	124,135 <u>272,840</u>
Change in net position of governmental activities (see page 26)	<u>\$ 6,976,842</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, 2024

	Budget			
	Original	Final	Actual	Variance
Revenues				
Taxes	\$ 13,072,620	\$ 13,543,120	\$ 15,182,416	\$ 1,639,296
Licenses and Permits	208,000	208,000	227,720	19,720
Intergovernmental	762,886	1,152,361	1,045,920	(106,441)
Charges for Goods and Services	2,386,642	2,386,642	2,585,090	198,448
Fines and Forfeitures	52,475	52,475	56,415	3,940
Interest Income	209,000	209,000	775,368	566,368
Miscellaneous	175,327	175,327	220,306	44,979
Total Revenues	16,866,950	17,726,925	20,093,235	2,366,310
Expenditures				
Current:				
General Government:				
City Council	476,766	476,766	485,786	9,020
City Court	875,000	875,000	730,302	(144,698)
City Manager	1,398,257	1,419,857	1,481,516	61,659
Finance	990,376	990,376	881,046	(109,330)
City Attorney	264,379	264,379	256,590	(7,789)
Personnel	870,314	870,314	951,270	80,956
Central Services	788,613	801,008	740,454	(60,554)
Special Projects	203,250	203,250	65,099	(138,151)
Total General Government	5,866,955	5,900,950	5,592,063	(308,887)
Community Development:				
Total Community Development	746,541	1,034,641	798,145	(236,496)
Public Safety:				
Total Public Safety	6,441,510	6,441,510	5,989,577	(451,933)
Culture and Recreation				
Parks Maintenance	989,606	989,606	809,182	(180,424)
Aquatics	1,713,418	1,717,168	1,694,945	(22,223)
Recreation and Cultural Arts	1,135,370	1,139,120	1,089,230	(49,890)
Parks	540,411	592,036	570,393	(21,643)
Total Culture and Recreation	4,378,805	4,437,930	4,163,750	(274,180)
Debt Service:				
Principal	517,145	517,145	578,061	60,916
Interest	-	-	47,779	47,779
Capital Outlay:				
General Government	-	-	60,690	60,690
Public Safety	-	-	6,825	6,825
Culture and Recreation	-	-	280,283	280,283
Total Expenditures	17,950,956	18,332,176	17,517,173	(815,003)
Excess (Deficiency) of Revenues Over Expenditures	(1,084,006)	(605,251)	2,576,062	3,181,313
Other Financing Sources (Uses)				
Transfer In	-	112,310	112,297	(13)
Transfer Out	(3,237,107)	(3,237,107)	(3,096,662)	140,445
Right-to-Use Software Subscription	-	-	30,988	30,988
Right-to-Use Lease Acquisition	-	-	20,511	20,511
Insurance Recovery	-	-	4,000	4,000
Total Other Financing Sources (Uses)	(3,237,107)	(3,124,797)	(2,928,866)	195,931
Net Change in Fund Balances	(4,321,113)	(3,730,048)	(352,804)	3,377,244
Fund Balances, January 1	17,810,894	19,087,994	19,087,994	-
Fund Balances, December 31	\$ 13,489,781	\$ 15,357,946	\$ 18,735,190	\$ 3,377,244

Note: This budgetary statement represents the true General Fund. Certain other funds are combined with the General Fund for reporting purposes (see Note 1.d). Separate budgetary schedules are provided for those funds.

Reconciliation of True General Fund to Combined General Fund

True General Fund	\$ 18,735,190
Cumulative Reserve Fund	1,696,314
Contingency Fund	440,766
Real Estate Excise Tax 1st 1/4% Fund	1,283,191
Real Estate Excise Tax 2nd 1/4% Fund	1,283,191
Fund Balances, December 31	<u>\$ 23,438,652</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, 2024

	Budget			
	Original	Final	Actual	Variance
Revenues				
Licenses and Permits	\$ 683,550	\$ 683,550	\$ 818,441	\$ 134,891
Charges for Goods and Services	1,547,724	1,547,724	1,874,391	326,667
Fines and Forfeitures	200	200	-	(200)
Interest Income	78,000	78,000	207,335	129,335
Total Revenues	<u>2,309,474</u>	<u>2,309,474</u>	<u>2,900,167</u>	<u>590,693</u>
Expenditures				
Current:				
Community Development	4,001,098	4,001,098	3,564,906	(436,192)
Development Services				
Capital Outlay:				
Community Development	<u>27,500</u>	<u>27,500</u>	<u>30,000</u>	<u>2,500</u>
Total Expenditures	<u>4,028,598</u>	<u>4,028,598</u>	<u>3,594,906</u>	<u>(433,692)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,719,124)</u>	<u>(1,719,124)</u>	<u>(694,739)</u>	<u>1,024,385</u>
Other Financing Sources (Uses)				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(1,719,124)	(1,719,124)	(694,739)	1,024,385
Fund Balances, January 1	<u>4,108,400</u>	<u>4,159,749</u>	<u>4,159,749</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 2,389,276</u>	<u>\$ 2,440,625</u>	<u>\$ 3,465,010</u>	<u>\$ 1,024,385</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, 2024

	Business-Type Activities	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 4,421,108	\$ 2,769,603
Investments	1,000,930	-
Receivables (net of allowances for uncollectibles, where applicable):		
Due from Other Funds	-	4,105
Interest	15,629	-
Intergovernmental	257,587	3,746
Prepaid Items	29,434	-
Total Current Assets	<u>5,724,688</u>	<u>2,777,454</u>
Noncurrent Assets:		
Capital Assets:		
Land	2,528,295	-
Intangible Assets - Easements	249,818	-
Intangible Assets - Software	27,898	16,631
Work in Progress	3,956,592	-
Buildings	13,131	-
Improvements Other than Buildings	556,294	54,188
Lease Assets	18,492	-
Machinery and Equipment	99,527	2,354,392
Infrastructure	13,010,514	-
Accumulated Depreciation and Amortization	<u>(3,793,980)</u>	<u>(1,119,839)</u>
Total Capital Assets (net of accumulated depreciation and amortization)	<u>16,666,581</u>	<u>1,305,372</u>
Total Assets	<u>22,391,269</u>	<u>4,082,826</u>
Total Assets and Deferred Outflows	<u>22,391,269</u>	<u>4,082,826</u>
Liabilities		
Current Liabilities:		
Accounts Payable	52,004	4,373
Accrued Payroll/Benefits	51,347	-
Compensated Absences	104,574	-
Due to Other Funds	4,406	-
Due to Other Governmental Entities	10,908	-
Lease Liability	3,043	-
Total Current Liabilities	<u>226,282</u>	<u>4,373</u>
Noncurrent Liabilities:		
Compensated Absences	88,547	-
Lease Liability	133	-
Total Noncurrent Liabilities	<u>88,680</u>	<u>-</u>
Total Liabilities	<u>314,962</u>	<u>4,373</u>
Total Liabilities and Deferred Inflows	<u>314,962</u>	<u>4,373</u>
Net Position		
Net Investment in Capital Assets	16,658,593	1,305,372
Unrestricted	5,417,714	2,773,081
Total Net Position	<u>\$ 22,076,307</u>	<u>\$ 4,078,453</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>1,017,175</u>	
Net position of business-type activities	<u>\$ 23,093,482</u>	

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

Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2024

	<u>Business-Type Activities</u>	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
Operating Revenues:		
Surface Water Management Fees	\$ 4,055,172	\$ -
Unemployment Charges	-	95,552
Fuel and Maintenance Assessments	-	51,796
Furnishing Assessments	-	9,048
Equipment Replacement Assessments	-	230,523
Total Operating Revenues	<u>4,055,172</u>	<u>386,919</u>
Operating Expenses:		
Vehicle Fuel	-	23,784
Repairs and Maintenance of Vehicles	-	20,554
Cost of Services	2,999,588	16,148
Depreciation and Amortization	395,974	135,517
Total Operating Expenses	<u>3,395,562</u>	<u>196,003</u>
Operating Income (Loss)	<u>659,610</u>	<u>190,916</u>
Nonoperating Revenues (Expenses):		
Interest Income	253,079	145,376
Interest Expense	(1,215)	-
Gain or (Loss) From Disposition of Assets	-	17,155
Total Nonoperating Revenues (Expenses)	<u>251,864</u>	<u>162,531</u>
Income Before Contributions	911,474	353,447
Capital Contributions and Transfers:		
Transfer In	-	200,896
Capital Contributions	1,477,401	22,150
Total Capital Contributions and Transfers	<u>1,477,401</u>	<u>223,046</u>
Change in Net Position	2,388,875	576,493
Net Position - Beginning, as Previously Reported, January 1	19,715,242	3,501,960
Restatement - GASB 101 Implementation	(27,810)	-
Net Position - Beginning, as Restated, January 1	<u>19,687,432</u>	<u>-</u>
Net Position, December 31	<u>\$ 22,076,307</u>	<u>\$ 4,078,453</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>179,518</u>	
Change in net position of business-type activities	<u>\$ 2,568,393</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, 2024

	<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	\$ -	\$ 386,093
Cash Received from Customers	4,197,439	-
Payments Made to Suppliers	(1,483,543)	(56,654)
Payments for Interfund Services Used	(705,936)	-
Payments Made to Employees	(1,066,197)	-
Other Receipts	2,016	-
Net Cash Provided by Operating Activities	<u>943,779</u>	<u>329,439</u>
Cash Flows from Noncapital Financing Activities		
Net Cash Provided by Noncapital Financing Activities	-	-
Cash Flows from Capital and Related Financing Activities		
Capital Grants	-	-
Capital Assets Purchased for Own Use	(140,674)	-
Proceeds from Insurance Recovery	-	200,896
Proceeds from Disposition of Asset	-	15,439
Interest Paid	(1,215)	-
Principal Payments on Long-Term Capital Financing	(5,746)	-
Equipment Purchase	-	(664,918)
Net Cash Received (used) for Capital Activities	<u>(147,635)</u>	<u>(448,583)</u>
Cash Flows from Investing Activities		
Purchase of Investments	(996,135)	-
Interest Received	510,711	145,377
Net Cash Provided by Investing Activities	<u>(485,424)</u>	<u>145,377</u>
Net Increase (Decrease) in Cash and Cash Equivalents	310,720	26,233
Cash and Cash Equivalents, January 1	4,110,388	2,743,370
Cash and Cash Equivalents, December 31	<u>\$ 4,421,108</u>	<u>\$ 2,769,603</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 659,610	\$ 190,916
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase)/Decrease in Accounts Receivable	1,630	-
(Increase)/Decrease in Due from Other Funds	-	(826)
(Increase)/Decrease in Intergovernmental Receivable	143,134	-
(Increase)/Decrease in Other Assets	(13,334)	-
Increase/(Decrease) in Accounts Payable	(127,126)	3,832
Increase/(Decrease) in Accrued Payroll/Benefits	5,763	-
Increase/(Decrease) in Due to Other Funds	(123,941)	-
Increase/(Decrease) in Due to Other Governmental Entities	2,069	-
Depreciation and Amortization	395,974	135,517
Total Adjustments to Net Cash Provided by Operating Activities	<u>284,169</u>	<u>138,523</u>
Net Cash Provided by Operating Activities	<u>\$ 943,779</u>	<u>\$ 329,439</u>
Noncash Capital Activities		
Capital Contributions:		
Street Fund	\$ -	\$ 22,150
Capital Investment Project Fund	1,104,250	-
Developers	243,151	-

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, 2024

	Custodial Fund
Assets	
Cash and Cash Equivalents	\$ 48,075
Accounts Receivable	52
Due from Other Governmental Entities	8
Total Assets	<u>48,135</u>
Total Assets and Deferred Outflows	<u>48,135</u>
Liabilities	
Accounts Payable	46,151
Due to Other Governmental Entities	1,984
Total Liabilities	<u>48,135</u>
Total Liabilities and Deferred Inflows	<u>48,135</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, 2024

	Custodial Fund
Additions	
Contributions:	
Collections on behalf of Other Governments - Human Services	\$ 184,605
Collections on behalf of State of Washington	19,812
Total Additions	<u>204,417</u>
Deductions	
Distributions to Human Services Agencies	184,605
Distributions to State of Washington	19,812
Total Deductions	<u>204,417</u>
Changes in Net Position	-
Net Position, January 1	<u>-</u>
Net Position, December 31	<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, 2024)

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.

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.

Property tax, sales tax, utility tax, grant reimbursements, and interest are associated with the current period are all considered to be susceptible to accrual. These have been recognized as revenues of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, with the exception of principal and interest on long-term debt and compensated absences, which are recorded when paid.

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 major 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. Internal service funds benefit both governmental and business-type activities, and are allocated accordingly. 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 89 to 92. The table below shows the combining of these funds with the General Fund for reporting purposes on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.

	General Fund	Cumulative Reserve Fund	Contingency Fund	Real Estate Excise Tax 1st Qtr% Fund	Real Estate Excise Tax 2nd Qtr% Fund	Total General Fund
Revenues						
Taxes	\$ 15,182,416	\$ -	\$ -	\$ 686,880	\$ 686,880	\$16,556,176
Licenses and Permits	227,720	-	-	-	-	227,720
Intergovernmental	1,045,920	-	-	-	-	1,045,920
Charges for Goods and Services	1,582,830	-	-	-	-	1,582,830
Fines and Forfeitures	56,415	-	-	-	-	56,415
Interest Income	775,368	59,760	13,802	62,942	62,942	974,814
Interfund Services Payment	1,002,260	-	-	-	-	1,002,260
Miscellaneous	220,306	-	-	-	-	220,306
Total Revenues	<u>20,093,235</u>	<u>59,760</u>	<u>13,802</u>	<u>749,822</u>	<u>749,822</u>	<u>21,666,441</u>
Expenditures						
Current:						
General Government:						
City Council	485,786	-	-	-	-	485,786
City Court	730,302	-	-	-	-	730,302
City Manager	1,481,516	-	-	-	-	1,481,516
Finance	881,046	-	-	-	-	881,046
City Attorney	256,590	-	-	-	-	256,590
Personnel	951,270	-	-	-	-	951,270
Central Services	740,454	-	-	-	-	740,454
Disaster Recovery	65,099	-	-	-	-	65,099
Total General Government	<u>5,592,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,592,063</u>
Community Development:						
Total Community Development	<u>798,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>798,145</u>
Public Safety:						
Total Public Safety	<u>5,989,577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,989,577</u>
Culture and Recreation						
Parks Maintenance	809,182	-	-	-	-	809,182
Aquatics	1,694,945	-	-	-	-	1,694,945
Recreation and Cultural Arts	1,089,230	-	-	-	-	1,089,230
Parks	570,393	-	-	-	-	570,393
Total Culture and Recreation	<u>4,163,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,163,750</u>
Debt Service:						
Principal	578,061	-	-	-	-	578,061
Interest	47,779	-	-	-	-	47,779
Capital Outlay:						
General Government	60,690	-	-	-	-	60,690
Public Safety	6,825	-	-	-	-	6,825
Culture and Recreation	280,283	-	-	-	-	280,283
Total Expenditures	<u>17,517,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,517,173</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,576,062</u>	<u>59,760</u>	<u>13,802</u>	<u>749,822</u>	<u>749,822</u>	<u>4,149,268</u>
Other Financing Sources (Uses)						
Transfer In	112,297	-	-	-	-	112,297
Transfer Out	(3,096,662)	-	-	(578,235)	(578,235)	(4,253,132)
Right-to-Use Software Subscription	30,988	-	-	-	-	30,988
Right-to-Use Lease Acquisition	20,511	-	-	-	-	20,511
Insurance Recovery	4,000	-	-	-	-	4,000
Total Other Financing Sources (Uses)	<u>(2,928,866)</u>	<u>-</u>	<u>-</u>	<u>(578,235)</u>	<u>(578,235)</u>	<u>(4,085,336)</u>
Net Change in Fund Balances	(352,804)	59,760	13,802	171,587	171,587	63,932
Fund Balances, January 1	<u>19,087,994</u>	<u>1,636,554</u>	<u>426,964</u>	<u>1,111,604</u>	<u>1,111,604</u>	<u>23,374,720</u>
Fund Balances, December 31	<u>\$ 18,735,190</u>	<u>\$ 1,696,314</u>	<u>\$ 440,766</u>	<u>\$ 1,283,191</u>	<u>\$ 1,283,191</u>	<u>\$23,438,652</u>

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

1. Deposits and Investments

The city maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling, are distributed to the appropriate funds based on month-end cash balances in each fund.

Cash and cash equivalents represent the city's cash on hand and demand deposits, 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 3.

3. Receivables

Accounts Receivable represents amounts due to the city from private persons or organizations for goods and services furnished by the city. City management believes uncollectible amounts are considered immaterial, and as such are not recorded.

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 three years. Interfund activity is presented in Note 12 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, interfund loans payable/receivable, or internal balances. A separate schedule of interfund balances and transfers is furnished in Note 12.

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, leases, subscriptions, 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. The city records lease and subscription assets with total payments over the lease or subscription term of \$5,000 or greater. 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, leases, subscriptions, qualifying intangibles, and infrastructure are depreciated/amortized 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/amortizes 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
Intangibles	1+ - 50

Intangible assets are comprised of land use rights, and software. Amortization is based upon the terms of the agreement for land use rights or anticipated useful life for software.

8. Leases and Subscription-Based Information Technology Arrangements (SBITAs)

Lessee Activities. The city is a lessee for various leases on buildings and equipment. The city also has noncancellable SBITAs for the right-to-use information technology software.

For leases and SBITAs that meet the capitalization threshold, the city recognizes a lease or subscription liability, respectively, and an intangible right-to-use lease asset or subscription asset (capital assets), respectively, on the Statement of Net Position in the government-wide and proprietary financial statements.

For governmental fund financial reporting, the initial value of the lease or subscription liability is reported as other financing sources with a corresponding capital outlay at lease or subscription commencement.

The lease liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the amount of the lease liability, plus any lease payments made at or before the lease commencement date, and any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized on a straight-line basis over the lease term. If the city is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

The subscription liability is initially measured at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the amount of the subscription liability, plus any subscription payments made at or before the subscription commencement date and capitalizable implementation costs, less any vendor incentives received at or before the subscription commencement date. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

Generally, the city's incremental borrowing rate is used as the discount rate for leases and SBITAs unless the rate that the lessor/vendor charges is known. The incremental borrowing rate is based on the rate of interest the city would incur to borrow an amount equal to the payments for a similar asset type and under similar terms at the commencement or remeasurement date. If the incremental borrowing rate is unknown, the city combines the risk-free-interest rate along with the city's credit spread, to calculate the discount rate for leases and SBITAs.

The lease or subscription terms include the noncancellable period of the lease or SBITA, respectively, plus any additional periods covered by either the city or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the city and the lessor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.

The city monitors changes in circumstances that may require remeasurement of a lease or subscription liability. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured, and a corresponding adjustment is made to the lease or subscription asset.

Certain payments are evaluated to determine if they should be included in the measurement of the lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.

For leases or SBITAs below the capitalization threshold and leases and SBITAs with a maximum possible term of 12 months or less at commencement, an expense/expenditure is recognized based on the provisions of the contract.

Lessor Activities. The city does not currently participate in any lessor arrangements.

9. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net assets (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 assets (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.

10. Compensated Absences

A liability for compensated absences is recognized for leave that 1) has been earned for services previously rendered by employees, 2) accumulates and is allowed to be carried over to subsequent years, and 3) is more likely than not to be used as time off or settled. Based on the criteria listed, four types of leave qualify for liability recognition for compensated absences – comp time, merit time, vacation time, and sick leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

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, 2024 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, 2024 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 of more than 180 hours. The funds are required to be contributed to 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, 2024, the city has no termination benefits to report.

11. Long-Term Liabilities

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.

12. Unearned Revenue

This account includes amounts received but not recognized as revenue because the revenue recognition criteria have not been met.

13. 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.

14. 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 of regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the city council. The city council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The city's Fund Balance Policy adopted by Resolution 11-10 grants authority to the city manager to assign fund balance amounts. The city manager has the authority to assign funds for specific purposes in an amount not to exceed \$30,000 per purpose or in total to not exceed \$200,000. Any funds set aside as Assigned Fund Balance must be reported to the city council at their next regular meeting and recorded in the minutes. The city council has the authority to remove or change the assignment of the funds with a simple majority vote.

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

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

15. 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: ACCOUNTING AND REPORTING CHANGES

A. Reporting Changes

Effective for fiscal year 2024 the city adopted the following new standard issued by GASB:

Statement No. 100 – Accounting Changes and Error Corrections, issued by the Governmental Accounting Standards Board (GASB). This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. It also addresses corrections of errors in previously issued financial statements. This statement prescribes the accounting and financial reporting requirements for each type of accounting change and error correction.

Statement No. 101 – Compensated Absences, issued by the Governmental Accounting Standards Board (GASB). This statement changes the way governments will recognize and measure liabilities for leave time earned by employees, including recognition of liabilities for leave that is expected to be paid as salaries for periods during which employees use leave, as well as for leave that will be paid in cash or settled in some other manner during or at the end of an employee's active service, for reporting on an economic resources measurement focus.

B. Change in Accounting Principle – Adjustments and Restatement of Beginning Balances

During the current year, the City of Covington implemented GASB Statement No. 101, Compensated Absences. In addition to the value of unused vacation, merit, and comp time owed to employees upon separation of employment, the City now recognizes an estimated amount of sick leave earned as of year-end that will be used by employees as time off in future years as part of the liability for compensated absences. The effects of the change in accounting principle are summarized below in the "Restatement - GASB 101 implementation" column in the table below. Additional information can be found in Note 10.

The corrections to 2024 beginning balances are as follows:

	Net Position Balance 12/31/23 as Previously Reported	Restatement GASB 101 Implementation	Net Position Balance 12/31/23 as Restated
Government-wide			
Governmental activities	\$ 152,050,762	\$ (110,955)	\$ 151,939,807
Business-type activities	20,552,899	(27,810)	20,525,089
Total Government-wide	<u>\$ 172,603,661</u>	<u>\$ (138,765)</u>	<u>\$ 172,464,896</u>
Governmental Funds			
Major funds:			
General Fund	\$ 23,374,720	\$ -	\$ 23,374,720
Development Services Fund	4,159,749	-	4,159,749
Capital Investment Fund	12,596,877	-	12,596,877
Nonmajor funds	450,768	-	450,768
Total Governmental Funds	<u>\$ 40,582,114</u>	<u>\$ -</u>	<u>\$ 40,582,114</u>
Proprietary Funds			
Enterprise Fund			
Surface Water Management Fund	\$ 19,715,242	\$ (27,810)	\$ 19,687,432
Total Enterprise Fund	<u>\$ 19,715,242</u>	<u>\$ (27,810)</u>	<u>\$ 19,687,432</u>

C. Change in Accounting Estimate

During the current year, as an engineer's estimate became available for CIP 1128, SR 516 (185th-192nd), the percentage allocated to work in progress in governmental activities was changed from 100% (\$597,234) for prior years, to 90% (\$537,510), and 10% (\$59,724) business-type activities. The corrected amounts are reported in the Statement of Net Position and Statement of Net Position, Proprietary Funds.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits

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

	Government Wide	Fiduciary Fund
Operating Accounts	\$ 448,857	\$ 48,075
Forfeiture Account	2,104	-
Petty Cash	600	-
State Treasurer's Pool	35,126,355	-
Investments	6,975,532	-
Total Cash, Cash Equivalents, Deposits, and Investments	<u>\$ 42,553,448</u>	<u>\$ 48,075</u>

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, 2024:

<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	\$ 6,975,532	\$ 1,000,850	\$ 2,007,475	\$ 1,960,433	\$ 2,006,774	Aaa/AA+
Total Investments	\$ 6,975,532	\$ 1,000,850	\$ 2,007,475	\$ 1,960,433	\$ 2,006,774	

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, 2024, all the \$6,975,532 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	\$ 6,975,532	\$ 6,975,532	\$ -	\$ -
Subtotals	\$ 6,975,532	\$ 6,975,532	\$ -	\$ -
Investments measured at amortized cost				
State LGIP (cash equivalents)	\$35,126,355	\$ 35,126,355	\$ -	\$ -
Total Investments (including LGIP)	\$42,101,887	\$ 42,101,887	\$ -	\$ -

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect deposits or investments. The city does not have a formal policy for foreign currency risk.

NOTE 4: 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 2024 was \$0.77684 per \$1,000 of assessed valuation, including exempt properties, of \$4,209,103,255 for a total regular levy of \$3,232,142.

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 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2024, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated or amortized:				
Art	\$ 75,563	\$ -	\$ -	\$ 75,563
Land	34,248,961	197,186	-	34,446,147
Intangible Assets - Easements	1,458,795	-	-	1,458,795
Work in Progress	<u>21,112,348</u>	<u>10,768,659</u>	<u>(1,578,467)</u>	<u>30,302,540</u>
Total capital assets, not being depreciated or amortized	<u>56,895,667</u>	<u>10,965,845</u>	<u>(1,578,467)</u>	<u>66,283,045</u>
Capital assets, being depreciated or amortized:				
Buildings	4,368,912	-	-	4,368,912
Intangible Assets - Software	38,837	10,879	-	49,716
Improvements other than buildings	5,697,566	2,003,951	-	7,701,517
Subscription Assets	272,740	32,074	(41,218)	263,596
Lease Assets	5,311,265	21,137	-	5,332,402
Machinery and equipment	2,392,998	748,058	(91,455)	3,049,601
Infrastructure	<u>66,647,468</u>	<u>270,030</u>	<u>(91,658)</u>	<u>66,825,840</u>
Total capital assets being depreciated or amortized	<u>84,729,786</u>	<u>3,086,129</u>	<u>(224,331)</u>	<u>87,591,584</u>
Less accumulated depreciation and amortization for:				
Buildings	(1,311,602)	(182,153)	-	(1,493,755)
Intangible Assets - Software	(25,137)	(3,833)	-	(28,970)
Improvements other than buildings	(1,431,300)	(193,785)	-	(1,625,085)
Subscription Assets	(48,353)	(71,246)	41,219	(78,380)
Lease Assets	(981,101)	(505,030)	-	(1,486,131)
Machinery and equipment	(1,296,346)	(173,961)	91,455	(1,378,852)
Infrastructure	<u>(18,071,610)</u>	<u>(1,583,270)</u>	<u>43,538</u>	<u>(19,611,342)</u>
Total accumulated depreciation and amortization	<u>(23,165,449)</u>	<u>(2,713,278)</u>	<u>176,212</u>	<u>(25,702,515)</u>
Total capital assets, being depreciated and amortized net	<u>61,564,337</u>	<u>372,851</u>	<u>(48,119)</u>	<u>61,889,069</u>
Governmental activities capital assets, net	<u>\$ 118,460,004</u>	<u>\$ 11,338,696</u>	<u>\$ (1,626,586)</u>	<u>\$ 128,172,114</u>

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

Governmental Activities	
General Government	\$ 599,787
Community Development	250
Public Safety	9,553
Culture and Recreation	562,961
Streets and Highways	1,405,210
Capital assets held by the government's Internal Service Funds	<u>135,517</u>
Total depreciation and amortization expense - governmental activities	<u>\$ 2,713,278</u>

The deletions to subscription assets were for contracts where the term had ended.

Business-type Activities

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets, not being depreciated or amortized:				
Land	\$ 2,466,912	\$ 61,383	\$ -	\$ 2,528,295
Intangible Assets - Easements	241,598	8,220	-	249,818
Work in Progress	<u>2,785,014</u>	<u>1,171,578</u>	<u>-</u>	<u>3,956,592</u>
Total capital assets, not being depreciated or amortized	<u>5,493,524</u>	<u>1,241,181</u>	<u>-</u>	<u>6,734,705</u>
Capital assets, being depreciated or amortized:				
Buildings	13,131	-	-	13,131
Intangible Assets - Software	27,898	-	-	27,898
Improvements other than buildings	556,294	-	-	556,294
Lease Assets	17,865	627	-	18,492
Machinery and equipment	99,527	-	-	99,527
Infrastructure	<u>12,765,799</u>	<u>244,715</u>	<u>-</u>	<u>13,010,514</u>
Total capital assets being depreciated or amortized	<u>13,480,514</u>	<u>245,342</u>	<u>-</u>	<u>13,725,856</u>
Less accumulated depreciation and amortization for:				
Buildings	(9,848)	(656)	-	(10,504)
Intangible Assets - Software	(27,898)	-	-	(27,898)
Improvements other than buildings	(86,438)	(16,578)	-	(103,016)
Lease Assets	(9,619)	(5,623)	-	(15,242)
Machinery and equipment	(26,807)	(7,619)	-	(34,426)
Infrastructure	<u>(3,237,396)</u>	<u>(365,498)</u>	<u>-</u>	<u>(3,602,894)</u>
Total accumulated depreciation and amortization	<u>(3,398,006)</u>	<u>(395,974)</u>	<u>-</u>	<u>(3,793,980)</u>
Total capital assets, being depreciated and amortized net	<u>10,082,508</u>	<u>(150,632)</u>	<u>-</u>	<u>9,931,876</u>
Business-type activities capital assets, net	<u>\$ 15,576,032</u>	<u>\$ 1,090,549</u>	<u>\$ -</u>	<u>\$ 16,666,581</u>

NOTE 6: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS

The City of Covington has active construction projects as of December 31, 2024.

At year-end the government's commitments with contractors are as follows:

Project	Contractor	Spent to Date	Remaining Commitment
204th Connector - Phase 2	Goodfellow Bros., Inc.	\$ 11,933,876	\$ 18,242
204th Connector - Phase 2	Transpo Group	2,196,815	59,692
204th Connector - Phase 3	Tucci & Sons Inc.	537,395	651,521
204th Connector - Phase 3	Transpo Group	111,696	317,791
Jenkins Creek Park	Facet	449,578	65,411
Jenkins Creek Park	Rodarte Construction Inc.	2,743,438	412,850
Founders Park	Hough Beck & Baird Inc.	566,921	41,345
Founders Park	Rivers Edge Environmental	121,471	43,505
Jenkins Creek Trail	Facet	273,053	15,649
Jenkins Creek Trail	Long Bay Enterprises	63,221	58,079
SR516 Pedestrian Bridge	COWI North America Inc.	401,466	357,534
SR 516 Covington Way	Transpo Group	1,095,918	504,423
SR 516 Safety Widening	Goodfellow Bros., Inc.	21,467,869	19,000
SR 516 Safety Widening	WSP USA Inc.	3,801,725	81,474
SR 516 - 185th Pl SE to 192nd Ave SE	Gray & Osborne	653,760	855,925
Covington Park Swale	Gray & Osborne	32,884	23,766
		<u>\$ 46,451,086</u>	<u>\$ 3,526,207</u>

The city has no other significant commitments.

NOTE 7: 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 is as follows:

25% vested after completion of one year of service

50% vested after completion of two years of service

100% vested after completion of three years of service

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, 2024 through December 31, 2024, was \$6,828,082. The City's total payroll for the same period was

\$7,755,076. The table below shows the required percentage contribution and the total actual contributions for 2024 made by the employer and employee to this qualified defined contribution plan. Contributions are made bi-weekly.

PERS Replacement	Percentage Contribution	Contribution Amount
Employee	3.3%	\$225,327
Employer	7.5%	\$512,136

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. In 2024, \$6,462 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, 2024, there were 123 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, 2024 through December 31, 2024 was \$7,755,076. The City's total payroll for the same period was \$7,755,076. The table below shows the required percentage contribution and the total actual contributions for 2024 made by the employer and employee to this qualified defined contribution plan. Contributions are made bi-weekly.

Social Security Replacement	Percentage Contribution	Contribution Amount
Employee	6.2%	\$480,815
Employer	5.6%	\$434,284

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, 2024, there were 366 plan members.

NOTE 8: 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, 2024, 268 cities/towns/non-city entities participate and have enrollment 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, Willamette Dental Group, 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 2024, the AWC Trust HCP purchased medical stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$2 million through United States Fire Insurance Company. 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 9: RISK MANAGEMENT

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. As of December 31, 2024, WCIA had a total of 168 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, prior wrongful acts, 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.

All Members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides Members

with a \$2 million incident limit and \$10 million pool aggregate subject to a \$100,000 per incident Member deductible.

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$1,000,000, 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 and land use issues, 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, reinsurance and other 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 10: LONG-TERM LIABILITIES

A. General Obligation Bonds

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.

B. Other Governmental Debt

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.

As of December 31, 2024, the city's annual debt service requirements for general obligations and other governmental debt were:

Annual Debt Service Requirements to Maturity

General Obligation			
Year	Bonds Principal	Interest	Total Annual Requirements
2025	\$ 840,000	\$ 95,900	\$ 935,900
2026	875,000	62,300	937,300
2027	<u>910,000</u>	<u>27,300</u>	<u>937,300</u>
Total	<u>\$ 2,625,000</u>	<u>\$ 185,500</u>	<u>\$ 2,810,500</u>

C. Compensated Absences

Compensated absences are reported in the Government-wide Statements – Statement of Net Position. As of December 31, 2024, the city obligated \$938,122 as the portion of compensated absences not expected to be funded with current available expendable resources, \$849,575 in governmental activities, and \$88,547 in business-type activities.

D. Leases and Subscription-Based Information Technology Arrangements (SBITAs)

The city has various leases on buildings and equipment, under a variety of long-term, noncancelable lease agreements. The city also has noncancellable subscription-based information technology arrangements (SBITAs) for the right-to-use information technology software. Lease and subscription assets as of December 31, 2024, are reported by the city within governmental activities and business-type activities, as applicable.

The following is a summary of governmental right-to-use lease and subscription activity for the year ended December 31, 2024:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Governmental Activities				
Building lease assets	\$ 5,214,221	\$ 1,461	\$ -	\$ 5,215,682
Accumulated amortization	<u>(960,610)</u>	<u>(482,202)</u>	<u>-</u>	<u>(1,442,812)</u>
Net building lease assets	<u>4,253,611</u>			<u>3,772,870</u>
Equipment lease assets	97,044	19,676	-	116,720
Accumulated amortization	<u>(20,491)</u>	<u>(22,828)</u>	<u>-</u>	<u>(43,319)</u>
Net equipment lease assets	<u>76,553</u>			<u>73,401</u>
Subscription assets	272,740	32,074	(41,218)	263,596
Accumulated amortization	<u>(48,353)</u>	<u>(71,245)</u>	<u>41,218</u>	<u>(78,380)</u>
Net subscription assets	<u>224,387</u>			<u>185,216</u>
Total Governmental Activities Lease and Subscription Assets, Net	<u>\$ 4,554,551</u>			<u>\$ 4,031,487</u>

The following is a summary of business-type right-to-use lease asset activity for the year ended December 31, 2024:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Business-type Activities				
Building lease assets	\$ 14,564	\$ 627	\$ -	\$ 15,191
Accumulated amortization	<u>(8,035)</u>	<u>(4,831)</u>	<u>-</u>	<u>(12,866)</u>
Net building lease assets	<u>6,529</u>			<u>2,325</u>
Equipment lease assets	3,301	-	-	3,301
Accumulated amortization	<u>(1,584)</u>	<u>(792)</u>	<u>-</u>	<u>(2,376)</u>
Net equipment lease assets	<u>1,717</u>			<u>925</u>
Total Business-type activities Lease Assets, Net	<u>\$ 8,246</u>			<u>\$ 3,250</u>

The following schedule presents future annual lease payments for governmental and business-type activities as of December 31, 2024:

Right-to-Use Lease Agreements	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Total Annual Requirements
	Year	Principal	Interest	Principal	Interest
	2025	\$ 445,721	\$ 27,725	\$ 3,043	\$ 21
	2026	493,789	26,064	133	-
	2027	507,641	21,815	-	-
	2028	499,806	17,595	-	-
	2029	496,413	13,681	-	-
	2030-2034	1,510,287	17,972	-	-
	Total	\$ 3,953,659	\$ 124,852	\$ 3,177	\$ 21

As of December 31, 2024, the city has no leases that have not yet commenced.

The following schedule presents future annual subscription payments for governmental activities as of December 31, 2024:

Subscription-Based IT Arrangements (SBITAs)	<u>Governmental Activities</u>		Total Annual Requirements
	Year	Principal	Interest
	2025	\$ 29,098	\$ 5,308
	2026	15,856	4,611
	2027	10,725	4,160
	2028	5,286	3,831
	2029	5,482	3,636
	2030	5,685	3,433
	2031-2035	31,741	13,848
	2036-2040	38,065	7,524
	2041-2045	17,271	965
	Total	\$ 159,208	\$ 47,316

As of December 31, 2024, the city has no SBITAs that have not yet commenced and no business-type activities to report.

Variable payments, other than those payments that depend on an index or rate or are fixed in substance, and other payments that are not known or certain to be exercised are excluded from the measurement of the lease and subscription liabilities.

E. Long-Term Debt and Other Liability Activity

The following schedule details long-term debt and other liability activity and balances of the city as of December 31, 2024.

Governmental Activities										
Description	Interest Rate	Fund Used to Pay Debt	Issue Date	Maturity Date	Original Debt Issued	Debt Outstanding 1/1/24	Debt Issued in 2024	Redemption in 2024	Debt Outstanding 12/31/2024	Due Within One Year
Long-Term Debt:										
General obligation bonds - Councilmanic: 2016 Refunding Bonds	2.00 - 4.00%	Long-Term Debt Service	6/8/2016	11/1/2027	\$ 8,100,000	\$ 3,445,000	\$ -	\$ 820,000	\$ 2,625,000	\$ 840,000
Add: bond premium					898,921	362,032	-	74,910	287,122	-
Add: unamortized bond premium					27,093	9,030	-	2,258	6,772	-
Total Bonds Payable					9,026,014	3,816,062	-	897,168	2,918,894	840,000
DCTED Public Works Trust Fund Loan			7/1/2004	6/1/2024	3,785,500	214,894	-	214,894	-	-
Other Long-Term Debt					3,785,500	214,894	-	214,894	-	-
Total Long-Term Debt					\$ 12,811,514	\$ 4,030,956	\$ -	\$ 1,112,062	\$ 2,918,894	\$ 840,000

Governmental Activities							
Description	Interest Rate	Fund Used to Pay Liability	Restated Beginning Balance 1/1/24	Additions in 2024	Redemptions in 2024	Ending Balance 12/31/2024	Due Within One Year
Other Long-Term Liabilities:							
*Compensated absences			\$ 1,308,361	\$ 326,385	\$ -	\$ 1,634,746	\$ 785,171
Lease Liabilities	0.22% - 3.51%	General Fund/Street Fund	4,441,559	21,137	509,037	3,953,659	445,721
Subscription Liabilities	2.66% - 3.70%	General Fund	202,992	30,988	74,772	159,208	29,098
Total Other Long-Term Liabilities							
			\$ 5,952,912	\$ 378,510	\$ 583,809	\$ 5,747,613	\$ 1,259,990

*The change in the compensated absences liability is presented as a net change.

Business-type Activities		Restated				Due Within	
Description	Interest Rate	Beginning Balance 1/1/24	Additions in 2024	Redemptions in 2024	Ending Balance 12/31/2024	One Year	
Other Long-Term Liabilities:							
*Compensated absences		\$ 195,452	\$ -	\$ 2,331	\$ 193,121	\$	104,574
Lease Liabilities	0.22% - 0.51%	8,296	626	5,746	3,176		3,043
Total Other Long-Term Liabilities		<u>\$ 203,748</u>	<u>\$ 626</u>	<u>\$ 8,077</u>	<u>\$ 196,297</u>	<u>\$</u>	<u>107,617</u>

*The change in the compensated absences liability is presented as a net change.

NOTE 11: 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.

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 12: INTERFUND BALANCES AND TRANSFERS

The composition of interfund activity as of December 31, 2024, is as follows:

Due to/from other funds:	<u>Receivable</u>	<u>Payable</u>
Governmental Funds:		
General	\$ 2,531,469	\$ 2,567
Development Services	-	535
Capital Investment Program	-	2,527,659
Nonmajor Governmental Funds	-	407
Proprietary Funds:		
Surface Water Management	-	4,406
Unemployment Insurance - Internal Service Fund	<u>4,105</u>	-
Total Due Other Funds	<u>\$2,535,574</u>	<u>\$2,535,574</u>

Receivable and payable balance due to and due from funds consist of a loan between the General fund and the Capital Investment Program Fund (\$2,527,593) to provide cash flow for a reimbursable grant-based project, which is expected to be repaid in 2024. The remaining balance for receivables consists of accrued payroll owed to the Unemployment Insurance Fund (\$2,567) and utility taxes owed from the Surface Water Management Fund to the General Fund (\$3,876).

Interfund transfers as of December 31, 2024, were as follows:

Interfund Transfers	<u>In</u>	<u>Out</u>
Governmental Funds:		
General	\$ 112,297	\$4,253,132
Capital Investment Program	2,847,371	112,297
Nonmajor Governmental Funds	<u>1,806,865</u>	<u>602,000</u>
Proprietary Funds:		
Equipment Replacement	<u>200,896</u>	-
Total Internal Transfers	<u>\$4,967,429</u>	<u>\$4,967,429</u>

The transfers from the General Fund were for ongoing expenses in the Street Fund (\$650,395), capital improvement projects (\$2,245,371), a debt service transfer (\$1,156,470), and to an internal service fund to support equipment purchases (\$200,896). The transfer from the Nonmajor fund was for a capital improvement project (\$602,000). The transfer into the General Fund was to support a parks maintenance project and art projects (\$112,297).

NOTE 13: RESTRICTED COMPONENT OF NET POSITION

The government-wide statement of net position reports \$7,615,799 of restricted component of net position, of which \$2,566,382 is restricted for debt service; \$1,752,946 for health and human service programs as restricted under House Bill 1406, House Bill 1590, and One Washington MOU; \$78,733 for public safety as restricted under RCW 69.50.505; and \$3,217,738 is restricted for capital improvement projects.

NOTE 14: 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	\$ 170,692	\$ 14,837	\$ -	\$ 13,222	\$ 198,751
Restricted for:					
Debt Service	2,566,382	-	-	-	2,566,382
Health and Human Services	1,717,781	-	-	-	1,717,781
Public Safety	78,733	-	-	-	78,733
Capital Improvement Projects	-	-	3,139,471	-	3,139,471
Committed to:					
Development Services	-	3,450,173	-	-	3,450,173
Capital Improvement Projects	-	-	5,208,440	-	5,208,440
Assigned to:					
Projected Budgetary Deficit	1,373,650	-	-	-	1,373,650
Capital Improvement Projects	-	-	1,558,318	-	1,558,318
Street Maintenance	-	-	-	555,045	555,045
Unassigned	<u>17,531,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,531,414</u>
Total Fund Balances	<u>\$ 23,438,652</u>	<u>\$ 3,465,010</u>	<u>\$ 9,906,229</u>	<u>\$ 568,267</u>	<u>\$ 37,378,158</u>

NOTE 15: 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, 2024, two agreements under this program have been approved by the Council. For the fiscal year ended December 31, 2024, one project was in the abatement period for which the city abated gross property taxes totaling \$56,547.

City of Covington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2024

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
CDBG - Entitlement/Special Purpose Grants Cluster								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of SeaTac)	Community Development Block Grants/Entitlement Grants	14.218	6384397	23,617	-	23,617	-	1, 2, 7
Total CDBG - Entitlement/Special Purpose Grants Cluster:				23,617	-	23,617	-	
NATIONAL PARK SERVICE, INTERIOR, DEPARTMENT OF THE (via Washington State Recreation and Conservation Office)	Outdoor Recreation Acquisition, Development and Planning	15.916	20-1858C	481,479	-	481,479	-	1, 2, 7
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-0516 (026)	154,558	-	154,558	-	1, 2, 7
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-0516 (027)	100,544	-	100,544	-	1, 2, 7
Total ALN 20.205:				255,102	-	255,102	-	
Highway Safety Cluster								

The accompanying notes are an integral part of this schedule.

City of Covington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2024

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	2024-HVE-5118	9,109	-	9,109	-	1, 2, 7
		Total Highway Safety Cluster:			9,109	-	9,109	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E24-226	12,395	-	12,395	-	1, 2, 7
		Total Highway Safety Cluster:			9,109	-	9,109	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Military Department)	Emergency Management Performance Grants	97.042	E24-232	8,645	-	8,645	-	1, 2, 7
		Total ALN 97.042:			21,040	-	21,040	-
Total Federal Awards Expended:				790,347	-	790,347	-	-

The accompanying notes are an integral part of this schedule.

City of Covington
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2024

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the City of Covington's financial statements. The City of Covington uses the modified accrual basis of accounting.

Note 2 - Federal De Minimis Indirect Cost Rate

The City of Covington has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 7 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Covington's portion, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A- 87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

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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.

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