

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

**CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

Thomas H. Sibold, Jr., Mayor
David S. Crosier, Vice-Mayor
Raymond C. Hunter
William E. "Lance" Carson, Jr.
Fred F. Forbes III

OTHER OFFICIALS

City Manager Allen L. Dressler
City Finance Director David Bryant, Jr.
City Attorney Mark C. Popovich
Commissioner of the Revenue Cathy M. Kimberlin
City Treasurer Theresa Harrison
Chief of Police Christopher J. Smith

FINANCIAL SECTION



Independent Auditors' Report

**To the Honorable Members of the City Council
City of Covington, Virginia
Covington, Virginia**

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, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Covington, Virginia, 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 qualified and unmodified audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 City of Covington, Virginia'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.

Auditors' 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 auditors' 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 generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* 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.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- 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 City of Covington, Virginia'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 City of Covington, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to 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.

Emphasis-of-Matter - Covington City School Board Ceased Operations

As described in Note 21, Covington City School Board (CCSB) ceased formal operations with the creation of the Alleghany Highlands Public School Board (AHPS). During the fiscal year, a special item was reported to transfer the CCSB fund balance and net position to AHPS.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding as listed in the table of contents 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Covington, Virginia's basic financial statements. The accompanying individual fund financial statements and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 individual fund statements and schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical information but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2023, on our consideration of City of Covington, Virginia'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 solely 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 City of Covington, Virginia'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 City of Covington, Virginia's internal control over financial reporting and compliance.

Prohaska, Fawcett, Cox Associates

Blacksburg, Virginia
December 1, 2023

CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2023 (JULY 1, 2022 – JUNE 30, 2023)

As staff of the City of Covington, we offer readers of the City of Covington's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2023.

Financial Highlights

- In Governmental Activities, the assets and deferred outflows of resources of the City of Covington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,420,851 "total net position".
 - At the close of the current fiscal year, the City of Covington's governmental funds reported an unassigned general fund balance of \$12,886,441.
 - At the close of the current fiscal year, the City of Covington's General Fund reported total fund balances of \$12,886,441.
 - At the end of the current fiscal year, the General Fund unassigned fund balance was 61.55% of revenues which is above the adopted policy of 18% and 58.04% of expenditures in the General Fund for FY 23.
- **Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the City of Covington's basic financial statements. The City of Covington's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Covington's finances, in a manner similar to a private-sector business.

The statement of net position presents financial information on all of the City of Covington's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Covington is improving or deteriorating.

The statement of activities presents information showing how the City of Covington'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 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 taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Covington 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).

The governmental activities of the City of Covington include general government administration, judicial administration, public safety, public works, health and welfare, education, parks recreation and cultural activity, and community development. The business-type activities of the City of Covington include Enterprise activities in water, sewer, and solid waste.

The government-wide financial statements include not only the City of Covington itself (known as the primary government), but also a separate school system. Financial information for this component unit is reported separate from the financial information presented for the primary government itself. The water, sewer, and solid waste functions are departments of the City of Covington, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on Exhibits 1 and 2 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 state and local governments, 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 used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government'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 provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Covington adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3-6 of this report.

Proprietary Funds: The City of Covington maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Covington uses enterprises funds to account for its Water, Sewer, and Solid Waste operations.

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 Water, Sewer, and Solid Waste funds, which are considered to be major funds of the City of Covington.

The basic proprietary fund financial statements can be found on Exhibits 7-9 of this report.

Notes to the Financial Statements: The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic governmental financial statements.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to budget, component school board, supporting schedules, and other statistical information.

Government-wide Overall Financial Analysis

As noted earlier, total net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Covington, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$28,040,144 at the close of the most recent fiscal year.

City of Covington's Net Position Statement of Net Position For the Year Ended June 30, 2023 and June 30, 2022

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Assets: | | | | | | |
| Current and other assets | \$ 22,259,399 | \$ 19,354,138 | \$ 4,620,772 | \$ 7,581,541 | \$ 26,880,171 | \$ 26,935,679 |
| Capital assets | 27,250,949 | 26,314,710 | 30,059,867 | 25,891,870 | 57,310,816 | 52,206,580 |
| Total Assets | \$ 49,510,348 | \$ 45,668,848 | \$ 34,680,639 | \$ 33,473,411 | \$ 84,190,987 | \$ 79,142,259 |
| Deferred Outflows | | | | | | |
| of Resources | \$ 1,360,351 | \$ 1,700,885 | \$ 238,118 | \$ 386,343 | \$ 1,598,469 | \$ 2,087,228 |
| Liabilities: | | | | | | |
| Current liabilities | \$ 6,525,575 | \$ 6,614,381 | \$ 2,328,243 | \$ 1,699,642 | \$ 8,853,818 | \$ 8,314,023 |
| Long-term liabilities | 23,208,818 | 24,625,838 | 20,224,825 | 19,382,205 | 43,433,643 | 44,008,043 |
| Total Liabilities | \$ 29,734,393 | \$ 31,240,219 | \$ 22,553,068 | \$ 21,081,847 | \$ 52,287,461 | \$ 52,322,066 |
| Deferred Inflows | | | | | | |
| of Resources | \$ 4,715,455 | \$ 5,910,914 | \$ 746,396 | \$ 1,082,577 | \$ 5,461,851 | \$ 6,993,491 |
| Net Position: | | | | | | |
| Net investment | | | | | | |
| in capital assets | \$ 5,402,426 | \$ 3,263,877 | \$ 15,495,074 | \$ 11,733,941 | \$ 20,897,500 | \$ 14,997,818 |
| Restricted | 1,257,882 | 480,790 | 697,736 | 679,235 | 1,955,618 | 1,160,025 |
| Unrestricted | 9,760,543 | 6,473,933 | (4,573,517) | (717,845) | 5,187,026 | 5,756,088 |
| Total Net Position | \$ 16,420,851 | \$ 10,218,600 | \$ 11,619,293 | \$ 11,695,331 | \$ 28,040,144 | \$ 21,913,931 |

The City of Covington's net position reflects \$57,310,816 in capital assets and its net investment in capital assets of \$20,897,500 (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Covington uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Covington's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Covington's net position represents resources that are subject to external restrictions on how they may be used. These restrictions total \$1,955,618 and are comprised of \$1,055,426 of unspent grants and \$900,192 restricted for debt service and bond covenant in the Business-Type Activities, the City owned Cemetery and Opioid Abatement Funds.

City of Covington's Statement of Activities
Statement of Activities
June 30, 2023 and June 30, 2022

| | Governmental Activities | | Business Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 428,554 | \$ 471,444 | \$ 5,392,496 | \$ 5,370,258 | \$ 5,821,050 | \$ 5,841,702 |
| Operating grants & contributions | 7,021,786 | 3,294,608 | - | - | 7,021,786 | 3,294,608 |
| Capital grants & contributions | 541,276 | 215,097 | 1,065,626 | 112,770 | 1,606,902 | 327,867 |
| General revenues: | | | | | | |
| General property taxes | 10,676,170 | 10,320,929 | - | - | 10,676,170 | 10,320,929 |
| Other taxes | 4,553,219 | 4,362,187 | - | - | 4,553,219 | 4,362,187 |
| Unrestricted revenues from use of money and property | 233,451 | 27,851 | 18,411 | 962 | 251,862 | 28,813 |
| Grants and contributions not restricted to specific programs | 799,182 | 803,624 | - | - | 799,182 | 803,624 |
| Miscellaneous | 463,271 | 226,541 | 39,493 | 140,700 | 502,764 | 367,241 |
| Total revenues | \$ 24,716,909 | \$ 19,722,281 | \$ 6,516,026 | \$ 5,624,690 | \$ 31,232,935 | \$ 25,346,971 |
| Expenses: | | | | | | |
| General government Administration | \$ 2,059,853 | \$ 1,848,535 | \$ - | \$ - | \$ 2,059,853 | \$ 1,848,535 |
| Public Safety | 3,986,725 | 4,199,120 | - | - | 3,986,725 | 4,199,120 |
| Public Works | 3,215,232 | 2,524,691 | - | - | 3,215,232 | 2,524,691 |
| Education | 3,618,133 | 2,949,139 | - | - | 3,618,133 | 2,949,139 |
| Culture and Recreation | 1,968,976 | 1,531,584 | - | - | 1,968,976 | 1,531,584 |
| Interest on long-term debt | 626,962 | 929,248 | - | - | 626,962 | 929,248 |
| Judicial Administration | 312,757 | 310,745 | - | - | 312,757 | 310,745 |
| Health and Welfare | 2,914,894 | 2,062,817 | - | - | 2,914,894 | 2,062,817 |
| Community Development | 247,509 | 357,376 | - | - | 247,509 | 357,376 |
| Water | - | - | 1,791,435 | 1,649,494 | 1,791,435 | 1,649,494 |
| Sanitation | - | - | 1,657,358 | 1,794,434 | 1,657,358 | 1,794,434 |
| Solid Waste | - | - | 2,706,888 | 1,329,792 | 2,706,888 | 1,329,792 |
| Total expenses | \$ 18,951,041 | \$ 16,713,255 | \$ 6,155,681 | \$ 4,773,720 | \$ 25,106,722 | \$ 21,486,975 |
| Increase (decrease) in net position | \$ 5,765,868 | \$ 3,009,026 | \$ 357,034 | \$ 850,970 | \$ 6,122,902 | \$ 3,859,996 |
| Transfers | 436,383 | 462,336 | (436,383) | (462,336) | - | - |
| Increase (decrease) in net position | \$ 6,202,251 | \$ 3,471,362 | \$ (76,038) | \$ 388,634 | \$ 6,126,213 | \$ 3,859,996 |
| Net Position - beginning | 10,218,600 | 6,747,238 | 11,695,331 | 11,306,697 | 21,913,931 | 18,053,935 |
| Ending net position | \$ 16,420,851 | \$ 10,218,600 | \$ 11,619,293 | \$ 11,695,331 | \$ 28,040,144 | \$ 21,913,931 |

Governmental Activities: During the current fiscal year, Net Position for Governmental Activities increased \$6,202,251 from the prior fiscal year for an ending balance of \$16,420,851 based on beginning of fiscal year Net Position of \$10,218,600.

Business-type Activities: For the City of Covington's business-type activities, the results for the current fiscal years are reduced as overall net position decreased to reach an ending balance of \$11,619,293. The total decrease in net position for business-type activities (water, sewer, and solid-waste) was (\$76,038) compared to the prior fiscal year.

Financial Analysis of Governmental Funds

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

Governmental Funds: The focus of the City of Covington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Covington's financing requirements. 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 of Covington itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Covington's Council.

At June 30, 2023, the City of Covington's total governmental funds reported total fund balances of \$14,376,983. Of this amount, \$12,886,441 constitutes unassigned fund balance which increased \$2,441,967 from the previous fiscal year. The unassigned fund balance is available at the discretion of city council for use as deemed necessary. The remainder of the fund balance is:

The General Fund is the chief operating fund of the City of Covington. As a measure of the General Fund liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represents approximately 61.55% of that same amount.

Proprietary Funds: The City of Covington's proprietary funds (Utility Fund) provide the same type of information found in the government-wide financial statements, but in more detail. The Water Fund finished FY 23 with \$7,801,934 in total net position while Sewer Fund finished at \$8,583,581 in total net position, and the newly created Solid-Waste Fund finished at (\$4,766,222) which was driven by debt related to new cell construction, new landfill equipment, and closure/post closure estimates. Closure/post closure dedicated funding continued as part of the FY 23 budget process as well for the Solid-Waste Fund.

General Fund Budgetary Highlights

During the year the budgetary expenditures in the general Fund were amended was mainly due to new and non-completion of projects related to public works projects (transportation enhancement), software, fire programs, housing jail prisoners as a joint service expenditure, and project carryovers which have corresponding revenue streams.

Positive local revenue budget variances were greatest realized in total general property taxes, total other local taxes and revenue from Use of Money & Property. For more detailed revenue and expenditure information, please see Schedule 1 and Schedule 2.

Review of actual revenues, expenditures and transfers indicates that actual revenues for the General Fund were \$25,403,134, including transfers and lease issuances and expenditures for the General Fund were \$22,203,453.

Capital Assets and Debt Administration

Capital Assets: The City of Covington’s investment in capital assets for its governmental and business-type activities as of June 30, 2023 were \$57,310,816 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, the wastewater treatment plant, and the Peter’s Mountain landfill.

The city’s total capital assets as of June 30, 2023 were \$27,250,949 in Governmental Activities and \$30,059,867 in Business Type (Enterprise) Activities. For the fifth year, Solid-Waste Services (Landfill) are included in Business Type Activities as well as Water and Waste Water (Sewer) Services.

Please see additional information on the City of Covington’s Capital Assets that can be found in Note 13 of this report.

City of Covington’s Capital Assets
Summary of Capital Assets for Governmental & Business Type Activities
As of June 30, 2023 and June 30, 2022

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-----------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| Land | \$ 1,967,944 | \$ 1,967,944 | \$ - | \$ - | \$ 1,967,944 | \$ 1,967,944 |
| Buildings and improvements | 17,978,122 | 18,529,337 | - | - | 17,978,122 | 18,529,337 |
| Improvements other than buildings | - | - | - | - | - | - |
| Machinery and equipment | 3,334,845 | 3,055,015 | 1,199,772 | 1,358,662 | 4,534,617 | 4,413,677 |
| Infrastructure | 2,207,849 | 2,259,239 | 23,039,978 | 24,042,531 | 25,247,827 | 26,301,770 |
| Construction in progress | 1,619,824 | 337,869 | 5,820,117 | 490,677 | 7,439,941 | 828,546 |
| Lease machinery and equipment | 142,365 | 165,306 | - | - | 142,365 | 165,306 |
| Total | \$ 27,250,949 | \$ 26,314,710 | \$ 30,059,867 | \$ 25,891,870 | \$ 57,310,816 | \$ 52,206,580 |

Debt Administration

The City of Covington’s total debt and liability by the end of FY 23 decreased driven by significant projected decreases in Net Pension Liability. Additional detailed information on these costs can be found in Note #7.

The Primary Government has “other liability” related Compensated Absences, Other Post-Employment Benefits (OPEB), and Net Pensions Liability as documented in the chart below. Pension contributions are budgeted annually and administered the Virginia Retirement System.

In Business-Type Activities, two of the three revenue bonds are held at zero % interest thru the Virginia Resources Authority. Although costly, over the last seven years, the city realized the need for infrastructure improvements by beginning and completing projects as they are fiscally and feasibly possible through rate increases, borrowings, and strategic use of proprietary funds reserves.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the assessed value of taxable real estate. The current debt limitation for the City of Covington is \$30,053,860 with General Obligation debt currently at \$21,320,720. As of June 30, 2023, the legal debt margin stands at \$8,733,140.

**City of Covington’s Outstanding Debt
Summary of Outstanding Debt and Liability
For the Year Ended June 30, 2023 and June 30, 2022**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| General Obligation Refunding Bonds | \$ 12,146,961 | \$ 12,886,236 | \$ - | \$ - | \$ 12,146,961 | \$ 12,886,236 |
| Deferred Amounts | | | | | | |
| Bond Premiums | 698,759 | 785,959 | 169,884 | 188,051 | 868,643 | 974,010 |
| Literary Loans | 8,475,000 | 8,955,000 | - | - | 8,475,000 | 8,955,000 |
| Revenue Bonds | - | - | 12,978,721 | 13,219,526 | 12,978,721 | 13,219,526 |
| Finance Purchase | 885,377 | 1,090,470 | 826,400 | 1,020,352 | 1,711,777 | 2,110,822 |
| Landfill Closure/Post Closure Liability | - | - | 6,784,579 | 5,344,946 | 6,784,579 | 5,344,946 |
| Leases Payable | 148,066 | 166,779 | - | - | 148,066 | 166,779 |
| Compensated Absences | 225,081 | 216,377 | 55,471 | 58,623 | 280,552 | 275,000 |
| Net OPEB Liabilities | 672,554 | 707,241 | 207,261 | 258,605 | 879,815 | 965,846 |
| Net Pension Liability | 1,757,455 | 1,598,148 | 537,522 | 584,368 | 2,294,977 | 2,182,516 |
| Total | \$ 25,009,253 | \$ 26,406,210 | \$ 21,559,838 | \$ 20,674,471 | \$ 46,569,091 | \$ 47,080,681 |

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City of Covington and were considered in developing the 2024 Fiscal Year Budget:

- Funding has been acquired and grant requests written as the city will be actively involved in both local and regional economic development projects in FY 24 including development of a joint pad site with Alleghany County.
- As of June 30, 2023 the City of Covington's unemployment rate was at 3.4% per VEC reporting.
- There were no rate increases in Business-Type Activity Funds in Water and Sewer and there were no changes to Solid-Waste charges in the FY 2024 Budget.
- Real Estate Taxes per \$100.00 of value remained the same \$0.85 in the FY 24 budget and still remains one of the lowest rates in Virginia for an independent city that also provides for full governmental services and a joint school system.
- The FY 24 General Fund revenue budget was decreased in strategic areas based on projected revenues anticipated and expenditures reduced accordingly. No impacts to services and improvements anticipated as additional funds are available as projects are finalized.
- No unassigned fund balance was utilized to balance the 2023-2024 General Fund Budget.
- The city has embarked on a paving assessment plan that is included in the budget for the eighth straight year after no such prior dedicated efforts. Additionally, paving improvements during FY 24 will also continue to be funded as well as the addition of bridge maintenance funding at the local level. Local funding is increased at \$795,000 for street paving and \$100,000 for sidewalks. Also, \$50,000 for bridge maintenance and \$45,000 for related engineering services are included in the FY 24 Budget.
- The current budget includes \$37,500 specifically for storm water improvements which is in the budget for the fifth consecutive year as a newer infrastructure line item.
- The second phase of the Maple Avenue Streetscape Project was completed in FY 22 with a VDOT/Federal 80/20 match program. Phase 3 of this project will be completed in budget year FY 24.
- Economic development is taking place downtown. The City has hired a Small Business Coordinator (new position). Both physical and small business are anticipated in FY 24.

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 Office of the Director of Finance & Administration, 333 W. Locust Street, Covington, VA, 24426.

Basic Financial Statements

City of Covington, Virginia
Statement of Net Position
June 30, 2023

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 16,734,500 | \$ 2,148,805 | \$ 18,883,305 |
| Investments | 146,774 | - | 146,774 |
| Receivables (net of allowance for uncollectibles): | | | |
| Taxes receivable | 3,347,726 | - | 3,347,726 |
| Other local taxes receivable | 234,730 | - | 234,730 |
| Accounts receivable | 309,359 | 907,937 | 1,217,296 |
| Notes receivable | 59,650 | - | 59,650 |
| Due from other funds | - | - | - |
| Due from other governmental units | 1,339,619 | 866,294 | 2,205,913 |
| Prepaid items | 87,041 | - | 87,041 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 300,416 | 300,416 |
| Investments | - | 397,320 | 397,320 |
| Capital assets not being depreciated/amortized: | | | |
| Land | 1,967,944 | - | 1,967,944 |
| Construction in progress | 1,619,824 | 5,820,117 | 7,439,941 |
| Capital assets, net of accumulated depreciation/amortization: | | | |
| Buildings and improvements | 17,978,122 | - | 17,978,122 |
| Machinery and equipment | 3,334,845 | 1,199,772 | 4,534,617 |
| Lease machinery and equipment | 142,365 | - | 142,365 |
| Infrastructure | 2,207,849 | 23,039,978 | 25,247,827 |
| Total Assets | <u>\$ 49,510,348</u> | <u>\$ 34,680,639</u> | <u>\$ 84,190,987</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | \$ 552,909 | \$ - | \$ 552,909 |
| Pension related items | 671,728 | 196,058 | 867,786 |
| OPEB related items | 135,714 | 42,060 | 177,774 |
| Total Deferred Outflows of Resources | <u>\$ 1,360,351</u> | <u>\$ 238,118</u> | <u>\$ 1,598,469</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 1,084,604 | \$ 417,284 | \$ 1,501,888 |
| Accrued liabilities | 164,355 | 44,827 | 209,182 |
| Unearned revenue | 257,048 | - | 257,048 |
| Unearned revenue - ARPA grant | 2,958,487 | - | 2,958,487 |
| Retainage payable | - | 249,277 | 249,277 |
| Customers' deposits | - | 230,495 | 230,495 |
| Accrued interest payable | 260,646 | 51,347 | 311,993 |
| Noncurrent liabilities: | | | |
| Due within one year | 1,800,435 | 1,335,013 | 3,135,448 |
| Due in more than one year | 23,208,818 | 20,224,825 | 43,433,643 |
| Total Liabilities | <u>\$ 29,734,393</u> | <u>\$ 22,553,068</u> | <u>\$ 52,287,461</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred revenue - property taxes | \$ 2,850,485 | \$ - | \$ 2,850,485 |
| Pension related items | 1,398,602 | 602,677 | 2,001,279 |
| OPEB related items | 466,368 | 143,719 | 610,087 |
| Total Deferred Inflows of Resources | <u>\$ 4,715,455</u> | <u>\$ 746,396</u> | <u>\$ 5,461,851</u> |
| NET POSITION | | | |
| Net investment in capital assets | \$ 5,402,426 | \$ 15,495,074 | \$ 20,897,500 |
| Restricted nonexpendable: | | | |
| Cemetery care | 81,247 | - | 81,247 |
| Restricted expendable: | | | |
| Grants | 1,055,426 | - | 1,055,426 |
| Debt Service | - | 697,736 | 697,736 |
| Opioid settlement funds | 121,209 | - | 121,209 |
| Unrestricted (deficit) | 9,760,543 | (4,573,517) | 5,187,026 |
| Total Net Position (deficit) | <u>\$ 16,420,851</u> | <u>\$ 11,619,293</u> | <u>\$ 28,040,144</u> |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Activities
For the Year Ended June 30, 2023

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|------------------|----------------------|--------------------------|----------------------------------|---|--------------------------|-----------------|
| | Expenses | Charges for Services | Operating | | Governmental Activities | Business-type Activities | Total |
| | | | Grants and Contributions | Capital Grants and Contributions | | | |
| PRIMARY GOVERNMENT: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government administration | \$ 2,059,853 | \$ - | \$ 1,049,651 | \$ - | \$ (1,010,202) | \$ - | \$ (1,010,202) |
| Judicial administration | 312,757 | 708 | - | - | (312,049) | - | (312,049) |
| Public safety | 3,986,725 | 329,122 | 2,331,224 | 47,704 | (1,278,675) | - | (1,278,675) |
| Public works | 3,215,232 | 5,800 | 2,047,107 | 485,072 | (677,253) | - | (677,253) |
| Health and welfare | 2,914,894 | - | 1,002,525 | - | (1,912,369) | - | (1,912,369) |
| Education | 3,618,133 | - | - | - | (3,618,133) | - | (3,618,133) |
| Parks, recreation, and cultural | 1,968,976 | 92,458 | 581,639 | - | (1,294,879) | - | (1,294,879) |
| Community development | 247,509 | 466 | 9,640 | 8,500 | (228,903) | - | (228,903) |
| Interest on long-term debt | 626,962 | - | - | - | (626,962) | - | (626,962) |
| Total governmental activities | \$ 18,951,041 | \$ 428,554 | \$ 7,021,786 | \$ 541,276 | \$ (10,959,425) | \$ (10,959,425) | \$ (10,959,425) |
| Business-type activities: | | | | | | | |
| Water | \$ 1,791,435 | \$ 1,989,270 | \$ - | \$ - | \$ - | \$ 197,835 | \$ 197,835 |
| Sewer | 1,657,358 | 1,600,521 | - | - | 1,008,789 | 1,008,789 | 1,008,789 |
| Solid Waste | 2,706,888 | 1,802,705 | - | 1,065,626 | (904,183) | (904,183) | (904,183) |
| Total business-type activities | \$ 6,155,681 | \$ 5,392,496 | \$ - | \$ 1,065,626 | \$ 302,441 | \$ 302,441 | \$ 302,441 |
| Total primary government | \$ 25,106,722 | \$ 5,821,050 | \$ 7,021,786 | \$ 1,606,902 | \$ (10,959,425) | \$ 302,441 | \$ (10,656,984) |
| COMPONENT UNIT: | | | | | | | |
| School Board | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| General revenues: | | | | | | | |
| General property taxes | | \$ 10,676,170 | \$ - | \$ - | \$ 10,676,170 | \$ - | \$ - |
| Other local taxes: | | | | | | | |
| Local sales and use taxes | | 1,737,951 | - | - | 1,737,951 | - | - |
| Consumers' utility taxes | | 373,870 | - | - | 373,870 | - | - |
| Consumption taxes | | 20,111 | - | - | 20,111 | - | - |
| Business license taxes | | 631,681 | - | - | 631,681 | - | - |
| Motor vehicle licenses | | 190,081 | - | - | 190,081 | - | - |
| Bank stock taxes | | 255,944 | - | - | 255,944 | - | - |
| Recordation taxes | | 31,112 | - | - | 31,112 | - | - |
| Hotel and motel room taxes | | 43,996 | - | - | 43,996 | - | - |
| Restaurant food taxes | | 1,169,357 | - | - | 1,169,357 | - | - |
| Tobacco taxes | | 99,116 | - | - | 99,116 | - | - |
| Unrestricted revenues from use of money | | 233,451 | 18,411 | - | 251,862 | - | - |
| Miscellaneous | | 463,271 | 39,493 | - | 502,764 | - | - |
| Grants and contributions not restricted to specific programs | | 799,182 | - | - | 799,182 | - | - |
| Special item - transfer to new school division | | - | - | - | - | - | 7,515,807 |
| Transfers | | 436,383 | (436,383) | - | - | - | - |
| Total general revenues, special items and transfers | | \$ 17,161,676 | \$ (378,479) | \$ 16,783,197 | \$ 16,783,197 | \$ 7,515,807 | \$ 7,515,807 |
| Change in net position | | \$ 6,202,251 | \$ (76,038) | \$ 6,126,213 | \$ 6,126,213 | \$ 7,515,807 | \$ 7,515,807 |
| Net position (deficit) - beginning | | 10,218,600 | 11,695,331 | 21,913,931 | (7,515,807) | | |
| Net position (deficit) - ending | | \$ 16,420,851 | \$ 11,619,293 | \$ 28,040,144 | \$ - | \$ - | \$ - |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2023

| | General | City Capital Projects | CARES | ARPA | Nonmajor Governmental | Total |
|---|----------------------|-----------------------------|-------------|---------------------|--------------------------|----------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 13,597,418 | \$ 178,595 | \$ - | \$ 2,958,487 | \$ - | \$ 16,734,500 |
| Investments | 65,527 | - | - | - | 81,247 | 146,774 |
| Receivables (net of allowance for uncollectibles): | | | | | | |
| Taxes receivable | 3,347,726 | - | - | - | - | 3,347,726 |
| Other local taxes receivables | 234,730 | - | - | - | - | 234,730 |
| Accounts receivable | 309,359 | - | - | - | - | 309,359 |
| Notes receivable | 59,650 | - | - | - | - | 59,650 |
| Due from other funds | - | - | - | - | - | - |
| Intergovernmental receivable | 1,339,619 | - | - | - | - | 1,339,619 |
| Prepaid items | 87,041 | - | - | - | - | 87,041 |
| Total assets | <u>\$ 19,041,070</u> | <u>\$ 178,595</u> | <u>\$ -</u> | <u>\$ 2,958,487</u> | <u>\$ 81,247</u> | <u>\$ 22,259,399</u> |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 1,080,152 | \$ 4,452 | \$ - | \$ - | \$ - | \$ 1,084,604 |
| Accrued liabilities | 164,355 | - | - | - | - | 164,355 |
| Unearned revenue | 257,048 | - | - | - | - | 257,048 |
| Unearned revenue - ARPA grant | - | - | - | 2,958,487 | - | 2,958,487 |
| Total liabilities | <u>\$ 1,501,555</u> | <u>\$ 4,452</u> | <u>\$ -</u> | <u>\$ 2,958,487</u> | <u>\$ -</u> | <u>\$ 4,464,494</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable revenue - property taxes | \$ 3,329,748 | \$ - | \$ - | \$ - | \$ - | \$ 3,329,748 |
| Unavailable revenue - opioid settlement | 88,174 | - | - | - | - | 88,174 |
| | <u>\$ 3,417,922</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,417,922</u> |
| FUND BALANCES | | | | | | |
| Nonspendable: | | | | | | |
| Prepaid items | \$ 87,041 | \$ - | \$ - | \$ - | \$ - | \$ 87,041 |
| Cemetery care | - | - | - | - | 81,247 | 81,247 |
| Note receivable | 59,650 | - | - | - | - | 59,650 |
| Restricted: | | | | | | |
| Opioid settlement | 33,035 | - | - | - | - | 33,035 |
| Grants | 1,055,426 | - | - | - | - | 1,055,426 |
| Capital projects | - | 174,143 | - | - | - | 174,143 |
| Unassigned | 12,886,441 | - | - | - | - | 12,886,441 |
| Total fund balances | <u>\$ 14,121,593</u> | <u>\$ 174,143</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 81,247</u> | <u>\$ 14,376,983</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 19,041,070</u> | <u>\$ 178,595</u> | <u>\$ -</u> | <u>\$ 2,958,487</u> | <u>\$ 81,247</u> | <u>\$ 22,259,399</u> |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Position
 June 30, 2023

Amounts reported for governmental activities in the statement of net position are different because:

| | | |
|---|----|--------------|
| Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds | \$ | 14,376,983 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Land | \$ | 1,967,944 |
| Buildings and improvements | | 17,978,122 |
| Machinery and equipment | | 3,334,845 |
| Lease machinery and equipment | | 142,365 |
| Infrastructure | | 2,207,849 |
| Construction in progress | | 1,619,824 |
| | | 27,250,949 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds. | | |
| Unavailable revenue - property taxes | | 479,263 |
| Unavailable revenue - opioid settlement | | 88,174 |
| | | 567,437 |
| Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds | | |
| Pension related items | \$ | 671,728 |
| OPEB related items | | 135,714 |
| | | 807,442 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| General obligation bonds | \$ | (12,146,961) |
| Less: Deferred charges on refunding | | 552,909 |
| Literary Loans | | (8,475,000) |
| Finance purchases | | (885,377) |
| Unamortized premium | | (698,759) |
| Leases payable | | (148,066) |
| Compensated absences | | (225,081) |
| Accrued interest payable | | (260,646) |
| Net OPEB liabilities | | (672,554) |
| Net pension liability | | (1,757,455) |
| | | (24,716,990) |
| Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Pension related items | \$ | (1,398,602) |
| OPEB related items | | (466,368) |
| | | (1,864,970) |
| Net position of governmental activities | \$ | 16,420,851 |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2023

| | General | City Capital Projects | CARES | ARPA | Nonmajor Governmental | Total |
|--|-----------------------|-----------------------------|---------------------|-----------------------|--------------------------|----------------------|
| REVENUES | | | | | | |
| General property taxes | \$ 10,714,032 | \$ - | \$ - | \$ - | \$ - | \$ 10,714,032 |
| Other local taxes | 4,553,219 | - | - | - | - | 4,553,219 |
| Permits, privilege fees, and regulatory licenses | 11,222 | - | - | - | - | 11,222 |
| Fines and forfeitures | 1,690 | - | - | - | - | 1,690 |
| Revenue from the use of money and property | 233,451 | - | - | - | - | 233,451 |
| Charges for services | 415,642 | - | - | - | - | 415,642 |
| Miscellaneous | 375,097 | - | - | - | - | 375,097 |
| Recovered costs | 272,641 | - | - | - | - | 272,641 |
| Intergovernmental: | | | | | | |
| Commonwealth | 3,812,405 | - | - | - | - | 3,812,405 |
| Federal | 547,442 | - | 136,094 | 3,866,303 | - | 4,549,839 |
| Total revenues | <u>\$ 20,936,841</u> | <u>\$ -</u> | <u>\$ 136,094</u> | <u>\$ 3,866,303</u> | <u>\$ -</u> | <u>\$ 24,939,238</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government administration | \$ 2,104,393 | \$ - | \$ 18,790 | \$ - | \$ - | \$ 2,123,183 |
| Judicial administration | 312,757 | - | - | - | - | 312,757 |
| Public safety | 5,155,960 | - | - | - | - | 5,155,960 |
| Public works | 4,547,893 | - | - | 11,303 | 45,723 | 4,604,919 |
| Health and welfare | 1,739,058 | - | - | - | - | 1,739,058 |
| Education | 3,013,277 | - | - | - | - | 3,013,277 |
| Parks, recreation, and cultural | 2,680,119 | - | - | - | - | 2,680,119 |
| Community development | 215,615 | - | - | - | - | 215,615 |
| Nondepartmental | 233,561 | - | - | - | - | 233,561 |
| Capital projects | - | 73,926 | - | - | - | 73,926 |
| Debt service: | | | | | | |
| Principal retirement | 1,515,623 | - | - | - | - | 1,515,623 |
| Interest and other fiscal charges | 685,197 | - | - | - | - | 685,197 |
| Total expenditures | <u>\$ 22,203,453</u> | <u>\$ 73,926</u> | <u>\$ 18,790</u> | <u>\$ 11,303</u> | <u>\$ 45,723</u> | <u>\$ 22,353,195</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (1,266,612)</u> | <u>\$ (73,926)</u> | <u>\$ 117,304</u> | <u>\$ 3,855,000</u> | <u>\$ (45,723)</u> | <u>\$ 2,586,043</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | \$ 4,427,477 | \$ - | \$ - | \$ - | \$ - | \$ 4,427,477 |
| Transfers out | - | - | (136,094) | (3,855,000) | - | (3,991,094) |
| Issuance of lease liabilities | 38,816 | - | - | - | - | 38,816 |
| Issuance of general obligation bond | - | 33,726 | - | - | - | 33,726 |
| Total other financing sources (uses) | <u>\$ 4,466,293</u> | <u>\$ 33,726</u> | <u>\$ (136,094)</u> | <u>\$ (3,855,000)</u> | <u>\$ -</u> | <u>\$ 508,925</u> |
| Net change in fund balances | \$ 3,199,681 | \$ (40,200) | \$ (18,790) | \$ - | \$ (45,723) | \$ 3,094,968 |
| Fund balances - beginning | 10,921,912 | 214,343 | 18,790 | - | 126,970 | 11,282,015 |
| Fund balances - ending | <u>\$ 14,121,593</u> | <u>\$ 174,143</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 81,247</u> | <u>\$ 14,376,983</u> |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2023

| | Enterprise Funds | | | Total |
|--|----------------------|----------------------|-----------------------|----------------------|
| | Water Fund | Sewer Fund | Solid Waste Fund | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 3,768,610 | \$ - | \$ 1,199,200 | \$ 4,967,810 |
| Accounts receivable | 416,912 | 224,381 | 266,644 | 907,937 |
| Due from other governmental units | - | 866,294 | - | 866,294 |
| Restricted current assets: | | | | |
| Cash and cash equivalents | - | 300,416 | - | 300,416 |
| Investments | 397,320 | - | - | 397,320 |
| Total current assets | <u>\$ 4,582,842</u> | <u>\$ 1,391,091</u> | <u>\$ 1,465,844</u> | <u>\$ 7,439,777</u> |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Utility plant in service | \$ 15,980,454 | \$ 22,889,113 | \$ 3,204,170 | \$ 42,073,737 |
| Accumulated depreciation | (7,595,409) | (10,191,535) | (2,310,510) | (20,097,454) |
| Machinery and equipment | - | - | 2,263,467 | 2,263,467 |
| Construction in progress | - | 5,820,117 | - | 5,820,117 |
| Total capital assets | <u>\$ 8,385,045</u> | <u>\$ 18,517,695</u> | <u>\$ 3,157,127</u> | <u>\$ 30,059,867</u> |
| Total assets | <u>\$ 12,967,887</u> | <u>\$ 19,908,786</u> | <u>\$ 4,622,971</u> | <u>\$ 37,499,644</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension related items | \$ 71,822 | \$ 62,024 | \$ 62,212 | \$ 196,058 |
| OPEB related items | 14,808 | 13,078 | 14,174 | 42,060 |
| Total deferred outflows of resources | <u>\$ 86,630</u> | <u>\$ 75,102</u> | <u>\$ 76,386</u> | <u>\$ 238,118</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Reconciled overdraft | \$ - | \$ 2,819,005 | \$ - | \$ 2,819,005 |
| Accounts payable | 24,323 | 384,067 | 8,894 | 417,284 |
| Wages payable | 16,560 | 13,977 | 14,290 | 44,827 |
| Customers' deposits | 83,014 | 91,575 | 55,906 | 230,495 |
| Accrued interest payable | 33,334 | - | 18,013 | 51,347 |
| Retainage payable | - | 249,277 | - | 249,277 |
| Compensated absences - current portion | 16,554 | 13,279 | 11,770 | 41,603 |
| Loans payable - current portion | - | - | 177,249 | 177,249 |
| Bonds payable - current portion | 237,997 | 636,864 | 241,300 | 1,116,161 |
| Total current liabilities | <u>\$ 411,782</u> | <u>\$ 4,208,044</u> | <u>\$ 527,422</u> | <u>\$ 5,147,248</u> |
| Noncurrent liabilities: | | | | |
| Bonds payable - net of current portion | \$ 4,286,887 | \$ 6,723,557 | \$ 1,022,000 | \$ 12,032,444 |
| Net OPEB liabilities | 73,264 | 62,461 | 71,536 | 207,261 |
| Compensated absences - net of current portion | 5,518 | 4,427 | 3,923 | 13,868 |
| Loans payable - net of current portion | - | - | 649,151 | 649,151 |
| Landfill closure/postclosure estimate | - | - | 6,784,579 | 6,784,579 |
| Net pension liability | 194,718 | 157,422 | 185,382 | 537,522 |
| Total noncurrent liabilities | <u>\$ 4,560,387</u> | <u>\$ 6,947,867</u> | <u>\$ 8,716,571</u> | <u>\$ 20,224,825</u> |
| Total liabilities | <u>\$ 4,972,169</u> | <u>\$ 11,155,911</u> | <u>\$ 9,243,993</u> | <u>\$ 25,372,073</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension related items | \$ 229,612 | \$ 201,085 | \$ 171,980 | \$ 602,677 |
| OPEB related items | 50,802 | 43,311 | 49,606 | 143,719 |
| Total deferred inflows of resources | <u>\$ 280,414</u> | <u>\$ 244,396</u> | <u>\$ 221,586</u> | <u>\$ 746,396</u> |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 3,860,161 | \$ 10,567,486 | \$ 1,067,427 | \$ 15,495,074 |
| Restricted for debt service and bond covenants | 397,320 | 300,416 | - | 697,736 |
| Unrestricted | 3,544,453 | (2,284,321) | (5,833,649) | (4,573,517) |
| Total net position | <u>\$ 7,801,934</u> | <u>\$ 8,583,581</u> | <u>\$ (4,766,222)</u> | <u>\$ 11,619,293</u> |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2023

| | Enterprise Funds | | | <u>Total</u> |
|---|-----------------------|-----------------------|-----------------------------|----------------------|
| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Solid Waste Fund</u> | |
| OPERATING REVENUES | | | | |
| Charges for services: | | | | |
| Water revenues | \$ 1,952,195 | \$ - | \$ - | \$ 1,952,195 |
| Sewer revenues | - | 1,597,160 | - | 1,597,160 |
| Penalties | 37,075 | 3,361 | 8,236 | 48,672 |
| Waste Collection Disposal | - | - | 981,768 | 981,768 |
| Landfill Charges | - | - | 713,073 | 713,073 |
| Sludge Fees | - | - | 89,956 | 89,956 |
| Closure Fees | - | - | 9,672 | 9,672 |
| Miscellaneous | 7,265 | 16,525 | 15,703 | 39,493 |
| Total operating revenues | <u>\$ 1,996,535</u> | <u>\$ 1,617,046</u> | <u>\$ 1,818,408</u> | <u>\$ 5,431,989</u> |
| OPERATING EXPENSES | | | | |
| Salaries and wages | \$ 495,408 | \$ 402,880 | \$ 428,738 | \$ 1,327,026 |
| Fringes | 72,479 | 75,339 | 95,023 | 242,841 |
| Contracted services | 124,566 | 126,603 | 194,614 | 445,783 |
| Other charges | 598,072 | 392,326 | 232,806 | 1,223,204 |
| Purchase of equipment | - | 37,413 | 3,000 | 40,413 |
| Lease/rent of equipment | 737 | 103 | 228 | 1,068 |
| Depreciation | 382,751 | 622,694 | 225,363 | 1,230,808 |
| Landfill closure | - | - | 1,478,513 | 1,478,513 |
| Total operating expenses | <u>\$ 1,674,013</u> | <u>\$ 1,657,358</u> | <u>\$ 2,658,285</u> | <u>\$ 5,989,656</u> |
| Operating income (loss) | <u>\$ 322,522</u> | <u>\$ (40,312)</u> | <u>\$ (839,877)</u> | <u>\$ (557,667)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | \$ 14,293 | \$ 4,118 | \$ - | \$ 18,411 |
| Interest expense | (117,422) | - | (48,603) | (166,025) |
| Total nonoperating revenues (expenses) | <u>\$ (103,129)</u> | <u>\$ 4,118</u> | <u>\$ (48,603)</u> | <u>\$ (147,614)</u> |
| Income (loss) before transfers and capital contributions and grants | <u>\$ 219,393</u> | <u>\$ (36,194)</u> | <u>\$ (888,480)</u> | <u>\$ (705,281)</u> |
| Capital contributions and construction grants | \$ - | \$ 1,065,626 | \$ - | \$ 1,065,626 |
| Transfers in | - | 182,429 | - | 182,429 |
| Transfers out | (420,085) | (185,127) | (13,600) | (618,812) |
| Change in net position | <u>\$ (200,692)</u> | <u>\$ 1,026,734</u> | <u>\$ (902,080)</u> | <u>\$ (76,038)</u> |
| Net position - beginning | 8,002,626 | 7,556,847 | (3,864,142) | 11,695,331 |
| Net position - ending | <u>\$ 7,801,934</u> | <u>\$ 8,583,581</u> | <u>\$ (4,766,222)</u> | <u>\$ 11,619,293</u> |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2023

| | Enterprise Funds | | | Total |
|--|---------------------|-----------------------|---------------------|-----------------------|
| | Water Fund | Sewer Fund | Solid Waste Fund | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 2,172,703 | \$ 805,545 | \$ 1,739,529 | \$ 4,717,777 |
| Payments to suppliers | (735,355) | (562,910) | (474,390) | (1,772,655) |
| Payments to employees | (683,638) | (567,603) | (594,104) | (1,845,345) |
| Net cash provided by (used for) operating activities | <u>\$ 753,710</u> | <u>\$ (324,968)</u> | <u>\$ 671,035</u> | <u>\$ 1,099,777</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers to other funds | \$ (420,085) | \$ (185,127) | \$ (13,600) | \$ (618,812) |
| Transfers from other funds | - | 182,429 | - | 182,429 |
| Net cash provided by (used for) noncapital financing activities | <u>\$ (420,085)</u> | <u>\$ (2,698)</u> | <u>\$ (13,600)</u> | <u>\$ (436,383)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchase of assets | \$ - | \$ (4,800,971) | \$ (8,044) | \$ (4,809,015) |
| Principal payments on bonds | (210,000) | (589,900) | (235,800) | (1,035,700) |
| Principal payments on finance purchases | - | - | (193,952) | (193,952) |
| Capital grants | - | 1,065,626 | - | 1,065,626 |
| Proceeds from indebtedness | - | 794,895 | - | 794,895 |
| Interest payments | (137,843) | - | (52,202) | (190,045) |
| Net cash provided by (used for) capital and related financing activities | <u>\$ (347,843)</u> | <u>\$ (3,530,350)</u> | <u>\$ (489,998)</u> | <u>\$ (4,368,191)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest income | \$ 14,293 | \$ 4,118 | \$ - | \$ 18,411 |
| Net increase (decrease) in cash and cash equivalents | \$ 75 | \$ (3,853,898) | \$ 167,437 | \$ (3,686,386) |
| Cash and cash equivalents - beginning (including restricted cash and cash equivalents of \$679,235) | <u>4,165,855</u> | <u>1,335,309</u> | <u>1,031,763</u> | <u>6,532,927</u> |
| Cash and cash equivalents - ending (including restricted cash and cash equivalents of \$300,416 and investments of \$397,320) | <u>\$ 4,165,930</u> | <u>\$ (2,518,589)</u> | <u>\$ 1,199,200</u> | <u>\$ 2,846,541</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | \$ 322,522 | \$ (40,312) | \$ (839,877) | \$ (557,667) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | \$ 382,751 | \$ 622,694 | \$ 225,363 | \$ 1,230,808 |
| (Increase) decrease in accounts receivable | 172,440 | 38,576 | (82,309) | 128,707 |
| (Increase) decrease in intergovernmental receivables | - | (854,324) | - | (854,324) |
| (Increase) decrease in deferred outflows of resources | 49,286 | 36,873 | 62,066 | 148,225 |
| Increase (decrease) in customer deposits | 3,728 | 4,247 | 3,430 | 11,405 |
| Increase (decrease) in accounts payable | (11,980) | (6,465) | (4,862) | (23,307) |
| Increase (decrease) in wages payable | 4,419 | 4,557 | 4,844 | 13,820 |
| Increase (decrease) in compensated absences | (7,103) | 2,595 | 1,356 | (3,152) |
| Increase (decrease) in net OPEB liabilities | (22,472) | (16,751) | (12,121) | (51,344) |
| Increase (decrease) in net pension liability | (21,615) | (21,573) | (3,658) | (46,846) |
| Increase (decrease) in closure/postclosure estimate | - | - | 1,439,633 | 1,439,633 |
| Increase (decrease) in deferred inflows of resources | (118,266) | (95,085) | (122,830) | (336,181) |
| Total adjustments | <u>\$ 431,188</u> | <u>\$ (284,656)</u> | <u>\$ 1,510,912</u> | <u>\$ 1,657,444</u> |
| Net cash provided by (used for) operating activities | <u>\$ 753,710</u> | <u>\$ (324,968)</u> | <u>\$ 671,035</u> | <u>\$ 1,099,777</u> |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2023

| | Custodial Funds |
|---------------------------|-------------------------|
| | Drug Task Force Fund |
| ASSETS | |
| Cash and cash equivalents | \$ 6,699 |
| Total assets | \$ 6,699 |
| LIABILITIES | |
| Accounts payable | \$ - |
| Total liabilities | \$ - |
| NET POSITION | |
| Restricted for: | |
| Held for drug task force | 6,699 |
| Total net position | \$ 6,699 |

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2023

| | | Custodial Funds |
|--|----|---------------------------------|
| | | <u>Drug Task Force Fund</u> |
| ADDITIONS | | |
| Contribution from Alleghany Highlands Regional Drug Task Force | \$ | <u>6,687</u> |
| Total additions | \$ | <u>6,687</u> |
| DEDUCTIONS | | |
| Task force supplies | \$ | <u>3,141</u> |
| Total deductions | \$ | <u>3,141</u> |
| Net increase (decrease) in fiduciary net position | \$ | 3,546 |
| Net position - beginning | | 3,153 |
| Net position - ending | \$ | <u><u>6,699</u></u> |

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

Note 1 - Summary of Significant Accounting Policies:

The financial statements of the City conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The City of Covington, Virginia is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - The City has no blended component units.

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component unit. It is reported in a separate column to emphasize that it is legally separate from the City.

Discretely presented component units - The City has no discretely presented component units.

On July 1, 2022 Covington City Public Schools (CCPS) and Alleghany County Public Schools (ACPS) merged to form Alleghany Highlands Public Schools. As a result, the Covington City Public Schools is no longer a component unit of the City.

Jointly Governed Organizations - The City is represented in the governing body of the Alleghany Highlands Community Service Board, the Charles Pinckney Jones Memorial Library, and the Alleghany-Covington Social Services Board.

The City along with the County of Alleghany, the Towns of Clifton Forge and Iron Gate participate in supporting the Alleghany Highlands Community Service Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2023 was \$82,566.

The City participates in the Alleghany Highlands Regional Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2023 was \$133,209.

The City participates in the Alleghany-Covington Social Services Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City is billed directly for costs associated with this organization on a monthly basis.

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component unit. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund 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.

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease assets, are reports as expenditures in the governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds.

The City Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

The CARES Fund (Major Special Revenue Fund) accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for Coronavirus Relief Funds.

The ARPA Fund (Major Special Revenue Fund) accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for American Rescue Plan Act Funds.

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government reports the following nonmajor governmental funds:

The Cemetery Fund (Permanent Fund) accounts for and reports financial resources that are restricted such that only earnings may be used for purposes that support the reporting government's programs (i.e. for the benefit of the government or its citizens). The Cemetery Fund accounts for investments and related earnings which are used to offset the cost of the Cedar Hill Cemetery.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment plant, a water filtration and distribution system, and a landfill. The activities of the systems are accounted for in the Water, Sewer, and Solid Waste Funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Additionally, the government reports the following fund types:

Fiduciary funds (trust and custodial funds) account for assets held by the government in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. Fiduciary funds are not included in the government-wide financial statements. The Custodial fund consists of the drug task force fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 City's enterprise fund and the internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1 - Summary of Significant Accounting Policies: (Continued)

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

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and Collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

2. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

3. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$192,916 at June 30, 2023 and is comprised solely of property taxes.

4. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on December 5th and June 5th. Personal property taxes are due and collectible annually on December 5th and June 5th. The City bills and collects its own property taxes.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

6. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed (except for intangible right-to-use assets (lease assets), the measurement of which is discussed in more detail below). Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment and infrastructure of the primary government, as well as of the component unit, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------------|--------------|
| Capital assets: | |
| Buildings | 40 |
| Building improvements | 40 |
| Infrastructure | 20-40 |
| Machinery and equipment | 4-30 |
| Lease machinery and equipment | 4-30 |

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The City accrues salary-related payments associated with the payment of compensated absences.

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

9. Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called “fund balance.” City governmental funds report the following categories of fund balance, based on the nature of any limitation requiring the use of resources for specific purposes:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaid expenditures) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;
- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

9. Fund Balance (Continued)

- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

Committed Fund Balance Policy:

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy:

The City Council has authorized the City Manager or Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance Policy:

The City will make every effort to maintain an unassigned fund balance in the general fund equal to or greater than 18% expenditures/operating revenues. The City considers a balance of less than 18% to be a cause for concern, barring unusual or deliberate circumstances.

Resource Flow Policy:

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned, as they are needed.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures/expense) until then. The City has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the short of the life of the refunded or refunding debt. The other item is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until this time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes and opioid settlement receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to pension and OPEB are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's Retirement Plan and the additions to/deductions from the City's Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, HIC and Teacher HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition to the VRS related OPEB, the City allows their retirees to stay on the health insurance plan after retirement. The retiree is required to pay the blended premium cost creating and implicit subsidy OPEB liability. In addition, retirees receive a monthly stipend towards their health insurance cost until the retiree is Medicare eligible.

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

13. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

14. Leases

The City leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessee

The City recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

14. Leases (Continued)

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease liability (lessee).

The City monitors changes in circumstances that would require a remeasurement or modification of its leases. The City will remeasure the lease asset and liability (lessee) if certain changes occur that are expected to significantly affect the amount of the lease liability.

Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary Information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund, CARES Fund, ARPA Fund, Solid Waste Management Fund, Water Fund and Sewer Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of two readings of a Budget Appropriations Ordinance.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation by function. The City Manager is authorized to transfer budgeted amounts within general government activities or departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 2 - Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary Information (Continued)

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by Project.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2023, the Education Department had expenditures in excess of appropriations.

C. Deficit Fund Balance

At June 30, 2023, the Solid Waste Fund had a deficit fund balance.

Note 3 - Deposits and Investments:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporations (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 3 - Deposits and Investments: (Continued)

Investments (Continued)

At June 30, 2023 and June 30, 2022, the City had 1,176 shares of MetLife Trust stock valued at \$55.72 and \$62.29 per share for a total value of \$65,527 and \$73,258, respectively. The City also had 2,677 shares of Truist Financial Corporation stock valued at \$30.35 and \$47.43 per share for a total value of \$81,247 and \$126,970, respectively.

The City’s rated debt investments as of June 30, 2023 were rated by Standard & Poor’s and the ratings are presented using the Standard & Poor’s rating scale.

| City's Rated Debt Investment Values | |
|-------------------------------------|----------------------|
| Rated Debt Investments | Fair Quality Ratings |
| | AAAm |
| State Non-arbitrage Pool (SNAP) | \$ 397,230 |

The City’s interest rate risk as of June 30, 2023:

| Interest Rate Risk | | |
|---------------------------------|------------|----------------|
| Investment type | Fair Value | Less than 1 yr |
| State Non-arbitrage Pool (SNAP) | \$ 397,230 | \$ 397,230 |

External Investment Pool

The value of the positions in the external investment pool (State Non-Arbitrage Pool) is the same as the value of the pool shares. As SNAP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. SNAP is an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 4 - Fair Value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The City maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The City has the following recurring fair value measurements as of June 30, 2023:

| Investment | 6/30/2023 | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1) |
|------------------------------------|-----------|--|
| MetLife Trust Stock | \$ 65,527 | \$ 65,527 |
| Truist Financial Corporation Stock | 81,247 | 81,247 |

The remainder of this page is left blank intentionally.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 5 - Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

| | Primary Government | |
|--|-----------------------|----------------------|
| | <u>Governmental</u> | <u>Business-type</u> |
| <u>Commonwealth of Virginia:</u> | | |
| Local sales tax | \$ 290,398 | \$ - |
| Non-categorical aid | 289,431 | - |
| Categorical aid - shared expenses | 14,653 | - |
| Categorical aid - Comprehensive Services Act | 289,937 | - |
| Categorical aid - VPA | 323 | - |
| Categorical aid - other | 447,140 | - |
| <u>Federal Government:</u> | | |
| Categorical aid - VPA | 3,337 | - |
| Categorical aid - other | 4,400 | 866,294 |
| | <u>4,400</u> | <u>866,294</u> |
| Totals | <u>\$ 1,339,619</u> | <u>\$ 866,294</u> |

Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2023, consisted of the following:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|---------------------|----------------------|
| Primary Government: | | |
| General Fund | \$ 4,427,477 | \$ - |
| CARES Fund | - | 136,094 |
| ARPA Fund | - | 3,855,000 |
| Water Fund | - | 420,085 |
| Sewer Fund | 182,429 | 185,127 |
| Solid Waste Fund | - | 13,600 |
| Total Primary Government | <u>\$ 4,609,906</u> | <u>\$ 4,609,906</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 7 - Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2023:

| | Balance July 1, 2022 | Increases/ Issuances | Decreases/ Retirements | Balance June 30, 2023 |
|--|-------------------------|-------------------------|---------------------------|--------------------------|
| Direct borrowings and placements | | | | |
| General obligation bonds | \$ 12,886,235 | \$ 33,726 | \$ (773,000) | \$ 12,146,961 |
| Deferred amounts: | | | | |
| Premium | 785,959 | - | (87,200) | 698,759 |
| Literary loans | 8,955,000 | - | (480,000) | 8,475,000 |
| Finance purchases | 1,090,470 | - | (205,093) | 885,377 |
| Total direct borrowings and placements | <u>\$ 23,717,664</u> | <u>\$ 33,726</u> | <u>\$ (1,545,293)</u> | <u>\$ 22,206,097</u> |
| Lease liabilities | 166,780 | 38,816 | (57,530) | 148,066 |
| Compensated absences | 216,377 | 170,987 | (162,283) | 225,081 |
| Net OPEB liabilities | 707,240 | 184,994 | (219,680) | 672,554 |
| Net pension liability | 1,598,148 | 1,775,668 | (1,616,361) | 1,757,455 |
| Total | <u>\$ 26,406,209</u> | <u>\$ 2,204,191</u> | <u>\$ (3,601,147)</u> | <u>\$ 25,009,253</u> |

Annual requirements to amortize long-term obligations and related interest are as follows:

| Year Ending June 30, | Direct Borrowings and Placements | | Lease liabilities | |
|-------------------------|----------------------------------|---------------------|-------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2024 | \$ 1,494,722 | \$ 639,204 | \$ 54,130 | \$ 12,300 |
| 2025 | 1,638,330 | 596,358 | 28,479 | 9,096 |
| 2026 | 1,527,073 | 551,027 | 31,792 | 5,784 |
| 2027 | 1,573,756 | 508,557 | 28,644 | 2,143 |
| 2028 | 1,618,457 | 463,751 | 5,021 | 188 |
| 2029-2033 | 5,155,000 | 1,729,658 | - | - |
| 2034-2038 | 4,990,000 | 1,123,684 | - | - |
| 2039-2041 | 3,510,000 | 276,275 | - | - |
| Totals | <u>\$ 21,507,338</u> | <u>\$ 5,888,514</u> | <u>\$ 148,066</u> | <u>\$ 29,511</u> |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 7 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term indebtedness:

| | Interest Rates | Issue Date | Final Maturity Date | Installment Amounts | Amount of Original Issue | Balance Governmental Activities | Amount Due Within One Year |
|---|----------------|------------|---------------------|-------------------------|--------------------------|---------------------------------|----------------------------|
| Direct Borrowings and Placements | | | | | | | |
| GO Refunding Bond | 2.47% | 9/29/2015 | 2028 | \$159,000-\$210,000 a+ | \$ 2,410,000 | \$ 1,000,000 | \$ 188,000 |
| VPSA GO Refunding Bond | 5.05%-4.30% | 11/21/2013 | 2041 | \$90,000-\$1,580,000 a+ | 11,630,000 | 8,645,000 | 460,000 |
| QZAB GO Bond | 0.00% | 11/30/2016 | 2031 | \$50,000 a- | 750,000 | 450,000 | 50,000 |
| VRA Go Bond | 5.13% | 8/4/2021 | 2037 | \$95,000-\$175,000 a+ | 2,045,000 | 1,950,000 | 100,000 |
| Joint Pad - GO Bond | 1.36% | 11/16/2021 | 2023 | \$68,236 a+ | 3,000,000 | 101,961 | - |
| Literary Loans | 2.00% | 2/16/2016 | 2038 | \$425,000-\$645,000 a+ | 11,645,000 | 8,475,000 | 490,000 |
| Finance Purchase - VML/VACo Equip Serie | 2.17% | 10/23/2017 | 2028 | \$293,450-\$323,381 a+ | 1,568,987 | 775,457 | 151,762 |
| Finance Purchase - Taser Project Axon | 0.00% | 7/15/2020 | 2025 | \$54,960 a- | 260,229 | 109,920 | 54,960 |
| Total Direct Borrowings and Placements | | | | | | \$ 21,507,338 | \$ 1,494,722 |
| Deferred Amount: | | | | | | | |
| Unamortized Premium | n/a | 8/4/2021 | n/a | n/a | \$ 398,069 | \$ 344,296 | \$ 50,469 |
| Unamortized Premium | n/a | 11/21/2013 | n/a | n/a | 496,278 | 354,463 | 32,303 |
| Total Deferred Amounts | | | | | | \$ 698,759 | \$ 82,772 |
| Lease Liabilities: | | | | | | | |
| Enterprise Unit #3988 | 10.63% | 4/1/2022 | 2027 | \$5,982-\$8,218 b | \$ 36,724 | \$ 29,020 | \$ 6,650 |
| Enterprise Unit #1669 | 10.63% | 4/1/2022 | 2027 | \$6,001-\$8,244 b | 36,842 | 29,114 | 6,671 |
| Enterprise Unit #5602 | 10.19% | 4/1/2022 | 2027 | \$5,367-\$7,275 b | 32,651 | 25,751 | 5,940 |
| Enterprise Unit #0840 | 12.71% | 1/1/2023 | 2028 | \$5,022-\$9,139 b | 38,816 | 35,566 | 6,254 |
| Datapatch Tower Lease | 2.00% | 4/1/2019 | 2024 | \$28,615-\$36,930 b | 176,035 | 28,615 | 28,615 |
| Total Lease Liabilities | | | | | | \$ 148,066 | \$ 54,130 |
| Other Obligations: | | | | | | | |
| Compensated Absences | | | | | | \$ 225,081 | \$ 168,811 |
| Net OPEB Liabilities | | | | | | 672,554 | - |
| Net pension liability | | | | | | 1,757,455 | - |
| Total Long-Term Obligations | | | | | | \$ 25,009,253 | \$ 1,800,435 |

(a+) - annual principal installments shown; does not include semi-annual interest installments

(a-) - annual principal installments shown

(a) - annual installment including principal and interest

(b) - monthly principal installments; does not include monthly interest installments

The City's general obligations bonds are subject to the State Aid Intercept Program. Under terms of the program, the City state aid is redirected to bond holders to cure any event(s) of default.

Collateral for finance purchases and leases is the underlying assets. Default provisions for finance purchases and leases include repossession of the asset.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 7 - Long-Term Obligations: (Continued)

Primary Government - Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2023:

| | <u>Balance</u> <u>July 1, 2022</u> | <u>Increases/</u> <u>Issuances</u> | <u>Decreases/</u> <u>Retirements</u> | <u>Balance</u> <u>June 30, 2023</u> |
|--|---------------------------------------|---------------------------------------|---|--|
| Direct borrowings and placements | | | | |
| Revenue bonds | \$ 13,219,526 | \$ 794,895 | \$ (1,035,700) | \$ 12,978,721 |
| Deferred amount: | | | | |
| Premium | 188,051 | - | (18,167) | 169,884 |
| Finance purchases | <u>1,020,352</u> | <u>-</u> | <u>(193,952)</u> | <u>826,400</u> |
| Total direct borrowings and placements | \$ 14,427,929 | \$ 794,895 | \$ (1,247,819) | \$ 13,975,005 |
| Landfill closure/postclosure estimate | 5,344,946 | 1,439,633 | - | 6,784,579 |
| Net OPEB liabilities | 258,605 | 47,433 | (98,777) | 207,261 |
| Compensated absences | 58,623 | 40,815 | (43,967) | 55,471 |
| Net pension liability | <u>584,368</u> | <u>520,708</u> | <u>(567,554)</u> | <u>537,522</u> |
| Total | \$ <u>20,674,471</u> | \$ <u>2,843,484</u> | \$ <u>(1,958,117)</u> | \$ <u>21,559,838</u> |

Annual requirements to amortize long-term obligations and the related interest are as follows:

Details of long-term indebtedness:

| Year Ending June 30, | Direct Borrowings and Placements | | | | | |
|-------------------------|----------------------------------|---------------------|---------------------|-------------|---------------------|-------------------|
| | Water | | Sewer | | Solid Waste | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2024 | \$ 220,000 | \$ 128,553 | \$ 636,864 | \$ - | \$ 418,549 | \$ 42,157 |
| 2025 | 225,000 | 121,284 | 636,864 | - | 406,470 | 32,842 |
| 2026 | 230,000 | 116,061 | 636,864 | - | 413,903 | 23,667 |
| 2027 | 235,000 | 110,399 | 636,864 | - | 421,554 | 14,321 |
| 2028 | 245,000 | 104,156 | 636,864 | - | 429,224 | 4,802 |
| 2029-2033 | 1,325,000 | 411,811 | 2,928,570 | - | - | - |
| 2034-2038 | 1,535,000 | 191,338 | 770,444 | - | - | - |
| 2039-2043 | 340,000 | 5,947 | 242,269 | - | - | - |
| 2044-2048 | <u>-</u> | <u>-</u> | <u>234,818</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Totals | \$ <u>4,355,000</u> | \$ <u>1,189,549</u> | \$ <u>7,360,421</u> | \$ <u>-</u> | \$ <u>2,089,700</u> | \$ <u>117,789</u> |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 7 - Long-Term Obligation: (Continued)

Primary Government - Business-type Activities Indebtedness: (Continued)

Details of long-term indebtedness: (Continued)

| | Interest Rates | Issue Date | Final Maturity Date | Installment Amounts | Amount of Original Issue | Balance Business-type Activities | Amount Due Within One Year |
|---|----------------|------------|---------------------|------------------------|--------------------------|----------------------------------|----------------------------|
| Direct Borrowings and Placements | | | | | | | |
| VRA Revenue Bond | 0.00% | 12/1/2010 | 2031 | \$250,000 a | \$ 5,000,000 | \$ 2,244,251 | \$ 250,000 |
| VRA Revenue Bond | 0.00% | 5/10/2012 | 2032 | \$162,500-325,000 a | 6,500,000 | 3,711,125 | 325,000 |
| VRA Revenue Bond | 2.04-4.83% | 4/4/2013 | 2039 | \$125,000-345,000 a+ | 5,395,000 | 1,330,000 | 180,000 |
| VRA Revenue Bond | 0.00% | 4/10/2018 | 2038 | \$7,450 sa | 298,000 | 230,950 | 14,900 |
| VRA Revenue Bond | 1.94-3.44% | 10/20/2019 | 2039 | \$35,000-240,000 a+ | 3,140,000 | 3,025,000 | 40,000 |
| VRA Revenue Bond | 0.00% | 5/1/2022 | 2048 | \$131,122 sa | 6,556,118 | 1,174,095 | 46,964 |
| VML-VACO General Obligation Bond | 2.28% | 10/16/2017 | 2028 | \$215,300-264,300 a+ | 2,390,500 | 1,263,300 | 241,300 |
| Finance Purchase - Garbage Truck | 3.15% | 10/25/2018 | 2024 | \$16,761-\$19,292 sa | 180,000 | 19,292 | 19,292 |
| Finance Purchase - VML/Vaco Equip Series | 1.70% | 10/23/2017 | 2028 | \$293,450-\$323,381 a+ | 1,568,987 | 807,108 | 157,957 |
| Total Direct Borrowings and Placements | | | | | | \$ 13,805,121 | \$ 1,275,413 |
| Deferred Amount: | | | | | | | |
| Unamortized Premium | n/a | 4/4/2013 | n/a | n/a | \$ 720,990 | \$ 169,884 | \$ 17,997 |
| Other Obligations: | | | | | | | |
| Compensated Absences | | | | | | \$ 55,471 | \$ 41,603 |
| Landfill Closure/Post-Closure Liability | | | | | | 6,784,579 | - |
| Net OPEB Liabilities | | | | | | 207,261 | - |
| Net Pension Liability | | | | | | 537,522 | - |
| Total Other Obligations | | | | | | \$ 7,584,833 | \$ 41,603 |
| Total Long-Term Obligations | | | | | | \$ 21,559,838 | \$ 1,335,013 |

(a+) - annual principal installments shown; does not include semi-annual interest installments

(a) - annual principal installments shown; no interest

(sa) - semi-annual installments including interest, if applicable

The City's general obligations bonds are subject to the State Aid Intercept Program. Under terms of the program, the City state aid is redirected to bond holders to cure any event(s) of default.

Collateral for finance purchases is the underlying assets. Default provisions for finance purchases include repossession of the asset.

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Note 8 - Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.

Note 8 - Pension Plan: (Continued)

Benefit Structures (Continued)

- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 8 - Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Primary Government</u> |
|--|-------------------------------|
| Inactive members or their beneficiaries currently receiving benefits | 97 |
| Inactive members: | |
| Vested inactive members | 8 |
| Non-vested inactive members | 17 |
| Inactive members active elsewhere in VRS | <u>22</u> |
| Total inactive members | 47 |
| Active members | <u>93</u> |
| Total covered employees | <u><u>237</u></u> |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required employer contribution rate for the year ended June 30, 2023 was 12.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$450,897 and \$506,769 for the years ended June 30, 2023 and June 30, 2022, respectively.

Note 8 - Pension Plan: (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's net pension liabilities was measured as of June 30, 2022. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

| | |
|---------------------------------------|--|
| Inflation | 2.50% |
| Salary increases, including inflation | 3.50% - 5.35% |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

Mortality rates:

All Others (Non-10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Mortality rates: (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Non-Hazardous Duty:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits:

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City’s Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

| | |
|---------------------------------------|---|
| Inflation | 2.50% |
| Salary increases, including inflation | 3.50% - 4.75% |
| Investment rate of return | 6.75%, net of pension plan investment expenses, including inflation |

Note 8 - Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

Mortality rates:

All Others (Non-10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 8 - Pension Plan: (Continued)

All Others (Non-10 Largest) - Hazardous Duty:

Mortality rates: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020. |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

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Note 8 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Long-Term Target Asset Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return* |
|--------------------------------------|--|---|---|
| Public Equity | 34.00% | 5.71% | 1.94% |
| Fixed Income | 15.00% | 2.04% | 0.31% |
| Credit Strategies | 14.00% | 4.78% | 0.67% |
| Real Assets | 14.00% | 4.47% | 0.63% |
| Private Equity | 14.00% | 9.73% | 1.36% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.73% | 0.22% |
| PIP - Private Investment Partnership | 3.00% | 6.55% | 0.20% |
| Total | 100.00% | | 5.33% |
| | | Inflation | 2.50% |
| | | **Expected arithmetic nominal return | 7.83% |

* The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8 - Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state employer contributions; the City was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2022, the rate contributed by the employer for the City Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

| | Primary Government | | |
|--|--------------------------------------|--|--|
| | Increase (Decrease) | | |
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at June 30, 2021 | \$ 27,191,051 | \$ 25,008,536 | \$ 2,182,515 |
| Changes for the year: | | | |
| Service cost | \$ 386,370 | \$ - | \$ 386,370 |
| Interest | 1,808,172 | - | 1,808,172 |
| Differences between expected and actual experience | (1,435,842) | - | (1,435,842) |
| Contributions - employer | - | 506,469 | (506,469) |
| Contributions - employee | - | 167,850 | (167,850) |
| Net investment income | - | (12,889) | 12,889 |
| Benefit payments, including refunds of employee contributions | (1,579,389) | (1,579,389) | - |
| Administrative expenses | - | (15,756) | 15,756 |
| Other changes | - | 566 | (566) |
| Net changes | \$ (820,689) | \$ (933,149) | \$ 112,460 |
| Balances at June 30, 2022 | \$ 26,370,362 | \$ 24,075,387 | \$ 2,294,975 |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8 - Pension Plan: (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City using the discount rate of 6.75%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | <u>1% Decrease</u> <u>(5.75%)</u> | <u>Current Discount Rate</u> <u>(6.75%)</u> | <u>1% Increase</u> <u>(7.75%)</u> |
|-------------------------------|--------------------------------------|--|--------------------------------------|
| City | | | |
| Net Pension Liability (Asset) | \$ 5,359,543 | \$ 2,294,975 | \$ (252,595) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2023, the City recognized pension expense of \$(352,546). At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Primary Government</u> | |
|--|---------------------------------------|--------------------------------------|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ - | \$ 1,188,564 |
| Change in assumptions | 339,649 | - |
| Change in proportionate share | 77,240 | 77,240 |
| Net difference between projected and actual earnings on pension plan investments | - | 735,475 |
| Employer contributions subsequent to the measurement date | 450,897 | - |
| Total | <u>\$ 867,786</u> | <u>\$ 2,001,279</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8 - Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$450,897 reported as deferred outflows of resources related to pensions resulting from the City’s contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| <u>Year ended June 30</u> | <u>Primary Government</u> |
|---------------------------|---------------------------|
| 2024 | \$ (695,347) |
| 2025 | (730,916) |
| 2026 | (492,115) |
| 2027 | 333,988 |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2022-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 9—Healthcare OPEB Plan:

Plan Description

The City administers a cost-sharing defined benefit healthcare plan, The City of Covington Postretirement Healthcare Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the City’s pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical and Dental. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the City who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. In addition, the City provides a fixed basic death benefit for all retirees.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 9—Healthcare OPEB Plan: (Continued)

Plan Membership

At June 30, 2022 (measurement date), the following employees were covered by the benefit terms:

| | |
|--------------------------------------|------------|
| Total active employees with coverage | 97 |
| Total retirees with coverage | <u>4</u> |
| Total | <u>101</u> |

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2023 was \$23,047.

Total OPEB Liability

The City’s total OPEB liability was measured as of June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of June 30, 2022.

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------|---|
| Actuarial Cost Method | Individual Entry Age Normal Cost method with normal costs determined as a percentage of pay |
| Discount Rate | 3.96% at measurement date |
| Inflation | 2.50% |
| Healthcare Trend Rate | 6.00% from the beginning (7/01/2021) to period beginning 7/01/2022 grading down to 4.00% (by 0.25% increments) in 2029 |
| Salary Increase Rates | 4.00% |
| Retirement Age | The average age at retirement is 62 |
| Mortality Rates | Pub-2010 tables based on public plan experience - with separate rates by gender, by job classification, and by retiree status. The rates are projected into the future using Scale MP-2021. |

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 9—Healthcare OPEB Plan: (Continued)

Discount Rate

The discount rate is based on the 20 year, high quality muni bond index published by Fidelity investments.

Changes in Total OPEB Liability

| | <u>Primary Government Total OPEB Liability</u> |
|--|--|
| Balances at June 30, 2021 (Measurement Date) | \$ 546,889 |
| Changes for the year: | |
| Service cost | \$ 19,546 |
| Interest | 10,654 |
| Change in assumptions | (53,065) |
| Employer contributions | (23,047) |
| Net changes | \$ (45,912) |
| Balances at June 30, 2022 (Measurement Date) | <u>\$ 500,977</u> |

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.69%) or one percentage point higher (4.69%) than the current discount rate:

| | <u>Rate</u> | | |
|----|--------------------------------|-------------------------------------|--------------------------------|
| | <u>1% Decrease (2.69%)</u> | <u>Current Discount (3.69%)</u> | <u>1% Increase (4.69%)</u> |
| \$ | 460,150 | \$ 500,977 | \$ 525,486 |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 9—Healthcare OPEB Plan: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (2.69) or one percentage point higher (4.69) than the current healthcare cost trend rates:

| Rates | | |
|------------------------|-------------------------------------|------------------------|
| 1% Decrease (2.69%) | Healthcare Cost Trend (3.69%) | 1% Increase (4.69%) |
| \$ 472,883 | \$ 500,977 | \$ 528,723 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2023, the City recognized OPEB expense in the amount of \$(66,065). At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 39,461 | \$ 180,219 |
| Changes in assumptions | 16,726 | 304,778 |
| Employer contributions subsequent to the measurement date | 31,555 | - |
| Total | <u>\$ 87,742</u> | <u>\$ 484,997</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 9—Healthcare OPEB Plan: (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

\$31,555 reported as deferred outflows of resources related to OPEB resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|---------------------|
| 2024 | \$ (96,267) |
| 2025 | (88,738) |
| 2026 | (107,703) |
| 2027 | (107,702) |
| 2028 | (20,820) |
| Thereafter | (7,579) |
| Total | <u>\$ (428,809)</u> |

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members’ paychecks and pay the premiums to the insurer. Since this is a separate and fully insured plan, it is not included as part of the GLI Plan OPEB.

The specific information for GLI Plan OPEB, including eligibility, coverage and benefits is described below:

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,984 as of June 30, 2023.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2023 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the City were \$20,577 and \$19,599 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2023, the City reported a liability of \$200,964 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer’s proportion of the Net GLI OPEB Liability was based on the covered employer’s actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the City’s proportion was 0.01670% as compared to 0.01860% at June 30, 2021.

For the year ended June 30, 2022, the City recognized GLI OPEB expense of \$(3,116). Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | Primary Government | |
|--|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 15,914 | \$ 8,062 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 12,557 |
| Change in assumptions | 7,495 | 19,575 |
| Changes in proportion | 2,069 | 35,522 |
| Employer contributions subsequent to the measurement date | 20,577 | - |
| Total | \$ 46,055 | \$ 75,716 |

\$20,577 reported as deferred outflows of resources related to the GLI OPEB resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

| Year Ended June 30 | Primary Government |
|-----------------------|-----------------------|
| 2024 | \$ (12,686) |
| 2025 | (11,480) |
| 2026 | (16,934) |
| 2027 | (3,144) |
| 2028 | (5,993) |
| Thereafter | - |

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

| | |
|--|---|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Teachers | 3.50%-5.95% |
| Locality - General employees | 3.50%-5.35% |
| Locality - Hazardous Duty employees | 3.50%-4.75% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation |

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Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Discount Rate | No change |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2022, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

| | GLI OPEB Plan |
|--|--------------------------|
| Total GLI OPEB Liability | \$ 3,672,085 |
| Plan Fiduciary Net Position | 2,467,989 |
| GLI Net OPEB Liability (Asset) | <u>\$ 1,204,096</u> |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 67.21% |

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

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Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System’s investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class (Strategy)</u> | <u>Long-Term Target Asset Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return*</u> |
|--------------------------------------|--|---|--|
| Public Equity | 34.00% | 5.71% | 1.94% |
| Fixed Income | 15.00% | 2.04% | 0.31% |
| Credit Strategies | 14.00% | 4.78% | 0.67% |
| Real Assets | 14.00% | 4.47% | 0.63% |
| Private Equity | 14.00% | 9.73% | 1.36% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.73% | 0.22% |
| PIP - Private Investment Partnership | 3.00% | 6.55% | 0.20% |
| Total | <u>100.00%</u> | | <u>5.33%</u> |
| | | Inflation | <u>2.50%</u> |
| | | **Expected arithmetic nominal return | <u>7.83%</u> |

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median rate of return of 7.11%, including expected inflation of 2.50%.

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer’s Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer’s proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer’s proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | Rate | | |
|---|------------------------|-----------------------------|------------------------|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| City's proportionate share of the GLI Plan Net OPEB Liability | \$ 292,426 | \$ 200,964 | \$ 127,050 |

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan’s Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan):

Plan Description

The Political Subdivision Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Plan OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The Political Subdivision Retiree HIC Plan was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

Benefit Amounts

The Political Subdivision Retiree HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

| | <u>Primary Government</u> |
|--|-------------------------------|
| Inactive members or their beneficiaries currently receiving benefits | <u>39</u> |
| Active members | <u>86</u> |
| Total covered employees | <u><u>125</u></u> |

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The City’s contractually required employer contribution rate for the year ended June 30, 2023 was 0.57% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the City to the HIC Plan were \$19,529 and \$18,690 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net HIC OPEB Liability

The City net HIC OPEB liability was measured as of June 30, 2022. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2021, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

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Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

| | |
|--|---|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Locality - General employees | 3.50%-5.35% |
| Locality - Hazardous Duty employees | 3.50%-4.75% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation |

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Local Top 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

The remainder of this page is left blank intentionally.

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System’s investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class (Strategy)</u> | <u>Long-Term Target Asset Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return*</u> |
|--------------------------------------|--|---|--|
| Public Equity | 34.00% | 5.71% | 1.94% |
| Fixed Income | 15.00% | 2.04% | 0.31% |
| Credit Strategies | 14.00% | 4.78% | 0.67% |
| Real Assets | 14.00% | 4.47% | 0.63% |
| Private Equity | 14.00% | 9.73% | 1.36% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.73% | 0.22% |
| PIP - Private Investment Partnership | 3.00% | 6.55% | 0.20% |
| Total | <u>100.00%</u> | | <u>5.33%</u> |
| | | Inflation | <u>2.50%</u> |
| | | **Expected arithmetic nominal return | <u>7.83%</u> |

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability - Primary Government

| | Increase (Decrease) | | |
|---|---------------------------------------|--|---|
| | Total HIC OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net HIC OPEB Liability (Asset) (a) - (b) |
| Balances at June 30, 2021 | \$ 315,215 | \$ 113,161 | \$ 202,054 |
| Changes for the year: | | | |
| Service cost | \$ 5,376 | \$ - | \$ 5,376 |
| Interest | 20,860 | - | 20,860 |
| Assumption changes | 20,984 | - | 20,984 |
| Differences between expected and actual experience | (49,074) | - | (49,074) |
| Contributions - employer | - | 18,690 | (18,690) |
| Net investment income | - | 234 | (234) |
| Benefit payments | (23,098) | (23,098) | - |
| Administrative expenses | - | (190) | 190 |
| Other changes | - | 3,591 | (3,591) |
| Net changes | \$ (24,952) | \$ (773) | \$ (24,179) |
| Balances at June 30, 2022 | \$ 290,263 | \$ 112,388 | \$ 177,875 |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Sensitivity of the City’s HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the City’s HIC Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the City’s net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | Rate | | |
|-------------------------------|------------------------|-----------------------------|------------------------|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| City’s Net HIC OPEB Liability | \$ 205,603 | \$ 177,875 | \$ 153,959 |

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB

For the year ended June 30, 2023, the City recognized HIC Plan OPEB expense of \$9,804. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to the City HIC Plan from the following sources:

| | Primary Government | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 2,514 | \$ 46,609 |
| Net difference between projected and actual earnings on HIC OPEB plan investments | - | 2,765 |
| Change in assumptions | 21,934 | - |
| Employer contributions subsequent to the measurement date | 19,529 | - |
| Total | \$ 43,977 | \$ 49,374 |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB: (Continued)

\$19,529 reported as deferred outflows of resources related to the HIC OPEB resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

| Year Ended June 30 | Primary Government |
|-----------------------|-----------------------|
| 2024 | \$ (4,865) |
| 2025 | (8,059) |
| 2026 | (7,901) |
| 2027 | (4,100) |

HIC Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Plan is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 12 - Aggregate OPEB Information:

| | Primary Government | | | |
|--|----------------------|---------------------|-----------------------|--------------------|
| | Deferred Outflows | Deferred Inflows | Net OPEB Liability | OPEB Expense |
| City Stand-Alone Plan (Note 11) | \$ 87,742 | \$ 484,997 | \$ 500,977 | \$ (66,065) |
| VRS OPEB Plans: | | | | |
| Group Life Insurance Plan (Note 12) | | | | |
| City | 46,055 | 75,716 | 200,964 | (3,116) |
| Health Insurance Credit Plan (Note 13) | | | | |
| City | 43,977 | 49,374 | 177,875 | 9,804 |
| Totals | <u>\$ 177,774</u> | <u>\$ 610,087</u> | <u>\$ 879,816</u> | <u>\$ (59,377)</u> |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 13 - Capital Assets:

Capital asset activity for the year ended June 30, 2023 was as follows:

Primary Government:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------|-----------------------|---------------------|------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,967,944 | \$ - | \$ - | \$ 1,967,944 |
| Construction in progress | 337,869 | 1,482,220 | (200,265) | 1,619,824 |
| Total capital assets not being depreciated | <u>\$ 2,305,813</u> | <u>\$ 1,482,220</u> | <u>\$ (200,265)</u> | <u>\$ 3,587,768</u> |
| Capital assets, being depreciated/amortized: | | | | |
| Buildings and improvements | \$ 31,158,370 | \$ 261,079 | \$ - | \$ 31,419,449 |
| Infrastructure | 3,308,048 | 55,275 | - | 3,363,323 |
| Machinery and equipment | 9,858,222 | 1,141,863 | (528,661) | 10,471,424 |
| Lease machinery and equipment | 207,231 | 38,816 | - | 246,047 |
| Total capital assets being depreciated/amortized | <u>\$ 44,531,871</u> | <u>\$ 1,497,033</u> | <u>\$ (528,661)</u> | <u>\$ 45,500,243</u> |
| Accumulated depreciation/amortization: | | | | |
| Buildings and improvements | \$ (12,629,033) | \$ (812,294) | \$ - | \$ (13,441,327) |
| Infrastructure | (1,048,809) | (106,665) | - | (1,155,474) |
| Machinery and equipment | (6,803,207) | (862,033) | 528,661 | (7,136,579) |
| Lease machinery and equipment | (41,925) | (61,757) | - | (103,682) |
| Total accumulated depreciation/amortization | <u>\$ (20,522,974)</u> | <u>\$ (1,842,749)</u> | <u>\$ 528,661</u> | <u>\$ (21,837,062)</u> |
| Total capital assets being depreciated, net | <u>\$ 24,008,897</u> | <u>\$ (345,716)</u> | <u>\$ -</u> | <u>\$ 23,663,181</u> |
| Governmental activities capital assets, net | <u>\$ 26,314,710</u> | <u>\$ 1,136,504</u> | <u>\$ (200,265)</u> | <u>\$ 27,250,949</u> |

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 13 - Capital Assets: (Continued)

Business-type activities:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-----------------------|---------------------|---------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 490,677 | \$ 5,329,440 | \$ - | \$ 5,820,117 |
| Capital assets, being depreciated: | | | | |
| Equipment and vehicles | \$ 2,685,090 | \$ 8,044 | \$ (429,667) | \$ 2,263,467 |
| Infrastructure | 42,012,417 | 61,321 | - | 42,073,738 |
| Total capital assets being depreciated | <u>\$ 44,697,507</u> | <u>\$ 69,365</u> | <u>\$ (429,667)</u> | <u>\$ 44,337,205</u> |
| Accumulated depreciation: | | | | |
| Equipment and vehicles | \$ (1,326,428) | \$ (166,934) | \$ 429,667 | \$ (1,063,695) |
| Infrastructure | (17,969,886) | (1,063,874) | - | (19,033,760) |
| Total accumulated depreciation | <u>\$ (19,296,314)</u> | <u>\$ (1,230,808)</u> | <u>\$ 429,667</u> | <u>\$ (20,097,455)</u> |
| Total capital assets being depreciated, net | <u>\$ 25,401,193</u> | <u>\$ (1,161,443)</u> | <u>\$ -</u> | <u>\$ 24,239,750</u> |
| Business-type activities capital assets, net | <u>\$ 25,891,870</u> | <u>\$ 4,167,997</u> | <u>\$ -</u> | <u>\$ 30,059,867</u> |

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

Governmental activities:

| | |
|-----------------------------------|----------------|
| General government administration | \$ 181,455 |
| Public safety | 676,028 |
| Public works | 211,615 |
| Health and welfare | 4,373 |
| Education | 604,856 |
| Parks, recreation, and cultural | <u>164,422</u> |

Total depreciation/amortization expense-governmental activities \$ 1,842,749

Business-type activities:

| | |
|------------------|----------------|
| Water fund | \$ 382,751 |
| Sewer fund | 622,694 |
| Solid waste fund | <u>225,363</u> |

Total depreciation/amortization expense-business-type activities \$ 1,230,808

Total depreciation/amortization expense-Primary Government \$ 3,073,557

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 14 - Risk Management:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Risk Sharing Association. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City pays the Virginia Risk Sharing Association contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 15 - Commitments and Contingencies:

Federal programs in which the City and its component unit participate were audited in accordance with the 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). Pursuant to the provisions of this guidance all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

The City was involved in a major construction project during the fiscal year as presented below, along with the anticipated funding source.

| Project | Contract Amount | Contract Amount Outstanding at June 30, 2023 | Funding Source |
|----------------------------|-----------------|--|----------------|
| Maple Avenue Phase 3 | \$ 1,198,902 | \$ 532,042 | Federal Funds |
| WWTP EQ Basin Pump Station | 7,105,432 | 2,119,896 | Federal Funds |

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 16 - Landfill Closure and Post-Closure Care Cost:

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$7,573,549 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2023. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and post-closure care in 2023. In fiscal year 2002, the Department of Environmental Quality closed permit #178. The City’s open landfill, permit #594, is comprised of a working cell that is approximately 75.59% full, including cells A, B and C. The life expectancy for cells A, B and C is 2.02 years based on an average annual disposal rate. The amount reported in the City’s books is 90% of the total estimate, or \$6,784,579. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality’s assurance requirements for landfill closure and post-closure costs.

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Governmental Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

Note 17 - Surety Bonds:

| | |
|---|------------|
| <u>Fidelity & Deposit Company of Maryland-Surety:</u> | |
| Allen Dressler, City Manager | \$ 100,000 |
| Theresa Harrison, City Treasurer | 200,000 |
| Cathy M. Kimberlin, Commissioner of the Revenue | 3,000 |
| All City Employees: blanket bond | 100,000 |

Note 18 - Deferred/Unavailable Revenue:

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. Unavailable revenue is comprised of the following:

| | |
|--|---------------------|
| | <u>Unavailable</u> |
| Property taxes receivable-2nd half 2023 | \$ 2,849,210 |
| Prepaid property taxes | 1,275 |
| Total deferred revenue for governmental activities | \$ 2,850,485 |
| Property taxes receivable due prior to June 30, 2023, not collected within 60 days | \$ 479,263 |
| Total unavailable revenue for governmental funds | \$ <u>3,329,748</u> |

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 19 - Concentrations:

The City of Covington, Virginia relies heavily on the two businesses for tax revenue and employment of citizens. WestRock directly comprises 15.18% of the real estate tax levy, not including 81.70% of the Public Service Corporation tax levy. It also comprises 0.37% of the personal property taxes, not including 62.76% of machinery and tools tax levy, for a combined 42.04% of the total City's 2023 personal property tax levy. Virginia Ingevity Corp. directly comprises 33.77% of the machinery and tools tax levy and 21.70% of the total City's 2023 personal property tax levy.

Note 20 - Litigation:

As of June 30, 2023, there were no matters of litigation involving the City which would materially affect the City's financial position should a court decision on pending matters not be favorable.

Note 21 - Special Items:

On June 30, 2022, Covington City School Board (CCSB) ceased formal operations with the creation of the Alleghany Highlands Public School Board. The Alleghany Highlands Public School Board (AHPS) is a joint School Board that will serve the citizens of the City of Covington and the County of Alleghany going forward. Only July 1, 2022, the CCSB transferred fund balance and net position to the AHSB, as listed below. These items are presented in the accompanying financial statements as special items.

Fund Financial Statements:

| | | |
|-----------------------|----|---------|
| Activity fund balance | \$ | 112,026 |
|-----------------------|----|---------|

Government-Wide Financial Statements:

| | |
|---|-------------|
| Capital assets net of accumulated depreciation/amortization | 2,176,815 |
| Deferred outflow pension related items | 1,876,695 |
| Deferred outflow OPEB related items | 404,323 |
| Interest payable | (1,179) |
| Compensated absences | (323,913) |
| Loans payable | (60,050) |
| Net OPEB liability | (1,756,664) |
| Net pension liability | (5,179,169) |
| Deferred inflow pension related items | (4,462,582) |
| Deferred inflow OPEB related items | (302,109) |

| | | |
|-------|-----------|--------------------|
| Total | <u>\$</u> | <u>(7,515,807)</u> |
|-------|-----------|--------------------|

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

Note 22-Upcoming Pronouncements:

Statement No. 99, *Omnibus 2022*, addresses (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to for fiscal years beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, provides more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability for accounting changes and error corrections. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

Implementation Guide No. 2021-1, Implementation Guidance Update—2021, with dates ranging from reporting periods beginning after June 15, 2022 to reporting periods beginning after June 15, 2023.

Implementation Guide No. 2023-1, Implementation Guidance Update—2023, effective for fiscal years beginning after June 15, 2023.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

City of Covington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget - |
|---|-------------------------|-----------------------|---------------------------|---------------------------------|
| | <u>Original</u> | <u>Final</u> | | Positive (Negative) |
| REVENUES | | | | |
| General property taxes | \$ 10,582,200 | \$ 10,582,200 | \$ 10,714,032 | \$ 131,832 |
| Other local taxes | 3,871,101 | 3,871,101 | 4,553,219 | 682,118 |
| Permits, privilege fees, and regulatory licenses | 11,625 | 11,625 | 11,222 | (403) |
| Fines and forfeitures | 3,675 | 3,675 | 1,690 | (1,985) |
| Revenue from the use of money and property | 42,130 | 42,137 | 233,451 | 191,314 |
| Charges for services | 477,050 | 477,050 | 415,642 | (61,408) |
| Miscellaneous | 25,000 | 290,158 | 375,097 | 84,939 |
| Recovered costs | 22,000 | 156,908 | 272,641 | 115,733 |
| Intergovernmental: | | | | |
| Commonwealth | 4,233,679 | 4,542,048 | 3,812,405 | (729,643) |
| Federal | 67,587 | 700,826 | 547,442 | (153,384) |
| Total Revenues | <u>\$ 19,336,047</u> | <u>\$ 20,677,728</u> | <u>\$ 20,936,841</u> | <u>\$ 259,113</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | \$ 2,113,763 | \$ 2,157,275 | \$ 2,104,393 | \$ 52,882 |
| Judicial administration | 321,663 | 312,937 | 312,757 | 180 |
| Public safety | 5,145,156 | 5,761,434 | 5,155,960 | 605,474 |
| Public works | 3,390,481 | 5,631,057 | 4,547,893 | 1,083,164 |
| Health and welfare | 2,795,656 | 2,824,418 | 1,739,058 | 1,085,360 |
| Education | 2,997,855 | 2,997,855 | 3,013,277 | (15,422) |
| Parks, recreation, and cultural | 4,008,799 | 3,524,384 | 2,680,119 | 844,265 |
| Community development | 235,552 | 216,156 | 215,615 | 541 |
| Nondepartmental | 90,000 | 296,400 | 233,561 | 62,839 |
| Debt service: | | | | |
| Principal retirement | 1,403,134 | 1,403,134 | 1,515,623 | (112,489) |
| Interest and other fiscal charges | 721,068 | 715,758 | 685,197 | 30,561 |
| Total Expenditures | <u>\$ 23,223,127</u> | <u>\$ 25,840,808</u> | <u>\$ 22,203,453</u> | <u>\$ 3,637,355</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (3,887,080)</u> | <u>\$ (5,163,080)</u> | <u>\$ (1,266,612)</u> | <u>\$ 3,896,468</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 3,887,080 | \$ 3,965,126 | 4,427,477 | \$ 462,351 |
| Issuance of lease liabilities | - | - | 38,816 | 38,816 |
| Total other financing sources (uses) | <u>\$ 3,887,080</u> | <u>\$ 3,965,126</u> | <u>\$ 4,466,293</u> | <u>\$ 501,167</u> |
| Net change in fund balances | \$ - | \$ (1,197,954) | \$ 3,199,681 | \$ 4,397,635 |
| Fund balances - beginning | - | 1,197,954 | 10,921,912 | 9,723,958 |
| Fund balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 14,121,593</u> | <u>\$ 14,121,593</u> |

City of Covington, Virginia
 CARES Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2023

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|--------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental revenues: | | | | |
| Federal | \$ - | \$ - | \$ 136,094 | \$ 136,094 |
| Total revenues | \$ - | \$ - | \$ 136,094 | \$ 136,094 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | \$ - | \$ - | \$ 18,790 | \$ (18,790) |
| Total expenditures | \$ - | \$ - | \$ 18,790 | \$ (18,790) |
| Excess (deficiency) of revenues over (under) expenditures | \$ - | \$ - | \$ 117,304 | \$ 117,304 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | \$ - | \$ (136,094) | \$ (136,094) | \$ - |
| Net change in fund balances | \$ - | \$ (136,094) | \$ (18,790) | \$ 117,304 |
| Fund balances - beginning | \$ - | \$ 136,094 | \$ 18,790 | \$ (117,304) |
| Fund balances - ending | \$ - | \$ - | \$ - | \$ - |

City of Covington, Virginia
 ARPA Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2023

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|-------------------------|-----------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Intergovernmental revenues: | | | | |
| Federal | \$ - | \$ 3,470,989 | \$ 3,866,303 | \$ 395,314 |
| Total revenues | <u>\$ -</u> | <u>\$ 3,470,989</u> | <u>\$ 3,866,303</u> | <u>\$ 395,314</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | \$ - | \$ 2,958,487 | \$ - | \$ 2,958,487 |
| Public works | - | 45,259 | 11,303 | 33,956 |
| Community development | - | 15,000 | - | 15,000 |
| Total expenditures | <u>\$ -</u> | <u>\$ 3,018,746</u> | <u>\$ 11,303</u> | <u>\$ 3,007,443</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ -</u> | <u>\$ 452,243</u> | <u>\$ 3,855,000</u> | <u>\$ 3,402,757</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>\$ -</u> | <u>\$ (3,300,000)</u> | <u>\$ (3,855,000)</u> | <u>\$ (555,000)</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ (2,847,757)</u> | <u>\$ -</u> | <u>\$ 2,847,757</u> |
| Fund balances - beginning | <u>-</u> | <u>2,847,757</u> | <u>-</u> | <u>(2,847,757)</u> |
| Fund balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Covington, Virginia
 Schedule of Changes in Net Pension Liability and Related Ratios
 Primary Government

Pension Plans

For the Measurement Dates of June 30, 2014 through June 30, 2022

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total pension liability | | | | | | | | | |
| Service cost | \$ 386,370 | \$ 405,216 | \$ 390,965 | \$ 401,154 | \$ 386,694 | \$ 388,395 | \$ 384,532 | \$ 381,110 | \$ 364,378 |
| Interest | 1,808,172 | 1,722,906 | 1,701,318 | 1,695,769 | 1,667,681 | 1,659,955 | 1,624,606 | 1,592,529 | 1,553,775 |
| Differences between expected and actual experience | (1,435,842) | (714,113) | (268,603) | (201,736) | 61,596 | (272,688) | (272,328) | (248,359) | - |
| Changes of assumptions | - | 992,821 | - | 671,408 | - | (145,142) | - | - | - |
| Benefit payments | (1,579,389) | (1,480,613) | (1,527,110) | (1,647,193) | (1,782,249) | (1,258,039) | (1,205,609) | (1,328,466) | (1,400,603) |
| Net change in total pension liability | \$(820,689) | \$926,217 | \$296,570 | \$919,402 | \$333,722 | \$372,481 | \$531,201 | \$396,814 | \$517,550 |
| Total pension liability - beginning | 27,191,051 | 26,264,834 | 25,968,264 | 25,048,862 | 24,715,140 | 24,342,659 | 23,811,458 | 23,414,644 | 22,897,094 |
| Total pension liability - ending (a) | \$26,370,362 | \$27,191,051 | \$26,264,834 | \$25,968,264 | \$25,048,862 | \$24,715,140 | \$24,342,659 | \$23,811,458 | \$23,414,644 |
| Plan fiduciary net position | | | | | | | | | |
| Contributions - employer | \$ 506,469 | \$ 538,960 | \$ 492,493 | \$ 497,259 | \$ 506,756 | \$ 508,232 | \$ 624,975 | \$ 600,630 | \$ 548,162 |
| Contributions - employee | 167,850 | 179,784 | 178,109 | 180,212 | 181,061 | 184,142 | 183,862 | 177,538 | 175,244 |
| Net investment income | (12,889) | 5,475,140 | 392,439 | 1,325,010 | 1,459,431 | 2,220,416 | 317,657 | 823,292 | 2,543,910 |
| Benefit payments | (1,579,389) | (1,480,613) | (1,527,110) | (1,647,193) | (1,782,249) | (1,258,039) | (1,205,609) | (1,328,466) | (1,400,603) |
| Administrator charges | (15,756) | (13,993) | (13,873) | (13,893) | (13,221) | (13,102) | (11,660) | (11,662) | (14,164) |
| Other | 566 | 512 | (458) | (830) | (1,269) | (1,964) | (135) | (171) | 134 |
| Net change in plan fiduciary net position | \$(933,149) | \$4,699,790 | \$(478,400) | \$340,565 | \$350,509 | \$1,639,685 | \$(90,910) | \$261,161 | \$1,852,683 |
| Plan fiduciary net position - beginning | 25,008,535 | 20,308,745 | 20,787,145 | 20,446,580 | 20,096,071 | 18,456,386 | 18,547,296 | 18,286,135 | 16,433,452 |
| Plan fiduciary net position - ending (b) | \$24,075,386 | \$25,008,535 | \$20,308,745 | \$20,787,145 | \$20,446,580 | \$20,096,071 | \$18,456,386 | \$18,547,296 | \$18,286,135 |
| City's net pension liability - ending (a) - (b) | \$ 2,294,976 | \$ 2,182,516 | \$ 5,956,089 | \$ 5,181,119 | \$ 4,602,282 | \$ 4,619,069 | \$ 5,886,273 | \$ 5,264,162 | \$ 5,128,509 |
| Plan fiduciary net position as a percentage of the total pension liability | 91.30% | 91.97% | 77.32% | 80.05% | 81.63% | 81.31% | 75.82% | 77.89% | 78.10% |
| Covered payroll | \$ 3,624,039 | \$ 3,841,633 | \$ 3,787,491 | \$ 3,794,890 | \$ 3,767,567 | \$ 3,756,414 | \$ 3,712,605 | \$ 3,552,497 | \$ 3,463,949 |
| City's net pension liability as a percentage of covered payroll | 63.33% | 56.81% | 157.26% | 136.53% | 122.16% | 122.96% | 158.55% | 148.18% | 148.05% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
 Schedule of Employer Contributions
 Pension Plans
 For the Years Ended June 30, 2014 through June 30, 2023

| Date | Contractually Required Contribution (1)* | Contributions in Relation to Contractually Required Contribution (2)* | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---------------------------|---|--|---|---|---|
| Primary Government | | | | | |
| 2023 | \$ 450,897 | \$ 450,897 | - | \$ 3,789,229 | 11.90% |
| 2022 | 506,769 | 506,769 | - | 3,624,039 | 13.98% |
| 2021 | 538,960 | 538,960 | - | 3,841,633 | 14.03% |
| 2020 | 492,493 | 492,493 | - | 3,787,491 | 13.00% |
| 2019 | 497,259 | 497,259 | - | 3,794,890 | 13.10% |
| 2018 | 506,756 | 506,756 | - | 3,767,567 | 13.45% |
| 2017 | 518,385 | 518,385 | - | 3,756,414 | 13.80% |
| 2016 | 624,974 | 624,974 | - | 3,712,605 | 16.83% |
| 2015 | 600,630 | 600,630 | - | 3,552,497 | 16.91% |
| 2014 | 548,343 | 548,343 | - | 3,463,949 | 15.83% |

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

City of Covington, Virginia
 Notes to Required Supplementary Information
 Pension Plans
 For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) - Non-Hazardous Duty:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

All Others (Non 10 Largest) - Hazardous Duty:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

City of Covington, Virginia
 Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
 Primary Government
 For the Measurement Dates of June 30, 2017 through June 30, 2022

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|----------------|-------------------|-------------------|---------------------|---------------------|
| Total OPEB liability | | | | | | |
| Service cost | \$ 19,546 | 25,104 | \$ 21,804 | \$ 46,574 | \$ 40,948 | \$ 46,022 |
| Interest | 10,654 | 16,177 | 19,370 | 46,785 | 39,837 | 31,712 |
| Changes in assumptions | (53,065) | (28,472) | 26,767 | (459,792) | (5,351) | (52,691) |
| Differences between expected and actual experience | - | (87,557) | - | (235,354) | 138,106 | - |
| Benefit payments | (23,047) | (27,082) | (32,524) | (61,456) | (30,146) | (35,555) |
| Net change in total OPEB liability | \$ (45,912) | (101,830) | \$ 35,417 | \$ (663,243) | \$ 183,394 | \$ (10,512) |
| Total OPEB liability - beginning | 546,889 | 648,719 | 613,302 | 1,276,545 | 1,093,151 | 1,103,663 |
| Total OPEB liability - ending | \$ <u>500,977</u> | <u>546,889</u> | \$ <u>648,719</u> | \$ <u>613,302</u> | \$ <u>1,276,545</u> | \$ <u>1,093,151</u> |
| Covered-employee payroll | \$ 3,732,503 | 3,803,626 | \$ 3,877,716 | \$ 3,605,268 | \$ 3,958,074 | \$ 3,909,193 |
| City's total OPEB liability (asset) as a percentage of covered-employee payroll | 13.42% | 14.38% | 16.73% | 17.01% | 32.25% | 27.96% |

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

City of Covington, Virginia
 Notes to Required Supplementary Information - City OPEB
 For the Year Ended June 30, 2023

Valuation Date: 6/30/2021
 Measurement Date: 6/30/2022

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

| | |
|-----------------------|---|
| Actuarial Cost Method | Individual Entry Age Normal Cost method with normal costs determined as a percentage of pay |
| Discount Rate | 3.69% at measurement date |
| Inflation | 2.50% |
| Healthcare Trend Rate | 6.00% from the beginning (7/01/2021) to period beginning 7/01/2022 grading down to 4.00% (by 0.25% increments) in 2029 |
| Salary Increase Rates | 4.00% |
| Retirement Age | The average age at retirement is 62 |
| Mortality Rates | Pub-2010 tables based on public plan experience - with separate rates by gender, by job classification, and by retiree status. The rates are projected into the future using Scale MP-2021. |

City of Covington, Virginia
 Schedule of Employer's Share of Net OPEB Liability
 Group Life Insurance (GLI) Plan
 For the Measurement Dates of June 30, 2016 through June 30, 2022

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|-------------|---|---|---|--|---|
| 2022 | 0.01670% \$ | 200,964 \$ | 3,629,499 | 5.54% | 67.21% |
| 2021 | 0.01860% | 216,903 | 3,845,525 | 5.64% | 67.45% |
| 2020 | 0.01840% | 307,400 | 3,790,256 | 8.11% | 52.64% |
| 2019 | 0.01936% | 315,039 | 3,794,890 | 8.30% | 52.00% |
| 2018 | 0.01990% | 303,000 | 3,784,442 | 8.01% | 51.22% |
| 2017 | 0.02038% | 307,000 | 3,758,508 | 8.17% | 48.86% |
| 2016 | 0.02066% | 361,000 | 3,712,605 | 9.72% | 48.86% |

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Group Life Insurance (GLI) Plan
For the Years Ended June 30, 2013 through June 30, 2023

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---------------------------|--|---|---|---|---|
| Primary Government | | | | | |
| 2023 | \$ 20,577 | \$ 20,577 | - | \$ 3,810,619 | 0.54% |
| 2022 | 19,599 | 19,599 | - | 3,629,499 | 0.54% |
| 2021 | 20,766 | 20,766 | - | 3,845,525 | 0.54% |
| 2020 | 19,712 | 19,712 | - | 3,790,256 | 0.52% |
| 2019 | 19,734 | 19,734 | - | 3,794,890 | 0.52% |
| 2018 | 19,680 | 19,680 | - | 3,784,442 | 0.52% |
| 2017 | 19,544 | 19,544 | - | 3,758,508 | 0.52% |
| 2016 | 17,821 | 17,821 | - | 3,712,605 | 0.48% |
| 2015 | 17,052 | 17,052 | - | 3,552,497 | 0.48% |
| 2014 | 16,627 | 16,627 | - | 3,463,949 | 0.48% |

City of Covington, Virginia
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Non-Largest Ten Locality Employers - Hazardous Duty Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

City of Covington, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Primary Government
Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2022

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total HIC OPEB Liability | | | | | | |
| Service cost | \$ 5,376 | \$ 5,598 | \$ 5,375 | \$ 4,949 | \$ 4,696 | \$ 4,000 |
| Interest | 20,860 | 20,442 | 20,919 | 20,466 | 20,523 | 21,000 |
| Differences between expected and actual experience | (49,074) | (7,664) | (7,509) | 11,658 | (879) | - |
| Changes of assumptions | 20,984 | 6,370 | - | 6,786 | - | (9,000) |
| Benefit payments | (23,098) | (24,752) | (26,958) | (25,663) | (24,663) | (20,000) |
| Other changes | - | - | - | - | (479) | 1,000 |
| Net change in total HIC OPEB liability | \$ (24,952) | \$ (6) | \$ (8,173) | \$ 18,196 | \$ (802) | \$ (3,000) |
| Total HIC OPEB Liability - beginning | 315,215 | 315,221 | 323,394 | 305,198 | 306,000 | 309,000 |
| Total HIC OPEB Liability - ending (a) | \$ 290,263 | \$ 315,215 | \$ 315,221 | \$ 323,394 | \$ 305,198 | \$ 306,000 |
| Plan fiduciary net position | | | | | | |
| Contributions - employer | \$ 18,690 | \$ 20,084 | \$ 17,401 | \$ 17,440 | \$ 17,319 | \$ 17,000 |
| Net investment income | 234 | 23,900 | 1,974 | 6,328 | 7,271 | 11,000 |
| Benefit payments | (23,098) | (24,752) | (26,958) | (25,663) | (24,663) | (20,000) |
| Administrator charges | (190) | (273) | (179) | (135) | (164) | - |
| Rounding | - | - | - | - | (196) | - |
| Other | 3,591 | - | - | (8) | (565) | 1,000 |
| Net change in plan fiduciary net position | \$ (773) | \$ 18,959 | \$ (7,762) | \$ (2,038) | \$ (998) | \$ 9,000 |
| Plan fiduciary net position - beginning | 113,161 | 94,202 | 101,964 | 104,002 | 105,000 | 96,000 |
| Plan fiduciary net position - ending (b) | \$ 112,388 | \$ 113,161 | \$ 94,202 | \$ 101,964 | \$ 104,002 | \$ 105,000 |
| City's net HIC OPEB liability - ending (a) - (b) | \$ 177,875 | \$ 202,054 | \$ 221,019 | \$ 221,430 | \$ 201,196 | \$ 201,000 |
| Plan fiduciary net position as a percentage of the total HIC OPEB liability | 38.72% | 35.90% | 29.88% | 31.53% | 34.08% | 34.31% |
| Covered payroll | \$ 3,278,951 | \$ 3,523,595 | \$ 3,480,076 | \$ 3,487,954 | \$ 3,463,554 | \$ 3,466,331 |
| City's net HIC OPEB liability as a percentage of covered payroll | 5.42% | 5.73% | 6.35% | 6.35% | 5.81% | 5.80% |

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
 Schedule of Employer Contributions
 Health Insurance Credit (HIC) Plan
 For the Years Ended June 30, 2014 through June 30, 2023

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---------------------------|--|---|---|---|---|
| Primary Government | | | | | |
| 2023 | \$ 19,529 | \$ 19,529 | - | \$ 3,426,144 | 0.57% |
| 2022 | 18,690 | 18,690 | - | 3,278,951 | 0.57% |
| 2021 | 20,085 | 20,085 | - | 3,523,595 | 0.57% |
| 2020 | 17,401 | 17,401 | - | 3,480,076 | 0.50% |
| 2019 | 17,440 | 17,440 | - | 3,487,954 | 0.50% |
| 2018 | 17,319 | 17,319 | - | 3,463,554 | 0.50% |
| 2017 | 17,332 | 17,332 | - | 3,466,331 | 0.50% |
| 2016 | 17,591 | 17,591 | - | 3,449,201 | 0.51% |
| 2015 | 16,908 | 16,908 | - | 3,315,206 | 0.51% |
| 2014 | 16,045 | 16,045 | - | 3,208,907 | 0.50% |

City of Covington, Virginia
Notes to Required Supplementary Information
Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Non-Largest Ten Locality Employers - Hazardous Duty Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Local Top 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Other Supplementary Information

City of Covington, Virginia
City Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|----------------|-------------------|---|
| | Original | Final | | |
| EXPENDITURES | | | | |
| Capital projects | \$ - | \$ 3,146,108 | \$ 73,926 | \$ 3,072,182 |
| Total expenditures | \$ - | \$ 3,146,108 | \$ 73,926 | \$ 3,072,182 |
| Excess (deficiency) of revenues over (under) expenditures | \$ - | \$ (3,146,108) | \$ (73,926) | \$ 3,072,182 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of general obligation bond | \$ - | \$ 2,923,275 | \$ 33,726 | \$ (2,889,549) |
| Total other financing sources (uses) | \$ - | \$ 2,923,275 | \$ 33,726 | \$ (2,889,549) |
| Net change in fund balances | \$ - | \$ (222,833) | \$ (40,200) | \$ 182,633 |
| Fund balances - beginning | - | 222,833 | 214,343 | (8,490) |
| Fund balances - ending | \$ - | \$ - | \$ 174,143 | \$ 174,143 |

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2023

| | School Activity Fund* |
|---------------------------------|--------------------------------------|
| SPECIAL ITEMS | |
| Transfer to new school division | \$ (112,026) |
| Net change in fund balances | \$ (112,026) |
| Fund balances - beginning | <u>112,026</u> |
| Fund balances - ending | <u><u>\$ -</u></u> |

*The School Activity Fund does not require a legally adopted budget.

Supporting Schedules

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|----------------------|---|
| General Fund: | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real property taxes | \$ 2,533,500 | \$ 2,533,500 | \$ 2,644,594 | \$ 111,094 |
| Real and personal public service corporation taxes | 1,643,900 | 1,643,900 | 1,856,335 | 212,435 |
| Personal property taxes | 2,160,000 | 2,160,000 | 1,717,722 | (442,278) |
| Mobile home taxes | 7,800 | 7,800 | 7,562 | (238) |
| Machinery and tools taxes | 4,160,000 | 4,160,000 | 4,293,090 | 133,090 |
| Penalties | 35,000 | 35,000 | 92,939 | 57,939 |
| Interest and fees | 42,000 | 42,000 | 101,790 | 59,790 |
| Total general property taxes | <u>\$ 10,582,200</u> | <u>\$ 10,582,200</u> | <u>\$ 10,714,032</u> | <u>\$ 131,832</u> |
| Other local taxes: | | | | |
| Local sales and use taxes | \$ 1,477,101 | \$ 1,477,101 | \$ 1,737,951 | \$ 260,850 |
| Consumers' utility taxes | 384,000 | 384,000 | 373,870 | (10,130) |
| Consumption taxes | 20,000 | 20,000 | 20,111 | 111 |
| Business license taxes | 550,000 | 550,000 | 631,681 | 81,681 |
| Motor vehicle licenses | 164,000 | 164,000 | 190,081 | 26,081 |
| Bank stock taxes | 235,000 | 235,000 | 255,944 | 20,944 |
| Recordation tax | 10,000 | 10,000 | 31,112 | 21,112 |
| Hotel and motel room taxes | 37,000 | 37,000 | 43,996 | 6,996 |
| Restaurant food taxes | 900,000 | 900,000 | 1,169,357 | 269,357 |
| Tobacco taxes | 94,000 | 94,000 | 99,116 | 5,116 |
| Total other local taxes | <u>\$ 3,871,101</u> | <u>\$ 3,871,101</u> | <u>\$ 4,553,219</u> | <u>\$ 682,118</u> |
| Permits, privilege fees, and regulatory licenses: | | | | |
| Animal licenses | \$ 1,000 | \$ 1,000 | \$ 3,610 | \$ 2,610 |
| Land use fees | 25 | 25 | - | (25) |
| Zoning and subdivision permits | 50 | 50 | 466 | 416 |
| Building permits | 10,050 | 10,050 | 6,876 | (3,174) |
| Other permits and licenses | 500 | 500 | 270 | (230) |
| Total permits, privilege fees, and regulatory licenses | <u>\$ 11,625</u> | <u>\$ 11,625</u> | <u>\$ 11,222</u> | <u>\$ (403)</u> |
| Fines and forfeitures: | | | | |
| Court fines and forfeitures | \$ 3,675 | \$ 3,675 | \$ 1,690 | \$ (1,985) |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 17,501 | \$ 17,508 | \$ 217,251 | \$ 199,743 |
| Revenue from use of property | 24,629 | 24,629 | 16,200 | (8,429) |
| Total revenue from use of money and property | <u>\$ 42,130</u> | <u>\$ 42,137</u> | <u>\$ 233,451</u> | <u>\$ 191,314</u> |
| Charges for services: | | | | |
| Charges for fire and rescue services | \$ 403,000 | \$ 403,000 | \$ 316,946 | \$ (86,054) |
| Charges for sanitation and waste removal | 5,000 | 5,000 | 5,530 | 530 |
| Charges for parks and recreation | 27,000 | 27,000 | 36,343 | 9,343 |
| Charges for cemetery | 41,500 | 41,500 | 56,115 | 14,615 |
| Charges for other services | 550 | 550 | 708 | 158 |
| Total charges for services | <u>\$ 477,050</u> | <u>\$ 477,050</u> | <u>\$ 415,642</u> | <u>\$ (61,408)</u> |

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|----------------------|---|
| General Fund: (Continued) | | | | |
| Miscellaneous: | | | | |
| Miscellaneous | \$ 25,000 | \$ 261,396 | \$ 297,745 | \$ 36,349 |
| Education | - | - | 44,317 | 44,317 |
| Opioid recovery funds | - | 28,762 | 33,035 | 4,273 |
| Total miscellaneous revenue | <u>\$ 25,000</u> | <u>\$ 290,158</u> | <u>\$ 375,097</u> | <u>\$ 84,939</u> |
| Recovered costs: | | | | |
| CSA recoveries | \$ 8,000 | \$ 8,000 | \$ 300 | \$ (7,700) |
| Other recovered costs | 14,000 | 148,908 | 272,341 | 123,433 |
| Total recovered costs | <u>\$ 22,000</u> | <u>\$ 156,908</u> | <u>\$ 272,641</u> | <u>\$ 115,733</u> |
| Total revenue from local sources | <u>\$ 15,034,781</u> | <u>\$ 15,434,854</u> | <u>\$ 16,576,994</u> | <u>\$ 1,142,140</u> |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Motor vehicle carriers' tax | \$ - | \$ - | \$ 16,667 | \$ 16,667 |
| Mobile home titling tax | 250 | 250 | 3,585 | 3,335 |
| Motor vehicle rental tax | 25,000 | 25,000 | 15,512 | (9,488) |
| Telecommunications taxes | 220,000 | 220,000 | 215,455 | (4,545) |
| Personal property tax relief funds | - | - | 547,963 | 547,963 |
| Total noncategorical aid | <u>\$ 245,250</u> | <u>\$ 245,250</u> | <u>\$ 799,182</u> | <u>\$ 553,932</u> |
| Categorical aid: | | | | |
| Shared expenses: | | | | |
| Commissioner of revenue | \$ 88,792 | \$ 88,792 | \$ 93,126 | \$ 4,334 |
| Treasurer | 76,514 | 76,514 | 80,292 | 3,778 |
| Registrar/electoral board | 50,537 | 50,537 | 58,109 | 7,572 |
| Total shared expenses | <u>\$ 215,843</u> | <u>\$ 215,843</u> | <u>\$ 231,527</u> | <u>\$ 15,684</u> |
| Other categorical aid: | | | | |
| Welfare payments | \$ 317,745 | \$ 317,745 | \$ 33,803 | \$ (283,942) |
| CSA payments | 1,679,758 | 1,679,758 | 919,253 | (760,505) |
| Litter control grant | 6,000 | 9,065 | 9,065 | - |
| VDOT Transportation Grant | - | 212,024 | 20,970 | (191,054) |
| Fire program | 30,000 | 30,000 | 30,000 | - |
| Asset forfeiture | 6,355 | 6,355 | 1,266 | (5,089) |
| Law enforcement block grant | 285,964 | 285,964 | 314,405 | 28,441 |
| State highway payments | 1,188,391 | 1,188,391 | 1,395,590 | 207,199 |
| E-911 grant program | 88,000 | 88,000 | 47,704 | (40,296) |
| OEMS grant | 161,073 | 245,353 | - | (245,353) |
| VA commission for the arts | 4,500 | 4,500 | - | (4,500) |
| Other State funds | 4,800 | 13,800 | 9,640 | (4,160) |
| Total other categorical aid | <u>\$ 3,772,586</u> | <u>\$ 4,080,955</u> | <u>\$ 2,781,696</u> | <u>\$ (1,299,259)</u> |
| Total categorical aid | <u>\$ 3,988,429</u> | <u>\$ 4,296,798</u> | <u>\$ 3,013,223</u> | <u>\$ (1,283,575)</u> |
| Total revenue from the Commonwealth | <u>\$ 4,233,679</u> | <u>\$ 4,542,048</u> | <u>\$ 3,812,405</u> | <u>\$ (729,643)</u> |

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|----------------------|---|
| General Fund: (Continued) | | | | |
| Intergovernmental: (Continued) | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| DMV occupant protection grant | \$ 5,300 | \$ 5,300 | \$ - | \$ (5,300) |
| Transportation enhancement grant | - | 627,346 | 485,072 | (142,274) |
| Disaster recovery | 9,287 | 9,346 | - | (9,346) |
| Byrne criminal justice grant | 3,000 | 3,000 | 4,401 | 1,401 |
| CDBG Grant | - | 5,834 | 8,500 | 2,666 |
| Public assistance and welfare administration | 50,000 | 50,000 | 49,469 | (531) |
| Total categorical aid | <u>\$ 67,587</u> | <u>\$ 700,826</u> | <u>\$ 547,442</u> | <u>\$ (153,384)</u> |
| Total revenue from the federal government | <u>\$ 67,587</u> | <u>\$ 700,826</u> | <u>\$ 547,442</u> | <u>\$ (153,384)</u> |
| Total General Fund | <u>\$ 19,336,047</u> | <u>\$ 20,677,728</u> | <u>\$ 20,936,841</u> | <u>\$ 259,113</u> |
| Special Revenue Funds: | | | | |
| CARES Fund: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| CARES Act COVID-19 Grant | \$ - | \$ - | \$ 136,094 | \$ 136,094 |
| Total categorical aid | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 136,094</u> | <u>\$ 136,094</u> |
| Total revenue from the federal government | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 136,094</u> | <u>\$ 136,094</u> |
| Total CARES Fund | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 136,094</u> | <u>\$ 136,094</u> |
| ARPA Fund: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| ARPA - State and Local Fiscal Recovery | \$ - | \$ 3,410,730 | \$ 3,855,000 | \$ 444,270 |
| ARPA - Utility Assistance Program | - | 45,259 | 11,303 | (33,956) |
| ARPA - Virginia Tourism Corporation | - | 15,000 | - | (15,000) |
| Total categorical aid | <u>\$ -</u> | <u>\$ 3,470,989</u> | <u>\$ 3,866,303</u> | <u>\$ 395,314</u> |
| Total revenue from the federal government | <u>\$ -</u> | <u>\$ 3,470,989</u> | <u>\$ 3,866,303</u> | <u>\$ 395,314</u> |
| Total ARPA Fund | <u>\$ -</u> | <u>\$ 3,470,989</u> | <u>\$ 3,866,303</u> | <u>\$ 395,314</u> |
| Total Primary Government | <u>\$ 19,336,047</u> | <u>\$ 24,148,717</u> | <u>\$ 24,939,238</u> | <u>\$ 790,521</u> |

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Function, Activity, and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| General Fund: | | | | |
| General government administration: | | | | |
| Legislative: | | | | |
| City council | \$ 61,415 | \$ 46,804 | \$ 46,798 | \$ 6 |
| City clerk | 18,498 | 19,689 | 19,689 | - |
| Total legislative | <u>\$ 79,913</u> | <u>\$ 66,493</u> | <u>\$ 66,487</u> | <u>\$ 6</u> |
| General and financial administration: | | | | |
| City manager | \$ 367,165 | \$ 372,315 | \$ 372,284 | \$ 31 |
| Human resources | 24,350 | 5,370 | 2,739 | 2,631 |
| Information technology | 204,800 | 175,286 | 171,855 | 3,431 |
| Legal services | 92,435 | 54,670 | 54,670 | - |
| Commissioner of revenue | 267,674 | 279,115 | 279,112 | 3 |
| Independent auditors | 82,915 | 86,535 | 86,435 | 100 |
| Treasurer | 324,211 | 334,856 | 334,763 | 93 |
| Central accounting | 429,414 | 514,787 | 468,787 | 46,000 |
| Total general and financial administration | <u>\$ 1,917,964</u> | <u>\$ 1,944,977</u> | <u>\$ 1,892,610</u> | <u>\$ 52,367</u> |
| Board of elections: | | | | |
| Electoral board and officials | \$ 115,886 | \$ 145,805 | \$ 145,296 | \$ 509 |
| Total general government administration | <u>\$ 2,113,763</u> | <u>\$ 2,157,275</u> | <u>\$ 2,104,393</u> | <u>\$ 52,882</u> |
| Judicial administration: | | | | |
| Courts: | | | | |
| Circuit court | \$ 23,692 | \$ 23,692 | \$ 23,692 | - |
| General district court | 11,551 | 11,551 | 11,551 | - |
| Magistrates office | 13,685 | 4,959 | 4,779 | 180 |
| Clerk of the circuit court | 60,464 | 60,464 | 60,464 | - |
| Sheriff (court) | 108,781 | 108,781 | 108,781 | - |
| Courthouse security | 33,454 | 33,454 | 33,454 | - |
| Total courts | <u>\$ 251,627</u> | <u>\$ 242,901</u> | <u>\$ 242,721</u> | <u>\$ 180</u> |
| Commonwealth's attorney: | | | | |
| Commonwealth's attorney | \$ 70,036 | \$ 70,036 | \$ 70,036 | - |
| Total judicial administration | <u>\$ 321,663</u> | <u>\$ 312,937</u> | <u>\$ 312,757</u> | <u>\$ 180</u> |
| Public safety: | | | | |
| Law enforcement and traffic control: | | | | |
| Police department | \$ 1,906,792 | \$ 1,834,632 | \$ 1,799,084 | \$ 35,548 |
| Sheriff | 799,265 | 693,110 | 693,110 | - |
| E-911 | 768,592 | 755,151 | 657,164 | 97,987 |
| School resource officer | 54,902 | 82,548 | 82,548 | - |
| Seizure/forfeiture funds | 6,855 | 6,855 | 1,682 | 5,173 |
| Total law enforcement and traffic control | <u>\$ 3,536,406</u> | <u>\$ 3,372,296</u> | <u>\$ 3,233,588</u> | <u>\$ 138,708</u> |

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Function, Activity, and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| General Fund: (Continued) | | | | |
| Public safety: (Continued) | | | | |
| Fire and rescue services: | | | | |
| Volunteer fire department | \$ 469,062 | \$ 1,040,035 | \$ 1,000,982 | \$ 39,053 |
| Ambulance service | 898,746 | 1,104,528 | 731,371 | 373,157 |
| Total fire and rescue services | <u>\$ 1,367,808</u> | <u>\$ 2,144,563</u> | <u>\$ 1,732,353</u> | <u>\$ 412,210</u> |
| Inspections: | | | | |
| Building | \$ 135,916 | \$ 138,014 | \$ 119,322 | \$ 18,692 |
| Other protection: | | | | |
| Animal control | \$ 69,129 | \$ 70,664 | \$ 70,617 | \$ 47 |
| Medical examiner | 100 | 100 | 80 | 20 |
| Other public safety | 35,797 | 35,797 | - | 35,797 |
| Total other protection | <u>\$ 105,026</u> | <u>\$ 106,561</u> | <u>\$ 70,697</u> | <u>\$ 35,864</u> |
| Total public safety | <u>\$ 5,145,156</u> | <u>\$ 5,761,434</u> | <u>\$ 5,155,960</u> | <u>\$ 605,474</u> |
| Public works: | | | | |
| Maintenance of highways, streets, bridges and sidewalks: | | | | |
| Engineer office | \$ 45,000 | \$ 67,337 | \$ 67,337 | \$ - |
| Street department | 2,197,180 | 2,628,523 | 2,628,420 | 103 |
| Snow and ice removal | 42,000 | 798 | 798 | - |
| Traffic engineering | 74,656 | 133,082 | 133,079 | 3 |
| Street cleaning | 15,000 | 4,835 | 4,835 | - |
| Street lights | 177,375 | 178,194 | 178,191 | 3 |
| Street projects | 87,198 | 1,903,940 | 820,890 | 1,083,050 |
| Total maintenance of highways, streets, bridges and sidewalks | <u>\$ 2,638,409</u> | <u>\$ 4,916,709</u> | <u>\$ 3,833,550</u> | <u>\$ 1,083,159</u> |
| Sanitation and waste removal: | | | | |
| Litter control grant | \$ 6,000 | \$ 9,065 | \$ 9,065 | \$ - |
| Maintenance of general buildings and grounds: | | | | |
| General properties | \$ 490,782 | \$ 487,532 | \$ 487,528 | \$ 4 |
| Motor vehicular maintenance | 255,290 | 217,751 | 217,750 | 1 |
| Total maintenance of general buildings and grounds | <u>\$ 746,072</u> | <u>\$ 705,283</u> | <u>\$ 705,278</u> | <u>\$ 5</u> |
| Total public works | <u>\$ 3,390,481</u> | <u>\$ 5,631,057</u> | <u>\$ 4,547,893</u> | <u>\$ 1,083,164</u> |
| Health and welfare: | | | | |
| Health: | | | | |
| Supplement of local health department | \$ 100,781 | \$ 100,781 | \$ 100,781 | \$ - |
| Mental health and mental retardation: | | | | |
| Alleghany Highlands community services board | \$ 82,566 | \$ 82,566 | \$ 82,566 | \$ - |

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Function, Activity, and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| General Fund: (Continued) | | | | |
| Health and welfare: (Continued) | | | | |
| Welfare: | | | | |
| Radar transportation Service | \$ 15,204 | \$ 15,204 | \$ 15,204 | \$ - |
| Feeding America | 2,500 | 2,500 | 2,500 | - |
| Safehomes, Inc. | 1,800 | 1,800 | 1,800 | - |
| Alleghany Highlands CSA foster care | 2,222,681 | 2,222,681 | 1,270,166 | 952,515 |
| Social Services | 364,724 | 364,724 | 227,808 | 136,916 |
| Other contributions | 5,400 | 5,400 | 5,400 | - |
| Opioid recovery expenditures | - | 28,762 | - | 28,762 |
| Property tax relief for the elderly | - | - | 32,833 | (32,833) |
| Total welfare | <u>\$ 2,612,309</u> | <u>\$ 2,641,071</u> | <u>\$ 1,555,711</u> | <u>\$ 1,085,360</u> |
| Total health and welfare | <u>\$ 2,795,656</u> | <u>\$ 2,824,418</u> | <u>\$ 1,739,058</u> | <u>\$ 1,085,360</u> |
| Education: | | | | |
| Other instructional costs: | | | | |
| Contributions to Community College | \$ 2,983 | \$ 2,983 | \$ 2,983 | \$ - |
| Contribution to City School Board | 2,994,872 | 2,994,872 | 2,994,872 | - |
| Education | - | - | 15,422 | (15,422) |
| Total education | <u>\$ 2,997,855</u> | <u>\$ 2,997,855</u> | <u>\$ 3,013,277</u> | <u>\$ (15,422)</u> |
| Parks, recreation, and cultural: | | | | |
| Parks and recreation: | | | | |
| Supervision of parks and recreation | \$ 3,434,434 | \$ 2,700,378 | \$ 1,858,849 | \$ 841,529 |
| Foundation Grants | - | 227,290 | 227,290 | - |
| Total parks and recreation | <u>\$ 3,434,434</u> | <u>\$ 2,927,668</u> | <u>\$ 2,086,139</u> | <u>\$ 841,529</u> |
| Cultural enrichment: | | | | |
| Senior center | \$ 108,613 | \$ 105,466 | \$ 105,466 | \$ - |
| Cemetery | 312,709 | 338,207 | 338,205 | 2 |
| League of older Americans | 2,734 | 2,734 | - | 2,734 |
| YMCA | 3,100 | 3,100 | 3,100 | - |
| Alleghany Highlands arts council | 6,480 | 6,480 | 6,480 | - |
| Alleghany Highlands arts/craft center | 2,520 | 2,520 | 2,520 | - |
| Alleghany Historical Society | 5,000 | 5,000 | 5,000 | - |
| Total cultural enrichment | <u>\$ 441,156</u> | <u>\$ 463,507</u> | <u>\$ 460,771</u> | <u>\$ 2,736</u> |
| Library: | | | | |
| Contribution to regional library | \$ 133,209 | \$ 133,209 | \$ 133,209 | \$ - |
| Total parks, recreation, and cultural | <u>\$ 4,008,799</u> | <u>\$ 3,524,384</u> | <u>\$ 2,680,119</u> | <u>\$ 844,265</u> |

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Function, Activity, and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|----------------------|---|
| General Fund: (Continued) | | | | |
| Community development: | | | | |
| Planning and community development: | | | | |
| Planning commission | \$ 2,885 | \$ 906 | \$ 725 | \$ 181 |
| Workforce development | 859 | - | - | - |
| Redevelopment/housing authority | 20,000 | 20,000 | 20,000 | - |
| Zoning board | 200 | 200 | 125 | 75 |
| Economic development | 200,913 | 186,015 | 185,730 | 285 |
| Total planning and community development | <u>\$ 224,857</u> | <u>\$ 207,121</u> | <u>\$ 206,580</u> | <u>\$ 541</u> |
| Environmental management: | | | | |
| Contribution to soil and water district | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ - |
| Cooperative extension program: | | | | |
| Extension office | \$ 7,695 | \$ 6,035 | \$ 6,035 | \$ - |
| Total community development | <u>\$ 235,552</u> | <u>\$ 216,156</u> | <u>\$ 215,615</u> | <u>\$ 541</u> |
| Nondepartmental: | | | | |
| Contingencies | \$ 85,000 | \$ 141,042 | \$ 145,927 | \$ (4,885) |
| Other nondepartmental | 5,000 | 155,358 | 87,634 | 67,724 |
| Total nondepartmental | <u>\$ 90,000</u> | <u>\$ 296,400</u> | <u>\$ 233,561</u> | <u>\$ 62,839</u> |
| Debt service: | | | | |
| Principal retirement | \$ 1,403,134 | \$ 1,403,134 | \$ 1,515,623 | \$ (112,489) |
| Interest and other fiscal charges | 721,068 | 715,758 | 685,197 | 30,561 |
| Total debt service | <u>\$ 2,124,202</u> | <u>\$ 2,118,892</u> | <u>\$ 2,200,820</u> | <u>\$ (81,928)</u> |
| Total General Fund | <u>\$ 23,223,127</u> | <u>\$ 25,840,808</u> | <u>\$ 22,203,453</u> | <u>\$ 3,637,355</u> |
| Special Revenue Funds: | | | | |
| CARES Fund: | | | | |
| General government administration: | | | | |
| General and financial administration: | | | | |
| General government | \$ - | \$ - | \$ 18,790 | \$ (18,790) |
| Total CARES Fund | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,790</u> | <u>\$ (18,790)</u> |
| ARPA Fund: | | | | |
| General government administration: | | | | |
| General and financial administration: | | | | |
| General government | \$ - | \$ 2,958,487 | \$ - | \$ 2,958,487 |
| Public works: | | | | |
| General public works: | | | | |
| Public works | \$ - | \$ 45,259 | \$ 11,303 | \$ 33,956 |
| Community development: | | | | |
| General community development: | | | | |
| Tourism | \$ - | \$ 15,000 | \$ - | \$ 15,000 |
| Total ARPA Fund | <u>\$ -</u> | <u>\$ 3,018,746</u> | <u>\$ 11,303</u> | <u>\$ 3,007,443</u> |

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

| <u>Fund, Function, Activity, and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|----------------------|---|
| Capital Projects Fund: | | | | |
| Joint revenue sharing pad site | \$ - | \$ 2,923,275 | \$ 31,894 | \$ 2,891,381 |
| E-911 communication system | - | 222,833 | 42,032 | 180,801 |
| Total capital projects | <u>\$ -</u> | <u>\$ 3,146,108</u> | <u>\$ 73,926</u> | <u>\$ 3,072,182</u> |
| Total City Capital Projects Fund | <u>\$ -</u> | <u>\$ 3,146,108</u> | <u>\$ 73,926</u> | <u>\$ 3,072,182</u> |
| Permanent Fund | | | | |
| Cemetery Fund: | | | | |
| Public works: | | | | |
| General public works: | | | | |
| Cemetery | \$ - | \$ - | \$ 45,723 | \$ (45,723) |
| Total Cemetery Fund | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 45,723</u> | <u>\$ (45,723)</u> |
| Total Primary Government | <u>\$ 23,223,127</u> | <u>\$ 32,005,662</u> | <u>\$ 22,353,195</u> | <u>\$ 9,652,467</u> |

Other Statistical Section

Table 1

City of Covington, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years

| Fiscal Year | General Government Administration | Judicial Administration | Public Safety | Public Works | Health and Welfare | Education | Parks, Recreation, and Cultural | Community Development | Interest on Long-Term Debt | Water Department | Sewer Department | Solid Waste Department | Total |
|-------------|-----------------------------------|-------------------------|---------------|--------------|--------------------|--------------|---------------------------------|-----------------------|----------------------------|------------------|------------------|------------------------|---------------|
| 2022-23 | \$ 2,059,853 | \$ 312,757 | \$ 3,986,725 | \$ 3,215,232 | \$ 2,914,894 | \$ 3,618,133 | \$ 1,968,976 | \$ 247,509 | \$ 626,962 | \$ 1,791,435 | \$ 1,657,358 | \$ 2,706,888 | \$ 25,106,722 |
| 2021-22 | 1,848,535 | 310,745 | 4,199,120 | 2,524,691 | 2,062,817 | 2,949,139 | 1,531,584 | 357,376 | 929,248 | 1,649,494 | 1,794,434 | 1,329,792 | 21,486,975 |
| 2020-21 | 1,973,555 | 285,912 | 4,064,575 | 5,253,287 | 2,461,954 | 2,804,990 | 1,773,009 | 290,692 | 697,453 | 1,694,954 | 1,817,185 | 1,395,865 | 24,513,431 |
| 2019-20 | 1,671,355 | 210,940 | 4,000,830 | 2,042,449 | 2,100,392 | 3,585,705 | 2,064,533 | 504,066 | 721,741 | 1,711,375 | 1,725,736 | 1,986,802 | 22,325,924 |
| 2018-19 | 1,796,717 | 210,420 | 4,190,785 | 2,616,848 | 1,986,049 | 3,739,401 | 1,929,019 | 152,906 | 787,415 | 1,515,469 | 1,767,744 | 1,798,195 | 22,490,968 |
| 2017-18 | 1,596,965 | 193,309 | 3,824,213 | 5,315,732 | 1,928,602 | 3,574,098 | 1,868,116 | 252,110 | 1,018,605 | 1,512,416 | 1,635,976 | - | 22,720,142 |
| 2016-17 | 1,844,066 | 175,314 | 3,498,357 | 3,030,315 | 1,869,565 | 4,402,502 | 1,817,301 | 139,329 | 872,594 | 1,263,423 | 1,606,706 | - | 20,519,472 |
| 2015-16 | 1,917,011 | 199,965 | 3,460,421 | 2,934,344 | 1,342,892 | 3,995,718 | 1,324,136 | 97,984 | 1,074,337 | 1,054,462 | 1,473,877 | - | 18,875,147 |
| 2014-15 | 1,509,994 | 295,423 | 3,366,041 | 2,598,684 | 1,498,921 | 4,304,188 | 1,568,825 | 110,143 | 1,211,614 | 1,093,836 | 1,459,626 | - | 19,017,295 |
| 2013-14 | 1,569,154 | 164,988 | 3,152,116 | 2,702,655 | 1,448,418 | 4,064,623 | 1,515,073 | 77,718 | 1,135,754 | 1,114,862 | 1,256,623 | - | 18,201,984 |

**City of Covington, Virginia
Government-Wide Revenues
Last Ten Fiscal Years**

| Fiscal Year | PROGRAM REVENUES | | | | GENERAL REVENUES | | | | | | | Total |
|-------------|----------------------|------------------------------------|----------------------------------|---------------|------------------------|-------------------|----------------------------------|---------------|--|--|--|-------|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | General Property Taxes | Other Local Taxes | Unrestricted Investment Earnings | Miscellaneous | Grants and Contributions Not Restricted to Specific Programs | | | |
| 2022-23 | \$ 5,821,050 | \$ 7,021,786 | \$ 1,606,902 | \$ 10,676,170 | \$ 4,553,219 | \$ 251,862 | \$ 502,764 | \$ 799,182 | \$ 31,232,935 | | | |
| 2021-22 | 5,841,702 | 3,294,608 | 327,867 | 10,320,929 | 4,362,187 | 28,813 | 367,241 | 803,624 | 25,346,971 | | | |
| 2020-21 | 5,967,380 | 4,432,625 | 556,220 | 10,009,099 | 4,124,558 | 153,946 | 75,074 | 831,269 | 26,150,171 | | | |
| 2019-20 | 6,369,994 | 3,042,172 | 560,134 | 9,168,292 | 3,974,923 | 101,713 | 93,435 | 843,577 | 24,154,240 | | | |
| 2018-19 | 6,476,138 | 3,339,954 | 278,646 | 8,837,051 | 4,094,054 | 122,172 | 87,514 | 858,084 | 24,093,613 | | | |
| 2017-18 | 5,687,638 | 3,812,846 | 523,817 | 8,635,037 | 3,847,681 | 96,348 | 105,896 | 856,277 | 23,565,540 | | | |
| 2016-17 | 5,601,467 | 2,750,744 | 43,472 | 8,389,499 | 3,789,785 | 92,931 | 190,770 | 893,492 | 21,752,160 | | | |
| 2015-16 | 5,048,173 | 2,525,991 | 9,090 | 8,137,262 | 3,647,128 | 32,364 | 543,348 | 884,099 | 20,827,455 | | | |
| 2014-15 | 5,009,483 | 2,405,973 | 55,382 | 7,917,708 | 3,656,977 | 51,153 | 140,692 | 893,422 | 20,130,790 | | | |
| 2013-14 | 4,368,558 | 2,442,710 | 632,377 | 6,969,022 | 3,660,422 | 78,598 | 243,652 | 899,272 | 19,294,611 | | | |

**City of Covington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years**

| Fiscal Year | General Government Administration | Judicial Administration | Public Safety | Public Works | Health and Welfare | Education (2) | Parks, Recreation, and Cultural | Community Development | Capital Projects | Non-departmental | Debt Service (3) | Total |
|-------------|-----------------------------------|-------------------------|---------------|--------------|--------------------|---------------|---------------------------------|-----------------------|------------------|------------------|------------------|---------------|
| | | | | | | | | | | | | |
| 2022-23 | \$ 2,123,183 | \$ 312,757 | \$ 5,155,960 | \$ 4,604,919 | \$ 1,739,058 | \$ 3,013,277 | \$ 2,680,119 | \$ 215,615 | \$ 73,926 | \$ 233,561 | \$ 2,200,820 | \$ 22,353,195 |
| 2021-22 | 1,974,470 | 310,745 | 4,114,123 | 2,405,197 | 2,060,577 | 12,762,799 | 1,782,871 | 328,008 | 29,368 | 218,124 | 2,287,725 | 28,274,007 |
| 2020-21 | 2,115,013 | 285,912 | 4,066,711 | 3,031,627 | 2,461,437 | 11,170,109 | 1,608,753 | 290,692 | 2,576,730 | 9,333 | 2,103,059 | 29,719,376 |
| 2019-20 | 1,818,377 | 210,940 | 3,781,616 | 2,197,165 | 2,113,135 | 11,215,189 | 1,957,001 | 504,066 | 414,963 | 1,100 | 2,106,243 | 26,319,795 |
| 2018-19 | 1,975,272 | 210,420 | 4,131,406 | 2,619,371 | 2,116,379 | 11,389,063 | 1,874,324 | 232,781 | 435,649 | 14,683 | 2,091,683 | 27,091,031 |
| 2017-18 | 1,713,498 | 193,309 | 3,814,167 | 4,920,549 | 1,937,894 | 11,182,920 | 1,736,080 | 252,110 | 4,331,586 | 5,840 | 1,990,332 | 32,078,285 |
| 2016-17 | 1,897,928 | 175,314 | 3,355,693 | 2,939,220 | 1,910,817 | 11,445,748 | 1,689,096 | 139,329 | 381,951 | 144,930 | 1,870,305 | 25,950,331 |
| 2015-16 | 1,949,443 | 199,965 | 4,007,619 | 3,025,459 | 1,352,724 | 10,428,972 | 2,139,810 | 97,984 | 308,714 | 22,730 | 2,049,392 | 25,582,812 |
| 2014-15 | 1,508,481 | 295,423 | 3,403,939 | 2,692,712 | 1,520,875 | 10,300,287 | 1,636,406 | 110,143 | 657,271 | 30,688 | 1,598,984 | 23,755,209 |
| 2013-14 | 1,442,101 | 164,988 | 3,000,898 | 2,470,238 | 1,455,490 | 10,103,530 | 1,544,455 | 85,394 | 333,530 | 135,264 | 1,204,549 | 21,940,437 |

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit for years prior to fiscal year 2023. The Covington City School Board merged with Alleghany County Public Schools on July 1, 2022 to form Alleghany Highlands School Board.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit, where applicable.

(3) For fiscal year 2013-14, excludes refunding of \$15,279,100 and related bond issuance cost of \$71,526. For Fiscal Year 2015-16, excludes bond issuance cost of \$48,867. For Fiscal Year 2017-18, excludes bond issuance cost of \$45,000. For fiscal year 2020-21, excludes bond issuance cost of \$7,500. For fiscal year 2021-2022, excludes bond issuance cost of \$181,932.

City of Covington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

| Fiscal Year | General Property Taxes | Other Local Taxes | Permits, Privilege Fees, Regulatory Licenses | Fines and Forfeitures | Revenue from the Use of Money and Property | Charges for Services | Miscellaneous | Recovered Costs | Inter-governmental (2) | Total |
|-------------|------------------------|-------------------|--|-----------------------|--|----------------------|---------------|-----------------|------------------------|---------------|
| | | | | | | | | | | |
| 2022-23 | \$ 10,714,032 | \$ 4,553,219 | \$ 11,222 | \$ 1,690 | \$ 233,451 | \$ 415,642 | \$ 375,097 | \$ 272,641 | \$ 8,362,244 | \$ 24,939,238 |
| 2021-22 | 10,347,104 | 4,362,187 | 22,572 | 4,520 | 52,327 | 528,190 | 412,186 | 65,864 | 14,258,398 | 30,053,348 |
| 2020-21 | 10,000,965 | 4,124,558 | 13,673 | 2,273 | 152,599 | 456,045 | 143,401 | 49,563 | 14,635,287 | 29,578,364 |
| 2019-20 | 9,138,139 | 3,974,923 | 19,087 | 3,579 | 93,383 | 462,957 | 235,509 | 57,000 | 12,484,537 | 26,469,114 |
| 2018-19 | 8,796,076 | 4,094,054 | 18,006 | 3,324 | 112,814 | 532,436 | 156,651 | 50,663 | 12,393,696 | 26,157,720 |
| 2017-18 | 8,726,512 | 3,847,681 | 38,143 | 7,061 | 89,207 | 1,597,226 | 204,094 | 74,589 | 12,858,781 | 27,443,294 |
| 2016-17 | 8,326,893 | 3,789,785 | 7,849 | 4,709 | 88,565 | 1,456,599 | 273,550 | 102,615 | 11,322,775 | 25,373,340 |
| 2015-16 | 8,060,434 | 3,647,128 | 11,397 | 2,934 | 28,209 | 1,358,395 | 559,184 | 85,491 | 10,554,857 | 24,308,029 |
| 2014-15 | 7,936,275 | 3,656,977 | 14,612 | 6,035 | 45,956 | 1,599,911 | 202,542 | 53,881 | 10,227,426 | 23,743,615 |
| 2013-14 | 6,883,416 | 3,660,422 | 11,102 | 7,488 | 71,181 | 1,185,004 | 316,127 | 109,596 | 10,000,137 | 22,244,473 |

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit for years prior to fiscal year 2023. The Covington City School Board merged with Alleghany County Public Schools on July 1, 2022 to form Alleghany Highlands School Board.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit, where applicable.

City of Covington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

| Fiscal Year | Total Tax Levy (1,3) | Current Tax Collections (1,3) | Percent of Levy Collected | Delinquent Tax Collections (1) | Total Tax Collections | Percent of | | Percent of Delinquent Taxes to Tax Levy |
|-------------|----------------------|-------------------------------|---------------------------|--------------------------------|-----------------------|-----------------------|------------------------------------|---|
| | | | | | | Total Tax Collections | Outstanding Delinquent Taxes (1,2) | |
| 2022-23 | \$ 10,890,866 | \$ 10,912,098 | 100.19% | \$ 155,168 | 11,067,266 | 101.62% | \$ 691,434 | 6.35% |
| 2021-22 | 10,656,943 | 10,499,764 | 98.53% | 238,910 | 10,738,674 | 100.77% | 722,053 | 6.78% |
| 2020-21 | 10,270,769 | 10,011,483 | 97.48% | 196,901 | 10,208,384 | 99.39% | 699,710 | 6.81% |
| 2019-20 | 9,578,402 | 9,383,237 | 97.96% | 187,709 | 9,570,946 | 99.92% | 732,257 | 7.64% |
| 2018-19 | 9,223,782 | 9,047,685 | 98.09% | 192,428 | 9,240,113 | 100.18% | 681,446 | 7.39% |
| 2017-18 | 8,995,492 | 8,864,919 | 98.55% | 241,157 | 9,106,076 | 101.23% | 633,196 | 7.04% |
| 2016-17 | 8,762,926 | 8,597,806 | 98.12% | 178,911 | 8,776,717 | 100.16% | 706,988 | 8.07% |
| 2015-16 | 8,515,950 | 8,355,485 | 98.12% | 142,120 | 8,497,605 | 99.78% | 632,340 | 7.43% |
| 2014-15 | 8,280,409 | 8,140,031 | 98.30% | 143,259 | 8,283,290 | 100.03% | 600,070 | 7.25% |
| 2013-14 | 7,368,660 | 7,235,703 | 98.20% | 117,095 | 7,352,798 | 99.78% | 579,245 | 7.86% |

(1) Exclusive of penalties and interest.

(2) Delinquent tax collections are exclusive of land redemptions.

(3) Includes amounts paid under the Personal Property Tax Relief Act.

City of Covington, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

| Fiscal Year | Real Estate (1) | Personal Property and Mobile Homes (3) | Machinery and Tools (4) | Public Utility (2) | | Total |
|-------------|-----------------|--|-------------------------|--------------------|-------------------|----------------|
| | | | | Real Estate | Personal Property | |
| 2022-23 | \$ 300,538,600 | \$ 69,120,980 | \$ 156,819,800 | \$ 218,044,452 | \$ - | \$ 744,523,832 |
| 2021-22 | 294,243,024 | 77,556,938 | 142,863,071 | 252,477,381 | - | 767,140,414 |
| 2020-21 | 296,061,600 | 56,485,905 | 136,534,670 | 240,961,221 | - | 730,043,396 |
| 2019-20 | 286,904,100 | 54,114,100 | 124,530,900 | 251,428,671 | - | 716,977,771 |
| 2018-19 | 286,739,177 | 54,043,442 | 124,530,900 | 251,428,671 | - | 716,742,190 |
| 2017-18 | 286,469,600 | 28,968,320 | 57,467,260 | 280,844,236 | 12,505 | 653,761,921 |
| 2016-17 | 286,698,566 | 29,259,446 | 54,576,920 | 281,858,971 | 12,555 | 652,406,458 |
| 2015-16 | 286,142,709 | 29,184,062 | 51,151,310 | 275,694,537 | 61,141 | 642,233,759 |
| 2014-15 | 274,495,282 | 27,925,181 | 51,856,052 | 269,623,842 | - | 623,900,357 |
| 2013-14 | 274,016,639 | 26,072,593 | 55,549,130 | 100,018,610 | - | 455,656,972 |

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission.

(3) Prior to fiscal year 2019, personal property taxes were assessed at 55% NADA. The subsequent years are assessed at 100%.

Also, business personal property was assessed at 10% original costs prior to fiscal year 2019, subsequent years are assessed at 20%.

(4) Prior to fiscal year 2019, machinery and tools taxes were assessed at 15%. The subsequent years are assessed at 30%.

**City of Covington, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years**

| Fiscal Year | Real Estate | Mobile Homes | Personal Property (2) | Machinery and Tools (2) |
|----------------|-------------|-----------------|--------------------------|----------------------------|
| 2022-23 | \$ 0.85 | \$ 0.85 | \$ 3.08 | \$ 2.76 |
| 2021-22 (4) | 0.85 | 0.85 | 3.08 | 2.76 |
| 2020-21 | 0.80 | 0.80 | 3.08 | 2.76 |
| 2019-20 | 0.80 | 0.80 | 3.08 | 2.76 |
| 2018-19 (3) | 0.80 | 0.80 | 3.08 | 2.76 |
| 2017-18 | 0.76 | 0.76 | 5.60 | 5.52 |
| 2016-17 | 0.75 | 0.75 | 5.60 | 5.52 |
| 2015-16 | 0.73 | 0.73 | 5.60 | 5.52 |
| 2014-15 | 0.71 | 0.71 | 5.60 | 5.52 |
| 2013-14 | 0.69 | 0.69 | 5.60 | 5.52 |

(1) Per \$100 of assessed value.

(2) See Table 6 for change in assessment methods.

(3) Rates shown for mobile homes, personal property and machinery and tools are for 1st half 2019. 2nd half 2018 are same as rates shown for 2017-18.

(4) Rate shown for mobile homes is for 1st half 2022. The 2nd half 2021 is the same as rates shown for 2020-2021.

City of Covington, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

| Fiscal Year | Population (1) | Assessed Value (in thousands) (2) | Net Bonded Debt (3) | Ratio of Net Bonded Debt to Assessed Value | Net Bonded Debt per Capita |
|----------------|----------------|---|---------------------------|--|-------------------------------------|
| 2022-23 | 5,717 | \$ 744,524 | \$ 21,320,720 | 2.86% | \$ 3,729 |
| 2021-22 | 5,717 | 767,140 | 22,627,195 | 2.95% | 3,958 |
| 2020-21 | 5,737 | 730,043 | 25,272,099 | 3.46% | 4,405 |
| 2019-20 | 5,961 | 716,978 | 24,306,355 | 3.39% | 4,078 |
| 2018-19 | 5,961 | 716,742 | 25,591,444 | 3.57% | 4,293 |
| 2017-18 | 5,961 | 653,762 | 26,834,679 | 4.10% | 4,502 |
| 2016-17 | 5,961 | 652,406 | 25,434,047 | 3.90% | 4,267 |
| 2015-16 | 5,961 | 642,234 | 25,591,275 | 3.98% | 4,293 |
| 2014-15 | 5,961 | 623,900 | 25,238,699 | 4.05% | 4,234 |
| 2013-14 | 5,961 | 455,657 | 25,577,766 | 5.61% | 4,291 |

(1) Bureau of the Census.

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bond anticipation notes, and literary fund loans. Excludes revenue bonds, landfill closure/post-closure care liability, lease liabilities, finance purchases, and compensated absences.

City of Covington, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures (1)
Last Ten Fiscal Years

| Fiscal Year | Principal (3) | Interest (2) | Total Debt Service | Total General Governmental Expenditures | Ratio of Debt Service to General Governmental Expenditures |
|----------------|---------------|--------------|--------------------------|--|--|
| 2022-23 | \$ 1,458,093 | \$ 670,788 | \$ 2,128,881 | \$ 22,353,195 | 9.52% |
| 2021-22 | 1,577,246 | 710,479 | 2,287,725 | 28,274,007 | 8.09% |
| 2020-21 | 1,434,952 | 668,107 | 2,103,059 | 29,719,376 | 7.08% |
| 2019-20 | 1,363,113 | 702,837 | 2,065,950 | 26,319,795 | 7.85% |
| 2018-19 | 1,322,490 | 740,265 | 2,062,755 | 27,091,031 | 7.61% |
| 2017-18 | 1,207,659 | 782,673 | 1,990,332 | 32,078,285 | 6.20% |
| 2016-17 | 1,093,100 | 777,205 | 1,870,305 | 25,950,331 | 7.21% |
| 2015-16 | 979,534 | 1,067,484 | 2,047,018 | 25,582,812 | 8.00% |
| 2014-15 | 685,197 | 1,187,259 | 1,872,456 | 23,755,209 | 7.88% |
| 2013-14 | 314,436 | 890,113 | 1,204,549 | 21,940,437 | 5.49% |

(1) Includes General fund of the Primary Government and Operating Fund of the Discretely Presented Component Unit - School Board for years prior to fiscal year 2023. The Covington City School Board merged with Alleghany County Public Schools on July 1, 2022 to form Alleghany Highlands School Board.

(2) Excludes bond issuance and other costs.

(3) Excludes refinancing of bond anticipation note and refunding of general obligation bond.

City of Covington, Virginia
Computation of Legal Debt Margin
At June 30, 2023

| | | |
|--|--------------|---------------------|
| Legal Debt Limit: | | |
| 10% of Assessed Value of Taxable Real Estate | \$30,053,860 | \$ 30,053,860 |
| Deduct: | | |
| Debt Payable | | 21,320,720 |
| Legal Margin for Creation of Additional Debt | | <u>\$ 8,733,140</u> |

COMPLIANCE SECTION



**Independent Auditors' 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***

**To the Honorable Members of the City Council
City of Covington, Virginia
Covington, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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, Virginia as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated December 1, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Covington, Virginia'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 of Covington, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Virginia'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Virginia'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Polina, Faver, Cox Associates

Blacksburg, Virginia
December 1, 2023



**Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance**

To the Honorable Members of the City Council
City of Covington, Virginia
Covington, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Covington, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Covington, Virginia's major federal programs for the year ended June 30, 2023. City of Covington, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Covington, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

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; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Covington, Virginia and to meet our other ethical responsibilities, in accordance with 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 of City of Covington, Virginia'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 City of Covington, Virginia's federal programs.

Auditors' 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 City of Covington, Virginia'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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting 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 judgment made by a reasonable user of the report on compliance about City of Covington, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- 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 City of Covington, Virginia'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 City of Covington, Virginia'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 City of Covington, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

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 a 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 consideration of internal control over compliance was for the limited purpose described in the Auditors' 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. 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. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

Prohaska, Fawcett, Cox Associates

Blacksburg, Virginia
December 1, 2023

City of Covington, Virginia
Schedule of Expenditures of Federal Awards (SEFA)
For the Year Ended June 30, 2023

| Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title | Federal Assistance Listing Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|---|---|-------------------------|
| DEPARTMENT OF TREASURY: | | | |
| Pass Through Payments: | | | |
| <i>Virginia Department of Accounts:</i> | | | |
| COVID-19 - Coronavirus Relief Fund | 21.019 | SLT0022 | \$ 136,094 |
| <i>Virginia Department of Housing and Community Development:</i> | | | |
| COVID-19 Coronavirus State and Local Fiscal Recovery Funds | 21.027 | Not available | \$ 11,303 |
| Direct Payments: | | | |
| COVID-19 Coronavirus State and Local Fiscal Recovery Funds | 21.027 | Not applicable | <u>3,855,000</u> |
| Total Department of Treasury | | | <u>\$ 4,002,397</u> |
| DEPARTMENT OF JUSTICE: | | | |
| Direct Payments: | | | |
| Bulletproof Vest Partnership Program | 16.607 | Not applicable | \$ 4,401 |
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Pass Through Payments: | | | |
| <i>Virginia Department of Housing and Community Development:</i> | | | |
| Community Development Block Grant/State's Program and Non-entitlement Grants in Hawaii | 14.228 | CAMS 19PG28 | \$ 8,500 |
| DEPARTMENT OF TRANSPORTATION: | | | |
| Pass Through Payments: | | | |
| <i>Virginia Department of Transportation:</i> | | | |
| Highway Planning and Construction | 20.205 | EN17-107-109, P101, M501 | \$ 485,072 |
| ENVIRONMENTAL PROTECTION AGENCY: | | | |
| Pass Through Payments: | | | |
| <i>Virginia Resource Authority:</i> | | | |
| ARRA - Capitalization Grants for Clean Water State Revolving Funds | 66.458 | C-515645E | <u>\$ 5,119,437</u> |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| Pass Through Payments: | | | |
| <i>Department of Social Services:</i> | | | |
| Promoting Safe and Stable Families Program | 93.556 | 0950122, 0950221 | \$ 1,199 |
| Temporary Assistance for Needy Families | 93.558 | 0400123 | 565 |
| Foster Care - Title IV-E | 93.658 | 1100122, 1100123 | 8,027 |
| Adoption Assistance | 93.659 | 1120122, 1120123 | 18,450 |
| Social Services Block Grant | 93.667 | 1000122, 1000123 | 21,116 |
| John H. Chafee Foster Care Program for Successful Transition to Adulthood | 93.674 | 9150122 | <u>112</u> |
| Total Department of Health and Human Services | | | <u>\$ 49,469</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 9,669,276</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.
- (3) The City did not elect the 10% de minimis indirect cost rate because they only request direct costs for reimbursement.

NOTE 3--SUBRECIPIENTS:

The City did not have any subrecipients for the year ended June 30, 2023.

NOTE 4--RELATIONSHIP TO THE FINANCIAL STATEMENTS:

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

| | |
|---|---------------------|
| Primary government: | |
| General Fund | \$ 547,442 |
| CARES Fund | 136,094 |
| ARPA Fund | 3,866,303 |
| Sewer Fund | <u>5,119,437</u> |
| Total Primary Government | <u>\$ 9,669,276</u> |
| Total Federal Expenditures per Basic Financial Statements | <u>\$ 9,669,276</u> |

City of Covington, Virginia
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

| | |
|---|------------|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | No |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|---------------|
| Internal control over major programs: Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)? | No |

Identification of major programs:

| <u>Assistance Listing #</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------------|--|
| 21.027 | Coronavirus State and Local Fiscal Recovery Funds |
| 66.458 | Capitalization Grants for Drinking Water State Revolving Funds |

| | |
|---|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 |
| Auditee qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

City of Covington, Virginia
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Section I - Summary of Auditors' Results

| 2022-001 | Significant Deficiency |
|-----------------|--|
| Condition: | The City Treasurer's office is relying on a consultant to reconcile bank accounts. At preliminary fieldwork, the Treasurer's office was months behind reconciling the main bank account. |
| Recommendation: | The Treasurer's office needs additional training to get them to the point that they can reconcile timely and not rely on consultant. |
| Current Status: | Bank accounts were reconciled more timely during fiscal year 2023. |