

**CITY OF COVINGTON, VIRGINIA**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

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**CITY OF COVINGTON, VIRGINIA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

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## INTRODUCTORY SECTION

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**CITY OF COVINGTON, VIRGINIA**

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**CITY COUNCIL**

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

**OTHER OFFICIALS**

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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

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

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## Independent Auditors' Report

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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, 2024, 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, 2024, 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.

### ***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 financial 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 November 25, 2024, 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.

  
Blacksburg, Virginia  
November 25, 2024

## **CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2024 (JULY 1, 2023 – JUNE 30, 2024)**

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, 2024.

### **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 \$20,872,114 "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 \$15,170,713.
  - At the close of the current fiscal year, the City of Covington's General Fund reported total fund balances of \$16,612,015.
  - At the end of the current fiscal year, the General Fund unassigned fund balance was 65.17% of revenues which is above (good) the adopted policy of 18% and 62.04% of expenditures (good) in the General Fund for FY 24. Included in the \$15,170,713 unassigned general fund balance are funds totaling \$1,244,431 that will become carryover funds that will be re-appropriated and utilized in FY 2025.
- **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 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 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 (business-type or enterprise), 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 \$31,000,883 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, 2024 and June 30, 2023

		Governmental Activities		Business-Type Activities		Total	
		<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
<b>Assets:</b>							
Current and other assets	\$	21,362,478	22,259,399	\$ 6,436,946	7,439,777	\$ 27,799,424	29,699,176
Capital assets		29,013,823	27,250,949	30,716,736	30,059,867	59,730,559	57,310,816
<b>Total Assets</b>	<b>\$</b>	<b>50,376,301</b>	<b>49,510,348</b>	<b>\$ 37,153,682</b>	<b>37,499,644</b>	<b>\$ 87,529,983</b>	<b>87,009,992</b>
<b>Deferred Outflows</b>							
<b>of Resources</b>	<b>\$</b>	<b>1,045,088</b>	<b>1,360,351</b>	<b>\$ 151,811</b>	<b>238,118</b>	<b>\$ 1,196,899</b>	<b>1,598,469</b>
<b>Liabilities:</b>							
Current liabilities	\$	5,237,359	6,525,575	\$ 2,348,065	5,147,248	\$ 7,585,424	11,672,823
Long-term liabilities		21,011,062	23,208,818	24,287,703	20,224,825	45,298,765	43,433,643
<b>Total Liabilities</b>	<b>\$</b>	<b>26,248,421</b>	<b>29,734,393</b>	<b>\$ 26,635,768</b>	<b>25,372,073</b>	<b>\$ 52,884,189</b>	<b>55,106,466</b>
<b>Deferred Inflows</b>							
<b>of Resources</b>	<b>\$</b>	<b>4,300,854</b>	<b>4,715,455</b>	<b>\$ 540,956</b>	<b>746,396</b>	<b>\$ 4,841,810</b>	<b>5,461,851</b>
<b>Net Position:</b>							
Net investment							
in capital assets	\$	6,698,493	5,623,838	\$ 12,912,009	15,495,074	\$ 19,610,502	21,118,912
Restricted		1,541,466	1,257,882	732,947	697,736	2,274,413	1,955,618
Unrestricted		12,632,155	9,539,131	(3,516,187)	(4,573,517)	9,115,968	4,965,614
<b>Total Net Position</b>	<b>\$</b>	<b>20,872,114</b>	<b>16,420,851</b>	<b>\$ 10,128,769</b>	<b>11,619,293</b>	<b>\$ 31,000,883</b>	<b>28,040,144</b>

The City of Covington's net position reflects \$59,730,559 in capital assets and its net investment in capital assets of \$19,610,502 (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 \$2,274,413 and are comprised of \$1,211,873 of unspent grants and \$1,062,540 restricted for debt service and bond covenant in the Business-Type Activities, the City owned Cemetery and Opioid Abatement Funds.

**Statement of Activities**

**June 30, 2024 and June 30, 2023**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 403,574	\$ 428,554	\$ 5,016,873	\$ 5,392,496	\$ 5,420,447	\$ 5,821,050
Operating grants & contributions	6,775,218	7,021,786	-	-	6,775,218	7,021,786
Capital grants & contributions	412,184	541,276	533,037	1,065,626	945,221	1,606,902
General revenues:						
General property taxes	10,782,423	10,676,170	-	-	10,782,423	10,676,170
Other taxes	4,652,872	4,553,219	-	-	4,652,872	4,553,219
Unrestricted revenues from use of money and property	841,683	233,451	35,304	18,411	876,987	251,862
Grants and contributions not restricted to specific programs	776,119	799,182	-	-	776,119	799,182
Miscellaneous	1,150,587	463,271	27,375	39,493	1,177,962	502,764
Total revenues	\$ 18,203,684	\$ 24,716,909	\$ 5,612,589	\$ 6,516,026	\$ 23,816,273	\$ 31,232,935
<b>Expenses:</b>						
General government						
Administration	\$ 2,160,229	\$ 2,059,853	\$ -	\$ -	\$ 2,160,229	\$ 2,059,853
Public Safety	5,001,677	3,986,725	-	-	5,001,677	3,986,725
Public Works	4,002,548	3,215,232	-	-	4,002,548	3,215,232
Education	3,172,084	3,618,133	-	-	3,172,084	3,618,133
Culture and Recreation	2,300,030	1,968,976	-	-	2,300,030	1,968,976
Interest on long-term debt	630,985	626,962	-	-	630,985	626,962
Judicial Administration	372,882	312,757	-	-	372,882	312,757
Health and Welfare	1,831,987	2,914,894	-	-	1,831,987	2,914,894
Community Development	2,346,172	247,509	-	-	2,346,172	247,509
Water	-	-	1,825,317	1,794,746	1,825,317	1,794,746
Sanitation	-	-	1,954,099	1,657,358	1,954,099	1,657,358
Solid Waste	-	-	2,848,503	2,706,888	2,848,503	2,706,888
Total expenses	\$ 21,818,594	\$ 18,951,041	\$ 6,627,919	\$ 6,158,992	\$ 28,446,513	\$ 25,110,033
Increase (decrease) in net position	\$ 4,451,263	\$ 5,765,868	\$ (1,490,523)	\$ 357,034	\$ 2,960,740	\$ 6,122,902
Transfers	475,193	436,383	(475,193)	(436,383)	-	-
Increase (decrease) in net position	\$ 4,451,263	\$ 6,202,251	\$ (1,490,523)	\$ (79,349)	\$ 2,960,740	\$ 6,122,902
Net Position - beginning	16,420,851	10,218,600	11,619,292	11,698,642	28,040,143	21,917,242
Ending net position	\$ 20,872,114	\$ 16,420,851	\$ 10,128,769	\$ 11,619,293	\$ 31,000,883	\$ 28,040,144

**Governmental Activities:** During the current fiscal year, Net Position for Governmental Activities increased \$4,451,263 from the prior fiscal year for an ending balance of \$20,872,114 based on beginning of fiscal year Net Position of \$16,420,851.

**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 \$10,128,769. The total decrease in net position for business-type activities (water, sewer, and solid-waste) was (\$1,490,523) 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, 2024, the City of Covington's total governmental funds reported total fund balances of \$16,855,111. Of this amount, \$15,170,713 constitutes unassigned fund balance which increased \$2,284,272 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 65.17% 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 24 with \$7,432,580 in total net position while Sewer Fund finished at \$8,631,846 in total net position, and the Solid-Waste Fund finished at (\$5,935,657) 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 24 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), 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 \$26,945,095, including transfers and lease issuances and expenditures for the General Fund were \$24,454,673.

## 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, 2024, were \$59,730,559 (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, 2024, were \$29,013,823 in Governmental Activities and \$30,716,736 in Business Type (Enterprise) Activities. For the sixth year, Solid-Waste Services (Landfill) are included in Business Type Activities as well as Water and Wastewater (Sewer) Services.

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

### Summary of Capital Assets for Governmental & Business Type Activities

As of June 30, 2024 and June 30, 2023

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land	\$ 2,036,865	\$ 1,967,944	\$ -	\$ -	\$ 2,036,865	\$ 1,967,944
Buildings and improvements	18,214,898	17,978,122	-	-	18,214,898	17,978,122
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	3,504,281	3,477,210	2,281,990	2,263,467	5,786,271	5,740,677
Infrastructure	3,607,215	2,207,849	20,318,322	21,976,283	23,925,537	24,184,132
Construction in progress	1,347,372	1,619,824	8,116,424	5,820,117	9,463,796	7,439,941
Right to use assets Mach. & Equip	376,479	246,047	-	-	376,479	246,047
Accumulated Amortization	(73,287)	(103,682)	-	-	(73,287)	(103,682)
<b>Total</b>	<b>\$ 29,013,823</b>	<b>\$ 27,393,314</b>	<b>\$ 30,716,736</b>	<b>\$ 30,059,867</b>	<b>\$ 59,730,559</b>	<b>\$ 57,453,181</b>

## Debt Administration

The City of Covington's total debt and liability by the end of FY 24 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 by 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 limit for the City of Covington is \$35,591,570 with General Obligation debt currently at \$21,952,470. As of June 30, 2024, the legal debt margin stands at \$13,639,100.

### Per Note 7 - Long-Term Obligations:

**Summary of Outstanding Debt**  
**For the Year Ended June 30, 2024 and June 30, 2023**

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
General Obligation Refunding Bonds	\$ 13,351,483	\$ 12,146,961	\$ -	\$ -	\$ 13,351,483	\$ 12,146,961
Deferred Amounts						
Bond Premiums	615,987	698,759	151,887	169,884	767,874	868,643
Literary Loans	7,985,000	8,475,000	-	-	7,985,000	8,475,000
Revenue Bonds	-	-	16,650,061	12,978,721	16,650,061	12,978,721
Finance Purchase	678,654	885,377	649,151	826,400	1,327,805	1,711,777
Landfill Closure/Post Closure Liability	-	-	7,777,653	6,784,579	7,777,653	6,784,579
Leases Payable	312,785	148,066	-	-	312,785	148,066
Compensated Abences	334,263	225,081	62,120	55,471	396,383	280,552
Net OPEB Liabilities	513,826	672,554	162,407	207,261	676,233	879,815
Net Pension Liability	1,258,602	1,757,455	382,626	537,522	1,641,228	2,294,977
<b>Total</b>	<b>\$ 25,050,600</b>	<b>\$ 25,009,253</b>	<b>\$ 25,835,905</b>	<b>\$ 21,559,838</b>	<b>\$ 50,886,505</b>	<b>\$ 46,569,091</b>

## 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 2025 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 25 including development of a joint pad site with Alleghany County. The City of Covington, Alleghany County and the Commonwealth of Virginia will collectively contribute over \$10,000,000 in funding towards this site.
- As of June 30, 2024, the City of Covington's unemployment rate was at 4.2% per VEC reporting.
- There were rate increases in Business-Type Activity Funds in Water and Sewer. The water had an increase of \$.50 and the sewer had an increase of \$1.50 in the FY 2025 Budget. There were no changes to Solid-Waste charges in the FY 2025 Budget.
- Real Estate Taxes per \$100.00 of value remained the same \$0.85 in the FY 25 budget and remains one of the lowest rates in Virginia for an independent city that also provides full governmental services and a joint school system.
- The FY 25 General Fund revenue budget was increased in strategic areas based on projected revenues anticipated and expenditures reduced accordingly. No major impacts to services and small improvements anticipated as additional funds are available as projects are finalized.
- The city utilized \$1,558,042 unassigned fund balance for additional paving and equipment needs. However, this has no substantial impact related to fund policy goals in the 2024-2025 General Fund Budget.
- The city has embarked on a paving assessment plan that is included in the budget for the ninth straight year after no such prior dedicated efforts. Additionally, paving improvements during FY 25 will also continue to be funded. Local funding includes \$814,314 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 25 Budget.
- The current budget includes \$25,000 specifically for storm water improvements which is in the budget as a newer infrastructure line item.
- The third phase of the Maple Avenue Streetscape Project was completed in FY 24 with a VDOT/Federal 80/20 match program.
- Economic development is taking place downtown. The City has hired a Small Business Coordinator (new position).
- **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, 2024

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 15,223,275	\$ 5,003,416	\$ 20,226,691
Investments	185,882	-	185,882
Receivables (net of allowance for uncollectibles):			
Taxes receivable	3,529,619	-	3,529,619
Other local taxes receivable	235,368	-	235,368
Accounts receivable	410,501	626,321	1,036,822
Notes receivable	54,742	-	54,742
Due from other governmental units	1,620,156	74,262	1,694,418
Prepaid items	102,935	-	102,935
Restricted assets:			
Cash and cash equivalents	-	313,203	313,203
Investments	-	419,744	419,744
Capital assets not being depreciated/amortized:			
Land	2,036,865	-	2,036,865
Construction in progress	1,347,372	8,116,424	9,463,796
Capital assets, net of accumulated depreciation/amortization:			
Buildings and improvements	18,214,898	-	18,214,898
Machinery and equipment	3,504,281	1,061,726	4,566,007
Lease machinery and equipment	303,192	-	303,192
Infrastructure	3,607,215	21,538,586	25,145,801
Total Assets	\$ 50,376,301	\$ 37,153,682	\$ 87,529,983
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	\$ 489,484	\$ -	\$ 489,484
Pension related items	455,645	120,478	576,123
OPEB related items	99,959	31,333	131,292
Total Deferred Outflows of Resources	\$ 1,045,088	\$ 151,811	\$ 1,196,899
<b>LIABILITIES</b>			
Accounts payable	\$ 483,485	\$ 105,472	\$ 588,957
Accrued liabilities	208,716	48,303	257,019
Unearned revenue	257,637	-	257,637
Retainage payable	-	353,628	353,628
Customers' deposits	-	247,039	247,039
Accrued interest payable	247,983	45,421	293,404
Noncurrent liabilities:			
Due within one year	4,039,538	1,548,202	5,587,740
Due in more than one year	21,011,062	24,287,703	45,298,765
Total Liabilities	\$ 26,248,421	\$ 26,635,768	\$ 52,884,189
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - property taxes	\$ 2,913,182	\$ -	\$ 2,913,182
Pension related items	912,476	390,755	1,303,231
OPEB related items	475,196	150,201	625,397
Total Deferred Inflows of Resources	\$ 4,300,854	\$ 540,956	\$ 4,841,810
<b>NET POSITION</b>			
Net investment in capital assets	\$ 6,698,493	\$ 12,912,009	\$ 19,610,502
Restricted nonexpendable:			
Cemetery care	104,001	-	104,001
Restricted expendable:			
Grants	1,211,873	-	1,211,873
Debt Service	-	732,947	732,947
Opioid settlement funds	225,592	-	225,592
Unrestricted (deficit)	12,632,155	(3,516,187)	9,115,968
Total Net Position (deficit)	\$ 20,872,114	\$ 10,128,769	\$ 31,000,883

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, 2024

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities	Component Unit
			Grants and Contributions	Capital Grants and Contributions			
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government administration	\$ 2,160,229	\$ -	\$ 1,044,011	\$ -	\$ (1,116,218)	\$ (1,116,218)	
Judicial administration	372,882	738	-	-	(372,144)	(372,144)	
Public safety	5,001,677	283,170	2,283,675	85,358	(2,349,474)	(2,349,474)	
Public works	4,002,548	8,444	2,250,610	137,364	(1,606,130)	(1,606,130)	
Health and welfare	1,831,987	-	1,063,056	-	(768,931)	(768,931)	
Education	3,172,084	-	-	-	(3,172,084)	(3,172,084)	
Parks, recreation, and cultural	2,300,030	111,021	133,527	139,462	(1,916,020)	(1,916,020)	
Community development	2,346,172	201	339	50,000	(2,295,632)	(2,295,632)	
Interest on long-term debt	630,985	-	-	-	(630,985)	(630,985)	
Total governmental activities	\$ 21,818,594	\$ 403,574	\$ 6,775,218	\$ 412,184	\$ (14,227,618)	\$ (14,227,618)	
Business-type activities:							
Water	\$ 1,825,317	\$ 1,829,856	\$ -	\$ -	\$ -	\$ 4,539	\$ 4,539
Sewer	1,954,099	1,497,487	-	533,037	-	76,425	76,425
Solid Waste	2,848,503	1,689,530	-	-	-	(1,158,973)	(1,158,973)
Total business-type activities	\$ 6,627,919	\$ 5,016,873	\$ -	\$ 533,037	\$ (1,078,009)	\$ (1,078,009)	
Total primary government	\$ 28,446,513	\$ 5,420,447	\$ 6,775,218	\$ 945,221	\$ (14,227,618)	\$ (15,305,627)	
<b>COMPONENT UNIT:</b>							
School Board	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General revenues:							
General property taxes					\$ 10,782,423	\$ -	\$ 10,782,423
Other local taxes:							
Local sales and use taxes					1,829,756	-	1,829,756
Consumers' utility taxes					335,679	-	335,679
Consumption taxes					19,489	-	19,489
Business license taxes					630,464	-	630,464
Motor vehicle licenses					182,212	-	182,212
Bank stock taxes					250,278	-	250,278
Recordation taxes					38,304	-	38,304
Hotel and motel room taxes					50,088	-	50,088
Restaurant food taxes					1,241,511	-	1,241,511
Tobacco taxes					75,095	-	75,095
Unrestricted revenues from use of money					841,683	35,304	876,987
Miscellaneous					1,150,587	27,375	1,177,962
Grants and contributions not restricted to specific programs					776,119	-	776,119
Transfers					475,193	(475,193)	-
Total general revenues and transfers					\$ 18,678,881	\$ (412,514)	\$ 18,266,367
Change in net position					\$ 4,451,263	\$ (1,490,523)	\$ 2,960,740
Net position (deficit) - beginning					16,420,851	11,619,292	28,040,143
Net position (deficit) - ending					\$ 20,872,114	\$ 10,128,769	\$ 31,000,883

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

City of Covington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2024

	<u>General</u>	<u>City Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 15,054,993	\$ 168,282	\$ -	\$ 15,223,275
Investments	81,881	-	104,001	185,882
Receivables (net of allowance for uncollectibles):				
Taxes receivable	3,529,619	-	-	3,529,619
Other local taxes receivables	235,368	-	-	235,368
Accounts receivable	410,501	-	-	410,501
Notes receivable	54,742	-	-	54,742
Intergovernmental receivable	1,620,156	-	-	1,620,156
Prepaid items	102,935	-	-	102,935
Total assets	<u>\$ 21,090,195</u>	<u>\$ 168,282</u>	<u>\$ 104,001</u>	<u>\$ 21,362,478</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 454,298	\$ 29,187	\$ -	\$ 483,485
Accrued liabilities	208,716	-	-	208,716
Unearned revenue	257,637	-	-	257,637
Total liabilities	<u>\$ 920,651</u>	<u>\$ 29,187</u>	<u>\$ -</u>	<u>\$ 949,838</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 3,403,689	\$ -	\$ -	\$ 3,403,689
Unavailable revenue - opioid settlement	153,840	-	-	153,840
	<u>\$ 3,557,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,557,529</u>
<b>FUND BALANCES</b>				
<b>Nonspendable:</b>				
Prepaid items	\$ 102,935	\$ -	\$ -	\$ 102,935
Cemetery care	-	-	104,001	104,001
Note receivable	54,742	-	-	54,742
<b>Restricted:</b>				
Opioid settlement	71,752	-	-	71,752
Grants	1,211,873	-	-	1,211,873
Capital projects	-	139,095	-	139,095
<b>Unassigned</b>	<u>15,170,713</u>	<u>-</u>	<u>-</u>	<u>15,170,713</u>
Total fund balances	<u>\$ 16,612,015</u>	<u>\$ 139,095</u>	<u>\$ 104,001</u>	<u>\$ 16,855,111</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 21,090,195</u>	<u>\$ 168,282</u>	<u>\$ 104,001</u>	<u>\$ 21,362,478</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, 2024

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	16,855,111
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 2,036,865	
Buildings and improvements	18,214,898	
Machinery and equipment	3,504,281	
Lease machinery and equipment	303,192	
Infrastructure	3,607,215	
Construction in progress	<u>1,347,372</u>	29,013,823

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	\$ 490,507	
Unavailable revenue - opioid settlement	<u>153,840</u>	644,347

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds

Pension related items	\$ 455,645	
OPEB related items	<u>99,959</u>	555,604

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	\$ (13,351,483)	
Less: Deferred charges on refunding	489,484	
Literary Loans	(7,985,000)	
Finance purchases	(678,654)	
Unamortized premium	(615,987)	
Leases payable	(312,785)	
Compensated absences	(334,263)	
Accrued interest payable	(247,983)	
Net OPEB liabilities	(513,826)	
Net pension liability	<u>(1,258,602)</u>	(24,809,099)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$ (912,476)	
OPEB related items	<u>(475,196)</u>	(1,387,672)

Net position of governmental activities	\$	<u>20,872,114</u>
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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, 2024

	General	City Capital Projects	ARPA	Nonmajor Governmental	Total
<b>REVENUES</b>					
General property taxes	\$ 10,771,179	\$ -	\$ -	\$ -	\$ 10,771,179
Other local taxes	4,652,876	-	-	-	4,652,876
Permits, privilege fees, and regulatory licenses	18,371	-	-	-	18,371
Fines and forfeitures	2,875	-	-	-	2,875
Revenue from the use of money and property	818,929	-	-	22,754	841,683
Charges for services	382,328	-	-	-	382,328
Miscellaneous	1,084,921	-	-	-	1,084,921
Recovered costs	543,456	-	-	-	543,456
Intergovernmental:					
Commonwealth	4,477,705	-	-	-	4,477,705
Federal	527,329	-	2,958,487	-	3,485,816
Total revenues	\$ 23,279,969	\$ -	\$ 2,958,487	\$ 22,754	\$ 26,261,210
<b>EXPENDITURES</b>					
Current:					
General government administration	\$ 2,169,938	\$ -	\$ -	\$ -	\$ 2,169,938
Judicial administration	372,882	-	-	-	372,882
Public safety	5,354,416	-	-	-	5,354,416
Public works	4,917,269	-	-	-	4,917,269
Health and welfare	1,827,980	-	-	-	1,827,980
Education	2,997,855	-	-	-	2,997,855
Parks, recreation, and cultural	3,244,767	-	-	-	3,244,767
Community development	348,484	-	-	-	348,484
Nondepartmental	972,544	-	-	-	972,544
Capital projects	-	2,037,569	-	-	2,037,569
Debt service:					
Principal retirement	1,561,449	-	-	-	1,561,449
Interest and other fiscal charges	687,089	-	-	-	687,089
Total expenditures	\$ 24,454,673	\$ 2,037,569	\$ -	\$ -	\$ 26,492,242
Excess (deficiency) of revenues over (under) expenditures	\$ (1,174,704)	\$ (2,037,569)	\$ 2,958,487	\$ 22,754	\$ (231,032)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$ 3,433,680	\$ -	\$ -	\$ -	\$ 3,433,680
Transfers out	-	-	(2,958,487)	-	(2,958,487)
Issuance of lease liabilities	231,446	-	-	-	231,446
Issuance of general obligation bond	-	2,002,521	-	-	2,002,521
Total other financing sources (uses)	\$ 3,665,126	\$ 2,002,521	\$ (2,958,487)	\$ -	\$ 2,709,160
Net change in fund balances	\$ 2,490,422	\$ (35,048)	\$ -	\$ 22,754	\$ 2,478,128
Fund balances - beginning	14,121,593	174,143	-	81,247	14,376,983
Fund balances - ending	\$ 16,612,015	\$ 139,095	\$ -	\$ 104,001	\$ 16,855,111

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

City of Covington, Virginia  
Reconciliation of Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2024

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

Net change in fund balances - total governmental funds	\$	2,478,128
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital asset additions	\$ 3,794,534	
Depreciation/amortization expense	(2,031,660)	1,762,874

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue - property taxes and other local taxes	11,244	
Change in unavailable revenue - opioid settlement	65,666	76,910

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of bond anticipation notes	\$ (2,002,521)	
Issuance of lease liabilities	(231,446)	
Principal Payments:		
General obligation bonds	798,000	
Lease liabilities	66,727	
Finance purchases	206,722	
Literary loans	490,000	(672,518)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Compensated absences	\$ (109,182)	
Amortization of bond premiums	82,772	
Amortization of deferred amount on refundings	(63,425)	
Accrued interest payable	12,663	
Change in pension related items	768,896	
Change in OPEB related items	114,145	805,869

Change in net position of governmental activities	\$	4,451,263
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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, 2024

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,599,073	\$ -	\$ 1,449,799	\$ 5,048,872
Accounts receivable	218,435	230,732	177,154	626,321
Due from other governmental units	-	74,262	-	74,262
Restricted current assets:				
Cash and cash equivalents	-	313,203	-	313,203
Investments	419,744	-	-	419,744
Total current assets	\$ 4,237,252	\$ 618,197	\$ 1,626,953	\$ 6,482,402
Noncurrent assets:				
Capital assets:				
Utility plant in service	\$ 16,062,091	\$ 22,964,263	\$ 3,204,170	\$ 42,230,524
Accumulated depreciation	(7,998,465)	(10,750,044)	(3,163,693)	(21,912,202)
Machinery and equipment	-	-	2,281,990	2,281,990
Construction in progress	-	8,116,424	-	8,116,424
Total capital assets	\$ 8,063,626	\$ 20,330,643	\$ 2,322,467	\$ 30,716,736
Total assets	\$ 12,300,878	\$ 20,948,840	\$ 3,949,420	\$ 37,199,138
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	\$ 45,676	\$ 36,781	\$ 38,021	\$ 120,478
OPEB related items	11,163	10,359	9,811	31,333
Total deferred outflows of resources	\$ 56,839	\$ 47,140	\$ 47,832	\$ 151,811
<b>LIABILITIES</b>				
Current liabilities:				
Reconciled overdraft	\$ -	\$ 45,456	\$ -	\$ 45,456
Accounts payable	70,849	3,294	31,329	105,472
Wages payable	22,082	13,259	12,962	48,303
Customers' deposits	88,459	97,643	60,937	247,039
Accrued interest payable	30,943	-	14,478	45,421
Retainage payable	-	353,628	-	353,628
Compensated absences - current portion	23,977	6,802	15,811	46,590
Loans payable - current portion	-	-	159,670	159,670
Bonds payable - current portion	242,997	852,145	246,800	1,341,942
Total current liabilities	\$ 479,307	\$ 1,372,227	\$ 541,987	\$ 2,393,521
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 4,043,890	\$ 10,640,916	\$ 775,200	\$ 15,460,006
Net OPEB liabilities	56,386	55,734	50,287	162,407
Compensated absences - net of current portion	7,993	2,267	5,270	15,530
Loans payable - net of current portion	-	-	489,481	489,481
Landfill closure/postclosure estimate	-	-	7,777,653	7,777,653
Net pension liability	138,885	124,370	119,371	382,626
Total noncurrent liabilities	\$ 4,247,154	\$ 10,823,287	\$ 9,217,262	\$ 24,287,703
Total liabilities	\$ 4,726,461	\$ 12,195,514	\$ 9,759,249	\$ 26,681,224
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension related items	\$ 146,529	\$ 117,075	\$ 127,151	\$ 390,755
OPEB related items	52,147	51,545	46,509	150,201
Total deferred inflows of resources	\$ 198,676	\$ 168,620	\$ 173,660	\$ 540,956
<b>NET POSITION</b>				
Net investment in capital assets	\$ 3,776,739	\$ 8,483,954	\$ 651,316	\$ 12,912,009
Restricted for debt service and bond covenants	419,744	313,203	-	732,947
Unrestricted	3,236,097	(165,311)	(6,586,973)	(3,516,187)
Total net position	\$ 7,432,580	\$ 8,631,846	\$ (5,935,657)	\$ 10,128,769

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, 2024

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>OPERATING REVENUES</b>				
Charges for services:				
Water revenues	\$ 1,797,188	\$ -	\$ -	\$ 1,797,188
Sewer revenues	-	1,495,459	-	1,495,459
Penalties	32,668	2,028	7,429	42,125
Waste Collection Disposal	-	-	961,247	961,247
Landfill Charges	-	-	616,303	616,303
Sludge Fees	-	-	93,159	93,159
Closure Fees	-	-	11,392	11,392
Miscellaneous	4,482	8,062	14,831	27,375
Total operating revenues	\$ 1,834,338	\$ 1,505,549	\$ 1,704,361	\$ 5,044,248
<b>OPERATING EXPENSES</b>				
Salaries and wages	\$ 510,471	\$ 364,814	\$ 410,510	\$ 1,285,795
Fringes	84,133	87,199	79,282	250,614
Contracted services	150,461	388,991	121,806	661,258
Other charges	568,930	461,778	294,441	1,325,149
Purchase of equipment	-	92,705	6,476	99,181
Lease/rent of equipment	103	103	228	434
Depreciation	403,055	558,509	853,183	1,814,747
Landfill closure	-	-	1,043,955	1,043,955
Total operating expenses	\$ 1,717,153	\$ 1,954,099	\$ 2,809,881	\$ 6,481,133
Operating income (loss)	\$ 117,185	\$ (448,550)	\$ (1,105,520)	\$ (1,436,885)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	\$ 22,513	\$ 12,791	\$ -	\$ 35,304
Interest expense	(108,164)	-	(38,622)	(146,786)
Total nonoperating revenues (expenses)	\$ (85,651)	\$ 12,791	\$ (38,622)	\$ (111,482)
Income (loss) before transfers and capital contributions and grants	\$ 31,534	\$ (435,759)	\$ (1,144,142)	\$ (1,548,367)
Capital contributions and construction grants	\$ -	\$ 533,037	\$ -	\$ 533,037
Transfers in	-	137,690	-	137,690
Transfers out	(400,887)	(186,703)	(25,293)	(612,883)
Change in net position	\$ (369,353)	\$ 48,265	\$ (1,169,435)	\$ (1,490,523)
Net position - beginning	7,801,933	8,583,581	(4,766,222)	11,619,292
Net position - ending	\$ 7,432,580	\$ 8,631,846	\$ (5,935,657)	\$ 10,128,769

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, 2024

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 2,038,260	\$ 2,297,298	\$ 1,798,882	\$ 6,134,440
Payments to suppliers	(672,968)	(983,839)	(451,397)	(2,108,204)
Payments to employees	(703,842)	(548,961)	(592,364)	(1,845,167)
Net cash provided by (used for) operating activities	\$ 661,450	\$ 764,498	\$ 755,121	\$ 2,181,069
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ (400,887)	\$ (186,703)	\$ (25,293)	\$ (612,883)
Transfers from other funds	-	137,690	-	137,690
Net cash provided by (used for) noncapital financing activities	\$ (400,887)	\$ (49,013)	\$ (25,293)	\$ (475,193)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of assets	\$ (81,637)	\$ (2,607,617)	\$ (18,523)	\$ (2,707,777)
Principal payments on bonds	(220,000)	(852,145)	(241,300)	(1,313,445)
Principal payments on finance purchases	-	-	(177,249)	(177,249)
Capital grants	-	533,037	-	533,037
Proceeds from indebtedness	-	4,984,785	-	4,984,785
Interest payments	(128,552)	-	(42,157)	(170,709)
Net cash provided by (used for) capital and related financing activities	\$ (430,189)	\$ 2,058,060	\$ (479,229)	\$ 1,148,642
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	\$ 22,513	\$ 12,791	\$ -	\$ 35,304
Net increase (decrease) in cash and cash equivalents	\$ (147,113)	\$ 2,786,336	\$ 250,599	\$ 2,889,822
Cash and cash equivalents - beginning (including restricted cash and cash equivalents of \$679,235)	4,165,930	(2,518,589)	1,199,200	2,846,541
Cash and cash equivalents - ending (including restricted cash and cash equivalents of \$300,416 and investments of \$397,320)	\$ 4,018,817	\$ 267,747	\$ 1,449,799	\$ 5,736,363
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 117,185	\$ (448,550)	\$ (1,105,520)	\$ (1,436,885)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 403,055	\$ 558,509	\$ 853,183	\$ 1,814,747
(Increase) decrease in accounts receivable	198,477	(6,351)	89,490	281,616
(Increase) decrease in intergovernmental receivables	-	792,032	-	792,032
(Increase) decrease in deferred outflows of resources	29,791	27,962	28,554	86,307
Increase (decrease) in customer deposits	5,445	6,068	5,031	16,544
Increase (decrease) in accounts payable	46,526	(40,262)	22,435	28,699
Increase (decrease) in wages payable	5,522	(718)	(1,328)	3,476
Increase (decrease) in compensated absences	9,898	(8,637)	5,388	6,649
Increase (decrease) in net OPEB liabilities	(16,878)	(6,727)	(21,249)	(44,854)
Increase (decrease) in net pension liability	(55,833)	(33,052)	(66,011)	(154,896)
Increase (decrease) in closure/postclosure estimate	-	-	993,074	993,074
Increase (decrease) in deferred inflows of resources	(81,738)	(75,776)	(47,926)	(205,440)
Total adjustments	\$ 544,265	\$ 1,213,048	\$ 1,860,641	\$ 3,617,954
Net cash provided by (used for) operating activities	\$ 661,450	\$ 764,498	\$ 755,121	\$ 2,181,069

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, 2024

	Custodial Funds
	<u>Drug Task Force Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 6,567
Total assets	<u>\$ 6,567</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 42
Total liabilities	<u>\$ 42</u>
<b>NET POSITION</b>	
Restricted for:	
Held for drug task force	\$ 6,525
Total net position	<u><u>\$ 6,525</u></u>

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, 2024

	Custodial Funds
	<u>Drug Task Force Fund</u>
<b>ADDITIONS</b>	
Contribution from Alleghany Highlands Regional Drug Task Force	\$ <u>3,592</u>
Total additions	\$ <u>3,592</u>
<b>DEDUCTIONS</b>	
Task force supplies	\$ <u>3,766</u>
Total deductions	\$ <u>3,766</u>
Net increase (decrease) in fiduciary net position	\$ (174)
Net position - beginning	6,699
Net position - ending	\$ <u><u>6,525</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, 2024

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**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.

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

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 2024 was \$110,318.

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 2024 was \$138,607.

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.

The City participates in the Alleghany Highlands School Board, a discretely presented component unit of the County of Alleghany, Virginia. The governing body of this organization is appointed by the respective governing bodies. The City's contribution during fiscal year 2024 was \$2,994,872.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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 reported 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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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 \$159,328 at June 30, 2024 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 5<sup>th</sup> and June 5<sup>th</sup>. Personal property taxes are due and collectible annually on December 5<sup>th</sup> and June 5<sup>th</sup>. 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, 2024

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**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:

<b><u>Assets</u></b>	<b><u>Years</u></b>
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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, amounts prepaid and outstanding on the 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup> and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2<sup>nd</sup> half installments levied during the fiscal year but after June 30<sup>th</sup> and amounts prepaid on the 2<sup>nd</sup> 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, and 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, 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, 2024

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**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, 2024, the City did not have expenditures in excess of appropriations.

C. Deficit Fund Balance

At June 30, 2024, 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).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 3 - Deposits and Investments: (Continued)**

Investments (Continued)

At June 30, 2024 and June 30, 2023, the City had 1,176 shares of MetLife Trust stock valued at \$69.63 and \$55.72 per share for a total value of \$81,881 and \$65,527, respectively. The City also had 2,677 shares of Truist Financial Corporation stock valued at \$38.85 and \$30.35 per share for a total value of \$104,001 and \$81,247, respectively.

The City's rated debt investments as of June 30, 2024 were rated by Standard & Poor's and the ratings are presented using the Standard & Poor's rating scale.

City's Rated Debt Investment Values	
	Fair Quality Ratings
Rated Debt Investments	AAAm
State Non-arbitrage Pool (SNAP)	\$ 419,744

The City's interest rate risk as of June 30, 2024:

Interest Rate Risk		
Investment type	Fair Value	Less than 1 yr
State Non-arbitrage Pool (SNAP)	\$ 419,744	\$ 419,744

**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, 2024

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**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, 2024:

Investment	6/30/2024	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)
MetLife Trust Stock	\$ 81,881	\$ 81,881
Truist Financial Corporation Stock	104,001	104,001

*The remainder of this page is left blank intentionally.*

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**Note 5 - Due from Other Governmental Units:**

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

	Primary Government	
	Governmental	Business-type
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 300,600	\$ -
Non-categorical aid	284,457	-
Categorical aid - shared expenses	80,003	-
Categorical aid - Comprehensive Services Act	406,141	-
Categorical aid - other	206,787	-
<u>Federal Government:</u>		
Categorical aid - VPA	1,786	-
Categorical aid - other	340,382	74,262
Totals	<u>\$ 1,620,156</u>	<u>\$ 74,262</u>

**Note 6 - Interfund Transfers:**

Interfund transfers for the year ended June 30, 2024, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Primary Government:</u>		
General Fund	\$ 3,433,680	\$ -
ARPA Fund	-	2,958,487
Water Fund	-	400,887
Sewer Fund	137,690	186,703
Solid Waste Fund	-	25,293
Total Primary Government	<u>\$ 3,571,370</u>	<u>\$ 3,571,370</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, 2024

**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, 2024:

	Balance July 1, 2023	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2024
Direct borrowings and placements				
General obligation bonds	\$ 12,146,962	\$ 2,002,521	\$ (798,000)	\$ 13,351,483
Deferred amounts:				
Premium	698,759	-	(82,772)	615,987
Literary loans	8,475,000	-	(490,000)	7,985,000
Finance purchases	885,376	-	(206,722)	678,654
Total direct borrowings and placements	\$ 22,206,097	\$ 2,002,521	\$ (1,577,494)	\$ 22,631,124
Lease liabilities	148,066	231,446	(66,727)	312,785
Compensated absences	225,081	277,993	(168,811)	334,263
Net OPEB liabilities	672,554	118,214	(276,942)	513,826
Net pension liability	1,757,455	1,654,221	(2,153,074)	1,258,602
Total	\$ 25,009,253	\$ 4,284,395	\$ (4,243,048)	\$ 25,050,600

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
2025	\$ 3,640,852	\$ 640,495	\$ 70,243	\$ 17,449
2026	1,527,073	551,027	76,061	12,421
2027	1,573,756	508,557	75,632	6,863
2028	1,618,456	463,751	54,978	2,762
2029	1,360,000	414,232	35,871	436
2030-2034	4,690,000	1,589,416	-	-
2035-2039	4,515,000	991,594	-	-
2040-2041	3,090,000	134,375	-	-
Totals	\$ 22,015,137	\$ 5,293,447	\$ 312,785	\$ 39,931

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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	\$ 812,000	\$ 193,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	8,185,000	480,000
QZAB GO Bond	0.00%	11/30/2016	2031	\$50,000 a-	750,000	400,000	50,000
VRA Go Bond	5.13%	8/4/2021	2037	\$95,000-\$175,000 a+	2,045,000	1,850,000	105,000
Joint Pad - GO Bond	1.36%	11/16/2021	2023	\$68,236 a+	3,000,000	2,104,483	2,104,483
Literary Loans	2.00%	2/16/2016	2038	\$425,000-\$645,000 a+	11,645,000	7,985,000	500,000
Finance Purchase - VML/VACo Equip Series	2.17%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	623,694	153,409
Finance Purchase - Taser Project Axon	0.00%	7/15/2020	2025	\$54,960 a-	260,229	54,960	54,960
Total Direct Borrowings and Placements						\$ 22,015,137	\$ 3,640,852
Deferred Amount:							
Unamortized Premium	n/a	8/4/2021	n/a	n/a	\$ 398,069	\$ 293,827	\$ 46,995
Unamortized Premium	n/a	11/21/2013	n/a	n/a	496,278	322,160	30,752
Total Deferred Amounts						\$ 615,987	\$ 77,747
Lease Liabilities:							
Enterprise Unit #3988	10.63%	4/1/2022	2027	\$785 b	\$ 36,724	\$ 22,371	\$ 7,392
Enterprise Unit #1669	10.63%	4/1/2022	2027	\$787 b	36,842	22,442	7,416
Enterprise Unit #5602	10.19%	4/1/2022	2027	\$690 b	32,651	19,811	6,574
Enterprise Unit #0840	12.71%	1/1/2023	2028	\$868 b	38,816	29,312	7,097
Enterprise Unit #7783	15.99%	12/1/2023	2029	\$890 b	37,095	33,676	5,702
Datapatch Tower Lease	2.00%	4/1/2024	2029	\$3,270 b	194,351	185,173	36,062
Total Lease Liabilities						\$ 312,785	\$ 70,243
Other Obligations:							
Compensated Absences						\$ 334,263	\$ 250,697
Net OPEB Liabilities						513,826	-
Net pension liability						1,258,602	-
Total Other Obligations						\$ 2,106,691	\$ 250,697
Total Long-Term Obligations						\$ 25,050,600	\$ 4,039,539

(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 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, 2024

**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, 2024:

	Balance July 1, 2023	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2024
Direct borrowings and placements				
Revenue bonds	\$ 12,978,721	\$ 4,984,785	\$ (1,313,445)	\$ 16,650,061
Deferred amount:				
Premium	169,884	-	(17,997)	151,887
Finance purchases	826,400	-	(177,249)	649,151
Total direct borrowings and placements	\$ 13,975,005	\$ 4,984,785	\$ (1,508,691)	\$ 17,451,099
Landfill closure/postclosure estimate	6,784,579	993,074	-	7,777,653
Net OPEB liabilities	207,261	47,513	(92,367)	162,407
Compensated absences	55,471	48,252	(41,603)	62,120
Net pension liability	537,522	518,625	(673,521)	382,626
Total	\$ 21,559,838	\$ 6,592,249	\$ (2,316,182)	\$ 25,835,905

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
2025	\$ 225,000	\$ 121,284	\$ 852,145	\$ -	\$ 406,470	\$ 32,842
2026	230,000	116,061	852,144	-	413,903	23,667
2027	235,000	110,399	852,145	-	421,554	14,321
2028	245,000	104,156	852,145	-	429,224	4,802
2029	250,000	97,353	852,144	-	-	-
2030-2034	1,365,000	372,194	3,754,974	-	-	-
2035-2039	1,585,000	139,548	1,514,399	-	-	-
2040-2044	-	-	1,311,224	-	-	-
2045-2047	-	-	651,741	-	-	-
Totals	\$ 4,135,000	\$ 1,060,995	\$ 11,493,061	\$ -	\$ 1,671,151	\$ 75,632

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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	\$ 1,994,251	\$ 250,000
VRA Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	3,386,125	325,000
VRA Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	1,150,000	55,000
VRA Revenue Bond	0.00%	4/10/2018	2038	\$7,450 sa	298,000	216,050	14,900
VRA Revenue Bond	1.94-3.44%	10/20/2019	2039	\$35,000-240,000 a+	3,140,000	2,985,000	170,000
VRA Revenue Bond	0.00%	5/1/2022	2048	\$131,122 sa	6,556,118	5,896,635	262,245
VML-VACO General Obligation Bond	2.28%	10/16/2017	2028	\$215,300-264,300 a+	2,390,500	1,022,000	246,800
Finance Purchase - VML/Vaco Equip Series	1.70%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	649,151	159,670
Total Direct Borrowings and Placements						<u>\$ 17,299,212</u>	<u>\$ 1,483,615</u>
Deferred Amount:							
Unamortized Premium	n/a	4/4/2013	n/a	n/a	\$ 720,990	\$ 151,887	\$ 17,997
Other Obligations:							
Compensated Absences						\$ 62,120	\$ 46,590
Landfill Closure/Post-Closure Liability						7,777,653	-
Net OPEB Liabilities						162,407	-
Net Pension Liability						382,626	-
Total Other Obligations						<u>\$ 8,384,806</u>	<u>\$ 46,590</u>
Total Long-Term Obligations						<u>\$ 25,835,905</u>	<u>\$ 1,548,202</u>
(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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 8 - Pension Plan: (Continued)**

***Employees Covered by Benefit Terms***

As of the June 30, 2022 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	102
Inactive members:	
Vested inactive members	8
Non-vested inactive members	27
Active elsewhere in VRS	<u>25</u>
Total inactive members	60
Active members	<u>89</u>
Total covered employees	<u>251</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, 2024 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 \$513,070 and \$450,897 for the years ended June 30, 2024 and June 30, 2023, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, 2023. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2022 and rolled forward to the measurement date of June 30, 2023.

***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, 2022, 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, 2023.

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, 2024

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**Note 8 - Pension Plan: (Continued)**

***Actuarial Assumptions - General Employees (Continued)***

Mortality rates: (Continued)

The actuarial assumptions used in the June 30, 2022 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, 2021. 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, 2022, 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, 2023.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, 2022 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, 2021. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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:

<b>Asset Class (Strategy)</b>	<b>Long-Term Target Asset Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return*</b>
Public Equity	34.00%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
<b>Total</b>	<b>100.00%</b>		<b>5.75%</b>
		Inflation	2.50%
		<b>**Expected arithmetic nominal return</b>	<b>8.25%</b>

\* The above allocation provides a one-year expected return of 8.25%. 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 7.14%, including expected inflation of 2.50%.

\*\*On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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, 2022 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2023, 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 112% of the actuarially determined contribution rate. From July 1, 2023 on, participating employers 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, 2022	\$ 26,370,362	\$ 24,075,387	\$ 2,294,975
Changes for the year:			
Service cost	\$ 389,923	\$ -	\$ 389,923
Interest	1,748,209	-	1,748,209
Differences between expected and actual experience	(665,278)	-	(665,278)
Contributions - employer	-	450,867	(450,867)
Contributions - employee	-	174,885	(174,885)
Net investment income	-	1,515,985	(1,515,985)
Benefit payments, including refunds of employee contributions	(1,721,783)	(1,721,783)	-
Administrative expenses	-	(15,737)	15,737
Other changes	-	606	(606)
Net changes	\$ (248,929)	\$ 404,823	\$ (653,752)
Balances at June 30, 2023	\$ 26,121,433	\$ 24,480,210	\$ 1,641,223

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
City			
Net Pension Liability (Asset)	\$ 4,623,798	\$ 1,641,223	\$ (846,540)

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

For the year ended June 30, 2024, the City recognized pension expense of \$(547,096). At June 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 856,540
Change in assumptions	13,063	-
Change in proportionate share	49,990	49,990
Net difference between projected and actual earnings on pension plan investments	-	396,701
Employer contributions subsequent to the measurement date	513,070	-
Total	\$ 576,123	\$ 1,303,231

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 8 - Pension Plan: (Continued)**

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

\$513,070 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, 2025. 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>
2025	\$ (973,457)
2026	(629,341)
2027	348,302
2028	14,318

***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2023 Annual Comprehensive Financial Report (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2023-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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 9—Healthcare OPEB Plan: (Continued)**

***Plan Membership***

At June 30, 2023 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	97
Total retirees with coverage	<u>1</u>
Total	<u>98</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, 2024 was \$31,555.

***Total OPEB Liability***

The City’s total OPEB liability was measured as of June 30, 2023. The total OPEB liability was determined by an actuarial valuation as of June 30, 2023.

***Actuarial Assumptions***

The total OPEB liability in the June 30, 2023 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	3.86% at measurement date
Inflation	2.50%
Healthcare Trend Rate	5.50% from the beginning (7/01/2023) grading down to 4.00% (by 0.25% increments) in 2029
Salary Increase Rates	4.00%
Retirement Age	Retirement rates vary by gender, job classification, service and plan eligibility. They are based on the 2016-2020 VRS Experience Study.
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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 9—Healthcare OPEB Plan: (Continued)**

***Actuarial Assumptions (Continued)***

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

***Discount Rate***

The discount rate is based on the Muni 20 year Aa published by Fidelity investments.

***Changes in Total OPEB Liability***

		<b>Primary Government Total OPEB Liability</b>
Balances at June 30, 2022 (Measurement Date)	\$	<u>500,977</u>
Changes for the year:		
Service cost	\$	15,088
Interest		18,461
Difference between actual and expected experience		(186,658)
Change in assumptions		(4,032)
Benefits paid		(31,555)
Net changes	\$	<u>(188,696)</u>
Balances at June 30, 2023 (Measurement Date)	\$	<u><u>312,281</u></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 (2.86%) or one percentage point higher (4.86%) than the current discount rate:

<b>Rate</b>		
<b>1% Decrease 2.86%</b>	<b>Current Discount 3.86%</b>	<b>1% Increase 4.86%</b>
\$ 288,058	\$ 312,281	\$ 339,021

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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 (2.86) or one percentage point higher (4.86) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (2.86%)	Trend (3.86%)	1% Increase (4.86%)
\$ 302,064	\$ 312,281	\$ 346,541

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

For the year ended June 30, 2024, the City recognized OPEB expense in the amount of \$(89,960). At June 30, 2024, 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	\$ 19,731	\$ 298,285
Changes in assumptions	13,381	230,818
Employer contributions subsequent to the measurement date	11,632	-
Total	\$ 44,744	\$ 529,103

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 9—Healthcare OPEB Plan: (Continued)**

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

\$11,632 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, 2025. 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>	
2025	\$ (115,980)
2026	(134,945)
2027	(134,947)
2028	(48,059)
2029	(34,821)
Thereafter	(27,239)
Total	<u>\$ (495,991)</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 \$9,254 as of June 30, 2024.

***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% ( $1.34\% \times 60\%$ ) and the employer component was 0.54% ( $1.34\% \times 40\%$ ). 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, 2024 was 0.54% of covered employee compensation. This rate was the final approved General Assembly rate, which 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 \$23,613 and \$20,577 for the years ended June 30, 2024 and June 30, 2023, respectively.

In June 2023, the Commonwealth made a special contribution of approximately \$10.1 million to the Group Life Insurance Plan. This special payment was authorized by Chapter 2 of the Acts of Assembly, Special Session I, as amended by Chapter 769, 2023 Acts of Assembly Reconvened Session, and is classified as a special non-employer contribution.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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, 2024, the City reported a liability of \$194,048 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2023 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, 2022, and rolled forward to the measurement date of June 30, 2023. 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, 2023 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2023, the City's proportion was 0.01618% as compared to 0.01669% at June 30, 2022.

For the year ended June 30, 2024, the City recognized GLI OPEB expense of \$(1,631). 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, 2024, 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	\$ 19,381	\$ 5,890
Net difference between projected and actual earnings on GLI OPEB program investments	-	7,798
Change in assumptions	4,147	13,444
Changes in proportion	1,551	31,250
Employer contributions subsequent to the measurement date	23,613	-
Total	\$ 48,692	\$ 58,382

\$23,613 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, 2025. 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, 2024

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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)*

<u>Year Ended June 30</u>	<u>Primary Government</u>
2025	\$ (10,633)
2026	(15,878)
2027	(2,441)
2028	(5,202)
2029	851
Thereafter	-

***Actuarial Assumptions***

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2022, 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, 2023. 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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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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, 2022 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, 2021. 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, 2024

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**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, 2022 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, 2021. 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, 2022 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, 2021. 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, 2024

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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, 2023, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

		GLI OPEB Plan
Total GLI OPEB Liability	\$	3,907,052
Plan Fiduciary Net Position		2,707,739
GLI Net OPEB Liability (Asset)	\$	<u>1,199,313</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		69.30%

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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
Total	<u>100.00%</u>		<u>5.75%</u>
		Inflation	<u>2.50%</u>
		**Expected arithmetic nominal return	<u>8.25%</u>

\*The above allocation provides a one-year return of 8.25%. 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 7.14%, including expected inflation of 2.50%.

\*\*On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median rate of return of 7.14%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, 2023, 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 113% of the actuarially determined contribution rate. From July 1, 2023 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	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
City's proportionate share of the GLI Plan			
Net OPEB Liability	\$ 287,641	\$ 194,048	\$ 118,379

***GLI Plan Fiduciary Net Position***

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2023 Annual Comprehensive Financial Report (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2023-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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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

***Employees Covered by Benefit Terms***

As of the June 30, 2022 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>54</u>
Inactive members	
Vested inactive members	1
Active elsewhere in VRS	23
Total inactive members	<u>78</u>
Active members	82
Total covered employees	<u><u>160</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, 2024 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 \$22,568 and \$19,529 for the years ended June 30, 2024 and June 30, 2023, respectively.

***Net HIC OPEB Liability***

The City net HIC OPEB liability was measured as of June 30, 2023. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2022, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2023.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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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, 2022, 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, 2023.

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, 2022 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, 2021. 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, 2024**

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**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, 2022 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, 2021. 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, 2024

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**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.*

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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:

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%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
Total	100.00%		5.75%
		Inflation	2.50%
		**Expected arithmetic nominal return	8.25%

\*The above allocation provides a one-year expected return of 8.25%. 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 7.14%, including expected inflation of 2.50%.

\*\*On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024**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, 2023, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2023 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, 2022	\$ 290,263	\$ 112,388	\$ 177,875
Changes for the year:			
Service cost	\$ 3,615	\$ -	\$ 3,615
Interest	19,093	-	19,093
Assumption changes	-	-	-
Differences between expected and actual experience	(4,633)	-	(4,633)
Contributions - employer	-	19,531	(19,531)
Net investment income	-	6,477	(6,477)
Benefit payments	(22,037)	(22,037)	-
Administrative expenses	-	(155)	155
Other changes	-	193	(193)
Net changes	\$ (3,962)	\$ 4,009	\$ (7,971)
Balances at June 30, 2023	\$ 286,301	\$ 116,397	\$ 169,904

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
City's Net HIC OPEB Liability	\$ 197,352	\$ 169,904	\$ 146,371

***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, 2024, the City recognized HIC Plan OPEB expense of \$9,258. At June 30, 2024, 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	\$ 228	\$ 36,989
Net difference between projected and actual earnings on HIC OPEB plan investments	-	923
Change in assumptions	15,060	-
Employer contributions subsequent to the measurement date	22,568	-
Total	\$ 37,856	\$ 37,912

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**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)***

\$22,568 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, 2025. 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:

<u>Year Ended June 30</u>	<u>Primary Government</u>
2025	\$ (9,103)
2026	(8,945)
2027	(4,781)
2028	205

***HIC Plan Data***

Information about the VRS Political Subdivision Health Insurance Credit Plan is available in the separately issued VRS 2023 Annual Comprehensive Financial Report (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2023-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:**

	<u>Primary Government</u>			
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>
City Stand-Alone Plan (Note 9)	\$ 44,744	\$ 529,103	\$ 312,281	\$ (89,960)
VRS OPEB Plans:				
Group Life Insurance Plan (Note 10)				
City	48,692	58,382	194,048	(1,631)
Health Insurance Credit Plan (Note 11)				
City	37,856	37,912	169,904	9,258
Totals	\$ <u>131,292</u>	\$ <u>625,397</u>	\$ <u>676,233</u>	\$ <u>(82,333)</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**Note 13 - Capital Assets:**

Capital asset activity for the year ended June 30, 2024 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,967,944	\$ 68,921	\$ -	\$ 2,036,865
Construction in progress	1,619,824	2,419,218	(2,691,670)	1,347,372
Total capital assets not being depreciated	<u>\$ 3,587,768</u>	<u>\$ 2,488,139</u>	<u>\$ (2,691,670)</u>	<u>\$ 3,384,237</u>
Capital assets, being depreciated/amortized:				
Buildings and improvements	\$ 31,419,449	\$ 1,068,203	\$ -	\$ 32,487,652
Infrastructure	3,363,323	1,542,728	-	4,906,051
Machinery and equipment	10,471,424	1,155,688	-	11,627,112
Lease machinery and equipment	246,047	231,446	(101,014)	376,479
Total capital assets being depreciated/amortized	<u>\$ 45,500,243</u>	<u>\$ 3,998,065</u>	<u>\$ (101,014)</u>	<u>\$ 49,397,294</u>
Accumulated depreciation/amortization:				
Buildings and improvements	\$ (13,441,327)	\$ (831,427)	\$ -	\$ (14,272,754)
Infrastructure	(1,155,474)	(143,362)	-	(1,298,836)
Machinery and equipment	(7,136,579)	(986,252)	-	(8,122,831)
Lease machinery and equipment	(103,682)	(70,619)	101,014	(73,287)
Total accumulated depreciation/amortization	<u>\$ (21,837,062)</u>	<u>\$ (2,031,660)</u>	<u>\$ 101,014</u>	<u>\$ (23,767,708)</u>
Total capital assets being depreciated, net	<u>\$ 23,663,181</u>	<u>\$ 1,966,405</u>	<u>\$ -</u>	<u>\$ 25,629,586</u>
Governmental activities capital assets, net	<u>\$ 27,250,949</u>	<u>\$ 4,454,544</u>	<u>\$ (2,691,670)</u>	<u>\$ 29,013,823</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

**Note 13 - Capital Assets: (Continued)**

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 5,820,117	\$ 2,296,307	\$ -	\$ 8,116,424
Capital assets, being depreciated:				
Equipment and vehicles	\$ 2,263,467	\$ 18,523	\$ -	\$ 2,281,990
Infrastructure	42,073,738	156,786	-	42,230,524
Total capital assets being depreciated	\$ 44,337,205	\$ 175,309	\$ -	\$ 44,512,514
Accumulated depreciation:				
Equipment and vehicles	\$ (1,063,695)	\$ (156,569)	\$ -	\$ (1,220,264)
Infrastructure	(19,033,760)	(1,658,178)	-	(20,691,938)
Total accumulated depreciation	\$ (20,097,455)	\$ (1,814,747)	\$ -	\$ (21,912,202)
Total capital assets being depreciated, net	\$ 24,239,750	\$ (1,639,438)	\$ -	\$ 22,600,312
Business-type activities capital assets, net	\$ 30,059,867	\$ 656,869	\$ -	\$ 30,716,736

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

Governmental activities:

General government administration	\$ 191,094
Public safety	733,362
Public works	312,802
Health and welfare	4,373
Education	604,855
Parks, recreation, and cultural	185,174

Total depreciation/amortization expense-governmental activities \$ 2,031,660

Business-type activities:

Water fund	\$ 403,055
Sewer fund	558,509
Solid waste fund	853,183

Total depreciation/amortization expense-business-type activities \$ 1,814,747

Total depreciation/amortization expense-Primary Government \$ 3,846,407

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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, 2024	Funding Source
Casey Field Improvements	\$ 2,592,796	\$ 2,364,372	Local Funds
WWTP EQ Basin Pump Station	7,143,078	70,516	Federal Funds

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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. \$8,439,333 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2024. 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 2024. 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 92.15% full, including cells A, B and C. The life expectancy for cells A, B and C is 1.22 years based on an average annual disposal rate. The amount reported in the City's books is 92% of the total estimate, or \$7,777,653. 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 &amp; 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 and Unearned 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 2024	\$ 2,911,093
Prepaid property taxes	2,089
Total deferred revenue for governmental activities	\$ 2,913,182
Property taxes receivable due prior to June 30, 2024, not collected within 60 days	\$ 490,507
Total unavailable revenue for governmental funds	\$ <u>3,403,689</u>

Unearned revenue consisting of \$247,983 consists of grant revenue collected that has not met the revenue criteria.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 19 - Concentrations:**

The City of Covington, Virginia relies heavily on the two businesses for tax revenue and employment of citizens. WestRock directly comprises 16.53% of the real estate tax levy, not including 81.53% of the Public Service Corporation tax levy. It also comprises 0.54% of the personal property taxes, not including 61.91% of machinery and tools tax levy, for a combined 42.67% of the total City's 2024 personal property tax levy. Virginia Ingevity Corp. directly comprises 34.73% of the machinery and tools tax levy and 23.84% of the total City's 2023 personal property tax levy.

**Note 20 - Litigation:**

As of June 30, 2024, 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-Upcoming Pronouncements:**

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.

Statement No. 102, *Certain Risk Disclosures*, provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024.

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

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, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 10,745,000	\$ 10,745,000	\$ 10,771,179	\$ 26,179
Other local taxes	4,315,869	4,315,869	4,652,876	337,007
Permits, privilege fees, and regulatory licenses	12,050	12,050	18,371	6,321
Fines and forfeitures	3,575	3,987	2,875	(1,112)
Revenue from the use of money and property	80,129	80,129	818,929	738,800
Charges for services	407,600	407,600	382,328	(25,272)
Miscellaneous	1,535,750	1,578,761	1,084,921	(493,840)
Recovered costs	456,626	456,626	543,456	86,830
Intergovernmental:				
Commonwealth	3,541,936	4,034,964	4,477,705	442,741
Federal	111,346	782,586	527,329	(255,257)
Total Revenues	\$ 21,209,881	\$ 22,417,572	\$ 23,279,969	\$ 862,397
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 2,318,888	\$ 2,333,130	\$ 2,169,938	\$ 163,192
Judicial administration	373,790	373,790	372,882	908
Public safety	5,072,120	5,764,194	5,354,416	409,778
Public works	4,303,201	5,759,250	4,917,269	841,981
Health and welfare	2,117,851	2,179,406	1,827,980	351,426
Education	2,997,855	2,997,855	2,997,855	-
Parks, recreation, and cultural	2,308,853	3,255,882	3,244,767	11,115
Community development	298,094	533,912	348,484	185,428
Nondepartmental	2,789,768	3,208,731	972,544	2,236,187
Debt service:				
Principal retirement	1,439,763	1,561,449	1,561,449	-
Interest and other fiscal charges	641,139	687,089	687,089	-
Total Expenditures	\$ 24,661,322	\$ 28,654,688	\$ 24,454,673	\$ 4,200,015
Excess (deficiency) of revenues over (under) expenditures	\$ (3,451,441)	\$ (6,237,116)	\$ (1,174,704)	\$ 5,062,412
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 2,312,943	\$ 2,312,943	\$ 3,433,680	\$ 1,120,737
Issuance of lease liabilities	-	-	231,446	231,446
Total other financing sources (uses)	\$ 2,312,943	\$ 2,312,943	\$ 3,665,126	\$ 1,352,183
Net change in fund balances	\$ (1,138,498)	\$ (3,924,173)	\$ 2,490,422	\$ 6,414,595
Fund balances - beginning	1,138,498	3,924,173	14,121,593	10,197,420
Fund balances - ending	\$ -	\$ -	\$ 16,612,015	\$ 16,612,015

City of Covington, Virginia  
 ARPA Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 For the Year Ended June 30, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenues:				
Federal	\$ -	\$ 15,000	\$ 2,958,487	\$ 2,943,487
Total revenues	\$ -	\$ 15,000	\$ 2,958,487	\$ 2,943,487
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,158,487	\$ 1,158,487	\$ -	\$ 1,158,487
Community development	-	15,000	-	15,000
Total expenditures	\$ 1,158,487	\$ 1,173,487	\$ -	\$ 1,173,487
Excess (deficiency) of revenues over (under) expenditures	\$ (1,158,487)	\$ (1,158,487)	\$ 2,958,487	\$ 4,116,974
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ (1,800,000)	\$ (1,800,000)	\$ (2,958,487)	\$ (1,158,487)
Net change in fund balances	\$ (2,958,487)	\$ (2,958,487)	\$ -	\$ 2,958,487
Fund balances - beginning	2,958,487	2,958,487	-	(2,958,487)
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

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, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>										
Service cost	\$ 389,923	\$ 386,370	\$ 405,216	\$ 390,965	\$ 401,154	\$ 386,694	\$ 388,395	\$ 384,532	\$ 381,110	\$ 364,378
Interest	1,748,209	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	(665,278)	(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	(1,721,783)	(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)
<b>Net change in total pension liability</b>	<b>\$ (248,929)</b>	<b>\$ (820,689)</b>	<b>\$ 926,217</b>	<b>\$ 296,570</b>	<b>\$ 919,402</b>	<b>\$ 333,722</b>	<b>\$ 372,481</b>	<b>\$ 531,201</b>	<b>\$ 396,814</b>	<b>\$ 517,550</b>
<b>Total pension liability - beginning</b>	<b>26,370,362</b>	<b>27,191,051</b>	<b>26,264,834</b>	<b>25,968,264</b>	<b>25,048,862</b>	<b>24,715,140</b>	<b>24,342,659</b>	<b>23,811,458</b>	<b>23,414,644</b>	<b>22,897,094</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 26,121,433</b>	<b>\$ 26,370,362</b>	<b>\$ 27,191,051</b>	<b>\$ 26,264,834</b>	<b>\$ 25,968,264</b>	<b>\$ 25,048,862</b>	<b>\$ 24,715,140</b>	<b>\$ 24,342,659</b>	<b>\$ 23,811,458</b>	<b>\$ 23,414,644</b>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 450,867	\$ 506,469	\$ 538,960	\$ 492,493	\$ 497,259	\$ 506,756	\$ 508,232	\$ 624,975	\$ 600,630	\$ 548,162
Contributions - employee	174,885	167,850	179,784	178,110	180,212	181,061	184,142	183,862	177,538	175,244
Net investment income	1,515,985	(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	(1,721,783)	(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	(15,737)	(15,756)	(13,993)	(13,873)	(13,893)	(13,221)	(13,102)	(11,660)	(11,662)	(14,164)
Other	606	566	512	(458)	(830)	(1,269)	(1,964)	(135)	(171)	134
<b>Net change in plan fiduciary net position</b>	<b>\$ 404,823</b>	<b>\$ (933,149)</b>	<b>\$ 4,699,790</b>	<b>\$ (478,399)</b>	<b>\$ 340,565</b>	<b>\$ 350,509</b>	<b>\$ 1,639,685</b>	<b>\$ (90,910)</b>	<b>\$ 261,161</b>	<b>\$ 1,852,683</b>
<b>Plan fiduciary net position - beginning</b>	<b>24,075,387</b>	<b>25,008,536</b>	<b>20,308,746</b>	<b>20,787,145</b>	<b>20,446,580</b>	<b>20,096,071</b>	<b>18,456,386</b>	<b>18,547,296</b>	<b>18,286,135</b>	<b>16,433,452</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 24,480,210</b>	<b>\$ 24,075,387</b>	<b>\$ 25,008,536</b>	<b>\$ 20,308,746</b>	<b>\$ 20,787,145</b>	<b>\$ 20,446,580</b>	<b>\$ 20,096,071</b>	<b>\$ 18,456,386</b>	<b>\$ 18,547,296</b>	<b>\$ 18,286,135</b>
<b>City's net pension liability - ending (a) - (b)</b>	<b>\$ 1,641,223</b>	<b>\$ 2,294,975</b>	<b>\$ 2,182,515</b>	<b>\$ 5,956,088</b>	<b>\$ 5,181,119</b>	<b>\$ 4,602,282</b>	<b>\$ 4,619,069</b>	<b>\$ 5,886,273</b>	<b>\$ 5,264,162</b>	<b>\$ 5,128,509</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	93.72%	91.30%	91.97%	77.32%	80.05%	81.63%	81.31%	75.82%	77.89%	78.10%
<b>Covered payroll</b>	\$ 3,789,229	\$ 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
<b>City's net pension liability as a percentage of covered payroll</b>	43.31%	63.33%	56.81%	157.26%	136.53%	122.16%	122.96%	158.55%	148.18%	148.05%

City of Covington, Virginia  
Schedule of Employer Contributions  
Pension Plans

For the Years Ended June 30, 2015 through June 30, 2024

Date	Contractually		Contributions in Relation to Contractually		Contribution		Employer's		Contributions	
	Required	Contribution	Required	Contribution	Deficiency	(Excess)	Covered	Payroll	as a % of	Covered
	(1)*		(2)*		(3)		(4)		(5)	
Primary Government										
2024	\$	513,070	\$	513,070	\$	-	\$	4,348,389		11.80%
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%

\*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, 2024

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**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, 2022 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, 2021. 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, 2023

	2023	2022	2021	2020	2019	2018	2017
<b>Total OPEB liability</b>							
Service cost	\$ 15,088	\$ 19,546	25,104	\$ 21,804	\$ 46,574	\$ 40,948	\$ 46,022
Interest	18,461	10,654	16,177	19,370	46,785	39,837	31,712
Changes in assumptions	(4,031)	(53,065)	(28,472)	26,767	(459,792)	(5,351)	(52,691)
Differences between expected and actual experience	(186,659)	-	(87,557)	-	(235,354)	138,106	-
Benefit payments	(31,555)	(23,047)	(27,082)	(32,524)	(61,456)	(30,146)	(35,555)
<b>Net change in total OPEB liability</b>	<b>\$ (188,696)</b>	<b>\$ (45,912)</b>	<b>(101,830)</b>	<b>\$ 35,417</b>	<b>\$ (663,243)</b>	<b>\$ 183,394</b>	<b>\$ (10,512)</b>
<b>Total OPEB liability - beginning</b>	<b>500,977</b>	<b>546,889</b>	<b>648,719</b>	<b>613,302</b>	<b>1,276,545</b>	<b>1,093,151</b>	<b>1,103,663</b>
<b>Total OPEB liability - ending</b>	<b>\$ 312,281</b>	<b>\$ 500,977</b>	<b>546,889</b>	<b>\$ 648,719</b>	<b>\$ 613,302</b>	<b>\$ 1,276,545</b>	<b>\$ 1,093,151</b>
 <b>Covered-employee payroll</b>	 \$ 4,245,604	 \$ 3,732,503	 3,803,626	 \$ 3,877,716	 \$ 3,605,268	 \$ 3,958,074	 \$ 3,909,193
 <b>City's total OPEB liability (asset) as a percentage of covered-employee payroll</b>	 7.36%	 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, 2024

Valuation Date: 6/30/2023  
Measurement Date: 6/30/2023

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	3.86% at measurement date
Inflation	2.50%
Healthcare Trend Rate	5.50% from the beginning (7/01/2023) grading down to 4.00% (by 0.25% increments) in 2029
Salary Increase Rates	4.00%
Retirement Age	Retirement rates vary by gender, job classification, service and plan eligibility. They are based on the 2016-2020 VRS Experience Study.
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, 2023

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)
2023	0.01618% \$	194,048 \$	3,810,619	5.09%	69.30%
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, 2015 through June 30, 2024

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)
<b>Primary Government</b>					
2024	\$ 23,613	\$ 23,613	\$ -	\$ 4,372,868	0.54%
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%

City of Covington, Virginia  
Notes to Required Supplementary Information  
Group Life Insurance (GLI) Plan  
For the Year Ended June 30, 2024

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**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, 2022 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, 2021. 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, 2023

	2023	2022	2021	2020	2019	2018	2017
<b>Total HIC OPEB Liability</b>							
Service cost	\$ 3,615	\$ 5,376	\$ 5,598	\$ 5,375	\$ 4,949	\$ 4,696	\$ 4,000
Interest	19,093	20,860	20,442	20,919	20,466	20,523	21,000
Differences between expected and actual experience	(4,633)	(49,074)	(7,664)	(7,509)	11,658	(879)	-
Changes of assumptions	-	20,984	6,370	-	6,786	-	(9,000)
Benefit payments	(22,037)	(23,098)	(24,752)	(26,958)	(25,663)	(24,663)	(20,000)
Other changes	-	-	-	-	-	(479)	1,000
<b>Net change in total HIC OPEB liability</b>	<b>\$ (3,962)</b>	<b>\$ (24,952)</b>	<b>\$ (6)</b>	<b>\$ (8,173)</b>	<b>\$ 18,196</b>	<b>\$ (802)</b>	<b>\$ (3,000)</b>
<b>Total HIC OPEB Liability - beginning</b>	<b>290,263</b>	<b>315,215</b>	<b>315,221</b>	<b>323,394</b>	<b>305,198</b>	<b>306,000</b>	<b>309,000</b>
<b>Total HIC OPEB Liability - ending (a)</b>	<b>\$ 286,301</b>	<b>\$ 290,263</b>	<b>\$ 315,215</b>	<b>\$ 315,221</b>	<b>\$ 323,394</b>	<b>\$ 305,198</b>	<b>\$ 306,000</b>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 19,531	\$ 18,690	\$ 20,084	\$ 17,401	\$ 17,440	\$ 17,319	\$ 17,000
Net investment income	6,477	234	23,900	1,974	6,328	7,271	11,000
Benefit payments	(22,037)	(23,098)	(24,752)	(26,958)	(25,663)	(24,663)	(20,000)
Administrator charges	(155)	(190)	(273)	(179)	(135)	(164)	-
Rounding	-	-	-	-	-	(196)	-
Other	193	3,591	-	-	(8)	(565)	1,000
<b>Net change in plan fiduciary net position</b>	<b>\$ 4,009</b>	<b>\$ (773)</b>	<b>\$ 18,959</b>	<b>\$ (7,762)</b>	<b>\$ (2,038)</b>	<b>\$ (998)</b>	<b>\$ 9,000</b>
<b>Plan fiduciary net position - beginning</b>	<b>112,388</b>	<b>113,161</b>	<b>94,202</b>	<b>101,964</b>	<b>104,002</b>	<b>105,000</b>	<b>96,000</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 116,397</b>	<b>\$ 112,388</b>	<b>\$ 113,161</b>	<b>\$ 94,202</b>	<b>\$ 101,964</b>	<b>\$ 104,002</b>	<b>\$ 105,000</b>
<b>City's net HIC OPEB liability - ending (a) - (b)</b>	<b>\$ 169,904</b>	<b>\$ 177,875</b>	<b>\$ 202,054</b>	<b>\$ 221,019</b>	<b>\$ 221,430</b>	<b>\$ 201,196</b>	<b>\$ 201,000</b>
<b>Plan fiduciary net position as a percentage of the total HIC OPEB liability</b>	<b>40.66%</b>	<b>38.72%</b>	<b>35.90%</b>	<b>29.88%</b>	<b>31.53%</b>	<b>34.08%</b>	<b>34.31%</b>
<b>Covered payroll</b>	<b>\$ 3,426,144</b>	<b>\$ 3,278,951</b>	<b>\$ 3,523,595</b>	<b>\$ 3,480,076</b>	<b>\$ 3,487,954</b>	<b>\$ 3,463,554</b>	<b>\$ 3,466,331</b>
<b>City's net HIC OPEB liability as a percentage of covered payroll</b>	<b>4.96%</b>	<b>5.42%</b>	<b>5.73%</b>	<b>6.35%</b>	<b>6.35%</b>	<b>5.81%</b>	<b>5.80%</b>

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, 2015 through June 30, 2024

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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)
<b>Primary Government</b>					
2024	\$ 22,568	\$ 22,568	\$ -	\$ 3,959,307	0.57%
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%

**City of Covington, Virginia**  
**Notes to Required Supplementary Information**  
**Health Insurance Credit (HIC) Plan**  
**For the Year Ended June 30, 2024**

**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, 2022, 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, 2021. 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, 2024

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<b>EXPENDITURES</b>				
Capital projects	\$ -	\$ 3,072,182	\$ 2,037,569	\$ 1,034,613
Total expenditures	\$ -	\$ 3,072,182	\$ 2,037,569	\$ 1,034,613
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (3,072,182)	\$ (2,037,569)	\$ 1,034,613
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of general obligation bond	\$ -	\$ -	\$ 2,002,521	\$ 2,002,521
Total other financing sources (uses)	\$ -	\$ -	\$ 2,002,521	\$ 2,002,521
Net change in fund balances	\$ -	\$ (3,072,182)	\$ (35,048)	\$ 3,037,134
Fund balances - beginning	-	3,072,182	174,143	(2,898,039)
Fund balances - ending	\$ -	\$ -	\$ 139,095	\$ 139,095

## **Supporting Schedules**

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

Schedule 1  
Page 1 of 3

<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>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,557,500	\$ 2,557,500	\$ 3,010,257	\$ 452,757
Real and personal public service corporation taxes	1,670,000	1,670,000	1,539,023	(130,977)
Personal property taxes	2,090,000	2,090,000	1,648,971	(441,029)
Mobile home taxes	7,500	7,500	8,444	944
Machinery and tools taxes	4,340,000	4,340,000	4,421,213	81,213
Penalties	35,000	35,000	74,068	39,068
Interest and fees	45,000	45,000	69,203	24,203
Total general property taxes	<u>\$ 10,745,000</u>	<u>\$ 10,745,000</u>	<u>\$ 10,771,179</u>	<u>\$ 26,179</u>
Other local taxes:				
Local sales and use taxes	\$ 1,657,869	\$ 1,657,869	\$ 1,829,756	\$ 171,887
Consumers' utility taxes	369,000	369,000	335,679	(33,321)
Consumption taxes	20,000	20,000	19,489	(511)
Business license taxes	600,000	600,000	630,464	30,464
Motor vehicle licenses	172,500	172,500	182,212	9,712
Bank stock taxes	235,000	235,000	250,278	15,278
Recordation tax	17,500	17,500	38,304	20,804
Hotel and motel room taxes	40,000	40,000	50,088	10,088
Restaurant food taxes	1,110,000	1,110,000	1,241,511	131,511
Tobacco taxes	94,000	94,000	75,095	(18,905)
Total other local taxes	<u>\$ 4,315,869</u>	<u>\$ 4,315,869</u>	<u>\$ 4,652,876</u>	<u>\$ 337,007</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 1,500	\$ 1,500	\$ 3,170	\$ 1,670
Land use fees	-	-	-	-
Zoning and subdivision permits	50	50	201	151
Building permits	10,050	10,050	14,700	4,650
Other permits and licenses	450	450	300	(150)
Total permits, privilege fees, and regulatory licenses	<u>\$ 12,050</u>	<u>\$ 12,050</u>	<u>\$ 18,371</u>	<u>\$ 6,321</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 3,575	\$ 3,987	\$ 2,875	\$ (1,112)
Revenue from use of money and property:				
Revenue from use of money	\$ 55,000	\$ 55,000	\$ 792,879	\$ 737,879
Revenue from use of property	25,129	25,129	26,050	921
Total revenue from use of money and property	<u>\$ 80,129</u>	<u>\$ 80,129</u>	<u>\$ 818,929</u>	<u>\$ 738,800</u>
Charges for services:				
Charges for fire and rescue services	\$ 332,000	\$ 332,000	\$ 262,425	\$ (69,575)
Charges for sanitation and waste removal	5,000	5,000	8,144	3,144
Charges for parks and recreation	29,000	29,000	50,593	21,593
Charges for cemetery	41,000	41,000	60,428	19,428
Charges for other services	600	600	738	138
Total charges for services	<u>\$ 407,600</u>	<u>\$ 407,600</u>	<u>\$ 382,328</u>	<u>\$ (25,272)</u>
Miscellaneous:				
Miscellaneous	\$ 35,750	\$ 45,968	\$ 46,204	\$ 236
Foundation grants	1,500,000	1,500,000	1,000,000	(500,000)
Opioid recovery funds	-	32,793	38,717	5,924
Total miscellaneous revenue	<u>\$ 1,535,750</u>	<u>\$ 1,578,761</u>	<u>\$ 1,084,921</u>	<u>\$ (493,840)</u>

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

Schedule 1  
Page 2 of 3

<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>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Recovered costs:				
CSA recoveries	\$ 5,000	\$ 5,000	\$ 366	\$ (4,634)
Education	430,626	430,626	430,626	-
Other recovered costs	21,000	21,000	112,464	91,464
Total recovered costs	\$ 456,626	\$ 456,626	\$ 543,456	\$ 86,830
Total revenue from local sources	\$ 17,556,599	\$ 17,600,022	\$ 18,274,935	\$ 674,913
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 17,000	\$ 17,000	\$ 17,954	\$ 954
Mobile home titling tax	500	500	1,194	694
Motor vehicle rental tax	18,000	18,000	8,423	(9,577)
Telecommunications taxes	212,000	212,000	202,471	(9,529)
Personal property tax relief funds	-	-	546,077	546,077
Total noncategorical aid	\$ 247,500	\$ 247,500	\$ 776,119	\$ 528,619
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 85,428	\$ 85,428	\$ 108,449	\$ 23,021
Treasurer	98,674	98,674	94,899	(3,775)
Registrar/electoral board	57,192	57,192	128,075	70,883
Total shared expenses	\$ 241,294	\$ 241,294	\$ 331,423	\$ 90,129
Other categorical aid:				
Welfare payments	\$ 334,980	\$ 334,980	\$ 42,936	\$ (292,044)
CSA payments	1,001,728	1,001,728	970,640	(31,088)
Litter control grant	7,500	11,853	11,853	-
VDOT Transportation Grant	-	-	0	-
Fire program	30,000	30,000	30,000	-
Asset forfeiture	4,673	5,978	987	(4,991)
Law enforcement block grant	314,405	314,405	330,686	16,281
State highway payments	1,200,438	1,200,438	1,519,485	319,047
E-911 grant program	88,000	120,500	85,358	(35,142)
CDBG grant	-	100,000	50,000	(50,000)
OEMS grant	22,418	236,698	183,917	(52,781)
VA commission for the arts	45,000	45,000	4,500	(40,500)
VA department of conservation grant	-	140,590	139,462	(1,128)
Other State funds	4,000	4,000	339	(3,661)
Total other categorical aid	\$ 3,053,142	\$ 3,546,170	\$ 3,370,163	\$ (176,007)
Total categorical aid	\$ 3,294,436	\$ 3,787,464	\$ 3,701,586	\$ (85,878)
Total revenue from the Commonwealth	\$ 3,541,936	\$ 4,034,964	\$ 4,477,705	\$ 442,741
Revenue from the federal government:				
Categorical aid:				
Transportation enhancement grant	\$ -	\$ 283,995	\$ 137,364	\$ (146,631)
Disaster recovery	9,346	9,346	9,346	-
ARPA funds	0	381,000	327,500	(53,500)
Byrne criminal justice grant	7,000	13,245	3,639	(9,606)
Public assistance and welfare administration	95,000	95,000	49,480	(45,520)
Total categorical aid	\$ 111,346	\$ 782,586	\$ 527,329	\$ (255,257)
Total revenue from the federal government	\$ 111,346	\$ 782,586	\$ 527,329	\$ (255,257)
Total General Fund	\$ 21,209,881	\$ 22,417,572	\$ 23,279,969	\$ 862,397
<b>Special Revenue Funds:</b>				

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

Schedule 1  
Page 3 of 3

<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>
<b>ARPA Fund:</b>				
Revenue from the federal government:				
Categorical aid:				
ARPA - State and Local Fiscal Recovery	\$ -	\$ -	\$ 2,958,487	\$ 2,958,487
ARPA - Virginia Tourism Corporation	-	15,000	-	(15,000)
Total categorical aid	\$ -	\$ 15,000	\$ 2,958,487	\$ 2,943,487
Total revenue from the federal government	\$ -	\$ 15,000	\$ 2,958,487	\$ 2,943,487
<b>Permanent Fund</b>				
<b>Cemetery Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 22,754	\$ 22,754
Total Primary Government	\$ 21,209,881	\$ 22,432,572	\$ 26,261,210	\$ 3,828,638

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

Schedule 2  
Page 1 of 4

<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>
<b>General Fund:</b>				
General government administration:				
Legislative:				
City council	\$ 60,172	\$ 66,340	\$ 63,840	\$ 2,500
City clerk	18,808	13,768	13,768	-
Total legislative	\$ 78,980	\$ 80,108	\$ 77,608	\$ 2,500
General and financial administration:				
City manager	\$ 406,210	\$ 410,450	\$ 410,305	\$ 145
Human resources	47,100	45,983	2,530	43,453
Information technology	303,718	310,093	267,927	42,166
Legal services	77,435	56,891	50,542	6,349
Commissioner of revenue	279,917	270,688	270,509	179
Independent auditors	82,915	97,708	97,708	-
Treasurer	350,855	359,634	359,634	-
Central accounting	536,224	536,199	468,316	67,883
Total general and financial administration	\$ 2,085,024	\$ 2,087,896	\$ 1,927,471	\$ 160,425
Board of elections:				
Electoral board and officials	\$ 154,884	\$ 165,126	\$ 164,859	\$ 267
Total general government administration	\$ 2,318,888	\$ 2,333,130	\$ 2,169,938	\$ 163,192
Judicial administration:				
Courts:				
Circuit court	\$ 24,260	\$ 24,260	\$ 24,260	\$ -
General district court	11,961	11,961	11,961	-
Magistrates office	3,543	3,543	2,635	908
Clerk of the circuit court	83,349	83,349	83,349	-
Sheriff (court)	130,425	130,425	130,425	-
Courthouse security	32,213	32,213	32,213	-
Total courts	\$ 285,751	\$ 285,751	\$ 284,843	\$ 908
Commonwealth's attorney:				
Commonwealth's attorney	\$ 88,039	\$ 88,039	\$ 88,039	\$ -
Total judicial administration	\$ 373,790	\$ 373,790	\$ 372,882	\$ 908
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,048,768	\$ 2,235,675	\$ 2,130,567	\$ 105,108
Sheriff	717,971	717,971	717,971	-
E-911	812,136	846,148	846,148	-
School resource officer	72,889	73,915	73,915	-
Seizure/forfeiture funds	5,173	7,156	2,637	4,519
Total law enforcement and traffic control	\$ 3,656,937	\$ 3,880,865	\$ 3,771,238	\$ 109,627
Fire and rescue services:				
Volunteer fire department	\$ 265,211	\$ 321,228	\$ 252,255	\$ 68,973
Ambulance service	685,438	1,060,057	892,322	167,735
Total fire and rescue services	\$ 950,649	\$ 1,381,285	\$ 1,144,577	\$ 236,708
Inspections:				
Building	\$ 337,631	\$ 369,664	\$ 357,261	\$ 12,403

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

Schedule 2  
Page 2 of 4

<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>
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Other protection:				
Animal control	\$ 79,351	\$ 81,811	\$ 78,223	\$ 3,588
Medical examiner	100	140	140	-
Other public safety	47,452	47,452	-	47,452
Total other protection	\$ 126,903	\$ 129,403	\$ 78,363	\$ 51,040
Total public safety	\$ 5,072,120	\$ 5,764,194	\$ 5,354,416	\$ 409,778
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 45,000	\$ 107,927	\$ 107,927	\$ -
Street department	2,464,843	2,961,889	2,687,576	274,313
Snow and ice removal	25,000	21,337	21,337	-
Traffic engineering	143,029	127,744	126,927	817
Street cleaning	15,000	9,642	6,877	2,765
Street lights	190,000	187,341	187,341	-
Street projects	245,050	1,160,484	665,477	495,007
Total maintenance of highways, streets, bridges and sidewalks	\$ 3,127,922	\$ 4,576,364	\$ 3,803,462	\$ 772,902
Sanitation and waste removal:				
Litter control grant	\$ 7,500	\$ 11,853	\$ 11,853	\$ -
Maintenance of general buildings and grounds:				
General properties	\$ 887,931	\$ 888,873	\$ 820,116	\$ 68,757
Motor vehicular maintenance	279,848	282,160	281,838	322
Total maintenance of general buildings and grounds	\$ 1,167,779	\$ 1,171,033	\$ 1,101,954	\$ 69,079
Total public works	\$ 4,303,201	\$ 5,759,250	\$ 4,917,269	\$ 841,981
Health and welfare:				
Health:				
Supplement of local health department	\$ 100,781	\$ 100,781	\$ 87,635	\$ 13,146
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 110,318	\$ 110,318	\$ 110,318	\$ -
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	1,345,787	1,345,787	1,333,435	12,352
Social Services	536,061	536,061	248,301	287,760
Other contributions	5,400	5,400	5,400	-
Opioid recovery expenditures	-	61,555	-	61,555
Property tax relief for the elderly	-	-	38,591	(38,591)
Total welfare	\$ 1,906,752	\$ 1,968,307	\$ 1,630,027	\$ 338,280
Total health and welfare	\$ 2,117,851	\$ 2,179,406	\$ 1,827,980	\$ 351,426
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	-
Total education	\$ 2,997,855	\$ 2,997,855	\$ 2,997,855	\$ -

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

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<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>
<b>General Fund: (Continued)</b>				
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 1,595,322	\$ 2,692,053	\$ 2,683,675	\$ 8,378
Cultural enrichment:				
Senior center	\$ 211,047	\$ 76,706	\$ 76,706	\$ -
Cemetery	344,042	328,681	328,679	2
League of older Americans	2,735	2,735	-	2,735
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	\$ 574,924	\$ 425,222	\$ 422,485	\$ 2,737
Library:				
Contribution to regional library	\$ 138,607	\$ 138,607	\$ 138,607	\$ -
Total parks, recreation, and cultural	\$ 2,308,853	\$ 3,255,882	\$ 3,244,767	\$ 11,115
Community development:				
Planning and community development:				
Planning commission	\$ 2,335	\$ 117	\$ 117	\$ -
Workforce development	2,500	2,500	2,500	-
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	200	135	135	-
Economic development	262,364	376,608	241,235	135,373
Total planning and community development	\$ 287,399	\$ 524,360	\$ 338,987	\$ 185,373
Environmental management:				
Contribution to soil and water district	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Cooperative extension program:				
Extension office	\$ 7,695	\$ 6,552	\$ 6,497	\$ 55
Total community development	\$ 298,094	\$ 533,912	\$ 348,484	\$ 185,428
Nondepartmental:				
Contingencies	\$ 2,725,000	\$ 3,143,963	\$ 971,717	\$ 2,172,246
Other nondepartmental	64,768	64,768	827	63,941
Total nondepartmental	\$ 2,789,768	\$ 3,208,731	\$ 972,544	\$ 2,236,187
Debt service:				
Principal retirement	\$ 1,439,763	\$ 1,561,449	\$ 1,561,449	\$ -
Interest and other fiscal charges	641,139	687,089	687,089	-
Total debt service	\$ 2,080,902	\$ 2,248,538	\$ 2,248,538	\$ -
Total General Fund	\$ 24,661,322	\$ 28,654,688	\$ 24,454,673	\$ 4,200,015

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

Schedule 2  
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<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>
<b>Special Revenue Funds:</b>				
<b>ARPA Fund:</b>				
General government administration:				
General and financial administration:				
General government	\$ 1,158,487	\$ 1,158,487	\$ -	\$ 1,158,487
Community development:				
General community development:				
Tourism	\$ -	\$ 15,000	\$ -	\$ 15,000
Total ARPA Fund	<u>\$ 1,158,487</u>	<u>\$ 1,173,487</u>	<u>\$ -</u>	<u>\$ 1,173,487</u>
<b>Capital Projects Fund:</b>				
Joint revenue sharing pad site	\$ -	\$ 2,891,381	\$ 1,997,688	\$ 893,693
E-911 communication system	-	180,801	39,881	140,920
Total capital projects	<u>\$ -</u>	<u>\$ 3,072,182</u>	<u>\$ 2,037,569</u>	<u>\$ 1,034,613</u>
Total City Capital Projects Fund	<u>\$ -</u>	<u>\$ 3,072,182</u>	<u>\$ 2,037,569</u>	<u>\$ 1,034,613</u>
Total Primary Government	<u>\$ 24,661,322</u>	<u>\$ 31,726,870</u>	<u>\$ 26,492,242</u>	<u>\$ 5,234,628</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
2023-24	\$ 2,160,229	\$ 372,882	\$ 5,001,677	\$ 4,002,548	\$ 1,831,987	\$ 3,172,084	\$ 2,300,030	\$ 2,346,172	\$ 630,985	\$ 1,825,317	\$ 1,954,099	\$ 2,848,503	\$ 28,446,513
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

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	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	Total
2023-24	\$ 5,420,447	\$ 6,775,218	\$ 945,221	\$	\$ 10,782,423	\$ 4,652,876	\$ 876,987	\$ 1,177,962	\$ 776,119	\$ 31,407,253
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

Table 3

**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
2023-24	\$ 2,169,938	\$ 372,882	\$ 5,354,416	\$ 4,917,269	\$ 1,827,980	\$ 2,997,855	\$ 3,244,767	\$ 348,484	\$ 2,037,569	\$ 972,544	\$ 2,248,538	\$ 26,492,242
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

(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.

Table 4

**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
2023-24	\$ 10,771,179	\$ 4,652,876	\$ 18,371	\$ 2,875	\$ 841,683	\$ 382,328	\$ 1,084,921	\$ 543,456	\$ 7,963,521	\$ 26,261,210
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

(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.

Table 5

**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 Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
2023-24	\$ 11,074,318	\$ 10,580,244	95.54%	\$ 47,664	10,627,908	95.97%	\$ 777,855	7.02%
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%

(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.

Table 6

**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	
2023-24	\$ 355,915,700	\$ 67,212,470	\$ 163,342,540	\$ 181,074,529	\$ -	\$ 767,545,239
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

(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%.

Table 7

**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)
2023-24	\$ 0.85	\$ 0.85	\$ 3.08	\$ 2.76
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

(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.

Table 8

**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
2023-24	5,717	\$ 767,545	\$ 21,952,469	2.86%	\$ 3,840
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

(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.

Table 9

**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
2023-24	\$ 1,561,449	\$ 687,089	\$ 2,248,538	\$ 26,492,242	8.49%
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	687,089	1,187,259	1,874,348	23,755,209	7.89%

- (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, 2024

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Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate	\$355,915,700	\$ 35,591,570
Deduct:		
Debt Payable		21,952,469
Legal Margin for Creation of Additional Debt		\$ <u>13,639,101</u>

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**COMPLIANCE SECTION**

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**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***

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**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, 2024, 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 November 25, 2024.

**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.

*Robinson, Fawcett, & Associates*

Blacksburg, Virginia  
November 25, 2024



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

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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, 2024. 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, 2024.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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.

*Polina, Fane, Cox Associates*

Blacksburg, Virginia  
November 25, 2024

**City of Covington, Virginia**  
**Schedule of Expenditures of Federal Awards (SEFA)**  
**For the Year Ended June 30, 2024**

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF TREASURY:</b>			
Pass Through Payments:			
<i>Virginia Tourism Corporation :</i>			
COVID-19 - Coronavirus Relief Fund	21.027	Not available	\$ 15,000
<i>Virginia Department of Criminal Justice Services:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	508516-LE	312,500
Direct Payments:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not applicable	<u>2,958,487</u> <u>\$ 3,285,987</u>
<b>DEPARTMENT OF JUSTICE:</b>			
Pass Through Payments:			
<i>Department of Criminal Justice Services:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15PBJA23GG03038MUMU	<u>\$ 3,639</u>
<b>DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass Through Payments:			
<i>Virginia Department of Emergency Management:</i>			
Emergency Management Performance Grants	97.042	EMP-2023-EP-00006	<u>\$ 9,346</u>
<b>DEPARTMENT OF TRANSPORTATION:</b>			
Pass Through Payments:			
<i>Virginia Department of Transportation:</i>			
Highway Planning and Construction	20.205	EN22-107-172, P101, R201 and EN18-107-169, P101, M501	<u>\$ 137,364</u>
<b>ENVIRONMENTAL PROTECTION AGENCY:</b>			
Pass Through Payments:			
<i>Virginia Resource Authority:</i>			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	C-515645E	<u>\$ 2,288,995</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass Through Payments:			
<i>Department of Social Services:</i>			
Guardianship Assistance	93.090	1110124	\$ (428)
Marylee Allen Promoting Safe and Stable Families Program	93.556	0950123	825
Temporary Assistance for Needy Families	93.558	0400123, 0400124	2,462
Foster Care - Title IV-E	93.658	1100123, 1100124	4,261
Adoption Assistance	93.659	1120123, 1120124	20,333
Social Services Block Grant	93.667	1000123, 1000124	22,017
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	9150123	<u>10</u>
Total Department of Health and Human Services			<u>\$ 49,480</u>
Total Expenditures of Federal Awards			<u>\$ 5,774,811</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, 2024. 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, 2024.

**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	\$ 527,329
ARPA Fund	2,958,487
Sewer Fund	2,288,995
Total Primary Government	<u>\$ 5,774,811</u>

Total Federal Expenditures per Basic Financial Statements	<u>\$ 5,774,811</u>	-
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City of Covington, Virginia  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2024

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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:	

Assistance Listing #	Name of Federal Program or Cluster
21.027	COVID 19-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