CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2011

CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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FINANCIAL SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council
Covington, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Covington, Georgia** (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Covington, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Georgia as of June 30, 2011, and the respective changes in financial position and cash flows where applicable thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the City of Covington, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 3 through 11) and the Schedule of Funding Progress (on page 56) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures to not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Georgia's basic financial statements. The combining and individual nonmajor fund and discretely presented component unit financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Covington, Georgia. The accompanying schedule of expenditures of special purpose local option sales tax proceeds is presented for purposes of additional analysis as required by the Official Code of Georgia 48-8-21, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements of the City of Covington, Georgia. 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mauldin & Jenkins, LLC

Macon, Georgia
November 22, 2011

As management of the City of Covington (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by $158,493,780 (*net assets)*. Of this amount, $67,870,358 (*unrestricted net assets)* may be used to meet the City's ongoing obligations.
- The City's total net assets increased by $4,433,663, due mostly to income from the business-type activities.
- As of the close of June 30, 2011, the City's governmental funds reported combined ending fund balances of $27,723,401, an increase of $871,747 from the prior year. Approximately sixty-eight percent (68%) of this total amount, or $18,756,114, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was $19,144,629 or one hundred eighteen percent (118%) of general fund expenditures.
- The City's revenues for the year ended June 30, 2011 total $82,978,165. Of this amount, $70,959,054, or eighty five percent (85%), was generated from program revenues. Additionally, $2,139,113, or three percent (3%) was generated from operating and capital grants. The balance of $9,879,998 or twelve percent (12%), was generated from general revenues.
- The City's expenses for the year ended 2011 total $78,544,502. Of this amount, $19,470,405, or twenty-five percent (25%), was generated from governmental activities. The balance of $59,074,097, or seventy-five percent (75%), was generated from business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Covington.

Basic Financial Statements

The first two statements (Pages 12 and 13) in the basic financial statements are the *Government-wide Financial Statements*. They provide both short and long-term information about the City's financial status.

The next statements (Pages 14 through 24) are *Fund Financial Statements*. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements and 3) the proprietary fund statements.

The next section of the basic financial statements is the *notes*. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, *supplemental information* is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, fines and forfeiture 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 include general government, judicial, public safety, public works, culture and recreation, and housing and development services. The business-type activities of the City include water and sewer, natural gas and electric services, stormwater management, solid waste collection, and airport operations.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements. The fund financial statements provide a more detailed look at the City's most significant activities. 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, such as General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the 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 governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *government activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund only as the general fund is considered to be a major fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City 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 fund. Budgetary comparison statements have also been provided for the Special Revenue Funds in the supplementary financial information elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14 through 18 of this report.

Proprietary funds. The City 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 uses enterprise funds to account for its Water and Sewer operation, Gas and Electric operation, Stormwater management, Solid Waste operations, and the City's airport.

Proprietary fund financial statements 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 and Sewer Utility Fund, the Gas and Electric Utility Fund, and the Airport Fund, all of which are considered to be major funds of the City. Conversely, the nonmajor enterprise funds are combined into single, aggregated presentations in the proprietary fund financial statements. Individual fund data for the nonmajor enterprise funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19 through 22 of this report.

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

The basic fiduciary fund financial statements can be found on pages 23 and 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 55 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary* information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 56 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds and enterprise funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 57 through 70 of this report.

Government-wide Financial Analysis

In order to allow for useful comparative analysis, government-wide financial information is provided for the fiscal years ended June 30, 2011 and June 30, 2010.

The City of Covington's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 29,770,856	$ 29,136,036	$ 46,610,068	$ 44,120,802	$ 76,380,924	$ 73,256,838
Capital assets	29,628,113	29,883,759	79,474,875	79,439,873	109,102,988	109,323,632
Total assets	59,398,969	59,019,795	126,084,943	123,560,675	185,483,912	182,580,470
Long-term liabilities outstanding	2,139,537	1,792,975	17,740,564	18,903,678	19,880,101	20,696,653
Other liabilities	1,004,005	1,082,858	6,106,026	6,740,842	7,110,031	7,823,700
Total liabilities	3,143,542	2,875,833	23,846,590	25,644,520	26,990,132	28,520,353
Net assets:						
Invested in capital assets, net of related debt	28,030,849	28,268,647	62,273,990	61,000,925	90,304,839	89,269,572
Restricted	273,850	-	44,733	48,825	318,583	48,825
Unrestricted	27,950,728	27,875,315	39,919,630	36,866,405	67,870,358	64,741,720
Total net assets	$ 56,255,427	$ 56,143,962	$ 102,238,353	$ 97,916,155	$ 158,493,780	$ 154,060,117

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City (governmental and business-type activities in total), assets exceeded liabilities by $158,493,780 and $154,060,117 at June 30, 2011 and June 30, 2010, respectively.

By far the largest portion of the City's net assets (57%) reflects its investments in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net assets, $318,583 or less than 1% represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets, $67,870,358 or 43%, is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of June 30, 2011 and June 30, 2010, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the City's net assets by $111,465 as of June 30, 2011 and increased the City's net assets by $26,795 as of June 30, 2010. As illustrated on the following table, taxes constitute the largest revenue source at $8,705,877 or sixty-four percent (64%) of total revenue as of June 30, 2011 and $9,113,690 or sixty-one percent (61%) as of June 30, 2010.

City of Covington's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	$ 2,644,079	$ 2,915,724	$ 68,314,975	$ 66,701,054	$ 70,959,054	$ 69,616,778
Operating grants and contributions	918,233	1,385,133	992,954	2,758,529	1,911,187	4,143,662
Capital grants and contributions	227,926	334,382	-	99,989	227,926	434,371
General revenues:						
Taxes	8,705,877	9,113,690	-	-	8,705,877	9,113,690
Franchise fees	846,414	825,804	-	-	846,414	825,804
Investment earnings	171,520	312,701	156,187	264,147	327,707	576,848
Gain on sale	-	-	-	10,450	-	10,450
Total revenues	13,514,049	14,887,434	69,464,116	69,834,169	82,978,165	84,721,603
Expenses:						
General government	1,170,298	901,342	-	-	1,170,298	901,342
Judicial	510,845	529,006	-	-	510,845	529,006
Public safety	12,532,174	12,284,705	-	-	12,532,174	12,284,705
Public works	3,566,650	3,123,387	-	-	3,566,650	3,123,387
Parks and recreation	485,663	482,774	-	-	485,663	482,774
Housing and development	1,145,774	1,430,608	-	-	1,145,774	1,430,608
Interest and fiscal charges	59,001	65,611	-	-	59,001	65,611
Water and sewer	-	-	10,029,059	9,765,114	10,029,059	9,765,114
Gas and electric	-	-	44,326,766	42,221,022	44,326,766	42,221,022
Stormwater	-	-	857,723	865,420	857,723	865,420
Sanitation	-	-	2,576,429	2,607,226	2,576,429	2,607,226
Airport	-	-	1,284,120	195,534	1,284,120	195,534
Total expenses	19,470,405	18,817,433	59,074,097	55,654,316	78,544,502	74,471,749
Increase (decrease) in net assets before transfers	(5,956,356)	(3,929,999)	10,390,019	14,179,853	4,433,663	10,249,854
Transfers	6,067,821	3,956,794	(6,067,821)	(3,956,794)	-	-
Change in net assets	111,465	26,795	4,322,198	10,223,059	4,433,663	10,249,854
Net assets, beginning	56,143,962	56,117,167	97,916,155	87,693,096	154,060,117	143,810,263
Net assets, ending	$ 56,255,427	$ 56,143,962	$ 102,238,353	$ 97,916,155	$ 158,493,780	$ 154,060,117

Business-type activities. The City's business-type activities increased the City's net assets by $4,322,198 and increased the City's net assets by $10,223,059 of June 30, 2011 and June 30, 2010 respectively.

Financial Analysis of the City's Funds

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. For the fiscal year ended June 30, 2011, total fund balance of the general fund was $27,816,582. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance represents approximately 171 percent of the total general fund expenditures. Transfers in from proprietary funds to supplement the general fund were $8,345,040 for the year ended June 30, 2011, which represents 51 percent of total fund expenditures.

The fund balance of the City's General fund increased by $1,878,251 during fiscal year 2011 due mostly to the transfers from proprietary funds.

Proprietary funds. The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of 2011 amounted to $3,825,811; those for the Gas and Electric Fund amounted to $37,281,925 and those for the Airport Fund amounted to ($2,296,709). The total change in net assets for each fund was an increase of $485,461, $2,076,072, and $2,090,800 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounted to $109,102,988 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, park and pool facilities, storm sewers, bridges, streets, water and sewer lines, and natural gas and electric lines. The increase in business-type activity land from the prior year is substantially due to the purchase of land for the planned expansion of the City's airport facilities.

City of Covington's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 1,445,832	$ 1,445,832	$ 10,847,261	$ 10,124,162	$ 12,293,093	$ 11,569,994
Buildings	5,620,180	5,687,377	526,911	517,545	6,147,091	6,204,922
Machinery and equipment	2,875,699	2,963,157	503,125	659,557	3,378,824	3,622,714
Furniture and fixtures	14,389	19,014	-	-	14,389	19,014
Vehicles	772,517	597,357	260,012	239,308	1,032,529	836,665
Intangibles	-	-	4,064,129	4,185,667	4,064,129	4,185,667
Improvements other than buildings	18,869,342	19,001,255	61,794,590	57,701,708	80,663,932	76,702,963
Construction in progress	30,154	169,767	1,478,847	6,011,926	1,509,001	6,181,693
Total	$ 29,628,113	$ 29,883,759	$ 79,474,875	$ 79,439,873	$ 109,102,988	$ 109,323,632

Additional information on the City's capital assets can be found in Note 5 on pages 40 through 42 of this report.

Long-term debt. As of June 30, 2011, the City had total bonded debt outstanding of $2,195,000. Of this amount, none is debt backed by the full faith and credit of the City. The City also had total notes and capital leases payable of $16,603,149 for governmental lease purchases and utility improvements. The City's bond debt is secured solely by specific revenue sources (i.e., revenue bonds).

The City has no current rating from Standard & Poor's for its water revenue bonds. The City has had no current general obligation bond debt and, therefore, any prior existing ratings would be non-relevant. The City does not anticipate issuing any general obligation debt in the future.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation for the City is $66,828,499, which is significantly in excess of the City's outstanding general obligation bonds, which is zero.

Additional information on the City's debt can be found in Note 6 on pages 42 through 46 of this report.

Factors affecting the July 1, 2010 – June 30, 2011 Budget:

The Mayor and Council of the City of Covington considered many factors when approving the City's July 1, 2010 – June 30, 2011 budget and are very aware of present economic conditions and their effect on its citizens. The Mayor and Council chose to continue to primarily use transfers from the business-type activities to the governmental activities instead of increasing taxes or rates within the governmental activities.

Annually, the City Manager submits to the Mayor and Council a proposed operating budget for the coming fiscal year which is required to be approved prior to June 30. Public hearings are held prior to adoption to allow citizens the opportunity to comment on the proposed budget. The City Council elected to change from a calendar year to a fiscal year beginning July 1, 2008 in order to align its budget for planning purposes with Newton County, the Newton County Board of Education, and the Newton County Water and Sewage Authority.

Budgets are adopted for all governmental funds and the City's enterprise funds. Budgets for the enterprise funds are prepared for planning and control purposes only. Budgets are adopted for all special revenue funds. The legal level of budgetary control is the department level, with the Council being the only body authorized to make amendments to the budget. No significant supplemental appropriations were made for the year ended June 30, 2011.

Requests for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Director of Finance, City of Covington, P. O. Box 1527, 2194 Emory Street, N.W., Covington, Georgia 30015.

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Parking Authority	Redevelopment Authority
Cash and cash equivalents	$ 18,663,770	$ 522,078	$ 19,185,848	$ 115,743	$ 53,456
Investments	8,102,816	34,003,049	42,105,865	-	-
Taxes receivable	358,145	-	358,145	-	-
Accounts receivable, net of allowances	324,041	9,893,992	10,218,033	-	-
Due from other governments	740,354	74,586	814,940	-	-
Advance to component units	268,643	185,475	454,118	-	-
Due from Newton County	-	103,956	103,956	-	-
Internal balances	649,916	(649,916)	-	-	-
Inventories	48,906	1,260,042	1,308,948	-	-
Prepaid expenses	227,071	155,159	382,230	-	-
Restricted assets:					
Cash and cash equivalents	-	331,403	331,403	-	-
Investments	-	578,890	578,890	-	-
Net pension asset	387,194	151,354	538,548	-	-
Capital assets:					
Nondepreciable	1,475,986	12,326,108	13,802,094	414,173	402,910
Depreciable, net of accumulated depreciation	28,152,127	67,148,767	95,300,894	-	-
Total assets	59,398,969	126,084,943	185,483,912	529,916	456,366
LIABILITIES					
Accounts payable	602,274	3,909,427	4,511,701	-	13,770
Accrued liabilities	401,731	540,420	942,151	-	-
Unearned revenues	-	5,898	5,898	100,869	-
Due to primary government	-	-	-	250	453,867
Customer deposits payable	-	1,650,281	1,650,281	-	-
Due to others due within one year	-	78,466	78,466	-	-
Due to others due in more than one year	-	266,070	266,070	-	-
Capital leases due within one year	278,264	-	278,264	-	-
Capital leases due in more than one year	1,319,000	-	1,319,000	-	-
Notes payable due within one year	-	1,046,326	1,046,326	-	-
Notes payable due in more than one year	-	13,959,559	13,959,559	-	-
Bonds payable due within one year	-	240,000	240,000	-	-
Bonds payable due in more than one year	-	1,955,000	1,955,000	-	-
Compensated absences due within one year	293,858	74,370	368,228	-	-
Termination benefits due within one year	58,888	27,800	86,688	-	-
Termination benefits due in more than one year	189,527	92,973	282,500	-	-
Total liabilities	3,143,542	23,846,590	26,990,132	101,119	467,637
NET ASSETS					
Invested in capital assets, net of related debt	28,030,849	62,273,990	90,304,839	414,173	402,910
Restricted for:					
Debt service	-	44,733	44,733	-	-
Cemetery maintenance	175,185	-	175,185	-	-
Other capital projects	98,665	-	98,665	-	-
Unrestricted	27,950,728	39,919,630	67,870,358	14,624	(414,181)
Total net assets	$ 56,255,427	$ 102,238,353	$ 158,493,780	$ 428,797	$ (11,271)

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities	Business-type Activities	Total	Component Units: Parking Authority	Component Units: Redevelopment Authority
Primary government:									
Governmental activities:									
General government	$ 1,170,298	$ 538,989	$ -	$ -	$ (631,309)	$ -	$ (631,309)	$ -	$ -
Judicial	510,845	-	-	-	(510,845)	-	(510,845)	-	-
Public safety	12,532,174	2,105,090	482,241	-	(9,944,843)	-	(9,944,843)	-	-
Public works	3,566,650	-	-	227,926	(3,338,724)	-	(3,338,724)	-	-
Parks and recreation	485,663	-	298,627	-	(187,036)	-	(187,036)	-	-
Housing and development	1,145,774	-	137,365	-	(1,008,409)	-	(1,008,409)	-	-
Interest on long-term debt	59,001	-	-	-	(59,001)	-	(59,001)	-	-
Total governmental activities	19,470,405	2,644,079	918,233	227,926	(15,680,167)	-	(15,680,167)	-	-
Business-type activities:									
Water and sewer	10,029,059	10,583,929	-	-	-	554,870	554,870	-	-
Gas	13,199,620	16,578,927	33,600	-	-	3,412,907	3,412,907	-	-
Electric	31,127,146	37,822,357	-	-	-	6,695,211	6,695,211	-	-
Stormwater	857,723	677,627	-	-	-	(180,096)	(180,096)	-	-
Sanitation	2,576,429	2,325,848	-	-	-	(250,581)	(250,581)	-	-
Airport	1,284,120	326,287	959,354	-	-	1,521	1,521	-	-
Total business-type activities	59,074,097	68,314,975	992,954	-	-	10,233,832	10,233,832	-	-
Total primary government	$ 78,544,502	$ 70,959,054	$ 1,911,187	$ 227,926	(15,680,167)	10,233,832	(5,446,335)	-	-
Component units:									
Parking Authority	466	2,346	-	-	-	-	-	1,880	-
Redevelopment Authority	15,699	1,862	-	-	-	-	-	-	(13,837)
Total component units	$ 16,165	$ 4,208	$ -	$ -	-	-	-	1,880	(13,837)
General revenues:									
Property taxes					5,033,224	-	5,033,224	-	-
Sales taxes					1,750,395	-	1,750,395	-	-
Insurance premium tax					621,596	-	621,596	-	-
Other taxes					1,300,662	-	1,300,662	-	-
Franchise fees					846,414	-	846,414	-	-
Unrestricted investment earnings					171,520	156,187	327,707	21	19
Transfers					6,067,821	(6,067,821)	-	-	-
Total general revenues and transfers					15,791,632	(5,911,634)	9,879,998	21	19
Change in net assets					111,465	4,322,198	4,433,663	1,901	(13,818)
Net assets, beginning of year					56,143,962	97,916,155	154,060,117	426,896	2,547
Net assets, end of year					$ 56,255,427	$ 102,238,353	$ 158,493,780	$ 428,797	$ (11,271)

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	$ 17,550,368	$ 1,113,402	$ 18,663,770
Investments	8,021,302	81,514	8,102,816
Taxes receivable, net	313,898	44,247	358,145
Accounts receivable, net	200,011	124,030	324,041
Due from other governments	231,375	508,979	740,354
Due from other funds	2,295,302	15,680	2,310,982
Inventories	48,906	-	48,906
Prepaid expenditures	205,587	21,484	227,071
Advance to component unit	268,643	-	268,643
Advances to other funds	2,261,890	-	2,261,890
Total assets	$ 31,397,282	$ 1,909,336	$ 33,306,618
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 514,625	$ 87,649	$ 602,274
Accrued liabilities	354,923	30,507	385,430
Deferred revenues	262,682	409,875	672,557
Due to other funds	2,448,470	1,474,486	3,922,956
Total liabilities	3,580,700	2,002,517	5,583,217
FUND BALANCES (DEFICITS)			
Nonspendable:			
Inventories	48,906	-	48,906
Prepaid expenditures	205,587	21,484	227,071
Advance to component unit	268,643	-	268,643
Advance to other funds	2,261,890	-	2,261,890
Restricted for:			
Cemetery maintenance	-	175,185	175,185
Other capital projects	-	98,665	98,665
Committed to:			
Tourism projects (hotel/motel tax funds)	11,317	-	11,317
Assigned to:			
Airport capital projects and fire training center	3,080,519	-	3,080,519
2012 budget	2,795,091	-	2,795,091
Unassigned:	19,144,629	(388,515)	18,756,114
Total fund balances (deficit)	27,816,582	(93,181)	27,723,401
Total liabilities and fund balances	$ 31,397,282	$ 1,909,336	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			29,628,113
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			672,557
Net pension obligation (asset) is not a financial asset in governmental activities and therefore is not reported in governmental funds.			387,194
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.			(2,155,838)
Net assets of governmental activities			$ 56,255,427

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2011

	General	Other Governmental Funds	Totals Governmental Funds
Revenues			
Property taxes	$ 5,000,200	$ -	$ 5,000,200
Sales taxes	1,792,938	-	1,792,938
Insurance premium taxes	621,596	-	621,596
Other taxes	922,310	378,352	1,300,662
Charges for services	-	1,310,765	1,310,765
Licenses and permits	151,725	-	151,725
Intergovernmental	878,729	267,430	1,146,159
Franchise fees	846,414	-	846,414
Fines and forfeitures	396,396	373,489	769,885
Interest revenue	169,832	1,688	171,520
Other revenues	868,776	-	868,776
Total revenues	11,648,916	2,331,724	13,980,640
Expenditures			
Current:			
General government	1,685,510	-	1,685,510
Judicial	507,293	-	507,293
Public safety	9,668,993	2,687,371	12,356,364
Public works	2,758,253	-	2,758,253
Parks and recreation	475,534	-	475,534
Housing and development	829,938	389,759	1,219,697
Capital outlay	-	189,359	189,359
Debt service:			
Principal	220,337	-	220,337
Interest	62,453	-	62,453
Total expenditures	16,208,311	3,266,489	19,474,800
Deficiency of revenues under expenditures	(4,559,395)	(934,765)	(5,494,160)
Other financing sources (uses)			
Transfers in	8,345,040	-	8,345,040
Transfers out	(2,162,339)	(71,739)	(2,234,078)
Proceeds from the sale of capital assets	52,456	-	52,456
Total other financing sources (uses)	6,437,646	(71,739)	6,365,907
Net change in fund balances	1,878,251	(1,006,504)	871,747
Fund balances, beginning of year	25,938,331	913,323	26,851,654
Fund balances (deficit), end of year	$ 27,816,582	$ (93,181)	$ 27,723,401

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

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

Net change in fund balances - total governmental funds	$	871,747
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 outlays in the current period.		(246,729)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.		(8,917)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		14,921
The issuance of long-term debt 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 assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		17,848
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.		(537,405)
	$	111,465

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues:				
Property taxes	$ 4,528,795	$ 4,528,795	$ 5,000,200	$ 471,405
Sales taxes	1,500,000	1,500,000	1,792,938	292,938
Insurance premium taxes	665,000	665,000	621,596	(43,404)
Other taxes	858,700	858,700	922,310	63,610
Licenses and permits	145,350	145,350	151,725	6,375
Intergovernmental	1,121,567	1,121,567	878,729	(242,838)
Franchise fees	732,172	732,172	846,414	114,242
Fines and forfeitures	400,000	478,402	396,396	(82,006)
Interest revenue	291,380	291,380	169,832	(121,548)
Other revenues	738,536	961,886	868,776	(93,110)
Total revenues	10,981,500	11,283,252	11,648,916	365,664
Expenditures:				
Current:				
General government:				
Administrative services	270,001	775,351	728,870	46,481
Elected and appointed officials	182,517	182,517	180,503	2,014
Maintenance department	371,636	371,636	346,613	25,023
Purchasing	52,427	52,427	41,723	10,704
Personnel	312,845	312,845	250,045	62,800
Risk management	191,766	162,766	137,756	25,010
Total general government	1,381,192	1,857,542	1,685,510	172,032
Judicial	459,285	537,687	507,293	30,394
Public safety:				
Police	5,503,138	5,528,009	5,457,583	70,426
Fire	5,223,251	5,147,251	4,211,410	935,841
Total public safety	10,726,389	10,675,260	9,668,993	1,006,267
Public works:				
Highways and streets	2,433,059	2,430,059	1,559,248	870,811
Engineering	920,331	920,331	646,591	273,740
Facilities maintenance	416,437	446,437	372,124	74,313
Telecommunications	321,369	321,369	180,290	141,079
Total public works	4,091,196	4,118,196	2,758,253	1,359,943
Parks and recreation:				
Recreation	303,624	303,624	303,133	491
Cemetery and parks	181,503	181,503	172,401	9,102
Total parks and recreation	485,127	485,127	475,534	9,593
Housing and development:				
Planning and zoning	1,412,669	1,412,669	742,091	670,578
Mainstreet program	82,363	90,711	87,847	2,864
Total housing and development	1,495,032	1,503,380	829,938	673,442

(Continued)

CITY OF COVINGTON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Expenditures: (Continued)				
Debt service:				
Principal	$ 204,000	$ 204,000	$ 220,337	$ (16,337)
Interest	62,000	62,000	62,453	(453)
	266,000	266,000	282,790	(16,790)
Total expenditures	18,904,221	19,443,192	16,208,311	3,234,881
Deficiency of revenues under expenditures	(7,922,721)	(8,159,940)	(4,559,395)	3,600,545
Other financing sources (uses)				
Transfers in	7,865,475	7,688,337	8,345,040	656,703
Transfers out	(1,953,303)	(2,061,303)	(2,162,339)	(101,036)
Proceeds from the sale of capital assets	-	-	52,456	52,456
Total other financing sources	6,240,068	5,981,173	6,437,646	456,473
Net change in fund balances	(1,682,653)	(2,178,767)	1,878,251	4,057,018
Fund balances, beginning of year	25,938,331	25,938,331	25,938,331	-
Fund balances, end of year	$ 24,255,678	$ 23,759,564	$ 27,816,582	$ 4,057,018

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 96,947	$ 5,100	$ 420,031	$ 522,078
Investments	-	34,003,049	-	-	34,003,049
Accounts receivable, net of allowances	1,464,672	7,716,612	7,582	705,126	9,893,992
Due from other funds	2,289,316	161,155	20	285,618	2,736,109
Due from Newton County	103,956	-	-	-	103,956
Inventories	107,525	1,111,405	41,112	-	1,260,042
Prepaid expenses	24,499	109,611	674	20,375	155,159
Due from other governments	53,163	21,423	-	-	74,586
Restricted assets, cash	134,313	197,090	-	-	331,403
Restricted assets, investments	514,545	64,345	-	-	578,890
Total current assets	4,691,989	43,481,637	54,488	1,431,150	49,659,264
NONCURRENT ASSETS					
Net pension asset	56,925	51,680	-	42,749	151,354
Advance to component unit	185,475	-	-	-	185,475
Capital assets:					
Nondepreciable	3,850,367	1,357,670	7,105,069	13,002	12,326,108
Depreciable, net of accumulated depreciation	38,923,625	12,796,289	10,395,699	5,033,154	67,148,767
Total noncurrent assets	43,016,392	14,205,639	17,500,768	5,088,905	79,811,704
Total assets	47,708,381	57,687,276	17,555,256	6,520,055	129,470,968
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	463,672	3,192,935	35,576	217,244	3,909,427
Accrued liabilities	228,711	339,722	3,907	42,450	614,790
Current portion - notes payable	1,046,326	-	-	-	1,046,326
Current portion - due to others	78,466	-	-	-	78,466
Current portion - termination benefits	5,975	4,525	-	17,300	27,800
Customer deposits payable	-	1,650,281	-	-	1,650,281
Due to other funds	-	1,048,997	43,926	31,212	1,124,135
Deferred revenue	-	-	5,898	-	5,898
Payable from restricted assets:					
Revenue bonds payable, current portion	240,000	-	-	-	240,000
Total current liabilities	2,063,150	6,236,460	89,307	308,206	8,697,123
NONCURRENT LIABILITIES					
Revenue bonds payable, net of current portion	1,955,000	-	-	-	1,955,000
Notes payable, net of current portion	13,959,559	-	-	-	13,959,559
Due to others - long term	266,070	-	-	-	266,070
Termination benefits, net of current portion	20,951	14,932	-	57,090	92,973
Advance from other funds	-	-	2,261,890	-	2,261,890
Total long-term liabilities	16,201,580	14,932	2,261,890	57,090	18,535,492
Total liabilities	18,264,730	6,251,392	2,351,197	365,296	27,232,615
NET ASSETS					
Invested in capital assets, net of related debt	25,573,107	14,153,959	17,500,768	5,046,156	62,273,990
Restricted for					
Debt service	44,733	-	-	-	44,733
Unrestricted	3,825,811	37,281,925	(2,296,709)	1,108,603	39,919,630
Total net assets	$ 29,443,651	$ 51,435,884	$ 15,204,059	$ 6,154,759	$ 102,238,353

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Charges for services	$ 10,513,032	$ 53,516,097	$ 292,462	$ 2,942,334	$ 67,263,925
Other services	70,897	885,188	33,825	61,141	1,051,051
Total operating revenues	10,583,929	54,401,285	326,287	3,003,475	68,314,976
OPERATING EXPENSES					
Personal services	2,530,159	2,252,146	80,229	1,488,913	6,351,447
Water purchases	1,911,043	-	-	-	1,911,043
Purchased power	-	26,455,365	-	-	26,455,365
Natural gas purchases	-	11,438,855	-	-	11,438,855
Other costs of operations	3,229,324	3,520,219	1,036,758	1,479,786	9,266,087
Depreciation and amortization	1,670,888	660,182	167,133	465,453	2,963,656
Total operating expenses	9,341,414	44,326,767	1,284,120	3,434,152	58,386,453
Operating income (loss)	1,242,515	10,074,518	(957,833)	(430,677)	9,928,523
NONOPERATING INCOME (EXPENSES)					
Intergovernmental	-	33,600	959,354	-	992,954
Interest income	11,251	138,823	-	6,113	156,187
Interest expense	(687,645)	-	-	-	(687,645)
Total nonoperating income (expenses)	(676,394)	172,423	959,354	6,113	461,496
Income (loss) before contributions and transfers	566,121	10,246,941	1,521	(424,564)	10,390,019
CAPITAL CONTRIBUTIONS	-	21,772	-	21,369	43,141
TRANSFERS					
Transfers out	(80,660)	(8,192,641)	-	-	(8,273,301)
Transfers in	-	-	2,089,279	73,060	2,162,339
Total transfers	(80,660)	(8,192,641)	2,089,279	73,060	(6,110,962)
Change in net assets	485,461	2,076,072	2,090,800	(330,135)	4,322,198
NET ASSETS, beginning of year	28,958,190	49,359,812	13,113,259	6,484,894	97,916,155
NET ASSETS, end of year	$ 29,443,651	$ 51,435,884	$ 15,204,059	$ 6,154,759	$ 102,238,353

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ 9,945,153	$ 54,426,355	$ 326,953	$ 2,969,301	$ 67,667,762
Payments to suppliers	(4,932,517)	(41,574,019)	(2,403,365)	(1,395,740)	(50,305,641)
Payments to employees	(2,528,935)	(2,250,879)	(76,322)	(1,436,452)	(6,292,588)
Net cash provided by (used in) operating activities	2,483,701	10,601,457	(2,152,734)	137,109	11,069,533
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental revenue	-	33,600	1,190,377	-	1,223,977
Transfers out	(80,660)	(8,192,641)	-	-	(8,273,301)
Transfers in	-	-	2,089,279	73,060	2,162,339
Net cash provided by (used in) noncapital financing activities	(80,660)	(8,159,041)	3,279,656	73,060	(4,886,985)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(435,977)	(460,941)	(1,392,421)	(666,178)	(2,955,517)
Principal paid on notes payable, revenue bonds and intergovernmental agreement	(1,311,914)	-	-	-	(1,311,914)
Interest paid	(702,354)	-	-	-	(702,354)
Net cash used in capital and related financing activities	(2,450,245)	(460,941)	(1,392,421)	(666,178)	(4,969,785)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(10,459)	(5,138,052)	-	-	(5,148,511)
Interest and dividends received	11,251	149,152	-	6,113	166,516
Net cash provided by (used in) investing activities	792	(2,071,670)	-	6,113	(2,064,765)
Change in cash and cash equivalents	(46,412)	(90,195)	(265,499)	(449,896)	(852,002)
Cash and cash equivalents:					
Beginning of year	180,725	384,232	270,599	869,927	1,705,483
End of year	$ 134,313	$ 294,037	$ 5,100	$ 420,031	$ 853,481
Classified as:					
Cash and cash equivalents	$ -	$ 96,947	$ 5,100	$ 420,031	$ 522,078
Restricted assets, cash	134,313	197,090	-	-	331,403
	$ 134,313	$ 294,037	$ 5,100	$ 420,031	$ 853,481

(Continued)

CITY OF COVINGTON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ 1,242,515	$ 10,074,518	$ (957,833)	$ (430,677)	$ 9,928,523
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,670,888	660,182	167,133	465,453	2,963,656
Changes in assets and liabilities:					
(Increase) in accounts receivable	(245,757)	(258,524)	(5,232)	(1,548)	(511,061)
(Increase) in due from Newton County	(10,793)	-	-	-	(10,793)
(Increase) decrease in inventories	25,680	104,155	(41,112)	-	88,723
(Increase) decrease in due from other funds	(360,690)	-	90	(52,241)	(412,841)
(Increase) decrease in prepaids and other assets	5,238	(2,185)	(674)	(191)	2,188
(Increase) decrease in due from other governments	(21,536)	219,233	-	15,865	213,562
Decrease in net pension asset	29,252	29,839	-	27,124	86,215
Increase (decrease) in accounts payable	146,595	(312,902)	(513,829)	57,113	(623,023)
Increase (decrease) in accrued liabilities	(24,617)	3,323	3,907	(21,929)	(39,316)
Increase in termination benefits	26,926	19,457	-	74,390	120,773
Increase in deferred revenues	-	-	5,898	-	5,898
Increase in customer deposits	-	64,361	-	-	64,361
Increase (decrease) in due to other funds and advances	-	-	(811,082)	3,750	(807,332)
Net cash provided by (used in) operating activities	$ 2,483,701	$ 10,601,457	$ (2,152,734)	$ 137,109	$ 11,069,533
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Capital asset additions contributed from other funds	$ -	$ 21,772	$ -	$ 21,369	$ 43,141
Decrease in fair value of investments	-	(10,329)	-	-	(10,329)
	$ -	$ 11,443	$ -	$ 21,369	$ 32,812

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Agency Fund - Impound Evidence	Pension Trust Fund
ASSETS		
Cash and cash equivalents	$ 236,027	$ 1,227,092
Receivables:		
Miscellaneous	-	2,868
Investments, at fair value:		
Common stock	-	11,743,695
Governmental bonds	-	9,132,380
Corporate bonds	-	2,389,751
Total investments	-	23,265,826
Total assets	236,027	24,495,786
LIABILITIES		
Due to others	236,027	648
NET ASSETS		
Held in trust for pension benefits	$ -	$ 24,495,138

A schedule of funding progress is presented on page 56.

The accompanying notes are an integral part of these financial statements.

CITY OF COVINGTON, GEORGIA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Pension Trust Fund
Additions	
Contributions:	
Employer	$ 1,800,000
	1,800,000
Investment income:	
Interest income	700,730
Net appreciation in fair value of investments	2,742,609
Total additions	5,243,339
Deductions	
Benefits paid	1,299,432
Administrative expenses	188,920
Total deductions	1,488,352
Net increase	3,754,987
Net assets available for benefits:	
Beginning of year	20,740,151
End of year	$ 24,495,138

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Covington, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the City has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. The Financial Reporting Entity

The City was incorporated in 1822 and operates under a Council/Manager form of government. The City Manager is the head of the administrative branch of government. As such, he is responsible for the day-to-day operations of city government. The legislative authority of the City is vested in the Mayor and six (6) Council members with an appointed City Manager. The City provides the following services and operations as authorized by its charter: public safety (police and fire); public works; airport; culture and recreation; planning and zoning; general administrative services; and public utilities (water, sewer, stormwater, electric, gas, and solid waste). As required by generally accepted accounting principles, these financial statements present the primary government and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational and financial relationship with the City.

The Parking Authority (the "Authority") has been included as a discretely presented component unit in the accompanying financial statements. The Authority maintains the downtown parking area of the City. The City possesses the authority to review, approve, and revise the budget and governs collection and disbursement of funds. The governing body of the Authority is also appointed by the City. The Authority is audited and included along with the primary government financial statements in accordance with Governmental Accounting Standards Board Statement No. 14. However, separate financial statements are not prepared.

The Redevelopment Authority has been included as a discretely presented component unit in the accompanying financial statements. The Redevelopment Authority was created to implement the City's Urban Redevelopment Plan. The City possesses the authority to review, approve, and revise the budget and governs collection and disbursement of funds. The governing body of the Redevelopment Authority is also appointed by the City. The Redevelopment Authority is audited and included along with the primary government financial statements in accordance with Governmental Accounting Standards Board Statement No. 14. However, separate financial statements are not prepared.

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 assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 Basis of 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 the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of 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 as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City 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 expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and investment income 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The ***General fund*** is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The ***Water and Sewer Utility fund*** accounts for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The ***Gas and Electric Utility fund*** accounts for the provision of electrical services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The ***Airport fund*** accounts for the revenues and expenses for the operation of the City's airport. Funding is provided by City appropriations, user fees and intergovernmental grants.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Additionally, the City reports the following fund types:

The ***special revenue funds*** account for revenue sources that are legally restricted to expenditure for specific purposes.

The ***capital projects fund*** accounts for the acquisition of capital assets and construction or improvement of major capital projects such as construction of new roads.

The ***agency fund*** is used to account for the collection and disbursement of impounded monies collected by the City until directed for payout by court order.

The ***Pension Trust Fund*** is used to account for the activities of the City's Employee Retirement Plan, which accumulates resources for pension benefit payments to qualified City employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function, gas and electric function and various other functions of the City. 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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services provided. 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 the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

The City followed these procedures in establishing the budgetary data reflected in the financial statements for the year ended June 30, 2011:

1. Budget requests are completed in March.

2. Proposed budgets are reviewed and prepared by the City Manager for submission to the Mayor and the City Council in May.

3. Public hearings on the proposed budget are held in June.

4. The budget is legally adopted by the Mayor and City Council prior to June 30.

5. All budget revisions or changes must be approved as required by Georgia law and administrative policy. Transfer of budgeted amounts in excess of $5,000 between departments requires the approval of the City Council. This is consistent with the legal level of budgetary control as the budget is adopted at the department level. Revisions that alter the total expenditures of any department or fund must be approved by the City Council. The City Council made several immaterial supplemental budget appropriations during the year.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting (Continued)

6. Formal budgetary integration is employed as a management control device during the year for all the governmental funds and the enterprise funds. Budgets for the enterprise funds are prepared for planning and control purposes only.

7. Budgets for the governmental funds and the enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

E. Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

For purposes of the statements of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Deposits and Investments

State statutes authorize the City to invest in obligations of the U.S. Government and agencies of corporations of the U.S. Government; obligations of any state; obligations of any political subdivision of any state; certificates of deposit or time deposits of any national state bank or savings and loan which have deposits insured by the FDIC or FSLIC; prime bankers' acceptances; repurchase agreements; and the Local Government Investment Pool of the State of Georgia ("Georgia Fund 1"). Georgia Fund 1 was created under OCGA 36-83-8 and operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal ($1 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on $1 per share. The fair value of the City's position in the pool is the same as the value of pool shares ($1 per share value). The pool is regulated by the Georgia Office of Treasury and Fiscal Services.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Deposits and Investments (Continued)

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

G. Inventory and Prepaid Items

Inventory in the proprietary funds is valued at the lower of cost or market. The City accounts for inventory on the purchase basis. Prepaid expenditures are accounted for using the consumption method. A prepaid expenditure is recognized when a cash expenditure is made for goods or services that were purchased for consumption, but not consumed as of June 30.

H. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” in the fund financial statements. Short-term interfund loans are classified as “interfund receivables/payables”. Long-term interfund loans are classified as advances.

I. Grants from Other Governments

Federal and state governmental units represent an important source of supplementary funding used to finance housing, business development employment, construction programs, capital asset additions and other activities beneficial to the community. This funding, primarily in the form of grants, is recorded in both governmental and proprietary funds. Grant contributions in the proprietary funds, which are for the purpose of construction activities, or land easement or capital asset acquisitions, are recorded as capital contributions within the statement of revenues and expenses. For all funds, a grant receivable is recorded when the City has a right to receive the related grant amounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of $5,000 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. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is calculated by offsetting interest expense incurred (from the date of borrowing until the date of completion of the project) with interest earned on investment proceeds over the same period. During the year ended June 30, 2011, no interest was capitalized.

Depreciation is provided on the straight-line method over the following estimated useful lives:

Governmental Assets	
Buildings and improvements	50 years
Furniture and fixtures	5 - 10 years
Machinery and equipment	5 - 25 years
Vehicles	10 years
Infrastructure	35 - 50 years
Business-type Assets	
Buildings and improvements	5 - 33 years
Furniture and fixtures	5 years
Machinery and equipment	3 - 25 years
Vehicles	5 - 10 years
Improvements other than buildings	5 - 50 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and deferred charges, are deferred and amortized over the life of the bonds using the straight line method, which is not materially different than the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when the employees separate from service with the City. Therefore, all sick pay is expensed when incurred. However, the City does allow for employees to accumulate earned but unused vacation and compensatory time with such time being fully vested when earned. For the City's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Equity

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010. This new standard changed the overall definitions and classifications of governmental fund balances.

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council through the adoption of a resolution. Only the City Council may modify or rescind the commitment.

- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's City Manager or his or her or their designee to assign fund balances.

- ***Unassigned*** – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Equity (Continued)

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: 1) committed, 2) assigned, and 3) unassigned.

Net Assets – Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Restricted Assets

The Water and Sewer and the Gas and Electric Utility Funds, based on certain bond covenants, are required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

P. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this $2,155,838 difference are as follows:

Capital leases payable	$	(1,597,264)
Compensated absences		(293,858)
Termination benefits		(248,415)
Accrued interest payable		(16,301)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$	(2,155,838)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense." The details of this $246,729 difference are as follows:

Capital outlay	$	1,468,602
Depreciation expense		(1,715,331)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	(246,729)

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states that "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 the governmental funds." The details of this $537,405 are as follows:

Compensated absences	$	(115,995)
Net pension obligation		(176,447)
Termination benefits		(248,415)
Accrued interest		3,452
Net adjustment to decrease *net changes in fund balance - total governmental funds* to arrive at *changes in net assets - governmental activities*	$	(537,405)

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2011, are summarized as follows:

As reported in the Statement of Net Assets:		
Primary government		
Cash and cash equivalents	$	19,185,848
Investments		42,105,865
Restricted assets:		
Cash and cash equivalents		331,403
Investments		578,890
Agency Fund - cash and cash equivalents		236,027
Pension Trust Fund		
Cash and cash equivalents		1,227,092
Investments		23,265,826
Component Units - cash and cash equivalents		169,199
	$	87,100,150
Cash deposited with financial institutions	$	29,873,678
Investment in Municipal Competitive Trust		33,960,646
Pension Trust Fund investments		23,265,826
	$	87,100,150

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit risk. State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. At June 30, 2011, the City had the following investments:

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**11 - 15**	**Rating**
Entity wide:						
Municipal Competitive Trust - Short-term	$ 21,287,322	$ 21,287,322	$ -	$ -	$ -	AAA
Municipal Competitive Trust - Intermediate	12,673,324	12,673,324	-	-	-	AAA
Certificates of deposit	8,724,109	8,724,109	-	-	-	N/A
Subtotal	42,684,755	42,684,755	-	-	-	
Pension Trust Fund:						
Common stock	11,743,695	N/A	-	-	-	N/A
Government bonds	6,618,869	553,113	4,340,121	1,128,119	597,516	AAA
Government bonds	507,300	-	-	507,300	-	AA+
Government bonds	1,344,728	154,155	1,190,573	-	-	AA
Government bonds	107,390	-	107,390	-	-	AA-
Government bonds	554,093	25,400	528,693	-	-	A
Corporate bonds	590,460	-	-	590,460	-	AA
Corporate bonds	108,257	-	108,257	-	-	AA-
Corporate bonds	227,402	-	227,402	-	-	A+
Corporate bonds	1,296,020	-	553,604	742,416	-	A
Corporate bonds	167,612	-	167,612	-	-	BBB+
Subtotal	23,265,826	732,668	7,223,652	2,968,295	597,516	
Total fair value	$ 65,950,581	$ 43,417,423	$ 7,223,652	$ 2,968,295	$ 597,516	

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2011, the City had no amounts exposed to custodial credit risk as uninsured and uncollateralized as defined by GASB pronouncements.

NOTE 4. RECEIVABLES

Accounts Receivable

Receivables as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor Governmental	Water and Sewer	Gas and Electric
Receivables:				
Taxes	$ 452,580	$ 44,247	$ -	$ -
Accounts	200,011	124,030	1,493,021	7,852,738
Intergovernmental	231,375	508,979	157,119	21,423
Gross receivables	883,966	677,256	1,650,140	7,874,161
Less: allowance for uncollectibles	(138,682)	-	(28,349)	(136,126)
Net total receivables	$ 745,284	$ 677,256	$ 1,621,791	$ 7,738,035

	Airport	Nonmajor Enterprise	Total
Receivables:			
Taxes	$ -	$ -	$ 496,827
Accounts	7,582	1,427,378	11,104,760
Intergovernmental	-	-	918,896
Gross receivables	7,582	1,427,378	12,520,483
Less: allowance for uncollectibles	-	(722,252)	(1,025,409)
Net total receivables	$ 7,582	$ 705,126	$ 11,495,074

Property Taxes

Property taxes were levied on behalf of the City by Newton County on July 6, 2010 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on July 19, 2010 and payable on or before December 20, 2010 for the fiscal year 2010 tax. Taxes not paid by January 1 are subject to property tax liens. Property tax revenues are recognized when levied to the extent they result in current receivables. The City does maintain an allowance for uncollectible property taxes. At June 30, 2011, the allowance for uncollectible property taxes was $138,682.

The tax rate levied during calendar year 2010 for the City's operations was 8.208 mills (mill equals $1 per thousand dollars of assessed value).

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,445,832	$ -	$ -	$ 1,445,832
Construction in progress	169,767	-	(139,613)	30,154
Total capital assets, not being depreciated	1,615,599	-	(139,613)	1,475,986
Capital assets, being depreciated:				
Buildings and improvements	7,805,402	94,302	-	7,899,704
Machinery and equipment	8,227,565	434,981	(12,050)	8,650,496
Furniture and fixtures	921,655	-	-	921,655
Vehicles	2,089,351	435,472	(111,218)	2,413,605
Infrastructure	31,021,093	503,847	139,613	31,664,553
Total capital assets, being depreciated	50,065,066	1,468,602	16,345	51,550,013
Less accumulated depreciation for:				
Buildings and improvements	(2,118,025)	(161,499)	-	(2,279,524)
Machinery and equipment	(5,264,408)	(522,391)	12,002	(5,774,797)
Furniture and fixtures	(902,641)	(4,625)	-	(907,266)
Vehicles	(1,491,994)	(251,443)	102,349	(1,641,088)
Infrastructure	(12,019,838)	(775,373)	-	(12,795,211)
Total accumulated depreciation	(21,796,906)	(1,715,331)	114,351	(23,397,886)
Total capital assets, being depreciated, net	28,268,160	(246,729)	130,696	28,152,127
Governmental activities capital assets, net	$ 29,883,759	$ (246,729)	$ (8,917)	$ 29,628,113

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 10,124,162	$ 723,099	$ -	$ -	$ 10,847,261
Construction in progress	6,011,926	62,724	-	(4,595,803)	1,478,847
Total capital assets, not being depreciated	16,136,088	785,823	-	(4,595,803)	12,326,108
Capital assets, being depreciated:					
Buildings	2,574,199	46,626	-	-	2,620,825
Machinery and equipment	3,249,900	48,971	-	-	3,298,871
Vehicles	3,263,045	162,125	-	-	3,425,170
Intangibles	4,397,830	-	-	-	4,397,830
Improvements other than buildings	85,939,819	1,955,113	-	4,595,803	92,490,735
Total capital assets, being depreciated	99,424,793	2,212,835	-	4,595,803	106,233,431
Less accumulated depreciation for:					
Buildings	(2,056,654)	(37,260)	-	-	(2,093,914)
Machinery and equipment	(2,590,343)	(205,403)	-	-	(2,795,746)
Vehicles	(3,023,737)	(141,421)	-	-	(3,165,158)
Intangibles	(212,163)	(121,538)	-	-	(333,701)
Improvements other than buildings	(28,238,111)	(2,458,034)	-	-	(30,696,145)
Total accumulated depreciation	(36,121,008)	(2,963,656)	-	-	(39,084,664)
Total capital assets, being depreciated, net	63,303,785	(750,821)	-	4,595,803	67,148,767
Business-type activities activities capital assets, net	$ 79,439,873	$ 35,002	$ -	$ -	$ 79,474,875

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

Governmental activities:	
General government	$ 280,236
Public safety	496,961
Public works	936,149
Parks and recreation	1,985
Total depreciation expense - governmental activities	$ 1,715,331

NOTE 5. CAPITAL ASSETS (CONTINUED)

Business-type activities:	
Water and sewer	$ 1,670,888
Gas and electric	660,182
Airport	167,133
Stormwater	403,049
Sanitation	62,404
Total depreciation expense - business-type activities	$ 2,963,656

Component units:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 414,173	$ -	$ -	$ 414,173
Total capital assets, not being depreciated	414,173	-	-	414,173
Parking Authority assets, net	$ 414,173	$ -	$ -	$ 414,173

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 250,557	$ 215,274	$ (62,921)	$ 402,910
Total capital assets, not being depreciated	250,557	215,274	(62,921)	402,910
Redevelopment Authority assets, net	$ 250,557	$ 215,274	$ (62,921)	$ 402,910

NOTE 6. LONG-TERM DEBT

Revenue Bonds:

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The City's Water and Sewer Fund's revenue bond outstanding at June 30, 2011 is as follows:

Description	Original Amount	Interest Rate	Due Date	Amount
Wastewater treatment plant capacity expansion	$ 3,625,000	3.80%	2018	$ 2,195,000
				2,195,000
			Less current portion	(240,000)
				$ 1,955,000

NOTE 6. LONG-TERM DEBT (CONTINUED)

Revenue Bonds (Continued)

Revenue bond debt service requirements to maturity for the City's Water and Sewer Fund, including interest, are as follows:

Fiscal Year Payable	Total	Principal	Interest
2012	$ 318,850	$ 240,000	$ 78,850
2013	314,635	245,000	69,635
2014	315,135	255,000	60,135
2015	320,160	270,000	50,160
2016	319,710	280,000	39,710
2017 - 2019	957,535	905,000	52,535
	$ 2,546,025	$ 2,195,000	$ 351,025

The Water and Sewer Fund has incurred debt to the Georgia Environmental Facilities Authority (GEFA) for water and sewer system improvements. These notes are as follows at June 30, 2011:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2011
System improvements	$ 16,004,250	3.69%	2022	$ 11,728,406
System improvements	2,800,800	3.98%	2025	2,232,616
System improvements	1,124,590	4.14%	2029	1,044,863
				15,005,885
			Less current maturities	(1,046,326)
				$ 13,959,559

NOTE 6. LONG-TERM DEBT (CONTINUED)

Other Long-Term Debt

The Water and Sewer Fund's other long-term debt service requirements to maturity, including interest are as follows:

Fiscal Year Payable	Total	Principal	Interest
2012	$ 1,596,508	$ 1,046,326	$ 550,182
2013	1,596,508	1,086,048	510,460
2014	1,596,508	1,127,279	469,229
2015	1,596,508	1,170,077	426,431
2016	1,596,507	1,214,501	382,006
2017 - 2021	7,982,540	6,800,295	1,182,245
2022 - 2026	2,545,533	2,379,480	166,053
2027 - 2029	190,801	181,879	8,922
	$ 18,701,413	$ 15,005,885	$ 3,695,528

The City has entered into an agreement with the Newton County Industrial Development Authority to partially pay revenue bonds issued by the Newton County Industrial Development Authority for the creation of a wastewater treatment plant to solely serve the General Mills consumer foods manufacturing plant. The Water and Sewer Fund's other long-term liabilities are as follows at June 30, 2011:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2011
Waste water treatment plant	$ 772,830	6.25%	2015	$ 344,536
				344,536
			Less current maturities	(78,466)
				$ 266,070

NOTE 6. LONG-TERM DEBT (CONTINUED)

Other Long-Term Debt (Continued)

The Water and Sewer Fund's other long-term liabilities service requirements to maturity, including interest are as follows:

Fiscal Year Payable	Total	Principal	Interest
2012	$ 100,000	$ 78,466	$ 21,534
2013	100,000	83,371	16,629
2014	100,000	88,581	11,419
2015	100,000	94,118	5,882
	$ 400,000	$ 344,536	$ 55,464

Termination Benefits:

During the year ended June 30, 2011, the City offered its employees nearing retirement an early retirement incentive of $62.50 per month of service with the City. These amounts, if accepted, are to be paid out to the employees over 60 months. As of the end of the year, 21 employees took this option and retired early. In accordance with GASB 47, *Accounting for Termination Benefits*, the City has recorded the remaining liability owed to these retirees using the discounted present value of expected future benefit payments, including an assumption regarding no changes in future cost levels during the periods covered by the City's commitment to provide the benefits. At June 30, 2011, the City utilized a discount rate of 2% to record a total liability of $369,188.

Capital Leases:

The City has entered into lease agreements with financial institutions as lessee for financing the construction of a new fire station and the purchase of a new fire truck. The lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease term) and have been recorded at the present value of the future minimum lease payment as of the date of their inception. These leases are being serviced by general fund payments with an annual interest rate of 4.89% and 3.81%.

The following is an analysis of governmental capital assets leased under capital leases as of June 30, 2011:

Buildings	$ 1,439,150
Machinery and equipment	802,306
Less accumulated depreciation	(196,255)
Carrying value	$ 2,045,201

NOTE 6. LONG-TERM DEBT (CONTINUED)

Capital Leases: (Continued)

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, 2011:

Fiscal year ending	
2012	$ 335,139
2013	335,139
2014	317,689
2015	131,323
2016	131,323
2017 - 2021	590,954
Total minimum lease payments	1,841,567
Less amount representing interest	(244,303)
Present value of future minimum lease payments	1,597,264
Less current maturities	(278,264)
	$ 1,319,000

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Governmental activities:					
Capital leases	$ 1,615,112	$ 202,489	$ (220,337)	$ 1,597,264	$ 278,264
Compensated absences	177,863	171,593	(55,598)	293,858	293,858
Termination benefits	-	294,439	(46,024)	248,415	58,888
Governmental activity long-term liabilities	$ 1,792,975	$ 668,521	$ (321,959)	$ 2,139,537	$ 631,010
Business-type activities:					
Revenue bonds	$ 2,425,000	$ -	$ (230,000)	$ 2,195,000	$ 240,000
Notes payable	16,013,948	-	(1,008,063)	15,005,885	1,046,326
Intergovernmental agreement	418,387	-	(73,851)	344,536	78,466
Compensated absences	46,343	36,687	(8,660)	74,370	74,370
Termination benefits	-	139,001	(18,228)	120,773	27,800
Business-type activity long-term liabilities	$ 18,903,678	$ 175,688	$ (1,338,802)	$ 17,740,564	$ 1,466,962

For the governmental activities, compensated absences are liquidated by the General Fund and the Emergency Telephone Fund. Termination benefits are liquidated by the General Fund. For the business-type activities, compensated absences and termination benefits are liquidated by the Water and Sewer Utility Fund, the Gas and Electric Utility Fund, and the Sanitation Fund.

NOTE 7. PENSION PLAN

A. Plan Description

The City of Covington maintains a noncontributory single-employer defined benefit pension plan, the City of Covington Employee's Retirement Plan (“the Plan"). The Plan is administered by a board of trustees in accordance with a trust agreement between the City of Covington and the board of trustees. The board of trustees acts in the dual capacity of the administrator of the Plan and trustee of the trust fund created in accordance with the Plan and Trust Agreement. Benefit provisions and contributions are established and may be amended by the City Council.

The Plan covers all full time employees of the City and the elected officials. Employees become eligible to participate in the Plan after one year of service and those employees hired prior to July 1, 2002 are fully vested after completion of four (4) years of credited service and are entitled to a benefit computed as the sum of (i) one and one half percent (1½ %) of their Final Average Earnings multiplied by their years of Total Credited Service through December 31, 2001, plus (ii) two and one half percent (2½ %) of the average of their Final Average Earnings multiplied by their years of total credited service at retirement. Those employees hired after July 1, 2002 are fully vested after ten (10) years of credited service and are entitled to a benefit computed as two percent (2%) of their Final Average Earnings multiplied by their years of Total Credited Service at retirement. Benefit provisions are established by statute and City ordinance. The Plan provides retirement, disability and death benefits to Plan members and beneficiaries. The Plan does not issue a stand-alone financial statement.

As of January 1, 2011, the date of the most recent actuarial valuation, there were 616 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	143
Vested terminated employees not yet receiving benefits	185
Active employees	288
Total	616

As of the most recent valuation date, January 1, 2011, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded / Surplus AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2011	$ 23,797,117	$ 31,783,771	$ 7,986,654	74.9 %	$ 12,540,567	63.7 %

NOTE 7. PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2011.

B. Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the Plan are prepared using the accrual basis of accounting. The City's contributions are recognized as revenue in the period in which the contributions are due. Investment income is recognized by the Plan when earned.

Method Used to Value Investments. Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

C. Funding Policy

The City is required to contribute all amounts necessary to fund the plan, using the actuarial basis specified by the pension board. The funding policy for the Plan is to contribute an amount equal to or greater than the recommended contribution described below. Administrative costs of the Plan are financed through investment income.

The annual required contribution for the current year was determined as part of the January 1, 2010, actuarial valuation using the project unit credit actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 6.25% per year, compounded annually and net of investment expenses and (b) projected salary increases of 2.5% per year due to inflation and 1.5% per year for merit increases. The period and related method for amortizing the initial unfunded actuarial accrued liability is 40 years from 1983 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods are closed for this plan year.

NOTE 7. PENSION PLAN (CONTINUED)

D. Annual Pension Cost

The City's annual pension cost and net pension asset for 2010 and 2011 were computed as follows:

	2010	2011
Annual required contribution	$ 2,284,943	$ 1,968,699
Interest on net pension obligation	(155,113)	(97,064)
Adjustment to annual required contribution	298,957	191,027
Annual pension cost	2,428,787	2,062,662
Contributions made	1,200,000	1,800,000
Change in net pension asset	1,228,787	262,662
Net pension obligation (asset) beginning of year	(2,029,997)	(801,210)
Net pension obligation (asset) end of year	$ (801,210)	$ (538,548)
As reported in the Statement of Net Assets:		
Governmental activities		$ 387,194
Business-type activities		151,354
		$ 538,548

E. Schedule of Employer Contributions

Plan Year Ended December 31,	Actuarially Required Contribution (ARC)	Actual Pension Contribution	Percentage of ARC Contributed	Net Pension (Obligation) Asset
2011	$ 1,968,699	$ 1,800,000	91.4 %	$ 538,548
2010	2,284,943	1,200,000	52.5	801,210
2009	2,301,380	1,200,000	52.1	2,029,997
2008 *	613,877	770,000	125.4	3,361,614
2007	1,167,651	4,620,000	395.7	3,176,923
2006	1,057,785	1,325,000	125.3	85,932
2005	1,026,559	1,025,000	99.8	(223,728)

* Represents six months only

NOTE 8. INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances and advances as of June 30, 2011, are as follows:

	Due From			
Due To	General Fund	Water Fund	Gas and Electric	Airport Fund
General Fund	$ -	$ -	$ 910,603	$ -
Water Fund	2,147,172	-	138,394	-
Gas and Electric	-	-	-	43,926
Airport Fund	-	-	-	-
Nonmajor Governmental	15,680	-	-	-
Nonmajor Enterprise	285,618	-	-	-
Total	$ 2,448,470	$ -	$ 1,048,997	$ 43,926

Due To	Nonmajor Governmental	Nonmajor Enterprise	Total
General Fund	$ 1,384,699	$ -	$ 2,295,302
Water Fund	-	3,750	2,289,316
Gas and Electric	89,767	27,462	161,155
Airport Fund	20	-	20
Nonmajor Governmental	-	-	15,680
Nonmajor Enterprise	-	-	285,618
Total	$ 1,474,486	$ 31,212	$ 5,047,091

Interfund receivables and payables result from timing differences related to payroll and other year end transactions which normally clear within one to two months. Additionally, at June 30, 2011, the City's General Fund has advanced the Airport Fund $2,261,890 for airport improvements anticipated to be funded by future grant revenues.

NOTE 8. INTERFUND BALANCES AND TRANSFERS (Continued)

Interfund transfers for the year ended June 30, 2011, consisted of the following:

	Transfer To			
Transfer From	General	Airport Fund	Nonmajor Enterprise	Total
General Fund	$ -	$ 2,089,279	$ 73,060	$ 2,162,339
Nonmajor Governmental	71,739	-	-	71,739
Water Fund	80,660	-	-	80,660
Gas and Electric Fund	8,192,641	-	-	8,192,641
Total	$ 8,345,040	$ 2,089,279	$ 73,060	$ 10,507,379

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the 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 budgetary authorizations.

NOTE 9. RELATED ORGANIZATION

The City's governing body is responsible for appointing a majority of the board members of the City of Covington Housing Authority. However, the City has no further accountability for this organization.

NOTE 10. HOTEL/MOTEL LODGING TAX

The City has levied an 8% lodging tax. For the year ended June 30, 2011, $378,352 of hotel/motel tax was collected. Of the total collected, 100% was used for the promotion of tourism within the City ($194,160 to the Newton County Chamber of Commerce, $94,589 to the Covington Main Street Program, $18,003 to the Covington Tourism Association, and $71,600 to the City's General Fund).

NOTE 11. JOINT VENTURES

Northeast Georgia Regional Commission

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Northeast Georgia Regional Commission (RC) and is required to pay annual dues thereto. During its year ended June 30, 2011, the City paid $13,464 such dues. Membership in an RC is required by the Official Code of Georgia Annotated (OCGA), Section 50-8-34, which provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of a RC. Separate financial statements may be obtained from: Northeast Georgia Regional Commission, 305 Research Dr., Athens, Georgia 30605.

Industrial Development Park

For the purpose of encouraging and promoting the expansion and development of industrial and commercial facilities within the City, the City of Covington and Newton County entered into a joint agreement for the acquisition and development of an industrial park area. All revenues and expenditures are allocated on a 50/50 basis. The City's portion is included in the operations of the General Fund. Separate financial statements are not available.

Wastewater Treatment Facilities

The City and the Newton County Water and Sewer Authority have entered into an agreement for the operations and maintenance of a wastewater land application facility. The City operates the land application system and receives reimbursement for a pro rata share of the operating expenses from the Newton County Water and Sewer Authority based upon their respective effluent discharge volumes. Separate financial statements may be obtained from the Newton County Water and Sewer Authority, 11325 Brown Bridge Road, Covington, Georgia 30016.

Communication Center

The City operates a joint communication center for police, fire and emergency medical services for the City of Covington and Newton County. The center is owned and managed by the City. The County has agreed to reimburse the City for 50% of all operating costs. County reimbursements are included in intergovernmental revenues of the Emergency 911 Fund. Computerized communication equipment and emergency 911 services equipment have been contributed equally by the City and the County.

NOTE 12. OPERATING LEASES

During 1999, the City entered into a lease and a sublease agreement for a building to be used by the Georgia Department of Adult and Technical Education (the Department). The building, owned by the Newton County Industrial Development Authority (the Development Authority), is leased to the City and then subleased to the Department. The terms of the lease and the sublease are substantially identical. The lease agreements expired June 30, 2002, but are annually renewable through June 30, 2013. Lease payments by the Department are made directly to the assignee of the Development Authority. The City does not directly receive or make any of the lease payments. Accordingly, the lease payments are not reflected as revenue or expenditures in these financial statements. Remaining payments under the lease agreements as of June 30, 2011 total approximately $482,000.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City attorney, the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Agreements with the Municipal Electric Authority of Georgia

The Municipal Electric Authority of Georgia (MEAG) is a public corporation and an instrumentality of the State of Georgia created to supply electricity to local government electric distribution systems. As provided by state law, MEAG establishes rates and charges so as to produce revenues sufficient to cover its costs, including debt service, but it may not operate any of its projects for profit unless any such profits inure to the benefit of the public.

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Agreements with the Municipal Electric Authority of Georgia (Continued)

As of June 30, 2011, the City is an electric utility participant in MEAG and obligated to purchase all of its bulk power supply requirements from MEAG for a period not to exceed 50 years. The City has agreed to purchase all of its future power and energy requirements in excess of that received by the City through the Southeastern Power Administration at prices intended to cover the operating costs of the systems and to retire any debt incurred by the Authority. In the event that revenues are insufficient to cover all costs and retire the outstanding debt, each participating City has guaranteed a portion of the unpaid debt based on their individual entitlement shares of the output and services of generating units acquired or constructed by MEAG. In addition, in the event of discontinued service to a participant in default, the City would be obligated to purchase additional power subject to contractual limitations. Payments to MEAG are made monthly based on KWH usage. The total payments under these contracts amounted to $26,455,365 in 2011.

At June 30, 2011, the outstanding debt of MEAG was approximately $5.870 billion. The City's guarantee varies by individual projects undertaken by MEAG and totals approximately $266.8 million at June 30, 2011.

Agreements with the Municipal Gas Authority of Georgia

The City has entered into a contract for the purchase of wholesale natural gas supplies and related services with the Municipal Gas Authority of Georgia (MGAG) that requires the City to purchase all of its natural gas from MGAG. The gas supply contract with MGAG authorizes MGAG to establish rates and charges so as to produce revenues sufficient to cover its operating costs and retire its bonds issued to acquire long-term gas supplies for sale to its members, including the City. In the event that revenues are insufficient to cover all costs and retire bonds issued by MGAG, the City is obligated to pay its obligation share of the costs of the gas supply and related services MGAG provides to the City, which costs include amounts equal to principal and interest on MGAG's bonds. These obligations, which extend through the year 2016, are general obligations of the City to which the City's full faith, credit and taxing powers are pledged. The City's obligation to MGAG for gas supply costs are based on MGAG's costs to provide such supply, including bonds issued to purchase long-term rights to bulk supply. Payments to MGAG are made monthly based on actual usage. The total payments under these contracts amounted to $11,438,855 in 2011.

At June 30, 2011, the outstanding debt of MGAG was approximately $279.4 million. The City's guarantee varies by individual projects undertaken by MGAG and totals approximately $17.1 million at June 30, 2011.

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contractual Commitments:

In addition to the liabilities enumerated in the balance sheet at June 30, 2011, the City has contractual commitments on uncompleted construction contracts of approximately $191,000.

NOTE 14. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City maintains commercial insurance coverage covering each of the above risks of loss. Management believes that the coverage is adequate to preclude any significant uninsured risk exposure to the City. It is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed for workers' compensation claims up to a maximum claim of $400,000. The City does purchase commercial insurance for claims in excess of this amount for workers' compensation. As of June 30, 2011, the City has set aside approximately $1.5 million in reserves for potential future workers' compensation claims.

Settled claims in the past three years have not exceeded the coverages.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COVINGTON, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

City of Covington Employee's Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2011	$ 23,797,117	$ 31,783,771	$ 7,986,654	74.9 %	$ 12,540,567	63.7 %
1/1/2010	21,216,297	29,678,416	8,462,119	71.5	13,342,363	63.4
1/1/2009	18,725,076	28,366,976	9,641,900	66.0	12,209,202	79.0
1/1/2008	20,948,042	26,236,331	5,288,289	79.8	12,301,832	43.0
1/1/2007	16,718,544	19,322,914	2,604,370	86.5	13,301,832	19.6
1/1/2006	15,227,614	18,422,471	3,194,857	82.7	11,835,105	27.0
1/1/2005	14,316,193	17,227,561	2,911,368	83.1	11,651,226	25.0
1/1/2004	13,770,238	15,851,269	2,081,031	86.9	11,931,772	17.4
1/1/2003	12,918,745	14,185,343	1,266,598	91.1	10,358,574	12.2

The assumptions used in the preparation of the above schedule are disclosed in Note 7 to the financial statements.

COMBINING STATEMENTS

AND SCHEDULES

CITY OF COVINGTON, GEORGIA
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The **Emergency Telephone Fund** accounts for revenue sources and expenditures that are legally restricted to expenditures for the Emergency 911 system.

The **Hotel/Motel Tax Fund** accounts for the Hotel/Motel accommodation excise tax receipts and distributions. These funds are designated for the promotion of tourism and cultural development.

The **Confiscated Assets Fund** accounts for the collection and use of funds confiscated from convicted offenders.

The **Neighborhood Stabilization Fund** accounts for the revenues and expenditures of a federal and state grant focusing on neighborhood development.

The **Cemetery Trust Fund** is used to account for restricted funds to be used only for the annual maintenance of the City's cemetery.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The **SPLOST Fund** accounts for the capital projects within the City from resources provided by the 2009 special Newton County one percent sales and use tax.

CITY OF COVINGTON, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Funds				
ASSETS	**Emergency Telephone Fund**	**Hotel/ Motel Tax Fund**	**Confiscated Assets Fund**	**Neighborhood Stabilization Fund**	**Cemetery Trust Fund**
Cash and cash equivalents	$ 50	$ -	$ 1,003,131	$ 16,605	$ 93,616
Investments	-	-	-	-	81,514
Taxes receivable	-	44,247	-	-	-
Accounts receivable	117,722	-	3,308	-	-
Due from other governments	411,384	-	-	-	-
Due from other funds	-	15,605	-	-	75
Prepaid expenditures	21,484	-	-	-	-
Total assets	$ 550,640	$ 59,852	$ 1,006,439	$ 16,605	$ 175,205
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 17,178	$ 59,852	$ 7,168	$ 251	$ -
Accrued liabilities	30,507	-	-	-	-
Deferred revenues	409,875	-	-	-	-
Due to other funds	141,286	-	1,318,096	-	20
Total liabilities	598,846	59,852	1,325,264	251	20
FUND BALANCES (DEFICIT)					
Nonspendable:					
Prepaid expenditures	21,484	-	-	-	-
Restricted for:					
Cemetery maintenance	-	-	-	-	175,185
Other capital projects	-	-	-	16,354	-
Unassigned:	(69,690)	-	(318,825)	-	-
Total fund balances (deficit)	(48,206)	-	(318,825)	16,354	175,185
Total liabilities and fund balances	$ 550,640	$ 59,852	$ 1,006,439	$ 16,605	$ 175,205

Capital Projects SPLOST Fund	Totals
$ -	$ 1,113,402
-	81,514
-	44,247
3,000	124,030
97,595	508,979
-	15,680
-	21,484
$ 100,595	$ 1,909,336
$ 3,200	$ 87,649
-	30,507
-	409,875
15,084	1,474,486
18,284	2,002,517
-	21,484
-	175,185
82,311	98,665
-	(388,515)
82,311	(93,181)
$ 100,595	$ 1,909,336

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	Emergency Telephone Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Neighborhood Stabilization Fund	Cemetery Trust Fund
Revenues:					
Other taxes	$ -	$ 378,352	$ -	$ -	$ -
Charges for services	1,297,786	-	-	12,979	-
Intergovernmental	-	-	-	78,071	-
Fines and forfeitures	-	-	373,489	-	-
Interest revenue	-	-	1,273	-	415
Total revenues	1,297,786	378,352	374,762	91,050	415
Expenditures:					
Public safety	1,791,794	-	895,577	-	-
Housing and development	-	306,752	-	83,007	-
Capital outlay	-	-	-	-	-
Total expenditures	1,791,794	306,752	895,577	83,007	-
Excess (deficiency) of revenues over (under) expenditures	(494,008)	71,600	(520,815)	8,043	415
Other financing (uses)					
Transfers out	-	(71,600)	-	-	(139)
Total other financing (uses)	-	(71,600)	-	-	(139)
Net change in fund balances	(494,008)	-	(520,815)	8,043	276
Fund balances, beginning of year	445,802	-	201,990	8,311	174,909
Fund balances (deficit), end of year	$ (48,206)	$ -	$ (318,825)	$ 16,354	$ 175,185

Capital Projects SPLOST Fund	Totals
$ -	$ 378,352
-	1,310,765
189,359	267,430
-	373,489
-	1,688
189,359	2,331,724
-	2,687,371
-	389,759
189,359	189,359
189,359	3,266,489
-	(934,765)
-	(71,739)
-	(71,739)
-	(1,006,504)
82,311	913,323
$ 82,311	$ (93,181)

CITY OF COVINGTON, GEORGIA
EMERGENCY TELEPHONE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2011

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ 2,030,851	$ 2,030,851	$ 1,297,786	$ (733,065)
EXPENDITURES				
Public safety	2,785,130	2,785,130	1,791,794	993,336
Total expenditures	2,785,130	2,785,130	1,791,794	993,336
Deficiency of revenues (under) expenditures	(754,279)	(754,279)	(494,008)	260,271
OTHER FINANCING SOURCES				
Transfers in	754,279	754,279	-	(754,279)
Total other financing sources	754,279	754,279	-	(754,279)
Net change in fund balances	-	-	(494,008)	(494,008)
FUND BALANCES, beginning of year	445,802	445,802	445,802	-
FUND BALANCES (DEFICIT), end of year	$ 445,802	$ 445,802	$ (48,206)	$ (494,008)

CITY OF COVINGTON, GEORGIA
HOTEL/MOTEL TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Other taxes	$ 260,000	$ 399,597	$ 378,352	$ (21,245)
EXPENDITURES				
Housing and development	211,500	351,097	306,752	44,345
Total expenditures	211,500	351,097	306,752	44,345
Excess of revenues over expenditures	48,500	48,500	71,600	23,100
OTHER FINANCING USES				
Transfers out	(48,500)	(48,500)	(71,600)	(23,100)
Total other financing uses	(48,500)	(48,500)	(71,600)	(23,100)
Net change in fund balances	-	-	-	-
FUND BALANCES, beginning of year	-	-	-	-
FUND BALANCES, end of year	$ -	$ -	$ -	$ -

CITY OF COVINGTON, GEORGIA
CONFISCATED ASSETS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2011

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Fines and forfeitures	$ 362,110	$ 821,951	$ 373,489	$ (448,462)
Interest	350	350	1,273	923
Total revenues	362,460	822,301	374,762	(447,539)
EXPENDITURES				
Public safety	362,460	822,301	895,577	(73,276)
Total expenditures	362,460	822,301	895,577	(73,276)
Net change in fund balances	-	-	(520,815)	(520,815)
FUND BALANCES, beginning of year	201,990	201,990	201,990	-
FUND BALANCES (DEFICIT), end of year	$ 201,990	$ 201,990	$ (318,825)	$ (520,815)

CITY OF COVINGTON, GEORGIA
NEIGHBORHOOD STABILIZATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2011

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ -	$ 14,220	$ 12,979	$ (1,241)
Intergovernmental	-	60,780	78,071	17,291
Total revenues	-	75,000	91,050	16,050
EXPENDITURES				
Housing and development	-	75,000	83,007	(8,007)
Total expenditures	-	75,000	83,007	(8,007)
Net change in fund balances	-	-	8,043	8,043
FUND BALANCES, beginning of year	8,311	8,311	8,311	-
FUND BALANCES, end of year	$ 8,311	$ 8,311	$ 16,354	$ 8,043

CITY OF COVINGTON, GEORGIA
CEMETERY TRUST FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Interest revenues	$ 1,553	$ 1,553	$ 415	$ (1,138)
Total revenues	1,553	1,553	415	(1,138)
EXPENDITURES				
Public works	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over expenditures	1,553	1,553	415	(1,138)
OTHER FINANCING USES				
Transfers out	-	-	(139)	(139)
Total other financing uses	-	-	(139)	(139)
Net change in fund balances	1,553	1,553	276	(1,277)
FUND BALANCES, beginning of year	174,909	174,909	174,909	-
FUND BALANCES, end of year	$ 176,462	$ 176,462	$ 175,185	$ (1,277)

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Project Description	Original Estimated Cost	Revised Estimated Cost	Expenditures		
			Prior Years	Current Year	Total
Roads, streets, bridges and transportation improvements and equipment:	$ 3,693,386	$ 3,693,386	$ 245,763	$ 189,359	$ 435,122
	$ 3,693,386	$ 3,693,386	$ 245,763	$ 189,359	$ 435,122

CITY OF COVINGTON, GEORGIA
NONMAJOR ENTERPRISE FUNDS

Operations of enterprise funds are designed to be self-supporting.

The **Stormwater Utility Fund** accounts for revenues and expenses relating to the stormwater services provided to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The **Sanitation Fund** is used to account for the financing, construction, operation and maintenance of the solid waste services provided to the residents of the City and some residents of Newton County. All activities necessary to provide such services are accounted for in this fund.

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2011

	Stormwater Utility Fund	Sanitation Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash	$ 420,031	$ -	$ 420,031
Accounts receivable, net of allowances	372,208	332,918	705,126
Due from other funds	285,618	-	285,618
Prepaid expenses	4,348	16,027	20,375
Total current assets	1,082,205	348,945	1,431,150
NONCURRENT ASSETS			
Net pension asset	3,859	38,890	42,749
Capital assets:			
Nondepreciable	-	13,002	13,002
Depreciable, net of accumulated depreciation	4,758,757	274,397	5,033,154
Total capital assets	4,758,757	287,399	5,046,156
Total noncurrent assets	4,762,616	326,289	5,088,905
Total assets	5,844,821	675,234	6,520,055
LIABILITIES			
Accounts payable	6,265	210,979	217,244
Accrued liabilities	4,631	37,819	42,450
Current portion - termination benefits	-	17,300	17,300
Due to other funds	11,143	20,069	31,212
Total current liabilities	22,039	286,167	308,206
LONG-TERM LIABILITIES			
Termination benefits, net of current portion	-	57,090	57,090
Total long-term liabilities	-	57,090	57,090
Total liabilities	22,039	343,257	365,296
NET ASSETS			
Invested in capital assets	4,758,757	287,399	5,046,156
Unrestricted	1,064,025	44,578	1,108,603
Total net assets	$ 5,822,782	$ 331,977	$ 6,154,759

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Stormwater Utility Fund	Sanitation Fund	Totals
OPERATING REVENUES			
Charges for services	$ 677,627	$ 2,264,707	$ 2,942,334
Other services	-	61,141	61,141
Total operating revenues	677,627	2,325,848	3,003,475
OPERATING EXPENSES			
Personal services	218,785	1,270,128	1,488,913
Other costs of operations	235,889	1,243,897	1,479,786
Depreciation	403,049	62,404	465,453
Total operating expenses	857,723	2,576,429	3,434,152
Operating loss	(180,096)	(250,581)	(430,677)
NONOPERATING REVENUES			
Interest revenue	6,113	-	6,113
Total nonoperating revenues	6,113	-	6,113
Loss before capital contributions and transfers	(173,983)	(250,581)	(424,564)
CAPITAL CONTRIBUTIONS	21,369	-	21,369
TRANSFERS			
Transfers in	-	73,060	73,060
Total transfers	-	73,060	73,060
Change in net assets	(152,614)	(177,521)	(330,135)
NET ASSETS, beginning of year	5,975,396	509,498	6,484,894
NET ASSETS, end of year	$ 5,822,782	$ 331,977	$ 6,154,759

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	Stormwater Utility Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 655,356	$ 2,313,945	$ 2,969,301
Payments to suppliers	(325,826)	(1,069,914)	(1,395,740)
Payments to employees	(222,033)	(1,214,419)	(1,436,452)
Net cash provided by operating activities	107,497	29,612	137,109
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	73,060	73,060
Net cash provided by noncapital financing activities	-	73,060	73,060
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(543,178)	(123,000)	(666,178)
Net cash (used in) capital and related financing activities	(543,178)	(123,000)	(666,178)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	6,113	-	6,113
Net cash provided by investing activities	6,113	-	6,113
Change in cash and cash equivalents	(429,568)	(20,328)	(449,896)
Cash and cash equivalents:			
Beginning of year	849,599	20,328	869,927
End of year	$ 420,031	$ -	$ 420,031

(Continued)

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	Stormwater Utility Fund	Sanitation Fund	Totals
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (180,096)	$ (250,581)	$ (430,677)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	403,049	62,404	465,453
(Increase) decrease in accounts receivable	10,355	(11,903)	(1,548)
Decrease in due from other funds	(52,241)	-	(52,241)
(Increase) decrease in prepaids and other assets	(3,128)	2,937	(191)
Decrease in net pension asset	3,128	23,996	27,124
Decrease in due from other governments	15,865	-	15,865
Increase (decrease) in accounts payable	(89,937)	147,050	57,113
Decrease in accrued liabilities	(3,248)	(18,681)	(21,929)
Increase in termination benefits	-	74,390	74,390
Increase in due to other funds	3,750	-	3,750
Net cash provided by operating activities	$ 107,497	$ 29,612	$ 137,109
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Capital asset additions contributed from other funds	$ 21,369	$ -	$ 21,369
Total noncash investing, capital and financing activities	$ 21,369	$ -	$ 21,369

COMPONENT UNITS

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET ASSETS
COMPONENT UNITS

JUNE 30, 2011

	Parking Authority	Redevelopment Authority
ASSETS		
Cash and cash equivalents	$ 115,743	$ 53,456
Capital assets:		
Nondepreciable	414,173	402,910
Total assets	529,916	456,366
LIABILITIES		
Accounts payable	-	13,770
Due to primary government	250	453,867
Deferred revenues	100,869	-
Total liabilities	101,119	467,637
NET ASSETS		
Unrestricted	428,797	(11,271)
Total fund balance	$ 428,797	$ (11,271)

CITY OF COVINGTON, GEORGIA, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2011

	Parking Authority	Redevelopment Authority
Revenues		
Other revenues	$ 2,346	$ 1,862
Interest	21	19
Total revenues	2,367	1,881
Expenses	466	15,699
Net change in net assets	1,901	(13,818)
Net Assets, July 1	426,896	2,547
Net Assets, June 30	$ 428,797	$ (11,271)

COMPLIANCE SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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

To the Honorable Mayor and Members
of the City Council
Covington, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Georgia, as of and for the year ended June 30, 2011, which collectively comprise the City of Covington, Georgia's basic financial statements and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Covington, Georgia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Covington, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Covington, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Georgia's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Georgia's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Covington, Georgia in a separate letter dated November 22, 2011.

This report is intended solely for the information and use of management, the City Council, others within the City, federal awarding agencies and pass-through entities, and the Georgia Department of Audits and Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Macon, Georgia
November 22, 2011

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members
of the City Council
Covington, Georgia

Compliance

We have audited the City of Covington, Georgia, Georgia's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City 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, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the management of the City, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Macon, Georgia
November 22, 2011

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Expenditures
U.S. Department of Housing and Urban Development			
(Passed through Georgia Department of Community Affairs)			
Neighborhood Stabilization Program	14.228	08-NS-5057	$ 83,493
Total U.S. Department of Housing and Urban Development			83,493
U.S Department of Energy			
(Passed through Georgia Environmental Finance Authority)			
Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	ECCBG-LOCGOV2010-116	56,791
Total U.S. Department of Homeland Security			56,791
U.S. Department of Transportation			
(Passed through Georgia Department of Transportation)			
Airport Improvement Program Grant	20.106	AP011-9017-17(217)	811,081
Total U.S. Department of Transportation			811,081
Total Expenditures of Federal Awards			$ 951,365

CITY OF COVINGTON, GEORGIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.

Measurement Focus

The determination of when an award is expended is based on when the activity related to the award occurred.

Program Type Determination

Type A programs are defined as federal programs with federal expenditures exceeding the larger of $300,000 or three percent of total federal expenditures. The threshold of $300,000 was used in distinguishing between Type A and Type B programs.

Method of Major Program Selection

The risk based approach was used in the selection of federal programs to be tested as major programs. The City did not qualify as a low-risk auditee for the fiscal year ended June 30, 2011.

Amount Provided to Subrecipients

During 2011, the City made disbursements to subrecipients in the amount of $36,059 from the Neighborhood Stabilization Program, CFDA 14.228.

CITY OF COVINGTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	____yes __X__ no
Significant deficiencies identified not considered to be material weaknesses?	____yes __X__ none reported
Noncompliance material to financial statements noted?	____yes __X__ no

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	____ yes __X__ no
Significant deficiencies identified not considered to be material weaknesses?	____ yes __X__ none reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	____ yes __X__ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	____ yes __X__ no

CITY OF COVINGTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

CITY OF COVINGTON, GEORGIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

STATUS OF PRIOR YEAR AUDIT FINDINGS

None reported