CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2012

CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, 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 57) 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
December 10, 2012

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, 2012. 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 $160,285,391 (*net assets)*. Of this amount, $66,493,402 (*unrestricted net assets)* may be used to meet the City's ongoing obligations.
- The City's total net assets increased by $1,791,611, due mostly to income from the business-type activities.
- As of the close of June 30, 2012, the City's governmental funds reported combined ending fund balances of $28,918,628 an increase of $1,195,227 from the prior year. Approximately seventy percent (70%) of this total amount, or $20,164,429, 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 $20,164,429 or one hundred twenty-one percent (121%) of general fund expenditures.
- The City's revenues for the year ended June 30, 2012 total $82,332,358. Of this amount, $67,844,695, or eighty-two percent (82%), was generated from program revenues. Additionally, $4,601,367, or six percent (6%) was generated from operating and capital grants. The balance of $9,886,296 or twelve percent (12%), was generated from general revenues.
- The City's expenses for the year ended 2012 total $80,540,747. Of this amount, $19,488,047, or twenty-four percent (24%), was consumed by governmental activities. The balance of $61,052,700, or seventy-six percent (76%), was consumed by 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 56 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 58 through 71 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, 2012 and June 30, 2011.

The City of Covington's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 30,682,511	$ 29,770,856	$ 46,727,651	$ 46,610,068	$ 77,410,162	$ 76,380,924
Capital assets	30,149,800	29,628,113	78,359,943	79,474,875	108,509,743	109,102,988
Total assets	60,832,311	59,398,969	125,087,594	126,084,943	185,919,905	185,483,912
Long-term liabilities outstanding	1,998,354	2,139,537	16,390,191	17,740,564	18,388,545	19,880,101
Other liabilities	902,498	1,004,005	6,343,471	6,106,026	7,245,969	7,110,031
Total liabilities	2,900,852	3,143,542	22,733,662	23,846,590	25,634,514	26,990,132
Net assets:						
Invested in capital assets, net of related debt	28,830,800	28,030,849	62,445,319	62,273,990	91,276,119	90,304,839
Restricted	2,378,745	273,850	137,125	44,733	2,515,870	318,583
Unrestricted	26,721,914	27,950,728	39,771,488	39,919,630	66,493,402	67,870,358
Total net assets	$ 57,931,459	$ 56,255,427	$ 102,353,932	$ 102,238,353	$ 160,285,391	$ 158,493,780

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 $160,285,391 and $158,493,780 at June 30, 2012 and June 30, 2011, 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, $2,515,870 or 2% represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets, $66,493,402 or 42%, is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of June 30, 2012 and June 30, 2011, 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 $1,676,032 as of June 30, 2012 and increased the City's net assets by $111,465 as of June 30, 2011. As illustrated on the following table, taxes constitute the largest revenue source at $8,730,305 or fifty-seven percent (57%) of total revenue as of June 30, 2012 and $8,705,877 or sixty-four percent (64%) as of June 30, 2011.

City of Covington's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues						
Charges for services	$ 2,301,435	$ 2,644,079	$ 65,543,260	$ 68,314,975	$ 67,844,695	$ 70,959,054
Operating grants and contributions	774,263	918,233	869,669	992,954	1,643,932	1,911,187
Capital grants and contributions	2,514,435	227,926	443,000	-	2,957,435	227,926
General revenues:						
Taxes	8,730,305	8,705,877	-	-	8,730,305	8,705,877
Franchise fees	844,411	846,414	-	-	844,411	846,414
Investment earnings	126,506	171,520	148,041	156,187	274,547	327,707
Gain on sale	12,297	-	24,736	-	37,033	-
Total revenues	15,303,652	13,514,049	67,028,706	69,464,116	82,332,358	82,978,165
Expenses:						
General government	1,388,715	1,170,298	-	-	1,388,715	1,170,298
Judicial	519,766	510,845	-	-	519,766	510,845
Public safety	12,609,150	12,532,174	-	-	12,609,150	12,532,174
Public works	3,197,602	3,566,650	-	-	3,197,602	3,566,650
Parks and recreation	502,852	485,663	-	-	502,852	485,663
Housing and development	1,216,749	1,145,774	-	-	1,216,749	1,145,774
Interest and fiscal charges	53,213	59,001	-	-	53,213	59,001
Water and sewer	-	-	10,294,522	10,029,059	10,294,522	10,029,059
Gas and electric	-	-	46,237,455	44,326,766	46,237,455	44,326,766
Stormwater	-	-	859,420	857,723	859,420	857,723
Sanitation	-	-	2,603,293	2,576,429	2,603,293	2,576,429
Airport	-	-	1,058,010	1,284,120	1,058,010	1,284,120
Total expenses	19,488,047	19,470,405	61,052,700	59,074,097	80,540,747	78,544,502
Increase (decrease) in net assets before transfers	(4,184,395)	(5,956,356)	5,976,006	10,390,019	1,791,611	4,433,663
Transfers	5,860,427	6,067,821	(5,860,427)	(6,067,821)	-	-
Change in net assets	1,676,032	111,465	115,579	4,322,198	1,791,611	4,433,663
Net assets, beginning	56,255,427	56,143,962	102,238,353	97,916,155	158,493,780	154,060,117
Net assets, ending	$ 57,931,459	$ 56,255,427	$ 102,353,932	$ 102,238,353	$ 160,285,391	$ 158,493,780

Business-type activities. The City's business-type activities increased the City's net assets by $115,579 and $4,322,198 of June 30, 2012 and June 30, 2011, 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, 2012, total fund balance of the general fund was $26,489,051. 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 159 percent of the total general fund expenditures. Transfers in from proprietary funds to supplement the general fund were $5,011,340 for the year ended June 30, 2012, which represents 30 percent of total fund expenditures.

The fund balance of the City's General fund decreased by $1,327,531 during fiscal year 2012 due to a transfer of assets to the special revenue 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 2012 amounted to $4,258,013; those for the Gas and Electric Fund amounted to $36,733,938 and those for the Airport Fund amounted to ($2,280,184). The total change in net assets for each fund was an increase of $1,118,223, $(820,863), and $0 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, 2012 amounted to $108,509,743 (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.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 1,464,832	$ 1,445,832	$ 10,847,561	$ 10,847,261	$ 12,312,393	$ 12,293,093
Buildings	5,562,103	5,620,180	500,143	526,911	6,062,246	6,147,091
Machinery and equipment	2,193,571	2,875,699	466,856	503,125	2,660,427	3,378,824
Furniture and fixtures	9,764	14,389	-	-	9,764	14,389
Vehicles	1,512,868	772,517	403,797	260,012	1,916,665	1,032,529
Intangibles	-	-	3,942,591	4,064,129	3,942,591	4,064,129
Improvements other than buildings	19,342,104	18,869,342	61,666,149	61,794,590	81,008,253	80,663,932
Construction in progress	64,558	30,154	532,846	1,478,847	597,404	1,509,001
Total	$ 30,149,800	$ 29,628,113	$ 78,359,943	$ 79,474,875	$ 108,509,743	$ 109,102,988

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, 2012, the City had total bonded debt outstanding of $1,955,000. Of this amount, none is debt backed by the full faith and credit of the City. The City's bond debt is secured solely by specific revenue sources (i.e., revenue bonds). The City also had total notes and capital leases payable of $15,278,624 for governmental lease purchases and utility improvements.

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, 2012 – June 30, 2013 Budget:

The Mayor and Council of the City of Covington considered many factors when approving the City's July 1, 2012 – June 30, 2013 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 Sewerage 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, 2012.

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, 2012

ASSETS	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Parking Authority	Redevelopment Authority
Cash and cash equivalents	$ 21,094,828	$ 659,248	$ 21,754,076	$ 112,572	$ 10,912
Investments	7,520,931	33,440,667	40,961,598	-	-
Taxes receivable	283,474	-	283,474	-	-
Accounts receivable, net of allowances	433,232	9,144,673	9,577,905	-	-
Due from other governments	935,448	132,867	1,068,315	-	-
Due from primary government	-	-	-	-	41,063
Advance to component units	333,261	185,475	518,736	-	-
Due from Newton County	-	79,519	79,519	-	-
Internal balances	(804,763)	804,763	-	-	-
Inventories	76,529	991,308	1,067,837	-	-
Prepaid expenses	367,177	185,015	552,192	-	-
Restricted assets:					
Cash and cash equivalents	-	342,721	342,721	-	-
Investments	-	583,501	583,501	-	-
Net pension asset	442,394	177,894	620,288	-	-
Capital assets:					
Nondepreciable	1,529,390	11,380,407	12,909,797	414,173	408,058
Depreciable, net of accumulated depreciation	28,620,410	66,979,536	95,599,946	-	49,483
Total assets	60,832,311	125,087,594	185,919,905	526,745	509,516
LIABILITIES					
Accounts payable	550,139	4,059,450	4,609,589	-	2,301
Accrued liabilities	352,359	506,042	858,401	-	-
Unearned revenues	-	5,587	5,587	98,523	-
Due to primary government	-	-	-	250	518,486
Due to component unit	-	41,063	41,063	-	-
Customer deposits payable	-	1,731,329	1,731,329	-	-
Due to others due within one year	-	83,371	83,371	-	-
Due to others due in more than one year	-	182,699	182,699	-	-
Capital leases due within one year	287,950	-	287,950	-	-
Capital leases due in more than one year	1,031,050	-	1,031,050	-	-
Notes payable due within one year	-	1,084,258	1,084,258	-	-
Notes payable due in more than one year	-	12,875,366	12,875,366	-	-
Bonds payable due within one year	-	245,000	245,000	-	-
Bonds payable due in more than one year	-	1,710,000	1,710,000	-	-
Compensated absences due within one year	86,256	17,107	103,363	-	-
Compensated absences due in more than one year	383,193	97,236	480,429		
Termination benefits due within one year	62,688	27,800	90,488	-	-
Termination benefits due in more than one year	147,217	67,354	214,571	-	-
Total liabilities	2,900,852	22,733,662	25,634,514	98,773	520,787
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt	28,830,800	62,445,319	91,276,119	414,173	457,541
Restricted for:					
Debt service	-	41,919	41,919	-	-
Energy efficiency grant	-	95,206	95,206	-	-
Law enforcement	700,226	-	700,226	-	-
Cemetery maintenance	175,856	-	175,856	-	-
Other capital projects	1,502,663	-	1,502,663	-	-
Unrestricted	26,721,914	39,771,488	66,493,402	13,799	(468,812)
Total net assets (deficit)	$ 57,931,459	$ 102,353,932	$ 160,285,391	$ 427,972	$ (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, 2012

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	Net (Expenses) Revenues and Changes in Net Assets: Business-type Activities	Net (Expenses) Revenues and Changes in Net Assets: Total	Component Units: Parking Authority	Component Units: Redevelopment Authority
Primary government:									
Governmental activities:									
General government	$ 1,388,715	$ 629,737	$ -	$ -	$ (758,978)	$ -	$ (758,978)	$ -	$ -
Judicial	519,766	-	-	-	(519,766)	-	(519,766)	-	-
Public safety	12,609,150	1,671,698	384,302	-	(10,553,150)	-	(10,553,150)	-	-
Public works	3,197,602	-	-	2,514,435	(683,167)	-	(683,167)	-	-
Parks and recreation	502,852	-	310,904	-	(191,948)	-	(191,948)	-	-
Housing and development	1,216,749	-	79,057	-	(1,137,692)	-	(1,137,692)	-	-
Interest on long-term debt	53,213	-	-	-	(53,213)	-	(53,213)	-	-
Total governmental activities	19,488,047	2,301,435	774,263	2,514,435	(13,897,914)	-	(13,897,914)	-	-
Business-type activities:									
Water and sewer	10,294,522	10,949,177	-	443,000	-	1,097,655	1,097,655	-	-
Gas	11,080,879	13,838,211	869,669	-	-	3,627,001	3,627,001	-	-
Electric	35,156,576	37,137,783	-	-	-	1,981,207	1,981,207	-	-
Stormwater	859,420	724,339	-	-	-	(135,081)	(135,081)	-	-
Sanitation	2,603,293	2,309,634	-	-	-	(293,659)	(293,659)	-	-
Airport	1,058,010	584,116	-	-	-	(473,894)	(473,894)	-	-
Total business-type activities	61,052,700	65,543,260	869,669	443,000	-	5,803,229	5,803,229	-	-
Total primary government	$ 80,540,747	$ 67,844,695	$ 1,643,932	$ 2,957,435	(13,897,914)	5,803,229	(8,094,685)	-	-
Component units:									
Parking Authority	3,191	2,346	-	-	-	-	-	(845)	-
Redevelopment Authority	41,182	-	41,063	-	-	-	-	-	(119)
Total component units	$ 44,373	$ 2,346	$ 41,063	$ -	-	-	-	(845)	(119)
General revenues:									
Property taxes					4,764,743	-	4,764,743	-	-
Sales taxes					2,004,151	-	2,004,151	-	-
Insurance premium tax					615,289	-	615,289	-	-
Other taxes					1,346,122	-	1,346,122	-	-
Franchise fees					844,411	-	844,411	-	-
Unrestricted investment earnings					126,506	148,041	274,547	20	119
Gain on sale of capital assets					12,297	24,736	37,033	-	-
Transfers					5,860,427	(5,860,427)	-	-	-
Total general revenues and transfers					15,573,946	(5,687,650)	9,886,296	20	119
Change in net assets					1,676,032	115,579	1,791,611	(825)	-
Net assets (deficit), beginning of year					56,255,427	102,238,353	158,493,780	428,797	(11,271)
Net assets (deficit), end of year					$ 57,931,459	$ 102,353,932	$ 160,285,391	$ 427,972	$ (11,271)

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

CITY OF COVINGTON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	$ 19,172,233	$ 1,922,595	$ 21,094,828
Investments	7,438,863	82,068	7,520,931
Taxes receivable, net	244,604	38,870	283,474
Accounts receivable, net	308,108	125,124	433,232
Due from other governments	190,745	744,703	935,448
Due from other funds	1,577,895	891,533	2,469,428
Inventories	76,529	-	76,529
Prepaid expenditures	316,345	50,832	367,177
Advance to component unit	333,261	-	333,261
Advances to other funds	2,742,538	-	2,742,538
Total assets	$ 32,401,121	$ 3,855,725	$ 36,256,846
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 348,056	$ 202,083	$ 550,139
Accrued liabilities	315,195	24,526	339,721
Deferred revenues	229,088	202,541	431,629
Due to other funds	5,019,731	996,998	6,016,729
Total liabilities	5,912,070	1,426,148	7,338,218
FUND BALANCES			
Nonspendable:			
Inventories	76,529	-	76,529
Prepaid expenditures	316,345	50,832	367,177
Advance to component unit	333,261	-	333,261
Advance to other funds	2,742,538	-	2,742,538
Restricted for:			
Law enforcement	-	700,226	700,226
Cemetery maintenance	-	175,856	175,856
Other capital projects	-	1,502,663	1,502,663
Committed to:			
Tourism projects (hotel / motel tax funds)	164,449	-	164,449
Assigned to:			
Capital projects (airport, fire training center, natural gas fueling station)	2,691,500	-	2,691,500
Unassigned:	20,164,429	-	20,164,429
Total fund balances	26,489,051	2,429,577	28,918,628
Total liabilities and fund balances	$ 32,401,121	$ 3,855,725	

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.	30,149,800
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	431,629
Net pension asset is not a financial asset in governmental activities and therefore is not reported in governmental funds.	442,394
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.	(2,010,992)
Net assets of governmental activities	$ 57,931,459

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, 2012

	General	Other Governmental Funds	Totals Governmental Funds
Revenues			
Property taxes	$ 4,798,338	$ -	$ 4,798,338
Sales taxes	2,004,151	-	2,004,151
Insurance premium taxes	615,289	-	615,289
Other taxes	945,250	400,872	1,346,122
Charges for services	-	1,197,768	1,197,768
Licenses and permits	191,985	-	191,985
Intergovernmental	755,257	2,533,441	3,288,698
Franchise fees	844,411	-	844,411
Fines and forfeitures	440,583	240,680	681,263
Interest revenue	124,677	1,829	126,506
Other revenues	883,264	-	883,264
Total revenues	11,603,205	4,374,590	15,977,795
Expenditures			
Current:			
General government	1,625,009	-	1,625,009
Judicial	519,472	-	519,472
Public safety	10,017,709	2,554,925	12,572,634
Public works	2,810,884	-	2,810,884
Parks and recreation	500,586	-	500,586
Housing and development	845,492	364,992	1,210,484
Capital outlay	-	1,111,558	1,111,558
Debt service:			
Principal	278,264	-	278,264
Interest	56,876	-	56,876
Total expenditures	16,654,292	4,031,475	20,685,767
Excess (deficiency) of revenues over (under) expenditures	(5,051,087)	343,115	(4,707,972)
Other financing sources (uses)			
Transfers in	5,011,340	2,254,807	7,266,147
Transfers out	(1,317,081)	(75,164)	(1,392,245)
Proceeds from the sale of capital assets	29,297	-	29,297
Total other financing sources (uses)	3,723,556	2,179,643	5,903,199
Net change in fund balances	(1,327,531)	2,522,758	1,195,227
Fund balances (deficit), beginning of year	27,816,582	(93,181)	27,723,401
Fund balances, end of year	$ 26,489,051	$ 2,429,577	$ 28,918,628

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, 2012

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	1,195,227
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 capital outlays exceeded depreciation in the current period.		502,687
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.		19,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(240,928)
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.		278,264
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.		(78,218)
	$	1,676,032

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, 2012

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues:				
Property taxes	$ 4,023,469	$ 5,409,524	$ 4,798,338	$ (611,186)
Sales taxes	1,525,000	1,836,000	2,004,151	168,151
Insurance premium taxes	640,000	640,000	615,289	(24,711)
Other taxes	783,900	999,200	945,250	(53,950)
Licenses and permits	133,260	212,260	191,985	(20,275)
Intergovernmental	1,651,370	1,663,420	755,257	(908,163)
Franchise fees	756,500	846,500	844,411	(2,089)
Fines and forfeitures	400,000	440,600	440,583	(17)
Interest revenue	147,000	147,000	124,677	(22,323)
Other revenues	769,159	823,163	883,264	60,101
Total revenues	10,829,658	13,017,667	11,603,205	(1,414,462)
Expenditures:				
Current:				
General government:				
Administrative services	672,909	503,929	443,333	60,596
Elected and appointed officials	292,911	292,911	238,630	54,281
Maintenance department	419,328	419,328	418,165	1,163
Purchasing	36,795	36,795	33,599	3,196
Personnel	416,433	416,433	387,416	29,017
Risk management	113,316	113,316	103,866	9,450
Total general government	1,951,692	1,782,712	1,625,009	157,703
Judicial	541,476	541,476	519,472	22,004
Public safety:				
Police	5,598,122	5,598,122	5,432,620	165,502
Fire	5,501,180	5,501,180	4,585,089	916,091
Total public safety	11,099,302	11,099,302	10,017,709	1,081,593
Public works:				
Highways and streets	3,026,465	3,175,871	1,660,914	1,514,957
Engineering	829,456	829,456	637,944	191,512
Facilities maintenance	391,982	391,982	370,620	21,362
Telecommunications	200,929	200,929	141,406	59,523
Total public works	4,448,832	4,598,238	2,810,884	1,787,354
Parks and recreation:				
Recreation	314,033	314,033	311,049	2,984
Cemetery and parks	163,032	194,860	189,537	5,323
Total parks and recreation	477,065	508,893	500,586	8,307
Housing and development:				
Planning and zoning	1,045,886	1,045,886	756,232	289,654
Mainstreet program	107,578	107,578	89,260	18,318
Total housing and development	1,153,464	1,153,464	845,492	307,972

(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, 2012

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Expenditures: (Continued)				
Debt service:				
Principal	$ 278,387	$ 278,387	$ 278,264	$ 123
Interest	57,412	57,412	56,876	536
	335,799	335,799	335,140	659
Total expenditures	20,007,630	20,019,884	16,654,292	3,365,592
Deficiency of revenues under expenditures	(9,177,972)	(7,002,217)	(5,051,087)	1,951,130
Other financing sources (uses)				
Transfers in	9,894,805	9,939,269	5,011,340	(4,927,929)
Transfers out	(2,795,091)	(2,613,948)	(1,317,081)	1,296,867
Capital leases	2,795,091	2,613,948	-	(2,613,948)
Proceeds from the sale of capital assets	-	29,300	29,297	(3)
Total other financing sources	9,894,805	9,968,569	3,723,556	(6,245,013)
Net change in fund balances	716,833	2,966,352	(1,327,531)	(4,293,883)
Fund balances, beginning of year	27,816,582	27,816,582	27,816,582	-
Fund balances, end of year	$ 28,533,415	$ 30,782,934	$ 26,489,051	$ (4,293,883)

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 356,458	$ 5,100	$ 297,690	$ 659,248
Investments	-	33,440,667	-	-	33,440,667
Accounts receivable, net of allowances	1,507,620	6,933,158	7,039	696,856	9,144,673
Due from other funds	2,470,458	2,098,984	429,988	764,279	5,763,709
Due from Newton County	79,519	-	-	-	79,519
Inventories	110,806	835,127	45,375	-	991,308
Prepaid expenses	38,886	113,393	6,112	26,624	185,015
Due from other governments	42,691	90,176	-	-	132,867
Restricted assets, cash	133,404	209,317	-	-	342,721
Restricted assets, investments	518,929	64,572	-	-	583,501
Total current assets	4,902,313	44,141,852	493,614	1,785,449	51,323,228
NONCURRENT ASSETS					
Net pension asset	66,470	62,685	2,106	46,633	177,894
Advance to component unit	185,475	-	-	-	185,475
Capital assets:					
Nondepreciable	3,883,812	173,179	7,310,414	13,002	11,380,407
Depreciable, net of accumulated depreciation	38,292,754	13,612,698	10,173,829	4,900,255	66,979,536
Total noncurrent assets	42,428,511	13,848,562	17,486,349	4,959,890	78,723,312
Total assets	47,330,824	57,990,414	17,979,963	6,745,339	130,046,540
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	345,442	3,637,020	20,871	56,117	4,059,450
Accrued liabilities	221,375	322,599	6,908	69,503	620,385
Current portion - notes payable	1,084,258	-	-	-	1,084,258
Current portion - due to others	83,371	-	-	-	83,371
Current portion - termination benefits	5,975	4,525	-	17,300	27,800
Customer deposits payable	-	1,731,329	-	-	1,731,329
Due to component unit	-	41,063	-	-	41,063
Due to other funds	-	1,628,099	-	588,309	2,216,408
Deferred revenue	-	-	5,587	-	5,587
Payable from restricted assets:					
Revenue bonds payable, current portion	245,000	-	-	-	245,000
Total current liabilities	1,985,421	7,364,635	33,366	731,229	10,114,651
NONCURRENT LIABILITIES					
Revenue bonds payable, net of current portion	1,710,000	-	-	-	1,710,000
Notes payable, net of current portion	12,875,366	-	-	-	12,875,366
Due to others - long term	182,699	-	-	-	182,699
Termination benefits, net of current portion	15,464	10,758	-	41,132	67,354
Advance from other funds	-	-	2,742,538	-	2,742,538
Total long-term liabilities	14,783,529	10,758	2,742,538	41,132	17,577,957
Total liabilities	16,768,950	7,375,393	2,775,904	772,361	27,692,608
NET ASSETS					
Invested in capital assets, net of related debt	26,261,942	13,785,877	17,484,243	4,913,257	62,445,319
Restricted for					
Energy efficiency grant	-	95,206	-	-	95,206
Debt service	41,919	-	-	-	41,919
Unrestricted	4,258,013	36,733,938	(2,280,184)	1,059,721	39,771,488
Total net assets	$ 30,561,874	$ 50,615,021	$ 15,204,059	$ 5,972,978	$ 102,353,932

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, 2012

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Charges for services	$ 10,809,351	$ 49,885,812	$ 523,219	$ 2,974,054	$ 64,192,436
Other services	139,826	1,090,181	60,897	59,919	1,350,823
Total operating revenues	10,949,177	50,975,993	584,116	3,033,973	65,543,259
OPERATING EXPENSES					
Personal services	2,563,144	2,244,356	197,154	1,502,256	6,506,910
Water purchases	2,173,089	-	-	-	2,173,089
Purchased power	-	29,518,851	-	-	29,518,851
Natural gas purchases	-	9,161,790	-	-	9,161,790
Other costs of operations	3,265,713	4,662,127	626,288	1,409,182	9,963,310
Depreciation and amortization	1,654,849	650,330	234,568	551,275	3,091,022
Total operating expenses	9,656,795	46,237,454	1,058,010	3,462,713	60,414,972
Operating income (loss)	1,292,382	4,738,539	(473,894)	(428,740)	5,128,287
NONOPERATING INCOME (EXPENSES)					
Intergovernmental	443,000	869,669	-	-	1,312,669
Interest income	4,758	131,551	-	11,732	148,041
Interest expense	(637,727)	-	-	-	(637,727)
Gain on sale of capital assets	15,810	5,546	-	3,380	24,736
Total nonoperating income (expenses)	(174,159)	1,006,766	-	15,112	847,719
Income (loss) before contributions and transfers	1,118,223	5,745,305	(473,894)	(413,628)	5,976,006
CAPITAL CONTRIBUTIONS	-	13,475	-	-	13,475
TRANSFERS					
Transfers in	-	-	473,894	231,847	705,741
Transfers out	-	(6,579,643)	-	-	(6,579,643)
Total transfers	-	(6,579,643)	473,894	231,847	(5,873,902)
Change in net assets	1,118,223	(820,863)	-	(181,781)	115,579
NET ASSETS, beginning of year	29,443,651	51,435,884	15,204,059	6,154,759	102,238,353
NET ASSETS, end of year	$ 30,561,874	$ 50,615,021	$ 15,204,059	$ 5,972,978	$ 102,353,932

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, 2012

	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	$ 10,759,996	$ 50,454,078	$ 584,348	$ 3,332,457	$ 65,130,879
Payments to suppliers	(5,552,975)	(42,636,125)	(646,046)	(1,792,220)	(50,627,366)
Payments to employees	(2,594,333)	(2,266,720)	(194,153)	(1,491,161)	(6,546,367)
Net cash provided by (used in) operating activities	2,612,688	5,551,233	(255,851)	49,076	7,957,146
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental revenue	443,000	869,669	-	-	1,312,669
Transfers out	-	(6,579,643)	-	-	(6,579,643)
Transfers in	-	-	473,894	231,847	705,741
Net cash provided by (used in) noncapital financing activities	443,000	(5,709,974)	473,894	231,847	(4,561,233)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	15,810	5,546	-	3,380	24,736
Acquisition and construction of capital assets	(1,057,423)	(268,773)	(218,043)	(418,376)	(1,962,615)
Principal paid on bonds	(240,000)	-	-	-	(240,000)
Principal paid on notes payable, revenue bonds and intergovernmental agreement	(1,046,261)	-	-	-	(1,046,261)
Payments on long term intergovernmental agreement	(78,466)	-	-	-	(78,466)
Interest paid	(650,631)	-	-	-	(650,631)
Net cash used in capital and related financing activities	(3,056,971)	(263,227)	(218,043)	(414,996)	(3,953,237)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(4,384)	(1,291,380)	-	-	(1,295,764)
Proceeds from the sale of investments	-	1,857,456	-	-	1,857,456
Interest and dividends received	4,758	127,630	-	11,732	144,120
Net cash provided by investing activities	374	693,706	-	11,732	705,812
Change in cash and cash equivalents	(909)	271,738	-	(122,341)	148,488
Cash and cash equivalents:					
Beginning of year	134,313	294,037	5,100	420,031	853,481
End of year	$ 133,404	$ 565,775	$ 5,100	$ 297,690	$ 1,001,969
Classified as:					
Cash and cash equivalents	$ -	$ 356,458	$ 5,100	$ 297,690	$ 659,248
Restricted assets, cash	133,404	209,317	-	-	342,721
	$ 133,404	$ 565,775	$ 5,100	$ 297,690	$ 1,001,969

(Continued)

CITY OF COVINGTON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	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)	$ 1,292,382	$ 4,738,539	$ (473,894)	$ (428,740)	$ 5,128,287
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,654,849	650,330	234,568	551,275	3,091,022
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(42,948)	783,454	543	8,270	749,319
Decrease in due from Newton County	24,437	-	-	-	24,437
(Increase) decrease in inventories	(3,281)	276,278	(4,263)	-	268,734
Increase in due from other funds	(181,142)	(1,937,829)	(429,968)	(478,661)	(3,027,600)
Increase in prepaids and other assets	(14,387)	(3,782)	(5,438)	(6,249)	(29,856)
(Increase) decrease in due from other governments	10,472	(68,753)	-	-	(58,281)
Increase in net pension asset	(9,545)	(11,005)	(2,106)	(3,884)	(26,540)
Increase (decrease) in accounts payable	(118,230)	444,085	(14,705)	(161,127)	150,023
Increase (decrease) in accrued liabilities	5,568	(17,123)	3,001	27,053	18,499
Decrease in termination benefits	(5,487)	(4,174)	-	(15,958)	(25,619)
Decrease in deferred revenues	-	-	(311)	-	(311)
Increase in customer deposits	-	81,048	-	-	81,048
Increase in due to component units	-	41,063	-	-	41,063
Increase in due to other funds and advances	-	579,102	436,722	557,097	1,572,921
Net cash provided by (used in) operating activities	$ 2,612,688	$ 5,551,233	$ (255,851)	$ 49,076	$ 7,957,146
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Capital asset additions contributed from other funds	$ -	$ 13,475	$ -	$ -	$ 13,475
Increase in fair value of investments	-	3,921	-	-	3,921
	$ -	$ 17,396	$ -	$ -	$ 17,396

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Fund Impound Evidence	Pension Trust Fund
ASSETS		
Cash and cash equivalents	$ 210,588	$ 3,249,932
Receivables:		
Miscellaneous	-	331
Investments, at fair value:		
Common stock	-	12,114,528
Governmental bonds	-	6,483,067
Corporate bonds	-	3,139,980
Total investments	-	21,737,575
Total assets	210,588	24,987,838
LIABILITIES		
Due to others	210,588	1,157
NET ASSETS		
Held in trust for pension benefits	$ -	$ 24,986,681

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, 2012

	Pension Trust Fund
Additions	
Contributions:	
Employer	$ 2,000,000
Total contributions	2,000,000
Investment income:	
Interest income	700,730
Net depreciation in fair value of investments	(375,604)
Total additions	2,325,126
Deductions	
Benefits paid	1,682,282
Administrative expenses	151,301
Total deductions	1,833,583
Net increase	491,543
Net assets available for benefits:	
Beginning of year	24,495,138
End of year	$ 24,986,681

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, 2012:

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 State Treasurer.

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, 2012, 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

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 $2,010,992 difference are as follows:

Capital leases payable	$	(1,319,000)
Compensated absences		(469,449)
Termination benefits		(209,905)
Accrued interest payable		(12,638)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$	(2,010,992)

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 $502,687 difference are as follows:

Capital outlay	$	2,262,125
Depreciation expense		(1,759,438)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	502,687

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 $78,218 are as follows:

Compensated absences	$	(175,591)
Net pension obligation		55,200
Termination benefits		38,510
Accrued interest		3,663
Net adjustment to decrease *net changes in fund balance - total governmental funds* to arrive at *changes in net assets - governmental activities*	$	(78,218)

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2012, are summarized as follows:

As reported in the Statement of Net Assets:		
Primary government		
Cash and cash equivalents	$	21,754,076
Investments		40,961,598
Restricted assets:		
Cash and cash equivalents		342,721
Investments		583,501
Agency Fund - cash and cash equivalents		210,588
Pension Trust Fund		
Cash and cash equivalents		3,249,932
Investments		21,737,575
Component Units - cash and cash equivalents		123,484
	$	88,963,475
Cash deposited with financial institutions	$	33,053,557
Investment in Municipal Competitive Trust		33,397,891
Investment in U.S. Government Securities		282,400
Investment in Corporate Bonds		492,052
Pension Trust Fund investments		21,737,575
	$	88,963,475

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, 2012, 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	$ 21,308,587	$ 21,308,587	$ -	$ -	$ -	NR
Municipal Competitive Trust - Intermediate	12,089,304	-	12,089,304	-	-	NR
U.S. Government Securities	282,400	-	110,651	-	171,749	AA+
Corporate bonds	198,678	-	98,851	99,827	-	A
Corporate bonds	100,426	-	100,426	-	-	A+
Corporate bonds	192,948	-	192,948	-	-	A-
Certificates of deposit	7,372,756	7,264,631	108,125	-	-	N/A
Subtotal	41,545,099	28,573,218	12,700,305	99,827	171,749	
Pension Trust Fund:						
Common stock	12,114,528	N/A	-	-	-	N/A
Government bonds	1,313,473	503,260	810,213	-	-	AAA
Government bonds	3,141,283	-	1,088,690	1,445,252	607,341	AA+
Government bonds	655,487	-	655,487	-	-	AA
Government bonds	848,404	517,225	108,055	223,124	-	AA-
Government bonds	524,420	-	524,420	-	-	A
Corporate bonds	575,200	-	-	575,200	-	AAA
Corporate bonds	655,800	-	-	655,800	-	AA
Corporate bonds	584,298	-	-	-	584,298	AA-
Corporate bonds	343,996	-	343,996	-	-	A+
Corporate bonds	704,751	-	704,751	-	-	A
Corporate bonds	275,935	103,012	172,923	-	-	A-
Subtotal	21,737,575	1,123,497	4,408,535	2,899,376	1,191,639	
Total fair value	$ 63,282,674	$ 29,696,715	$ 17,108,840	$ 2,999,203	$ 1,363,388	

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, 2012, 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	$ 367,620	$ 38,870	$ -	$ -
Accounts	308,108	125,124	1,524,316	6,989,280
Intergovernmental	190,745	744,703	122,210	90,176
Gross receivables	866,473	908,697	1,646,526	7,079,456
Less: allowance for uncollectibles	(123,016)	-	(16,696)	(56,122)
Net total receivables	$ 743,457	$ 908,697	$ 1,629,830	$ 7,023,334

	Airport	Nonmajor Enterprise	Total
Receivables:			
Taxes	$ -	$ -	$ 406,490
Accounts	7,039	1,454,498	10,408,365
Intergovernmental	-	-	1,147,834
Gross receivables	7,039	1,454,498	11,962,689
Less: allowance for uncollectibles	-	(757,642)	(953,476)
Net total receivables	$ 7,039	$ 696,856	$ 11,009,213

Property Taxes

Property taxes were levied on behalf of the City by Newton County on July 18, 2011 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on August 15, 2011 and payable on or before December 20, 2011 for the fiscal year 2011 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, 2012, the allowance for uncollectible property taxes was $123,016.

The tax rate levied during calendar year 2011 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, 2012 was as follows:

Primary government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,445,832	$ 36,000	$ (17,000)	$ 1,464,832
Construction in progress	30,154	34,404	-	64,558
Total capital assets, not being depreciated	1,475,986	70,404	(17,000)	1,529,390
Capital assets, being depreciated:				
Buildings and improvements	7,899,704	71,205	36,059	8,006,968
Machinery and equipment	8,650,496	386,920	(599,817)	8,437,599
Furniture and fixtures	921,655	-	-	921,655
Vehicles	2,413,605	454,253	524,297	3,392,155
Infrastructure	31,664,553	1,315,343	(36,059)	32,943,837
Total capital assets, being depreciated	51,550,013	2,227,721	(75,520)	53,702,214
Less accumulated depreciation for:				
Buildings and improvements	(2,279,524)	(164,890)	(451)	(2,444,865)
Machinery and equipment	(5,774,797)	(529,213)	59,982	(6,244,028)
Furniture and fixtures	(907,266)	(4,625)	-	(911,891)
Vehicles	(1,641,088)	(253,737)	15,538	(1,879,287)
Infrastructure	(12,795,211)	(806,973)	451	(13,601,733)
Total accumulated depreciation	(23,397,886)	(1,759,438)	75,520	(25,081,804)
Total capital assets, being depreciated, net	28,152,127	468,283	-	28,620,410
Governmental activities capital assets, net	$ 29,628,113	$ 538,687	$ (17,000)	$ 30,149,800

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 10,847,261	$ 300	$ -	$ -	$ 10,847,561
Construction in progress	1,478,847	1,277,987	-	(2,223,988)	532,846
Total capital assets, not being depreciated	12,326,108	1,278,287	-	(2,223,988)	11,380,407
Capital assets, being depreciated:					
Buildings	2,620,825	7,460	-	-	2,628,285
Machinery and equipment	3,298,871	155,307	(68,493)	-	3,385,685
Vehicles	3,425,170	312,415	(12,816)	-	3,724,769
Intangibles	4,397,830	-	-	-	4,397,830
Improvements other than buildings	92,490,735	222,621	-	2,223,988	94,937,344
Total capital assets, being depreciated	106,233,431	697,803	(81,309)	2,223,988	109,073,913
Less accumulated depreciation for:					
Buildings	(2,093,914)	(34,228)	-	-	(2,128,142)
Machinery and equipment	(2,795,746)	(191,576)	68,493	-	(2,918,829)
Vehicles	(3,165,158)	(168,630)	12,816	-	(3,320,972)
Intangibles	(333,701)	(121,538)	-	-	(455,239)
Improvements other than buildings	(30,696,145)	(2,575,050)	-	-	(33,271,195)
Total accumulated depreciation	(39,084,664)	(3,091,022)	81,309	-	(42,094,377)
Total capital assets, being depreciated, net	67,148,767	(2,393,219)	-	2,223,988	66,979,536
Business-type activities activities capital assets, net	$ 79,474,875	$ (1,114,932)	$ -	$ -	$ 78,359,943

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

Governmental activities:	
General government	$ 299,174
Public safety	489,994
Public works	968,285
Parks and recreation	1,985
Total depreciation expense - governmental activities	$ 1,759,438

Business-type activities:	
Water and sewer	$ 1,654,849
Gas and electric	650,330
Airport	234,568
Stormwater	441,512
Sanitation	109,763
Total depreciation expense - business-type activities	$ 3,091,022

NOTE 5. CAPITAL ASSETS (CONTINUED)

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	Transfer	Ending Balance
Capital assets, not being depreciated:				
Land	$ 402,910	$ 5,628	$ (480)	$ 408,058
Total capital assets, not being depreciated	402,910	5,628	(480)	408,058
Capital assets, being depreciated:				
Buildings and improvements	-	49,466	480	49,946
Total capital assets, being depreciated	-	49,466	480	49,946
Less accumulated depreciation for:				
Buildings and improvements	-	(463)	-	(463)
Total accumulated depreciation	-	(463)	-	(463)
Total capital assets, being depreciated, net	-	49,003	480	49,483
Redevelopment Authority assets, net	$ 402,910	$ 54,631	$ -	$ 457,541

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, 2012 is as follows:

Description	Original Amount	Interest Rate	Due Date	Amount
Wastewater treatment plant capacity expansion	$ 3,625,000	3.80%	2018	$ 1,955,000
				1,955,000
			Less current portion	(245,000)
				$ 1,710,000

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
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	318,880	290,000	28,880
2018 - 2019	638,655	615,000	23,655
	$ 2,227,175	$ 1,955,000	$ 272,175

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, 2012:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2012
System improvements	$ 16,004,250	3.69%	2022	$ 10,849,088
System improvements	2,800,800	3.98%	2025	2,108,009
System improvements	1,124,590	4.14%	2029	1,002,527
				13,959,624
			Less current maturities	(1,084,258)
				$ 12,875,366

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
2013	$ 1,594,718	$ 1,084,258	$ 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	1,596,508	1,260,616	335,892
2018 - 2022	7,982,542	7,058,534	924,008
2023 - 2027	1,033,891	939,441	94,450
2028 - 2029	107,788	104,918	2,870
	$ 17,104,970	$ 13,959,624	$ 3,145,346

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, 2012:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2012
Waste water treatment plant	$ 772,830	6.25%	2015	$ 266,070
				266,070
			Less current maturities	(83,371)
				$ 182,699

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
2013	$ 100,000	$ 83,371	$ 16,629
2014	100,000	88,581	11,419
2015	100,000	94,118	5,882
	$ 300,000	$ 266,070	$ 33,930

Termination Benefits:

During the years ended June 30, 2011 and 2012, 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, a total of 22 employees have taken 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, 2012, the City utilized a discount rate of 2% to record a total liability of $305,059.

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, 2012:

Buildings	$ 1,439,150
Machinery and equipment	802,306
Less accumulated depreciation	(275,278)
Carrying value	$ 1,966,178

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, 2012:

Fiscal year ending	
2013	$ 335,139
2014	317,689
2015	131,323
2016	131,323
2017	131,323
2018 - 2021	459,631
Total minimum lease payments	1,506,428
Less amount representing interest	(187,428)
Present value of future minimum lease payments	1,319,000
Less current maturities	(287,950)
	$ 1,031,050

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Governmental activities:					
Capital leases	$ 1,597,264	$ -	$ (278,264)	$ 1,319,000	$ 287,950
Compensated absences	293,858	254,005	(78,414)	469,449	86,256
Termination benefits	248,415	19,000	(57,510)	209,905	62,688
Governmental activity long-term liabilities	$ 2,139,537	$ 273,005	$ (414,188)	$ 1,998,354	$ 436,894
Business-type activities:					
Revenue bonds	$ 2,195,000	$ -	$ (240,000)	$ 1,955,000	$ 245,000
Notes payable	15,005,885	-	(1,046,261)	13,959,624	1,084,258
Intergovernmental agreement	344,536	-	(78,466)	266,070	83,371
Compensated absences	74,370	55,525	(15,552)	114,343	17,107
Termination benefits	120,773	-	(25,619)	95,154	27,800
Business-type activity long-term liabilities	$ 17,740,564	$ 55,525	$ (1,405,898)	$ 16,390,191	$ 1,457,536

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 an appointed Pension Review Committee as Trustee for the Plan in accordance with a Trust Agreement between the City of Covington and the Trustee. This committee is comprised of the City Manager, who serves as Chairman, the HR Director, the Finance Director and two appointees from the City Council. The City Council has appointed Wilmington Trust, Inc. as the corporate Trustee for the Plan and ZWJ Investment Counsel as the Investment Manager for the Plan. The City Council has appointed the City Manager as the Plan Administrator. 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 except those who elected to be a part of the City's defined contribution plan. 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 highest five year 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 highest five year 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, 2012, the date of the most recent actuarial valuation, there were 648 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	142
Vested terminated employees not yet receiving benefits	217
Active employees	289
Total	648

As of the most recent valuation date, January 1, 2012, 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)
1/1/2012	$ 24,636,644	$ 30,393,956	$ 5,757,312	81.1 %	$ 12,945,649	44.5 %

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, 2012.

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, 2011, 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 2011 and 2012 were computed as follows:

	2011	2012
Annual required contribution	$ 1,968,699	$ 1,806,876
Interest on net pension obligation	(97,064)	(97,314)
Adjustment to annual required contribution	191,027	208,698
Annual pension cost	2,062,662	1,918,260
Contributions made	1,800,000	2,000,000
Change in net pension asset	262,662	(81,740)
Net pension obligation (asset) beginning of year	(801,210)	(538,548)
Net pension obligation (asset) end of year	$ (538,548)	$ (620,288)
As reported in the Statement of Net Assets:		
Governmental activities		$ 442,394
Business-type activities		177,894
		$ 620,288

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
2012	$ 1,806,876	$ 2,000,000	110.7 %	$ 620,288
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

* Represents six months only

NOTE 8. DEFINED CONTRIBUTION PLANS

The City of Covington, Georgia Defined Contribution Retirement Plan is a defined contribution plan established by the City of Covington City Council to provide benefits for its full-time employees. This plan was originally adopted on July 1, 2011 and is set up under the provisions of the internal revenue code section 401(k). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of service from the date of employment. The plan as established by the City Council requires that the City contribute an amount equal to 4% of the employee's salary each month. Plan members are not required to make contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. Benefit provisions and contribution requirements are established and may be amended by the City Council. The City contributed $7,686 in fiscal year 2012.

The City also offers its employees a choice of a deferred compensation plan (the City of Covington, Georgia 457 Plan) which is administered by Valic or Nationwide. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. Employee's contributions are fully vested at the time of contribution. The deferred compensation under the 457 Plan is not available to employees until termination, retirement, death, or unforeseeable emergency. Benefit provisions and contributions are established and may be amended by the City Council. During the year ended June 30, 2012, City employees contributed $355,266 to the 457 plan.

Pursuant to the Statement Number 32 of the Governmental Accounting Standards Board "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the City does not have a fiduciary relationship with the Defined Contribution Plan or the 457 Plan. Accordingly, the balances and transactions of the City's plans are not reported in the City's financial statements.

NOTE 9. INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances and advances as of June 30, 2012, are as follows:

	Due From			
	General Fund	Water Fund	Gas and Electric	Airport Fund
Due To				
General Fund	$ -	$ -	$ -	$ -
Water Fund	2,332,064	-	138,394	-
Gas and Electric	2,091,591	-	-	-
Airport Fund	-	-	429,969	-
Nonmajor Governmental	43,575	-	847,958	-
Nonmajor Enterprise	552,501	-	211,778	-
Total	$ 5,019,731	$ -	$ 1,628,099	$ -

	Nonmajor Governmental	Nonmajor Enterprise	Total
General Fund	$ 996,979	$ 580,916	$ 1,577,895
Water Fund	-	-	2,470,458
Gas and Electric	-	7,393	2,098,984
Airport Fund	19	-	429,988
Nonmajor Governmental	-	-	891,533
Nonmajor Enterprise	-	-	764,279
Total	$ 996,998	$ 588,309	$ 8,233,137

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, 2012, the City's General Fund has advanced the Airport Fund $2,742,538 for airport improvements anticipated to be funded by future grant revenues.

NOTE 9. INTERFUND BALANCES AND TRANSFERS (Continued)

Interfund transfers for the year ended June 30, 2012, consisted of the following:

	Transfer To			
Transfer From	General	Gas and Electric	Airport Fund	Nonmajor Enterprise
General Fund	$ -	$ -	$ -	$ -
Nonmajor Governmental	75,164	-	-	-
Gas and Electric Fund	4,936,176	-	473,894	231,847
Total	$ 5,011,340	$ -	$ 473,894	$ 231,847

	Nonmajor Governmental	Total
General Fund	$ 1,317,081	$ 1,317,081
Nonmajor Governmental	-	75,164
Gas and Electric Fund	937,726	6,579,643
Total	$ 2,254,807	$ 7,971,888

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 10. 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 11. HOTEL/MOTEL LODGING TAX

The City has levied an 8% lodging tax. For the year ended June 30, 2012, $400,872 of hotel/motel tax was collected. Of the total collected, 100% was used for the promotion of tourism within the City ($150,327 to the Newton County Chamber of Commerce, $100,218 to the Covington Main Street Program, $75,163 to the Covington Tourism Association, and $75,164 to the City's General Fund).

NOTE 12. 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, 2012, the City paid $13,118 in 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 an 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 13. 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, 2012 total approximately $482,000.

NOTE 14. 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 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Agreements with the Municipal Electric Authority of Georgia (Continued)

As of June 30, 2012, 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 $29,518,851 in 2012.

At June 30, 2012, the outstanding debt of MEAG was approximately $5.931 billion. The City's guarantee varies by individual projects undertaken by MEAG and totals approximately $271.6 million at June 30, 2012.

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 $9,161,790 in 2012.

At June 30, 2012, the outstanding debt of MGAG was approximately $277.7 million. The City's guarantee varies by individual projects undertaken by MGAG and totals approximately $16.97 million at June 30, 2012.

Contractual Commitments:

In addition to the liabilities enumerated in the balance sheet at June 30, 2012, the City has contractual commitments on uncompleted construction contracts of approximately $97,000.

NOTE 15. 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, 2012, the City has set aside approximately $1.53 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
1/1/2012	$ 24,636,644	$ 30,393,956	$ 5,757,312	81.1 %	$ 12,945,649	44.5 %
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 FUND

The Capital Projects Fund is 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, 2012

	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	$ -	$ 614,195	$ 5,317	$ 93,733
Investments	-	-	-	-	82,068
Taxes receivable	-	38,870	-	-	-
Accounts receivable	101,620	-	15,171	8,333	-
Due from other governments	385,436	-	-	-	-
Due from other funds	843,715	37,798	5,702	4,243	75
Prepaid expenditures	50,832	-	-	-	-
Total assets	$ 1,381,653	$ 76,668	$ 635,068	$ 17,893	$ 175,876
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 21,917	$ 76,668	$ 21,240	$ -	$ -
Accrued liabilities	24,526	-	-	-	-
Deferred revenues	202,541	-	-	-	-
Due to other funds	995,439	-	-	1,539	20
Total liabilities	1,244,423	76,668	21,240	1,539	20
FUND BALANCES					
Nonspendable:					
Prepaid expenditures	50,832	-	-	-	-
Restricted for:					
Law enforcement	86,398	-	613,828	-	-
Cemetery maintenance	-	-	-	-	175,856
Capital projects	-	-	-	16,354	-
Total fund balances	137,230	-	613,828	16,354	175,856
Total liabilities and fund balances	$ 1,381,653	$ 76,668	$ 635,068	$ 17,893	$ 175,876

Capital Projects SPLOST Fund	Totals
$ 1,209,300	$ 1,922,595
-	82,068
-	38,870
-	125,124
359,267	744,703
-	891,533
-	50,832
$ 1,568,567	$ 3,855,725
$ 82,258	$ 202,083
-	24,526
-	202,541
-	996,998
82,258	1,426,148
-	50,832
-	700,226
-	175,856
1,486,309	1,502,663
1,486,309	2,429,577
$ 1,568,567	$ 3,855,725

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Funds				
	Emergency Telephone Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Neighborhood Stabilization Fund	Cemetery Trust Fund
Revenues:					
Other taxes	$ -	$ 400,872	$ -	$ -	$ -
Charges for services	1,181,733	-	-	16,035	-
Intergovernmental	-	-	-	19,006	-
Fines and forfeitures	-	-	240,680	-	-
Interest revenue	-	-	37	-	671
Total revenues	1,181,733	400,872	240,717	35,041	671
Expenditures:					
Public safety	1,929,780	-	625,145	-	-
Housing and development	-	325,708	-	39,284	-
Capital outlay	-	-	-	-	-
Total expenditures	1,929,780	325,708	625,145	39,284	-
Excess (deficiency) of revenues over (under) expenditures	(748,047)	75,164	(384,428)	(4,243)	671
Other financing sources (uses)					
Transfers in	933,483	-	1,317,081	4,243	-
Transfers out	-	(75,164)	-	-	-
Total other financing sources (uses)	933,483	(75,164)	1,317,081	4,243	-
Net change in fund balances	185,436	-	932,653	-	671
Fund balances (deficit), beginning of year	(48,206)	-	(318,825)	16,354	175,185
Fund balances, end of year	$ 137,230	$ -	$ 613,828	$ 16,354	$ 175,856

Capital Projects SPLOST Fund	Totals
$ -	$ 400,872
-	1,197,768
2,514,435	2,533,441
-	240,680
1,121	1,829
2,515,556	4,374,590
-	2,554,925
-	364,992
1,111,558	1,111,558
1,111,558	4,031,475
1,403,998	343,115
-	2,254,807
-	(75,164)
-	2,179,643
1,403,998	2,522,758
82,311	(93,181)
$ 1,486,309	$ 2,429,577

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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ 2,086,553	$ 2,157,673	$ 1,181,733	$ (975,940)
EXPENDITURES				
Public safety	2,955,676	2,890,676	1,929,780	960,896
Total expenditures	2,955,676	2,890,676	1,929,780	960,896
Deficiency of revenues (under) expenditures	(869,123)	(733,003)	(748,047)	(15,044)
OTHER FINANCING SOURCES				
Transfers in	869,123	733,003	933,483	200,480
Total other financing sources	869,123	733,003	933,483	200,480
Net change in fund balances	-	-	185,436	185,436
FUND BALANCES (DEFICIT), beginning of year	(48,206)	(48,206)	(48,206)	-
FUND BALANCES, end of year	$ (48,206)	$ (48,206)	$ 137,230	$ 185,436

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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Other taxes	$ 335,000	$ 400,873	$ 400,872	$ (1)
EXPENDITURES				
Housing and development	275,000	325,709	325,708	1
Total expenditures	275,000	325,709	325,708	1
Excess of revenues over expenditures	60,000	75,164	75,164	-
OTHER FINANCING USES				
Transfers out	(60,000)	(75,164)	(75,164)	-
Total other financing uses	(60,000)	(75,164)	(75,164)	-
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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Fines and forfeitures	$ 447,000	$ 645,581	$ 240,680	$ (404,901)
Interest	660	661	37	(624)
Total revenues	447,660	646,242	240,717	(405,525)
EXPENDITURES				
Public safety	447,660	646,242	625,145	21,097
Total expenditures	447,660	646,242	625,145	21,097
Deficiency of revenues (under) expenditures	-	-	(384,428)	(384,428)
OTHER FINANCING SOURCES				
Transfers in	-	-	1,317,081	1,317,081
Total other financing sources	-	-	1,317,081	1,317,081
Net change in fund balances	-	-	932,653	932,653
FUND BALANCES (DEFICIT), beginning of year	(318,825)	(318,825)	(318,825)	-
FUND BALANCES (DEFICIT), end of year	$ (318,825)	$ (318,825)	$ 613,828	$ 932,653

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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ -	$ 10,000	$ 16,035	$ 6,035
Intergovernmental	1,112,000	1,102,000	19,006	(1,082,994)
Total revenues	1,112,000	1,112,000	35,041	(1,076,959)
EXPENDITURES				
Housing and development	1,112,000	1,112,000	39,284	1,072,716
Total expenditures	1,112,000	1,112,000	39,284	1,072,716
Deficiency of revenues (under) expenditures	-	-	(4,243)	(4,243)
OTHER FINANCING SOURCES				
Transfers in	-	-	4,243	4,243
Total other financing sources	-	-	4,243	4,243
Net change in fund balances	-	-	-	-
FUND BALANCES, beginning of year	16,354	16,354	16,354	-
FUND BALANCES, end of year	$ 16,354	$ 16,354	$ 16,354	$ -

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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Interest revenues	$ 350	$ 672	$ 671	$ (1)
Total revenues	350	672	671	(1)
EXPENDITURES				
Public works	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	350	672	671	(1)
FUND BALANCES, beginning of year	175,185	175,185	175,185	-
FUND BALANCES, end of year	$ 175,535	$ 175,857	$ 175,856	$ (1)

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	$ 435,122	$ 1,111,558	$ 1,546,680
	$ 3,693,386	$ 3,693,386	$ 435,122	$ 1,111,558	$ 1,546,680

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, 2012

	Stormwater Utility Fund	Sanitation Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash	$ 297,690	$ -	$ 297,690
Accounts receivable, net of allowances	376,636	320,220	696,856
Due from other funds	552,501	211,778	764,279
Prepaid expenses	1,969	24,655	26,624
Total current assets	1,228,796	556,653	1,785,449
NONCURRENT ASSETS			
Net pension asset	3,033	43,600	46,633
Capital assets:			
Nondepreciable	-	13,002	13,002
Depreciable, net of accumulated depreciation	4,482,322	417,933	4,900,255
Total capital assets	4,482,322	430,935	4,913,257
Total noncurrent assets	4,485,355	474,535	4,959,890
Total assets	5,714,151	1,031,188	6,745,339
LIABILITIES			
Accounts payable	3,911	52,206	56,117
Accrued liabilities	3,414	66,089	69,503
Current portion - termination benefits	-	17,300	17,300
Due to other funds	7,393	580,916	588,309
Total current liabilities	14,718	716,511	731,229
LONG-TERM LIABILITIES			
Termination benefits, net of current portion	-	41,132	41,132
Total long-term liabilities	-	41,132	41,132
Total liabilities	14,718	757,643	772,361
NET ASSETS			
Invested in capital assets	4,482,322	430,935	4,913,257
Unrestricted	1,217,111	(157,390)	1,059,721
Total net assets	$ 5,699,433	$ 273,545	$ 5,972,978

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Stormwater Utility Fund	Sanitation Fund	Totals
OPERATING REVENUES			
Charges for services	$ 724,339	$ 2,249,715	$ 2,974,054
Other services	-	59,919	59,919
Total operating revenues	724,339	2,309,634	3,033,973
OPERATING EXPENSES			
Personal services	232,399	1,269,857	1,502,256
Other costs of operations	185,509	1,223,673	1,409,182
Depreciation	441,512	109,763	551,275
Total operating expenses	859,420	2,603,293	3,462,713
Operating loss	(135,081)	(293,659)	(428,740)
NONOPERATING REVENUES			
Gain on sale of capital assets	-	3,380	3,380
Interest revenue	11,732	-	11,732
Total nonoperating revenues	11,732	3,380	15,112
Loss before transfers	(123,349)	(290,279)	(413,628)
TRANSFERS			
Transfers in	-	231,847	231,847
Total transfers	-	231,847	231,847
Change in net assets	(123,349)	(58,432)	(181,781)
NET ASSETS, beginning of year	5,822,782	331,977	6,154,759
NET ASSETS, end of year	$ 5,699,433	$ 273,545	$ 5,972,978

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Stormwater Utility Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 449,278	$ 2,883,179	$ 3,332,457
Payments to suppliers	(184,658)	(1,607,562)	(1,792,220)
Payments to employees	(233,616)	(1,257,545)	(1,491,161)
Net cash provided by operating activities	31,004	18,072	49,076
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	231,847	231,847
Net cash provided by noncapital financing activities	-	231,847	231,847
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the sale of capital assets	-	3,380	3,380
Acquisition and construction of capital assets	(165,077)	(253,299)	(418,376)
Net cash used in capital and related financing activities	(165,077)	(249,919)	(414,996)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	11,732	-	11,732
Net cash provided by investing activities	11,732	-	11,732
Change in cash and cash equivalents	(122,341)	-	(122,341)
Cash and cash equivalents:			
Beginning of year	420,031	-	420,031
End of year	$ 297,690	$ -	$ 297,690

(Continued)

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Stormwater Utility Fund	Sanitation Fund	Totals
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (135,081)	$ (293,659)	$ (428,740)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	441,512	109,763	551,275
(Increase) decrease in accounts receivable	(4,428)	12,698	8,270
Increase in due from other funds	(266,883)	(211,778)	(478,661)
(Increase) decrease in prepaids and other assets	2,379	(8,628)	(6,249)
(Increase) decrease in net pension asset	826	(4,710)	(3,884)
Decrease in accounts payable	(2,354)	(158,773)	(161,127)
Increase (decrease) in accrued liabilities	(1,217)	28,270	27,053
Decrease in termination benefits	-	(15,958)	(15,958)
Increase (decrease) in due to other funds	(3,750)	560,847	557,097
Net cash provided by operating activities	$ 31,004	$ 18,072	$ 49,076

COMPONENT UNITS

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET ASSETS
COMPONENT UNITS

JUNE 30, 2012

	Parking Authority	Redevelopment Authority
ASSETS		
Cash and cash equivalents	$ 112,572	$ 10,912
Due from primary government	-	41,063
Capital assets:		
Nondepreciable	414,173	408,058
Depreciable, net of accumulated depreciation	-	49,483
Total assets	526,745	509,516
LIABILITIES		
Accounts payable	-	2,301
Due to primary government	250	518,486
Deferred revenues	98,523	-
Total liabilities	98,773	520,787
NET ASSETS		
Unrestricted	427,972	(11,271)
Total fund balance	$ 427,972	$ (11,271)

CITY OF COVINGTON, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2012

	Parking Authority	Redevelopment Authority
Revenues		
Contributions from primary government	$ -	$ 41,063
Other revenues	2,346	-
Interest	20	119
Total revenues	2,366	41,182
Expenses	3,191	41,182
Net change in net assets	(825)	-
Net Assets (deficit), July 1	428,797	(11,271)
Net Assets (deficit), June 30	$ 427,972	$ (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, 2012, which collectively comprise the City of Covington, Georgia's basic financial statements and have issued our report thereon dated December 10, 2012. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

We also noted certain matters that we reported to the management of the City of Covington, Georgia in a separate letter dated December 10, 2012.

The City's response to the audit finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and accordingly, we express no opinion on it.

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
December 10, 2012

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, 2012. 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, 2012.

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
December 10, 2012

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

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)			
State Administered CDBG Cluster:			
Neighborhood Stabilization Program	14.228	08-NS-5057	$ 39,283
Community Development Block Grant	14.228	10P-X-107-2-5310	443,000
Total U.S. Department of Housing and Urban Development			482,283
U.S Department of Energy			
(Passed through Georgia Environmental Finance Authority)			
Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	ECCBG-LOCGOV2010-116	292,177
Total U.S. Department of Homeland Security			292,177
Total Expenditures of Federal Awards			$ 774,460

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, 2012.

Amount Provided to Subrecipients

During 2012, the City made no disbursements to subrecipients from federal awards.

CITY OF COVINGTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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?	__X__ yes ____ 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
14.228	Community Development Block Grant and Neighborhood Stabilization Program (CDBG - State Adminstered CDBG Cluster)

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, 2012

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2012 - 1. Undercollateralization of City Deposits

Criteria: The Official Code of Georgia (OCGA) Section 45-8-12 (c) requires all depositories of public funds to pledge securities of not less than 110% of the deposited public funds.

Condition: For the year ended June 30, 2012, the City's deposits held at one financial institution were fully collateralized in dollar amount, but were not collateralized by 110% as required.

Context: See Condition above.

Effect: City accounts were not adequately collateralized at one financial institution in accordance with state law.

Cause: The City accounting department has properly classified its accounts with this financial institution as public funds and does receive monthly monitoring reports from this financial institution. Due to a significant deposit made during June 2012, the financial institution did not update its collateral held on behalf of the City to fully collateralize the City's deposits within the 110% requirement as of June 30, 2012.

Recommendation: We recommend the City continue to request and review from the financial institutions holding City deposits, a monthly pledging report to determine that each financial institution has pledged securities of not less than 110% of the deposited funds as required by Georgia law.

Views of Responsible Officials and Planned Corrective Action: We concur with the recommendation. In discussions with the financial institution we became aware that the bank was using an average balance computation vs. an actual year end balance computation. We attempted to obtain verification of the institution's method but were unsuccessful. We will continue to monitor the pledging of collateral on a monthly basis. Additionally, as approved by City Council on July 16, 2012, all funds held at this financial institution have been transferred to another financial institution subsequent to year end.

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, 2012

STATUS OF PRIOR YEAR AUDIT FINDINGS

None reported