CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2013

CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* as well as Statement No. 65, *Items Previously Reported as Assets and Liabilities,* as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 through 12) and the Schedule of Funding Progress on page 59 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 do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 financial statements and schedules, the schedule of expenditures of federal awards as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, and the Schedule of Special Purpose Local Option Sales Tax Proceeds as required by the Official Code of Georgia 48-8-21 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, the schedule of expenditures of federal awards, and the schedule of special purpose local option sales tax proceeds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules, the schedule of expenditures of federal awards, and the schedule of special purpose local option sales tax proceeds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Macon, Georgia
December 24, 2013

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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, 2013. 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 $165,164,413 (net position). Of this amount, $67,923,107 (unrestricted net position) may be used to meet the City's ongoing obligations.
- The City's total net position increased by $4,879,022, due mostly to income from the business-type activities.
- As of the close of June 30, 2013, the City's governmental funds reported combined ending fund balances of $28,362,913 a decrease of $555,715 from the prior year. Approximately sixty-eight percent (68%) of this total amount, or $19,237,430, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was $19,237,430 or ninety-nine percent (99%) of general fund expenditures.
- The City's revenues for the year ended June 30, 2013 total $87,882,807. Of this amount, $78,471,716, or eighty-nine percent (89%), was generated from program revenues. Additionally, $6,606,515, or eight percent (8%), was generated from operating and capital grants. The balance of $9,411,091 or eleven percent (11%) was generated from general revenues.
- The City's expenses for the year ended 2013 total $83,003,785. Of this amount, $22,614,600, or twenty-seven percent (27%), was consumed by governmental activities. The balance of $60,389,185, or seventy-three percent (73%), 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 13 and 14) 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 15 through 25) 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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of 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 13 and 14 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 15 through 19 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 20 through 23 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 24 and 25 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 26 through 58 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 59 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 60 through 73 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, 2013 and June 30, 2012.

The City of Covington's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 29,797,530	$ 30,682,511	$ 51,284,230	$ 46,727,651	$ 81,081,760	$ 77,410,162
Capital assets	31,723,383	30,149,800	79,633,867	78,359,943	111,357,250	108,509,743
Total assets	61,520,913	60,832,311	130,918,097	125,087,594	192,439,010	185,919,905
Long-term liabilities outstanding	1,622,446	1,998,354	16,942,469	16,390,191	18,564,915	18,388,545
Other liabilities	932,048	902,498	7,777,634	6,343,471	8,709,682	7,245,969
Total liabilities	2,554,494	2,900,852	24,720,103	22,733,662	27,274,597	25,634,514
Net position:						
Net investment in capital assets	30,692,333	28,830,800	63,063,867	62,445,319	93,756,200	91,276,119
Restricted	3,279,505	2,378,745	205,601	137,125	3,485,106	2,515,870
Unrestricted	24,994,581	26,721,914	42,928,526	39,771,488	67,923,107	66,493,402
Total net position	$ 58,966,419	$ 57,931,459	$ 106,197,994	$ 102,353,932	$ 165,164,413	$ 160,285,391

As noted earlier, net position 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 $165,164,413 and $160,285,391 at June 30, 2013 and June 30, 2012, respectively.

By far the largest portion of the City's net position (57%) reflects its net investment 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 position, $3,485,106 or 2% represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position, $67,923,107 or 41%, is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of June 30, 2013 and June 30, 2012, the City is able to report positive balances in all categories of net position, 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 position by $1,034,960 as of June 30, 2013 and increased the City's net position by $1,676,032 as of June 30, 2012. As illustrated on the following table, taxes constitute the largest revenue source at $8,730,692 or fifty-three percent (53%) of total revenue as of June 30, 2013 and $8,730,305 or fifty-seven percent (57%) as of June 30, 2012.

City of Covington's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	$ 2,457,795	$ 2,301,435	$ 69,407,406	$ 65,543,260	$ 71,865,201	$ 67,844,695
Operating grants and contributions	2,532,363	774,263	2,069,340	869,669	4,601,703	1,643,932
Capital grants and contributions	2,004,812	2,514,435	-	443,000	2,004,812	2,957,435
General revenues:						
Taxes	8,730,692	8,730,305	-	-	8,730,692	8,730,305
Franchise fees	712,027	844,411	-	-	712,027	844,411
Investment earnings (loss)	45,722	126,506	(117,610)	148,041	(71,888)	274,547
Gain on sale	3,800	12,297	36,460	24,736	40,260	37,033
Total revenues	16,487,211	15,303,652	71,395,596	67,028,706	87,882,807	82,332,358
Expenses:						
General government	2,222,950	1,388,715	-	-	2,222,950	1,388,715
Judicial	505,358	519,766	-	-	505,358	519,766
Public safety	12,804,652	12,609,150	-	-	12,804,652	12,609,150
Public works	3,574,118	3,197,602	-	-	3,574,118	3,197,602
Parks and recreation	505,310	502,852	-	-	505,310	502,852
Housing and development	2,958,826	1,216,749	-	-	2,958,826	1,216,749
Interest and fiscal charges	43,386	53,213	-	-	43,386	53,213
Water and sewer	-	-	9,838,580	10,294,522	9,838,580	10,294,522
Gas and electric	-	-	45,891,615	46,237,455	45,891,615	46,237,455
Stormwater	-	-	781,577	859,420	781,577	859,420
Sanitation	-	-	2,857,062	2,603,293	2,857,062	2,603,293
Airport	-	-	1,020,351	1,058,010	1,020,351	1,058,010
Total expenses	22,614,600	19,488,047	60,389,185	61,052,700	83,003,785	80,540,747
Increase (decrease) in net position before transfers	(6,127,389)	(4,184,395)	11,006,411	5,976,006	4,879,022	1,791,611
Transfers	7,162,349	5,860,427	(7,162,349)	(5,860,427)	-	-
Change in net position	1,034,960	1,676,032	3,844,062	115,579	4,879,022	1,791,611
Net position, beginning	57,931,459	56,255,427	102,353,932	102,238,353	160,285,391	158,493,780
Net position, ending	$ 58,966,419	$ 57,931,459	$ 106,197,994	$ 102,353,932	$ 165,164,413	$ 160,285,391

Business-type activities. The City's business-type activities increased the City's net position by $3,844,062 and $115,579 of June 30, 2013 and June 30, 2012, 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, 2013, total fund balance of the general fund was $25,068,460. 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 130 percent of the total general fund expenditures. Transfers in from proprietary funds to supplement the general fund were $6,291,043 for the year ended June 30, 2013, which represents 33 percent of total fund expenditures.

The fund balance of the City's General fund decreased by $1,420,591 during fiscal year 2013 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 position of the Water and Sewer Fund at the end of 2013 amounted to $6,533,053; those for the Gas and Electric Fund amounted to $38,165,239 and those for the Airport Fund amounted to ($2,999,682). The total change in net position for each fund was an increase of $1,096,230, $1,368,172, and $1,409,569 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, 2013 amounted to $111,357,250 (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	
	2013	2012	2013	2012	2013	2012
Land	$ 1,967,925	$ 1,464,832	$ 10,888,579	$ 10,847,561	$ 12,856,504	$ 12,312,393
Buildings	7,193,063	5,562,103	498,013	500,143	7,691,076	6,062,246
Machinery and equipment	1,951,950	2,193,571	491,660	466,856	2,443,610	2,660,427
Furniture and fixtures	5,139	9,764	-	-	5,139	9,764
Vehicles	1,512,752	1,512,868	291,580	403,797	1,804,332	1,916,665
Intangibles	-	-	3,821,053	3,942,591	3,821,053	3,942,591
Improvements other than buildings	19,091,604	19,342,104	63,254,814	61,666,149	82,346,418	81,008,253
Construction in progress	950	64,558	388,168	532,846	389,118	597,404
Total	$ 31,723,383	$ 30,149,800	$ 79,633,867	$ 78,359,943	$ 111,357,250	$ 108,509,743

Additional information on the City's capital assets can be found in Note 5 on pages 42 through 44 of this report.

Long-term debt. As of June 30, 2013, the City had total bonded debt outstanding of $16,570,000. 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 capital leases payable of $1,031,050 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 ratings would not be 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 $55,438,597, which is significantly higher than the City's outstanding general obligation bonded debt, which is zero.

Additional information on the City's debt can be found in Note 6 on pages 45 through 48 of this report.

Factors affecting the July 1, 2013 – June 30, 2014 Budget:

The Mayor and Council of the City of Covington considered many factors when approving the City's July 1, 2013 – June 30, 2014 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, 2013.

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.

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CITY OF COVINGTON, GEORGIA

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Parking Authority	Redevelopment Authority	Airport Authority
Cash and cash equivalents	$ 23,161,919	$ 1,512,947	$ 24,674,866	$ 112,584	$ 41,216	$ 390,410
Investments	4,542,405	34,705,862	39,248,267	-	-	-
Taxes receivable	136,219	-	136,219	-	-	-
Accounts receivable, net of allowances	976,416	9,210,454	10,186,870	-	-	-
Due from other governments	410,917	407,541	818,458	-	-	-
Advance to component units	306,643	185,475	492,118	-	-	-
Due from Newton County	-	227,045	227,045	-	-	-
Internal balances	(240,510)	240,510	-	-	-	-
Inventories	57,017	1,224,626	1,281,643	-	-	-
Prepaid expenses	142,040	113,116	255,156	-	-	-
Restricted assets:						
Cash and cash equivalents	-	3,041,279	3,041,279	-	-	-
Investments	-	287,867	287,867	-	-	-
Net pension asset	304,464	127,508	431,972	-	-	-
Capital assets:						
Nondepreciable	1,968,875	11,276,747	13,245,622	414,173	391,392	14,002
Depreciable, net of accumulated depreciation	29,754,508	68,357,120	98,111,628	-	47,989	-
Total assets	61,520,913	130,918,097	192,439,010	526,757	480,597	404,412
LIABILITIES						
Accounts payable	494,037	5,445,627	5,939,664	-	-	-
Accrued liabilities	438,011	532,107	970,118	-	-	2,263
Unearned revenues	-	16,677	16,677	96,177	-	1,440
Due to primary government	-	-	-	250	491,868	-
Customer deposits payable	-	1,783,223	1,783,223	-	-	-
Due to others due within one year	-	88,581	88,581	-	-	-
Due to others due in more than one year	-	94,118	94,118	-	-	-
Capital leases due within one year	280,506	-	280,506	-	-	-
Capital leases due in more than one year	750,544	-	750,544	-	-	-
Notes payable due within one year	-	-	-	-	-	25,888
Notes payable due in more than one year	-	-	-	-	-	374,112
Bonds payable due within one year	-	1,785,000	1,785,000	-	-	-
Bonds payable due in more than one year	-	14,785,000	14,785,000	-	-	-
Compensated absences due within one year	314,195	37,546	351,741	-	-	-
Compensated absences due in more than one year	102,495	83,434	185,929			
Termination benefits due within one year	66,138	27,800	93,938	-	-	-
Termination benefits due in more than one year	108,568	40,990	149,558	-	-	-
Total liabilities	2,554,494	24,720,103	27,274,597	96,427	491,868	403,703
NET POSITION						
Net investment in capital assets	30,692,333	63,063,867	93,756,200	414,173	439,381	14,002
Restricted for:						
Debt service	-	205,601	205,601	-	-	-
Law enforcement	266,406	-	266,406	-	-	-
Cemetery maintenance	176,105	-	176,105	-	-	-
Other capital projects	2,836,994	-	2,836,994	-	-	-
Unrestricted	24,994,581	42,928,526	67,923,107	16,157	(450,652)	(13,293)
Total net position	$ 58,966,419	$ 106,197,994	$ 165,164,413	$ 430,330	$ (11,271)	$ 709

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 Position: Governmental Activities	Business-type Activities	Total	Component Units: Parking Authority	Component Units: Redevelopment Authority	Component Units: Airport Authority
Primary government:										
Governmental activities:										
General government	$ 2,222,950	$ 1,004,669	$ -	$ -	$ (1,218,281)	$ -	$ (1,218,281)	$ -	$ -	$ -
Judicial	505,358	-	-	-	(505,358)	-	(505,358)	-	-	-
Public safety	12,804,652	1,453,126	466,405	-	(10,885,121)	-	(10,885,121)	-	-	-
Public works	3,574,118	-	-	2,004,812	(1,569,306)	-	(1,569,306)	-	-	-
Parks and recreation	505,310	-	328,064	-	(177,246)	-	(177,246)	-	-	-
Housing and development	2,958,826	-	1,737,894	-	(1,220,932)	-	(1,220,932)	-	-	-
Interest on long-term debt	43,386	-	-	-	(43,386)	-	(43,386)	-	-	-
Total governmental activities	22,614,600	2,457,795	2,532,363	2,004,812	(15,619,630)	-	(15,619,630)	-	-	-
Business-type activities:										
Water and sewer	9,838,580	10,896,832	-	-	-	1,058,252	1,058,252	-	-	-
Gas	11,012,890	14,724,645	153,154	-	-	3,864,909	3,864,909	-	-	-
Electric	34,878,725	40,102,437	-	-	-	5,223,712	5,223,712	-	-	-
Stormwater	781,577	755,502	-	-	-	(26,075)	(26,075)	-	-	-
Sanitation	2,857,062	2,414,256	-	-	-	(442,806)	(442,806)	-	-	-
Airport	1,020,351	513,734	1,916,186	-	-	1,409,569	1,409,569	-	-	-
Total business-type activities	60,389,185	69,407,406	2,069,340	-	-	11,087,561	11,087,561	-	-	-
Total primary government	$ 83,003,785	$ 71,865,201	$ 4,601,703	$ 2,004,812	(15,619,630)	11,087,561	(4,532,069)	-	-	-
Component units:										
Parking Authority	-	2,346	-	-	-	-	-	2,346	-	-
Redevelopment Authority	10,124	10,077	-	-	-	-	-	-	(47)	-
Airport Authority	10,197	5,863	-	-	-	-	-	-	-	(4,334)
Total component units	$ 20,321	$ 18,286	$ -	$ -	-	-	-	2,346	(47)	(4,334)
General revenues:										
Property taxes					4,715,113	-	4,715,113	-	-	-
Sales taxes					2,000,388	-	2,000,388	-	-	-
Insurance premium tax					653,540	-	653,540	-	-	-
Other taxes					1,361,651	-	1,361,651	-	-	-
Franchise fees					712,027	-	712,027	-	-	-
Unrestricted investment earnings (losses)					45,722	(117,610)	(71,888)	12	47	-
Gain on sale of capital assets					3,800	36,460	40,260	-	-	-
Transfers					7,162,349	(7,162,349)	-	-	-	-
Total general revenues and transfers					16,654,590	(7,243,499)	9,411,091	12	47	-
Change in net position					1,034,960	3,844,062	4,879,022	2,358	-	(4,334)
Net position, beginning of year					57,931,459	102,353,932	160,285,391	427,972	(11,271)	5,043
Net position, end of year					$ 58,966,419	$ 106,197,994	$ 165,164,413	$ 430,330	$ (11,271)	$ 709

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

CITY OF COVINGTON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	$ 20,336,689	$ 2,825,230	$ 23,161,919
Investments	4,542,405	-	4,542,405
Taxes receivable, net	90,979	45,240	136,219
Accounts receivable, net	486,656	489,760	976,416
Due from other governments	183,108	227,809	410,917
Due from other funds	24,413	136,570	160,983
Inventories	57,017	-	57,017
Prepaid expenditures	127,092	14,948	142,040
Advance to component unit	306,643	-	306,643
Advances to other funds	2,415,091	-	2,415,091
Total assets	$ 28,570,093	$ 3,739,557	$ 32,309,650
LIABILITIES			
Accounts payable	$ 397,552	$ 96,485	$ 494,037
Accrued liabilities	400,094	29,082	429,176
Unearned revenues	3,047	200,000	203,047
Due to other funds	2,697,047	119,537	2,816,584
Total liabilities	3,497,740	445,104	3,942,844
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	3,893	-	3,893
Total deferred inflows of resources	3,893	-	3,893
FUND BALANCES			
Nonspendable:			
Inventories	57,017	-	57,017
Prepaid expenditures	127,092	14,948	142,040
Advance to component unit	306,643	-	306,643
Advance to other funds	2,415,091	-	2,415,091
Restricted for:			
Law enforcement	-	266,406	266,406
Cemetery maintenance	-	176,105	176,105
Other capital projects	-	2,836,994	2,836,994
Committed to:			
Tourism projects (hotel / motel tax funds)	233,687	-	233,687
Assigned to:			
Capital projects (airport, fire training center, natural gas fueling station)	2,691,500	-	2,691,500
Unassigned:	19,237,430	-	19,237,430
Total fund balances	25,068,460	3,294,453	28,362,913
Total liabilities, deferred inflows of resources, and fund balances	$ 28,570,093	$ 3,739,557	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			31,723,383
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			206,940
Net pension asset is not a financial asset in governmental activities and therefore is not reported in governmental funds.			304,464
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.			(1,631,281)
Net position of governmental activities			$ 58,966,419

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 FISCAL YEAR ENDED JUNE 30, 2013

	General	Other Governmental Funds	Totals Governmental Funds
Revenues			
Property taxes	$ 4,937,261	$ -	$ 4,937,261
Sales taxes	2,000,388	-	2,000,388
Insurance premium taxes	653,540	-	653,540
Other taxes	930,448	431,203	1,361,651
Charges for services	-	1,064,397	1,064,397
Licenses and permits	155,169	-	155,169
Intergovernmental	1,083,719	3,451,583	4,535,302
Franchise fees	712,027	-	712,027
Fines and forfeitures	264,693	126,577	391,270
Interest revenue	45,446	2,149	47,595
Other revenues	849,500	-	849,500
Total revenues	11,632,191	5,075,909	16,708,100
Expenditures			
Current:			
General government	3,811,312	-	3,811,312
Judicial	502,771	-	502,771
Public safety	10,523,309	2,586,149	13,109,458
Public works	2,777,179	-	2,777,179
Parks and recreation	519,162	-	519,162
Housing and development	878,753	2,071,834	2,950,587
Capital outlay	-	424,356	424,356
Debt service:			
Principal	287,950	-	287,950
Interest	47,189	-	47,189
Total expenditures	19,347,625	5,082,339	24,429,964
Deficiency of revenues under expenditures	(7,715,434)	(6,430)	(7,721,864)
Other financing sources (uses)			
Transfers in	6,291,043	952,205	7,243,248
Transfers out	-	(80,899)	(80,899)
Proceeds from the sale of capital assets	3,800	-	3,800
Total other financing sources	6,294,843	871,306	7,166,149
Net change in fund balances	(1,420,591)	864,876	(555,715)
Fund balances, beginning of year	26,489,051	2,429,577	28,918,628
Fund balances, end of year	$ 25,068,460	$ 3,294,453	$ 28,362,913

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 FISCAL YEAR ENDED JUNE 30, 2013

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	(555,715)
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.		1,573,583
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(224,689)
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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		287,950
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.		(46,169)
	$	1,034,960

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 FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues:				
Property taxes	$ 4,267,142	$ 4,267,142	$ 4,937,261	$ 670,119
Sales taxes	1,910,600	1,910,600	2,000,388	89,788
Insurance premium taxes	610,000	610,000	653,540	43,540
Other taxes	1,041,000	1,041,000	930,448	(110,552)
Licenses and permits	181,525	181,525	155,169	(26,356)
Intergovernmental	2,935,373	3,035,373	1,083,719	(1,951,654)
Franchise fees	815,000	815,000	712,027	(102,973)
Fines and forfeitures	450,000	450,000	264,693	(185,307)
Interest revenue	65,466	65,466	45,446	(20,020)
Other revenues	803,057	803,057	849,500	46,443
Total revenues	13,079,163	13,179,163	11,632,191	(1,546,972)
Expenditures:				
Current:				
General government:				
Administrative services	1,632,757	2,097,107	1,923,048	174,059
Elected and appointed officials	770,039	774,339	774,252	87
Maintenance department	423,004	423,004	391,908	31,096
Purchasing	118,065	118,065	112,781	5,284
Personnel	488,649	488,649	416,597	72,052
Risk management	199,050	199,050	192,726	6,324
Total general government	3,631,564	4,100,214	3,811,312	288,902
Judicial	533,065	533,065	502,771	30,294
Public safety:				
Police	5,717,553	5,747,553	5,743,846	3,707
Fire	5,775,812	5,767,712	4,779,463	988,249
Total public safety	11,493,365	11,515,265	10,523,309	991,956
Public works:				
Highways and streets	4,045,181	4,045,181	1,648,764	2,396,417
Engineering	694,813	694,813	576,604	118,209
Facilities maintenance	459,479	459,479	386,822	72,657
Telecommunications	191,103	191,103	164,989	26,114
Total public works	5,390,576	5,390,576	2,777,179	2,613,397
Parks and recreation:				
Recreation	324,457	328,067	326,587	1,480
Cemetery and parks	200,584	336,584	192,575	144,009
Total parks and recreation	525,041	664,651	519,162	145,489
Housing and development:				
Planning and zoning	1,030,871	1,080,871	792,503	288,368
Mainstreet program	87,736	87,736	86,250	1,486
Total housing and development	1,118,607	1,168,607	878,753	289,854

(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, 2013

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Expenditures: (Continued)				
Debt service:				
Principal	$ 213,944	$ 287,956	$ 287,950	$ 6
Interest	121,856	55,944	47,189	8,755
	335,800	343,900	335,139	8,761
Total expenditures	23,028,018	23,716,278	19,347,625	4,368,653
Deficiency of revenues under expenditures	(9,948,855)	(10,537,115)	(7,715,434)	2,821,681
Other financing sources (uses)				
Transfers in	9,571,224	8,435,224	6,291,043	(2,144,181)
Transfers out	(1,641,500)	(3,240)	-	3,240
Capital leases	2,691,500	2,691,500	-	(2,691,500)
Proceeds from the sale of capital assets	-	-	3,800	3,800
Total other financing sources	10,621,224	11,123,484	6,294,843	(4,828,641)
Net change in fund balances	672,369	586,369	(1,420,591)	(2,006,960)
Fund balances, beginning of year	26,489,051	26,489,051	26,489,051	-
Fund balances, end of year	$ 27,161,420	$ 27,075,420	$ 25,068,460	$ (2,006,960)

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 387,152	$ 188,505	$ 937,290	$ 1,512,947
Investments	-	34,705,862	-	-	34,705,862
Accounts receivable, net of allowances	1,311,372	7,162,565	6,566	729,951	9,210,454
Due from other funds	2,552,319	996,569	-	8,158	3,557,046
Due from Newton County	227,045	-	-	-	227,045
Inventories	106,953	1,085,807	31,866	-	1,224,626
Prepaid expenses	12,650	84,837	6,040	9,589	113,116
Due from other governments	31,798	140,884	234,859	-	407,541
Restricted assets, cash	2,755,281	285,998	-	-	3,041,279
Restricted assets, investments	287,867	-	-	-	287,867
Total current assets	7,285,285	44,849,674	467,836	1,684,988	54,287,783
NONCURRENT ASSETS					
Net pension asset	45,538	42,937	5,204	33,829	127,508
Advance to component unit	185,475	-	-	-	185,475
Capital assets:					
Nondepreciable	3,871,970	286,706	7,105,069	13,002	11,276,747
Depreciable, net of accumulated depreciation	37,617,480	13,531,248	12,508,241	4,700,151	68,357,120
Total noncurrent assets	41,720,463	13,860,891	19,618,514	4,746,982	79,946,850
Total assets	49,005,748	58,710,565	20,086,350	6,431,970	134,234,633
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	279,409	4,545,092	542,491	78,635	5,445,627
Accrued liabilities	154,952	388,068	19,284	90,783	653,087
Current portion - due to others	88,581	-	-	-	88,581
Current portion - termination benefits	5,975	4,525	-	17,300	27,800
Customer deposits payable	-	1,783,223	-	-	1,783,223
Due to other funds	144,795	-	479,179	277,471	901,445
Deferred revenue	-	-	16,677	-	16,677
Payable from restricted assets:					
Revenue bonds payable, current portion	1,785,000	-	-	-	1,785,000
Total current liabilities	2,458,712	6,720,908	1,057,631	464,189	10,701,440
NONCURRENT LIABILITIES					
Revenue bonds payable, net of current portion	14,785,000	-	-	-	14,785,000
Notes payable, net of current portion	-	-	-	-	-
Due to others - long term	94,118	-	-	-	94,118
Termination benefits, net of current portion	9,814	6,464	-	24,712	40,990
Advance from other funds	-	-	2,415,091	-	2,415,091
Total long-term liabilities	14,888,932	6,464	2,415,091	24,712	17,335,199
Total liabilities	17,347,644	6,727,372	3,472,722	488,901	28,036,639
NET POSITION					
Net investment in capital assets	24,919,450	13,817,954	19,613,310	4,713,153	63,063,867
Restricted for					
Debt service	205,601	-	-	-	205,601
Unrestricted	6,533,053	38,165,239	(2,999,682)	1,229,916	42,928,526
Total net position	$ 31,658,104	$ 51,983,193	$ 16,613,628	$ 5,943,069	$ 106,197,994

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Charges for services	$ 10,816,232	$ 54,000,900	$ 469,010	$ 3,123,032	$ 68,409,174
Other services	80,600	826,182	44,724	46,726	998,232
Total operating revenues	10,896,832	54,827,082	513,734	3,169,758	69,407,406
OPERATING EXPENSES					
Personal services	2,637,422	2,540,037	302,445	1,509,846	6,989,750
Water purchases	2,272,037	-	-	-	2,272,037
Purchased power	-	30,654,032	-	-	30,654,032
Natural gas purchases	-	9,388,300	-	-	9,388,300
Other costs of operations	2,404,896	2,575,229	487,352	1,567,392	7,034,869
Depreciation and amortization	1,688,492	734,017	230,554	561,401	3,214,464
Total operating expenses	9,002,847	45,891,615	1,020,351	3,638,639	59,553,452
Operating income (loss)	1,893,985	8,935,467	(506,617)	(468,881)	9,853,954
NONOPERATING INCOME (EXPENSES)					
Intergovernmental	-	153,154	-	-	153,154
Interest income (investment loss)	1,518	(157,306)	-	38,178	(117,610)
Interest expense	(654,647)	-	-	-	(654,647)
Bond issuance costs	(181,086)	-	-	-	(181,086)
Gain on sale of capital assets	36,460	-	-	-	36,460
Total nonoperating income (expenses)	(797,755)	(4,152)	-	38,178	(763,729)
Income (loss) before transfers and capital contributions	1,096,230	8,931,315	(506,617)	(430,703)	9,090,225
CAPITAL CONTRIBUTIONS	-	-	1,916,186	-	1,916,186
TRANSFERS					
Transfers in	-	-	-	400,794	400,794
Transfers out	-	(7,563,143)	-	-	(7,563,143)
Total transfers	-	(7,563,143)	-	400,794	(7,162,349)
Change in net position	1,096,230	1,368,172	1,409,569	(29,909)	3,844,062
NET POSITION, beginning of year	30,561,874	50,615,021	15,204,059	5,972,978	102,353,932
NET POSITION, end of year	$ 31,658,104	$ 51,983,193	$ 16,613,628	$ 5,943,069	$ 106,197,994

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	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	$ 11,019,381	$ 54,032,114	$ 525,297	$ 3,370,168	$ 68,946,960
Payments to suppliers	(4,655,632)	(41,828,206)	626,471	(1,303,257)	(47,160,624)
Payments to employees	(2,668,774)	(2,562,521)	(290,069)	(1,504,986)	(7,026,350)
Net cash provided by operating activities	3,694,975	9,641,387	861,699	561,925	14,759,986
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental revenue	-	153,154	-	-	153,154
Transfers out	-	(7,563,143)	-	-	(7,563,143)
Transfers in	-	-	-	400,794	400,794
Net cash provided by (used in) noncapital financing activities	-	(7,409,989)	-	400,794	(7,009,195)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	36,460	-	-	-	36,460
Acquisition and construction of capital assets	(1,001,376)	(766,094)	(2,359,621)	(361,297)	(4,488,388)
Bond issuance costs paid	(181,086)	-	-	-	(181,086)
Proceeds from bonds payable	14,860,000	-	-	-	14,860,000
Principal paid on bonds	(245,000)	-	-	-	(245,000)
Principal paid on notes payable, revenue bonds and intergovernmental agreement	(13,959,624)	-	-	-	(13,959,624)
Capital contributions	-	-	1,681,327	-	1,681,327
Payments on long term intergovernmental agreement	(83,371)	-	-	-	(83,371)
Interest paid	(731,681)	-	-	-	(731,681)
Net cash used in capital and related financing activities	(1,305,678)	(766,094)	(678,294)	(361,297)	(3,111,363)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	231,062	(13,547,115)	-	-	(13,316,053)
Proceeds from the sale of investments	-	11,907,246	-	-	11,907,246
Interest and dividends received	1,518	281,940	-	38,178	321,636
Net cash provided by (used in) investing activities	232,580	(1,357,929)	-	38,178	(1,087,171)
Change in cash and cash equivalents	2,621,877	107,375	183,405	639,600	3,552,257
Cash and cash equivalents:					
Beginning of year	133,404	565,775	5,100	297,690	1,001,969
End of year	$ 2,755,281	$ 673,150	$ 188,505	$ 937,290	$ 4,554,226
Classified as:					
Cash and cash equivalents	$ -	$ 387,152	$ 188,505	$ 937,290	$ 1,512,947
Restricted assets, cash	2,755,281	285,998	-	-	3,041,279
	$ 2,755,281	$ 673,150	$ 188,505	$ 937,290	$ 4,554,226

(Continued)

CITY OF COVINGTON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	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)	$ 1,893,985	$ 8,935,467	$ (506,617)	$ (468,881)	$ 9,853,954
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,688,492	734,017	230,554	561,401	3,214,464
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	196,248	(229,407)	473	(33,095)	(65,781)
Increase in due from Newton County	(147,526)	-	-	-	(147,526)
(Increase) decrease in inventories	3,853	(250,680)	13,509	-	(233,318)
(Increase) decrease in due from other funds	(81,861)	1,102,415	429,988	756,121	2,206,663
Decrease in prepaids and other assets	26,236	28,556	72	17,035	71,899
(Increase) decrease in due from other governments	10,893	(50,708)	-	-	(39,815)
(Increase) decrease in net pension asset	20,932	19,748	(3,098)	12,804	50,386
Increase (decrease) in accounts payable	(66,033)	908,072	521,620	22,518	1,386,177
Increase in accrued liabilities	10,611	65,469	12,376	21,280	109,736
Decrease in termination benefits	(5,650)	(4,294)	-	(16,420)	(26,364)
Increase in deferred revenues	-	-	11,090	-	11,090
Increase in customer deposits	-	51,894	-	-	51,894
Decrease in due to component units	-	(41,063)	-	-	(41,063)
Increase (decrease) in due to other funds and advances	144,795	(1,628,099)	151,732	(310,838)	(1,642,410)
Net cash provided by operating activities	$ 3,694,975	$ 9,641,387	$ 861,699	$ 561,925	$ 14,759,986
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Decrease in fair value of investments	-	(439,246)	-	-	(439,246)
	$ -	$ (439,246)	$ -	$ -	$ (439,246)

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Agency Fund Impound Evidence	Pension Trust Fund
ASSETS		
Cash and cash equivalents	$ 205,107	$ 2,458,682
Investments, at fair value:		
Common stock	-	12,114,528
Governmental bonds	-	6,483,067
Corporate bonds	-	6,899,434
Total investments	-	25,497,029
Total assets	205,107	27,955,711
LIABILITIES		
Due to others	205,107	4,028
NET POSITION		
Held in trust for pension benefits	$ -	$ 27,951,683

A schedule of funding progress is presented on page 59.

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund
Additions	
Contributions:	
Employer	$ 2,213,973
Total contributions	2,213,973
Investment income:	
Interest income	700,730
Net depreciation in fair value of investments	1,766,627
Total additions	4,681,330
Deductions	
Benefits paid	1,510,157
Administrative expenses	206,171
Total deductions	1,716,328
Net increase	2,965,002
Net position available for benefits:	
Beginning of year	24,986,681
End of year	$ 27,951,683

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

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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. 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 units. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

The **Parking Authority** has been included as a discretely presented component unit in the accompanying financial statements. The Parking 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 Parking Authority is audited and included along with the primary government financial statements in accordance with Governmental Accounting Standards Board Statement No. 14, as amended by Statements No. 34 and 61. 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, as amended by Statements No. 34 and 61. However, separate financial statements are not prepared.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Financial Reporting Entity

The **Airport Authority** has been included as a discretely presented component unit in the accompanying financial statements with a March 31, 2013 year end. The Airport Authority was created to provide, operate, maintain, and develop a premier air transportation facility to serve Covington, Newton County and surrounding areas. The City possesses the authority to review, approve and revise the budget and governs collection and disbursement of funds. The governing body of the Airport Authority is appointed by the City. The Airport Authority is audited and included along with the primary government financial statements in accordance with Governmental Accounting Standards Board Statement No. 14, as amended by Statements No. 34 and 61. However, separate financial statements are not prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *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.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013:

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 column 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, 2013, no interest was capitalized.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

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

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 position. Bond premiums and discounts 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 expensed in the period incurred.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows / Inflows of Resources

The City implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2012. These new standards establish accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of net position.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The City had no items that qualified for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

M. 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)

N. 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 position."

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Equity (Continued)

Net Position – Net position represents the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net investment in capital assets, 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 position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

O. 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.

Q. 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 position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. 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 $1,631,281 difference are as follows:

Capital leases payable	$	(1,031,050)
Compensated absences		(416,690)
Termination benefits		(174,706)
Accrued interest payable		(8,835)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(1,631,281)

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 position 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 $1,573,583 difference are as follows:

Capital outlay	$	3,610,833
Depreciation expense		(2,037,250)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	1,573,583

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

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

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 $46,169 are as follows:

Compensated absences	$	52,759
Net pension asset		(137,930)
Termination benefits		35,199
Accrued interest		3,803
Net adjustment to decrease *net changes in fund balance - total governmental funds* to arrive at *changes in net position - governmental activities*	$	(46,169)

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2013, are summarized as follows:

As reported in the Statement of Net Position:		
Primary government		
Cash and cash equivalents	$	24,674,866
Investments		39,248,267
Restricted assets:		
Cash and cash equivalents		3,041,279
Investments		287,867
Agency Fund - cash and cash equivalents		205,107
Pension Trust Fund		
Cash and cash equivalents		2,458,682
Investments		25,497,029
Component Units - cash and cash equivalents		544,210
	$	95,957,307

Cash deposited with financial institutions	$	30,924,144
Certificates of deposit		3,597,341
Investment in Municipal Competitive Trust		34,662,983
Investment in U.S. Government Securities		448,891
Investment in Corporate Bonds		826,919
Pension Trust Fund investments		25,497,029
	$	95,957,307

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, 2013, 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	$ 18,324,415	$ 18,324,415	$ -	$ -	$ -	NR
Municipal Competitive Trust - Intermediate	16,338,568	16,338,568	-	-	-	NR
U.S. Government Securities	448,891	-	110,444	93,795	244,652	AA+
Corporate bonds	99,889	-	99,889	-	-	AA+
Corporate bonds	100,169	100,169	-	-	-	AA-
Corporate bonds	199,927	-	99,727	-	100,200	A+
Corporate bonds	223,342	175,196	-	48,146	-	A
Corporate bonds	203,592	100,172	103,420	-	-	A-
Certificates of deposit	3,597,341	3,388,521	208,820	-	-	N/A
Subtotal	39,536,134	38,427,041	622,300	141,941	344,852	
Pension Trust Fund:						
Common stock	12,888,724	N/A	-	-	-	N/A
Government bonds	799,508	638,048	161,460	-	-	AAA
Government bonds	5,095,577	510,635	873,126	1,218,173	2,493,643	AA+
Government bonds	631,306	100,726	530,580	-	-	AA
Government bonds	322,349	-	104,953	217,396	-	AA-
Government bonds	527,164	203,842	323,322	-	-	A
Corporate bonds	542,900	-	-	542,900	-	AAA
Corporate bonds	662,473	-	-	662,473	-	AA+
Corporate bonds	621,480	-	-	621,480	-	AA
Corporate bonds	573,564	-	-	-	573,564	AA-
Corporate bonds	621,003	-	333,900	-	287,103	A+
Corporate bonds	673,317	100,520	572,797	-	-	A
Corporate bonds	636,949	-	167,144	-	469,805	A-
Corporate bonds	299,811	-	-	299,811	-	BBB+
Corporate bonds	400,400	-	400,400	-	-	BB+
Certificates of deposit	200,504	-	200,504	-	-	BB+
Subtotal	25,497,029	1,553,771	3,668,186	3,562,233	3,824,115	
Total fair value	$ 65,033,163	$ 39,980,812	$ 4,290,486	$ 3,704,174	$ 4,168,967	

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2013, 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	$ 383,530	$ 45,240	$ -	$ -
Accounts	488,663	601,643	1,316,549	7,199,434
Intergovernmental	183,108	227,809	258,843	140,884
Gross receivables	1,055,301	874,692	1,575,392	7,340,318
Less: allowance for uncollectibles	(294,558)	(111,883)	(5,177)	(36,869)
Net total receivables	$ 760,743	$ 762,809	$ 1,570,215	$ 7,303,449

	Airport	Nonmajor Enterprise	Total
Receivables:			
Taxes	$ -	$ -	$ 428,770
Accounts	7,886	1,573,761	11,187,936
Intergovernmental	234,859	-	1,045,503
Gross receivables	242,745	1,573,761	12,662,209
Less: allowance for uncollectibles	(1,320)	(843,810)	(1,293,617)
Net total receivables	$ 241,425	$ 729,951	$ 11,368,592

NOTE 4. RECEIVABLES (CONTINUED)

Property Taxes

Property taxes were levied on behalf of the City by Newton County on July 16, 2012 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on August 15, 2012 and payable on or before December 20, 2012 for the fiscal year 2012 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, 2013, the allowance for uncollectible property taxes was $292,552.

The tax rate levied during calendar year 2012 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, 2013 was as follows:

Primary government:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 1,464,832	$ 503,093	$ -	$ -	$ 1,967,925
Construction in progress	64,558	-	-	(63,608)	950
Total capital assets, not being depreciated	1,529,390	503,093	-	(63,608)	1,968,875
Capital assets, being depreciated:					
Buildings and improvements	8,006,968	1,776,050	-	30,154	9,813,172
Machinery and equipment	8,437,599	291,990	-	-	8,729,589
Furniture and fixtures	921,655	-	-	-	921,655
Vehicles	3,392,155	423,886	(32,120)	-	3,783,921
Infrastructure	32,943,837	615,814	-	33,454	33,593,105
Total capital assets, being depreciated	53,702,214	3,107,740	(32,120)	63,608	56,841,442
Less accumulated depreciation for:					
Buildings and improvements	(2,444,865)	(175,244)	-	-	(2,620,109)
Machinery and equipment	(6,244,028)	(533,611)	-	-	(6,777,639)
Furniture and fixtures	(911,891)	(4,625)	-	-	(916,516)
Vehicles	(1,879,287)	(424,002)	32,120	-	(2,271,169)
Infrastructure	(13,601,733)	(899,768)	-	-	(14,501,501)
Total accumulated depreciation	(25,081,804)	(2,037,250)	32,120	-	(27,086,934)
Total capital assets, being depreciated, net	28,620,410	1,070,490	-	63,608	29,754,508
Governmental activities capital assets, net	$ 30,149,800	$ 1,573,583	$ -	$ -	$ 31,723,383

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 10,847,561	$ 41,018	$ -	$ -	$ 10,888,579
Construction in progress	532,846	709,517	-	(854,195)	388,168
Total capital assets, not being depreciated	11,380,407	750,535	-	(854,195)	11,276,747
Capital assets, being depreciated:					
Buildings	2,628,285	28,624	-	-	2,656,909
Machinery and equipment	3,385,685	215,668	(50,500)	-	3,550,853
Vehicles	3,724,769	75,500	-	-	3,800,269
Intangibles	4,397,830	-	-	-	4,397,830
Improvements other than buildings	94,937,344	3,418,061	-	854,195	99,209,600
Total capital assets, being depreciated	109,073,913	3,737,853	(50,500)	854,195	113,615,461
Less accumulated depreciation for:					
Buildings	(2,128,142)	(30,754)	-	-	(2,158,896)
Machinery and equipment	(2,918,829)	(190,864)	50,500	-	(3,059,193)
Vehicles	(3,320,972)	(187,717)	-	-	(3,508,689)
Intangibles	(455,239)	(121,538)	-	-	(576,777)
Improvements other than buildings	(33,271,195)	(2,683,591)	-	-	(35,954,786)
Total accumulated depreciation	(42,094,377)	(3,214,464)	50,500	-	(45,258,341)
Total capital assets, being depreciated, net	66,979,536	523,389	-	854,195	68,357,120
Business-type activities capital assets, net	$ 78,359,943	$ 1,273,924	$ -	$ -	$ 79,633,867

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

Governmental activities:	
General government	$ 279,197
Public safety	679,561
Public works	1,070,613
Parks and recreation	330
Housing and development	7,549
Total depreciation expense - governmental activities	$ 2,037,250
Business-type activities:	
Water and sewer	$ 1,688,492
Gas and electric	734,017
Airport	230,554
Stormwater	437,951
Sanitation	123,450
Total depreciation expense - business-type activities	$ 3,214,464

NOTE 5. CAPITAL ASSETS (CONTINUED)

Component units:

Parking Authority

	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

Redevelopment Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 408,058	$ -	$ (16,666)	$ 391,392
Total capital assets, not being depreciated	408,058	-	(16,666)	391,392
Capital assets, being depreciated:				
Buildings and improvements	49,946	508	-	50,454
Total capital assets, being depreciated	49,946	508	-	50,454
Less accumulated depreciation for:				
Buildings and improvements	(463)	(2,002)	-	(2,465)
Total accumulated depreciation	(463)	(2,002)	-	(2,465)
Total capital assets, being depreciated, net	49,483	(1,494)	-	47,989
Redevelopment Authority assets, net	$ 457,541	$ (1,494)	$ (16,666)	$ 439,381

Airport Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 14,002	$ -	$ 14,002
Total capital assets, not being depreciated	-	14,002	-	14,002
Airport Authority assets, net	$ -	$ 14,002	$ -	$ 14,002

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, 2013 is as follows:

Description	Original Amount	Interest Rate	Due Date	Amount
Wastewater treatment plant capacity expansion	$ 3,625,000	3.80%	2018	$ 1,710,000
2013 Revenue Refunding Bonds	14,860,000	2.6%	2025	14,860,000
				16,570,000
			Less current portion	(1,785,000)
				$ 14,785,000

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
2014	$ 2,116,785	$ 1,785,000	$ 331,785
2015	2,168,381	1,860,000	308,381
2016	2,154,971	1,890,000	264,971
2017	2,185,615	1,965,000	220,615
2018	2,120,209	1,945,000	175,209
2019 - 2023	7,076,165	6,755,000	321,165
2024 and 2025	377,106	370,000	7,106
	$ 18,199,232	$ 16,570,000	$ 1,629,232

NOTE 6. LONG-TERM DEBT (CONTINUED)

Other Long-Term Debt

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, 2013:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2013
Waste water treatment plant	$ 772,830	6.25%	2015	$ 182,699
				182,699
			Less current maturities	(88,581)
				$ 94,118

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
2014	$ 100,000	$ 88,581	$ 11,419
2015	100,000	94,118	5,882
	$ 200,000	$ 182,699	$ 17,301

Termination Benefits:

During the years ended June 30, 2011 through 2013, 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, 2013, the City utilized a discount rate of 2% to record a total liability of $243,496.

NOTE 6. LONG-TERM DEBT (CONTINUED)

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, 2013:

Buildings	$	1,439,150
Machinery and equipment		802,306
Less accumulated depreciation		(392,500)
Carrying value	$	1,848,956

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, 2013:

Fiscal year ending		
2014	$	317,689
2015		131,323
2016		131,323
2017		131,323
2018		131,323
2019 - 2021		328,308
Total minimum lease payments		1,171,289
Less amount representing interest		(140,239)
Present value of future minimum lease payments		1,031,050
Less current maturities		(280,506)
	$	750,544

NOTE 6. LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Governmental activities:					
Capital leases	$ 1,319,000	$ -	$ (287,950)	$ 1,031,050	$ 280,506
Compensated absences	469,449	232,873	(285,632)	416,690	314,195
Termination benefits	209,905	17,250	(52,449)	174,706	66,138
Governmental activities long-term liabilities	$ 1,998,354	$ 250,123	$ (626,031)	$ 1,622,446	$ 660,839
Business-type activities:					
Revenue bonds	$ 1,955,000	$ 14,860,000	$ (245,000)	$ 16,570,000	$ 1,785,000
Notes payable	13,959,624	-	(13,959,624)	-	-
Intergovernmental agreement	266,070	-	(83,371)	182,699	88,581
Compensated absences	114,343	40,769	(34,132)	120,980	37,546
Termination benefits	95,154	-	(26,364)	68,790	27,800
Business-type activities long-term liabilities	$ 16,390,191	$ 14,900,769	$ (14,348,491)	$ 16,942,469	$ 1,938,927

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.

Airport Authority Note Payable

In January 2013, the airport authority borrowed $400,000 from Branch Banking and Trust pursuant to a note payable agreement. The proceeds are being used for the construction of new hangers at the Covington Municipal Airport. The note bears interest at a rate of 2.79% with an annual payment of $32,646. The note fully matures on August 23, 2027.

The annual payments as of March 31, 2013 are as follows:

Fiscal Year Payable	Total	Principal	Interest
2014	$ 32,646	$ 25,888	$ 6,758
2015	32,646	22,209	10,437
2016	32,646	22,828	9,818
2017	32,646	23,465	9,181
2018	32,646	24,120	8,526
2019 - 2023	163,230	131,077	32,153
2024 - 2028	163,230	150,413	12,817
	$ 489,690	$ 400,000	$ 89,690

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, 2013, the date of the most recent actuarial valuation, there were 575 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	141
Vested terminated employees not yet receiving benefits	182
Active employees	252
Total	575

As of the most recent valuation date, January 1, 2013, 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)
1/1/2013	$ 26,603,515	$ 36,307,986	$ 9,704,471	73.3 %	$ 11,916,980	81.4 %

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, 2013.

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, 2012, 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 6.75% per year, compounded annually and net of investment expenses and (b) projected salary increases of 2.0% 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 2013 were computed as follows:

	2013
Annual required contribution	$ 2,358,400
Interest on net pension obligation	(105,099)
Adjustment to annual required contribution	135,015
Annual pension cost	2,388,316
Contributions made	2,200,000
Change in net pension asset	(188,316)
Net pension asset beginning of year	620,288
Net pension asset end of year	$ 431,972
As reported in the Statement of Net Position:	
Governmental activities	$ 304,464
Business-type activities	127,508
	$ 431,972

E. Schedule of Employer Contributions

Plan Year Ended December 31,	Actuarially Required Contribution (ARC)	Actual Pension Contribution	Percentage of ARC Contributed	Net Pension Asset
2013	$ 2,358,400	$ 2,200,000	93.3 %	$ 431,972
2012	1,918,260	2,000,000	104.3	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

* 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 made no contributions in fiscal year 2013.

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, 2013, City employees contributed $37,205 to the 457 plan.

Pursuant to 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, 2013, are as follows:

	Due From				
Due To	General Fund	Water Fund	Gas and Electric Fund	Nonmajor Governmental	Nonmajor Enterprise	Total
General Fund	$ -	$ 2,552,319	$ -	$ 136,570	$ 8,158	$ 2,697,047
Water Fund	-	-	144,795	-	-	144,795
Airport Fund	-	-	479,179	-	-	479,179
Nonmajor Governmental	-	-	119,537	-	-	119,537
Nonmajor Enterprise	24,413	-	253,058	-	-	277,471
Total	$ 24,413	$ 2,552,319	$ 996,569	$ 136,570	$ 8,158	$ 3,718,029

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, 2013, the City's General Fund has advanced the Airport Fund $2,415,091 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, 2013, consisted of the following:

	Transfer To			
Transfer From	General Fund	Nonmajor Enterprise	Nonmajor Governmental	Total
Gas and Electric	$ 6,210,144	$ 400,794	$ 952,205	$ 7,563,143
Nonmajor Governmental	80,899	-	-	80,899
Total	$ 6,291,043	$ 400,794	$ 952,205	$ 7,644,042

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, 2013, $431,203 of hotel/motel tax was collected. Of the total collected, 100% was used for the promotion of tourism within the City ($161,643 to the Newton County Chamber of Commerce, $107,762 to the Covington Main Street Program, $80,899 to the Covington Tourism Association, and $80,899 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, 2013, 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, 2013 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, 2013, 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 $30,654,032 in 2013.

At June 30, 2013, the outstanding debt of MEAG was approximately $5.890 billion. The City's guarantee varies by individual projects undertaken by MEAG and totals approximately $271.9 million at June 30, 2013.

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 $9,388,300 in 2013.

At June 30, 2013, the outstanding debt of MGAG was approximately $286 million. The City's guarantee varies by individual projects undertaken by MGAG and totals approximately $17.5 million at June 30, 2013.

Contractual Commitments:

In addition to the liabilities enumerated in the balance sheet at June 30, 2013, the City has contractual commitments on uncompleted construction contracts of approximately $181,600.

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, 2013, the City has set aside approximately $1.48 million in reserves for potential future workers' compensation claims.

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

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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
1/1/2013	$ 26,603,515	$ 36,307,986	$ 9,704,471	73.3 %	$ 11,916,980	81.4 %
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

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

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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, 2013

	Special Revenue Funds				
ASSETS	**Emergency Telephone Fund**	**Hotel/ Motel Tax Fund**	**Confiscated Assets Fund**	**Neighborhood Stabilization Fund**	**Cemetery Trust Fund**
Cash and cash equivalents	$ 533	$ -	$ 143,405	$ 21,289	$ 176,105
Taxes receivable	-	45,240	-	-	-
Accounts receivable	487,444	-	823	1,493	-
Due from other governments	1,757	-	-	-	-
Due from other funds	-	24,302	-	1,494	-
Prepaid expenditures	14,948	-	-	-	-
Total assets	$ 504,682	$ 69,542	$ 144,228	$ 24,276	$ 176,105
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 18,833	$ 69,542	$ 104	$ 7,922	$ -
Accrued liabilities	29,082	-	-	-	-
Unearned revenues	200,000	-	-	-	-
Due to other funds	119,537	-	-	-	-
Total liabilities	367,452	69,542	104	7,922	-
FUND BALANCES					
Nonspendable:					
Prepaid expenditures	14,948	-	-	-	-
Restricted for:					
Law enforcement	122,282	-	144,124	-	-
Cemetery maintenance	-	-	-	-	176,105
Capital projects	-	-	-	16,354	-
Total fund balances	137,230	-	144,124	16,354	176,105
Total liabilities and fund balances	$ 504,682	$ 69,542	$ 144,228	$ 24,276	$ 176,105

Capital Projects SPLOST Fund	Totals
$ 2,483,898	$ 2,825,230
-	45,240
-	489,760
226,052	227,809
110,774	136,570
-	14,948
$ 2,820,724	$ 3,739,557
$ 84	$ 96,485
-	29,082
-	200,000
-	119,537
84	445,104
-	14,948
-	266,406
-	176,105
2,820,640	2,836,994
2,820,640	3,294,453
$ 2,820,724	$ 3,739,557

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Special Revenue Funds				
	Emergency Telephone Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Neighborhood Stabilization Fund	Cemetery Trust Fund
Revenues:					
Other taxes	$ -	$ 431,203	$ -	$ -	$ -
Charges for services	1,042,255	-	-	22,142	-
Intergovernmental	-	-	-	1,694,769	-
Fines and forfeitures	-	-	126,577	-	-
Interest revenue	-	-	27	-	249
Total revenues	1,042,255	431,203	126,604	1,716,911	249
Expenditures:					
Public safety	1,989,841	-	596,308	-	-
Housing and development	-	350,304	-	1,721,530	-
Capital outlay	-	-	-	-	-
Total expenditures	1,989,841	350,304	596,308	1,721,530	-
Excess (deficiency) of revenues over (under) expenditures	(947,586)	80,899	(469,704)	(4,619)	249
Other financing sources (uses)					
Transfers in	947,586	-	-	4,619	-
Transfers out	-	(80,899)	-	-	-
Total other financing sources (uses)	947,586	(80,899)	-	4,619	-
Net change in fund balances	-	-	(469,704)	-	249
Fund balances, beginning of year	137,230	-	613,828	16,354	175,856
Fund balances, end of year	$ 137,230	$ -	$ 144,124	$ 16,354	$ 176,105

Capital Projects SPLOST Fund	Totals
$ -	$ 431,203
-	1,064,397
1,756,814	3,451,583
-	126,577
1,873	2,149
1,758,687	5,075,909
-	2,586,149
-	2,071,834
424,356	424,356
424,356	5,082,339
1,334,331	(6,430)
-	952,205
-	(80,899)
-	871,306
1,334,331	864,876
1,486,309	2,429,577
$ 2,820,640	$ 3,294,453

CITY OF COVINGTON, GEORGIA
EMERGENCY TELEPHONE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ 2,098,656	$ 2,098,656	$ 1,042,255	$ (1,056,401)
EXPENDITURES				
Public safety	2,893,477	2,893,477	1,989,841	903,636
Total expenditures	2,893,477	2,893,477	1,989,841	903,636
Deficiency of revenues under expenditures	(794,821)	(794,821)	(947,586)	(152,765)
OTHER FINANCING SOURCES				
Transfers in	794,821	794,821	947,586	152,765
Total other financing sources	794,821	794,821	947,586	152,765
Net change in fund balances	-	-	-	-
FUND BALANCES, beginning of year	137,230	137,230	137,230	-
FUND BALANCES, end of year	$ 137,230	$ 137,230	$ 137,230	$ -

CITY OF COVINGTON, GEORGIA
HOTEL/MOTEL TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Other taxes	$ 414,000	$ 431,210	$ 431,203	$ (7)
EXPENDITURES				
Housing and development	320,000	350,308	350,304	4
Total expenditures	320,000	350,308	350,304	4
Excess of revenues over expenditures	94,000	80,902	80,899	(3)
OTHER FINANCING USES				
Transfers out	(74,000)	(80,902)	(80,899)	3
Total other financing uses	(74,000)	(80,902)	(80,899)	3
Net change in fund balances	20,000	-	-	-
FUND BALANCES, beginning of year	-	-	-	-
FUND BALANCES, end of year	$ 20,000	$ -	$ -	$ -

CITY OF COVINGTON, GEORGIA
CONFISCATED ASSETS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Fines and forfeitures	$ 801,350	$ 801,350	$ 126,577	$ (674,773)
Interest	100	100	27	(73)
Total revenues	801,450	801,450	126,604	(674,846)
EXPENDITURES				
Public safety	801,450	801,450	596,308	205,142
Total expenditures	801,450	801,450	596,308	205,142
Deficiency of revenues under expenditures	-	-	(469,704)	(469,704)
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balances	-	-	(469,704)	(469,704)
FUND BALANCES (DEFICIT), beginning of year	613,828	613,828	613,828	-
FUND BALANCES (DEFICIT), end of year	$ 613,828	$ 613,828	$ 144,124	$ (469,704)

CITY OF COVINGTON, GEORGIA
NEIGHBORHOOD STABILIZATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ -	$ 36,960	$ 22,142	$ (14,818)
Intergovernmental	1,112,000	1,795,000	1,694,769	(100,231)
Total revenues	1,112,000	1,831,960	1,716,911	(115,049)
EXPENDITURES				
Housing and development	1,112,000	1,831,960	1,721,530	110,430
Total expenditures	1,112,000	1,831,960	1,721,530	110,430
Deficiency of revenues under expenditures	-	-	(4,619)	(4,619)
OTHER FINANCING SOURCES				
Transfers in	-	-	4,619	4,619
Total other financing sources	-	-	4,619	4,619
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 FISCAL YEAR ENDED JUNE 30, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Interest revenues	$ 765	$ 765	$ 249	$ (516)
Total revenues	765	765	249	(516)
EXPENDITURES				
Public works	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	765	765	249	(516)
FUND BALANCES, beginning of year	175,856	175,856	175,856	-
FUND BALANCES, end of year	$ 176,621	$ 176,621	$ 176,105	$ (516)

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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	$ 1,546,680	$ 424,356	$ 1,971,036
	$ 3,693,386	$ 3,693,386	$ 1,546,680	$ 424,356	$ 1,971,036

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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 POSITION
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2013

	Stormwater Utility Fund	Sanitation Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash	$ 937,290	$ -	$ 937,290
Accounts receivable, net of allowances	418,548	311,403	729,951
Due from other funds	8,158	-	8,158
Prepaid expenses	1,241	8,348	9,589
Total current assets	1,365,237	319,751	1,684,988
NONCURRENT ASSETS			
Net pension asset	3,903	29,926	33,829
Capital assets:			
Nondepreciable	-	13,002	13,002
Depreciable, net of accumulated depreciation	4,389,719	310,432	4,700,151
Total capital assets	4,389,719	323,434	4,713,153
Total noncurrent assets	4,393,622	353,360	4,746,982
Total assets	5,758,859	673,111	6,431,970
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	18,639	59,996	78,635
Accrued liabilities	4,271	86,512	90,783
Current portion - termination benefits	-	17,300	17,300
Due to other funds	24,413	253,058	277,471
Total current liabilities	47,323	416,866	464,189
LONG-TERM LIABILITIES			
Termination benefits, net of current portion	-	24,712	24,712
Total long-term liabilities	-	24,712	24,712
Total liabilities	47,323	441,578	488,901
NET POSITION			
Investment in capital assets	4,389,719	323,434	4,713,153
Unrestricted	1,321,817	(91,901)	1,229,916
Total net position	$ 5,711,536	$ 231,533	$ 5,943,069

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Stormwater Utility Fund	Sanitation Fund	Totals
OPERATING REVENUES			
Charges for services	$ 755,502	$ 2,367,530	$ 3,123,032
Other services	-	46,726	46,726
Total operating revenues	755,502	2,414,256	3,169,758
OPERATING EXPENSES			
Personal services	240,270	1,269,576	1,509,846
Other costs of operations	103,356	1,464,036	1,567,392
Depreciation	437,951	123,450	561,401
Total operating expenses	781,577	2,857,062	3,638,639
Operating loss	(26,075)	(442,806)	(468,881)
NONOPERATING REVENUES			
Interest revenue	38,178	-	38,178
Total nonoperating revenues	38,178	-	38,178
Income (loss) before transfers	12,103	(442,806)	(430,703)
TRANSFERS			
Transfers in	-	400,794	400,794
Total transfers	-	400,794	400,794
Change in net position	12,103	(42,012)	(29,909)
NET POSITION, beginning of year	5,699,433	273,545	5,972,978
NET POSITION, end of year	$ 5,711,536	$ 231,533	$ 5,943,069

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Stormwater Utility Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 1,274,953	$ 2,095,215	$ 3,370,168
Payments to suppliers	(88,770)	(1,214,487)	(1,303,257)
Payments to employees	(239,413)	(1,265,573)	(1,504,986)
Net cash provided by (used in) operating activities	946,770	(384,845)	561,925
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	400,794	400,794
Net cash provided by noncapital financing activities	-	400,794	400,794
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(345,348)	(15,949)	(361,297)
Net cash used in capital and related financing activities	(345,348)	(15,949)	(361,297)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	38,178	-	38,178
Net cash provided by investing activities	38,178	-	38,178
Change in cash and cash equivalents	639,600	-	639,600
Cash and cash equivalents:			
Beginning of year	297,690	-	297,690
End of year	$ 937,290	$ -	$ 937,290

(Continued)

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Stormwater Utility Fund	Sanitation Fund	Totals
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$ (26,075)	$ (442,806)	$ (468,881)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	437,951	123,450	561,401
(Increase) decrease in accounts receivable	(41,912)	8,817	(33,095)
Decrease in due from other funds	544,343	211,778	756,121
Decrease in prepaids and other assets	728	16,307	17,035
(Increase) decrease in net pension asset	(870)	13,674	12,804
Increase in accounts payable	14,728	7,790	22,518
Increase in accrued liabilities	857	20,423	21,280
Decrease in termination benefits	-	(16,420)	(16,420)
Increase (decrease) in due to other funds	17,020	(327,858)	(310,838)
Net cash provided by (used in) operating activities	$ 946,770	$ (384,845)	$ 561,925

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Covington, Georgia's basic financial statements and have issued our report thereon dated December 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Macon, Georgia
December 24, 2013

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance For Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 of our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Macon, Georgia
December 24, 2013

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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	$ 23,765
Neighborhood Stabilization Program	14.228	11-NS-6008	1,697,728
Total U.S. Department of Housing and Urban Development			1,721,493
U.S Department of Transportation			
(Passed through Georgia Department of Transportation)			
Airport Improvement Program	20.106	AP090-9014-18(217)	264,699
Total U.S. Department of Transportation			264,699
Total Expenditures of Federal Awards			$ 1,986,192

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 qualified as a low-risk auditee for the fiscal year ended June 30, 2013.

Amount Provided to Subrecipients

During 2013, 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, 2013

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	_____yes __X__ no
Significant deficiencies identified not considered to be material weaknesses?	_____yes __X__ none reported
Type of auditor's report issued on compliance for major programs	Unmodified
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

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

CITY OF COVINGTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported

CITY OF COVINGTON, GEORGIA

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

STATUS OF PRIOR YEAR AUDIT FINDINGS

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.

Auditee Response/Status: Resolved

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