CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2014

CITY OF COVINGTON, GEORGIA

FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	Page
Table of Contents	i and ii

FINANCIAL SECTION

Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 12
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund	18 and 19
Statement of Net Position – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22 and 23
Statement of Fiduciary Net Position – Fiduciary Funds	24
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	25
Notes to Financial Statements	26 - 61
Required Supplementary Information:	
Schedule of Funding Progress	62
Schedule of Changes in the City's Net Pension Liability and Related Ratios	63
Schedule of City Contributions – Retirement Plan	64
Schedule of Pension Investment Returns – Retirement Plan	65

TABLE OF CONTENTS (CONTINUED)

Page

FINANCIAL SECTION (CONTINUED)

Combining Statements and Schedules:
- Combining Balance Sheet – Nonmajor Governmental Funds ..... 66 and 67
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds ..... 68 and 69
- Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:
  - Emergency Telephone Fund 70
  - Hotel/Motel Tax Fund 71
  - Confiscated Assets Fund 72
  - Neighborhood Stabilization Fund 73
  - Cemetery Trust Fund 74
- Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds 75
- Combining Statement of Net Position – Nonmajor Enterprise Funds 76
- Combining Statement of Revenues, Expenses and Changes in Fund Net Position – Nonmajor Enterprise Funds 77
- Combining Statement of Cash Flows – Nonmajor Enterprise Funds ..... 78 and 79

COMPLIANCE SECTION

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* ..... 80 and 81

Schedule of Findings and Responses 82

Summary Schedule of Prior Year Findings 83

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, 2014, 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 opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison of the General Fund 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 8, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 67*, Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25*, as of July 1, 2013. 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), the Schedule of Funding Progress on page 62 and the pension information (on pages 63 through 65) 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, *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 48-8-121 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 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 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 18, 2014, 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 18, 2014

FINANCIAL SECTION

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, 2014. 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 $172,649,743 (net position). Of this amount, $70,194,827 (unrestricted net position) may be used to meet the City's ongoing obligations.
- The City's total net position increased by $7,485,060, due mostly to income from the business-type activities.
- As of the close of June 30, 2014, the City's governmental funds reported combined ending fund balances of $29,829,420 an increase of $1,466,507 from the prior year. Approximately sixty-two percent (62%) of this total amount, or $18,627,767, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was $20,763,589 or ninety-six percent (96%) of general fund expenditures.
- The City's revenues for the year ended June 30, 2014 total $92,168,663. Of this amount, $78,470,745, or eighty-five percent (85%), was generated from charges for services. Additionally, $3,181,623, or three percent (3%), was generated from operating and capital grants. The balance of $10,516,295 or eleven percent (11%) was generated from general revenues.
- The City's expenses for the year ended 2014 total $84,683,603. Of this amount, $23,618,867, or twenty-eight percent (28%), was consumed by governmental activities. The balance of $61,064,736, or seventy-two percent (72%), 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 61 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 beginning on page 62 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 66 through 79 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, 2014 and June 30, 2013.

The City of Covington's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 32,060,196	$ 29,797,530	$ 53,211,510	$ 51,284,230	$ 85,271,706	$ 81,081,760
Capital assets	32,799,090	31,723,383	80,439,153	79,633,867	113,238,243	111,357,250
Total assets	64,859,286	61,520,913	133,650,663	130,918,097	198,509,949	192,439,010
Long-term liabilities outstanding	2,231,627	1,622,446	15,160,637	16,942,469	17,392,264	18,564,915
Other liabilities	1,354,174	932,048	7,114,038	7,777,634	8,468,212	8,709,682
Total liabilities	3,585,801	2,554,494	22,274,675	24,720,103	25,860,476	27,274,597
Net position:						
Net investment in capital assets	31,344,809	30,692,333	65,612,129	63,063,867	96,956,938	93,756,200
Restricted	4,707,762	3,279,505	789,946	205,601	5,497,708	3,485,106
Unrestricted	25,220,914	24,994,581	44,973,913	42,928,526	70,194,827	67,923,107
Total net position	$ 61,273,485	$ 58,966,419	$ 111,375,988	$ 106,197,994	$ 172,649,473	$ 165,164,413

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 $172,649,473 and $165,164,413 at June 30, 2014 and June 30, 2013, respectively.

By far the largest portion of the City's net position (56%) 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, $5,497,708 or 3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position, $70,194,827 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, 2014 and June 30, 2013, 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 $2,307,066 as of June 30, 2014 and increased the City's net position by $1,034,960 as of June 30, 2013. As illustrated on the following table, taxes constitute the largest revenue source at $8,927,011 or fifty-eight percent (58%) of total revenue as of June 30, 2014 and $8,730,692 or fifty-three percent (53%) as of June 30, 2013.

City of Covington's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues						
Charges for services	$ 2,827,258	$ 2,457,795	$ 75,643,487	$ 69,407,406	$ 78,470,745	$ 71,865,201
Operating grants and contributions	801,628	2,532,363	119,742	2,069,340	921,370	4,601,703
Capital grants and contributions	2,173,734	2,004,812	86,519	-	2,260,253	2,004,812
General revenues:						
Taxes	8,927,711	8,730,692	-	-	8,927,711	8,730,692
Franchise fees	700,830	712,027	-	-	700,830	712,027
Investment earnings (loss)	66,414	45,722	782,074	(117,610)	848,488	(71,888)
Gain on sale	-	3,800	39,266	36,460	39,266	40,260
Total revenues	15,497,575	16,487,211	76,671,088	71,395,596	92,168,663	87,882,807
Expenses:						
General government	3,638,581	2,222,950	-	-	3,638,581	2,222,950
Judicial	511,788	505,358	-	-	511,788	505,358
Public safety	14,128,627	12,804,652	-	-	14,128,627	12,804,652
Public works	3,386,214	3,574,118	-	-	3,386,214	3,574,118
Parks and recreation	435,415	505,310	-	-	435,415	505,310
Housing and development	1,480,290	2,958,826	-	-	1,480,290	2,958,826
Interest and fiscal charges	37,952	43,386	-	-	37,952	43,386
Water and sewer	-	-	9,348,090	9,838,580	9,348,090	9,838,580
Gas and electric	-	-	47,067,995	45,891,615	47,067,995	45,891,615
Stormwater	-	-	794,962	781,577	794,962	781,577
Sanitation	-	-	2,740,775	2,857,062	2,740,775	2,857,062
Airport	-	-	1,112,914	1,020,351	1,112,914	1,020,351
Total expenses	23,618,867	22,614,600	61,064,736	60,389,185	84,683,603	83,003,785
Increase (decrease) in net position before transfers	(8,121,292)	(6,127,389)	15,606,352	11,006,411	7,485,060	4,879,022
Transfers	10,428,358	7,162,349	(10,428,358)	(7,162,349)	-	-
Change in net position	2,307,066	1,034,960	5,177,994	3,844,062	7,485,060	4,879,022
Net position, beginning	58,966,419	57,931,459	106,197,994	102,353,932	165,164,413	160,285,391
Net position, ending	$ 61,273,485	$ 58,966,419	$ 111,375,988	$ 106,197,994	$ 172,649,473	$ 165,164,413

Business-type activities. The City's business-type activities increased the City's net position by $5,177,994 and $3,844,062 as of June 30, 2014 and June 30, 2013, 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, 2014, total fund balance of the general fund was $25,119,194. 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 116 percent of the total general fund expenditures. Transfers in from proprietary funds to supplement the general fund were $9,453,614 for the year ended June 30, 2014, which represents 44% of total fund expenditures.

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 2014 amounted to $5,846,249; those for the Gas and Electric Fund amounted to $40,611,850 and those for the Airport Fund amounted to ($3,040,724). The total change in net position for the Water and Sewer Fund, Gas and Electric Fund, and the Airport Fund were increases of $2,108,063, $3,135,872 and $4, 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, 2014 amounted to $113,238,243 (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	
	2014	2013	2014	2013	2014	2013
Land	$ 2,455,532	$ 1,967,925	$ 10,888,579	$ 10,888,579	$ 13,344,111	$ 12,856,504
Buildings	7,648,066	7,193,063	474,803	498,013	8,122,869	7,691,076
Machinery and equipment	1,664,445	1,951,950	690,092	491,660	2,354,537	2,443,610
Furniture and fixtures	1,471	5,139	-	-	1,471	5,139
Vehicles	2,020,545	1,512,752	174,012	291,580	2,194,557	1,804,332
Intangibles	-	-	3,699,515	3,821,053	3,699,515	3,821,053
Improvements other than buildings	19,008,081	19,091,604	64,120,580	63,254,814	83,128,661	82,346,418
Construction in progress	950	950	391,572	388,168	392,522	389,118
Total	$ 32,799,090	$ 31,723,383	$ 80,439,153	$ 79,633,867	$ 113,238,243	$ 111,357,250

Additional information on the City's capital assets can be found in Note 6 on pages 43 through 46 of this report.

Long-term debt. As of June 30, 2014, the City had total bonded debt outstanding of $13,330,000. 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 $1,454,281 for governmental lease purchases and utility improvements. Additionally, the City's business-type funds had a capital lease payable of $1,497,024 related to the compressed natural gas filling station.

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 $55,838,692, 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 7 on pages 46 through 50 of this report.

Factors affecting the July 1, 2014 – June 30, 2015 Budget:

The Mayor and Council of the City of Covington considered many factors when approving the City's July 1, 2014 – June 30, 2015 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.

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Parking Authority	Redevelopment Authority	Airport Authority
Cash and cash equivalents	$ 20,510,843	$ 1,720,161	$ 22,231,004	$ 111,417	$ 86,918	$ 25,277
Investments	4,620,140	40,483,192	45,103,332	-	-	-
Taxes receivable	148,481	-	148,481	-	-	-
Accounts receivable, net of allowances	465,262	9,977,318	10,442,580	-	-	-
Due from other governments	661,285	216,464	877,749	-	-	-
Advance to component units	288,283	185,475	473,758	-	-	-
Due from Newton County	-	189,038	189,038	-	-	-
Internal balances	4,594,829	(4,594,829)	-	-	-	-
Inventories	34,707	1,588,756	1,623,463	-	-	-
Prepaid expenses	112,559	97,950	210,509	-	-	-
Restricted assets:						
Cash and cash equivalents	-	3,086,733	3,086,733	-	-	-
Net pension asset	623,807	261,252	885,059	-	-	-
Capital assets:						
Nondepreciable	2,456,482	11,280,151	13,736,633	414,173	349,725	-
Depreciable, net of accumulated depreciation	30,342,608	69,159,002	99,501,610	-	45,981	359,075
Total assets	64,859,286	133,650,663	198,509,949	525,590	482,624	384,352
LIABILITIES						
Accounts payable	823,042	4,986,648	5,809,690	-	-	-
Accrued liabilities	507,995	410,729	918,724	330	548	6,696
Unearned revenues	23,137	8,313	31,450	93,831	-	-
Due to primary government	-	-	-	-	473,758	-
Customer deposits payable	-	1,708,348	1,708,348	-	-	-
Due to others due within one year	-	94,118	94,118	-	-	-
Capital leases due within one year	373,075	-	373,075	-	-	-
Capital leases due in more than one year	1,081,206	-	1,081,206	-	-	-
Notes payable due within one year	-	312,034	312,034	-	-	22,313
Notes payable due in more than one year	-	1,184,990	1,184,990	-	-	353,555
Bonds payable due within one year	-	1,590,000	1,590,000	-	-	-
Bonds payable due in more than one year	-	11,740,000	11,740,000	-	-	-
Compensated absences due within one year	172,148	55,447	227,595	-	-	-
Compensated absences due in more than one year	276,588	103,593	380,181			
Termination benefits due within one year	117,763	27,800	145,563	-	-	-
Termination benefits due in more than one year	210,847	52,655	263,502	-	-	-
Total liabilities	3,585,801	22,274,675	25,860,476	94,161	474,306	382,564
NET POSITION						
Net investment in capital assets	31,344,809	65,612,129	96,956,938	414,173	395,706	359,075
Restricted for:						
Debt service	-	789,946	789,946	-	-	-
Law enforcement	348,726	-	348,726	-	-	-
Cemetery maintenance	176,325	-	176,325	-	-	-
Other capital projects	4,182,711	-	4,182,711	-	-	-
Unrestricted	25,220,914	44,973,913	70,194,827	17,256	(387,388)	(357,287)
Total net position	$ 61,273,485	$ 111,375,988	$ 172,649,473	$ 431,429	$ 8,318	$ 1,788

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, 2014

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	$ 3,638,581	$ 1,077,568	$ -	$ -	$ (2,561,013)	$ -	$ (2,561,013)	$ -	$ -	$ -
Judicial	511,788	-	-	-	(511,788)	-	(511,788)	-	-	-
Public safety	14,128,627	1,749,690	517,886	-	(11,861,051)	-	(11,861,051)	-	-	-
Public works	3,386,214	-	-	2,173,734	(1,212,480)	-	(1,212,480)	-	-	-
Parks and recreation	435,415	-	241,072	-	(194,343)	-	(194,343)	-	-	-
Housing and development	1,480,290	-	42,670	-	(1,437,620)	-	(1,437,620)	-	-	-
Interest on long-term debt	37,952	-	-	-	(37,952)	-	(37,952)	-	-	-
Total governmental activities	23,618,867	2,827,258	801,628	2,173,734	(17,816,247)	-	(17,816,247)	-	-	-
Business-type activities:										
Water and sewer	9,348,090	11,337,134	-	86,519	-	2,075,563	2,075,563	-	-	-
Gas	12,648,202	18,006,264	109,599	-	-	5,467,661	5,467,661	-	-	-
Electric	34,419,793	42,643,488	-	-	-	8,223,695	8,223,695	-	-	-
Stormwater	794,962	729,016	-	-	-	(65,946)	(65,946)	-	-	-
Sanitation	2,740,775	2,459,122	-	-	-	(281,653)	(281,653)	-	-	-
Airport	1,112,914	468,463	10,143	-	-	(634,308)	(634,308)	-	-	-
Total business-type activities	61,064,736	75,643,487	119,742	86,519	-	14,785,012	14,785,012	-	-	-
Total primary government	$ 84,683,603	$ 78,470,745	$ 921,370	$ 2,260,253	(17,816,247)	14,785,012	(3,031,235)	-	-	-
Component units:										
Parking Authority	1,257	2,346	-	-	-	-	-	1,089	-	-
Redevelopment Authority	9,498	-	-	-	-	-	-	-	(9,498)	-
Airport Authority	23,398	24,477	-	-	-	-	-	-	-	1,079
Total component units	$ 34,153	$ 26,823	$ -	$ -	-	-	-	1,089	(9,498)	1,079
General revenues:										
Property taxes					4,868,074	-	4,868,074	-	-	-
Sales taxes					1,942,248	-	1,942,248	-	-	-
Insurance premium tax					676,679	-	676,679	-	-	-
Other taxes					1,440,710	-	1,440,710	-	-	-
Franchise fees					700,830	-	700,830	-	-	-
Unrestricted investment earnings (losses)					66,414	782,074	848,488	10	84	-
Gain on sale of capital assets					-	39,266	39,266	-	29,003	-
Transfers					10,428,358	(10,428,358)	-	-	-	-
Total general revenues and transfers					20,123,313	(9,607,018)	10,516,295	10	29,087	-
Change in net position					2,307,066	5,177,994	7,485,060	1,099	19,589	1,079
Net position, beginning of year					58,966,419	106,197,994	165,164,413	430,330	(11,271)	709
Net position, end of year					$ 61,273,485	$ 111,375,988	$ 172,649,473	$ 431,429	$ 8,318	$ 1,788

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

CITY OF COVINGTON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	$ 16,098,352	$ 4,412,491	$ 20,510,843
Investments	4,620,140	-	4,620,140
Taxes receivable, net	95,156	53,325	148,481
Accounts receivable, net	266,722	198,540	465,262
Due from other governments	405,890	255,395	661,285
Due from other funds	5,484,915	227,451	5,712,366
Inventories	34,707	-	34,707
Prepaid expenditures	100,136	12,423	112,559
Advance to component unit	288,283	-	288,283
Advances to other funds	3,133,155	-	3,133,155
Total assets	$ 30,527,456	$ 5,159,625	$ 35,687,081
LIABILITIES			
Accounts payable	$ 643,707	$ 179,335	$ 823,042
Accrued liabilities	458,342	44,327	502,669
Unearned revenues	23,137	-	23,137
Due to other funds	4,234,848	15,844	4,250,692
Total liabilities	5,360,034	239,506	5,599,540
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	48,228	-	48,228
Unavailable revenue - E911 charges	-	209,893	209,893
Total deferred inflows of resources	48,228	209,893	258,121
FUND BALANCES			
Nonspendable:			
Inventories	34,707	-	34,707
Prepaid expenditures	100,136	12,423	112,559
Advance to component unit	288,283	-	288,283
Advance to other funds	3,133,155	-	3,133,155
Restricted for:			
Law enforcement	-	348,726	348,726
Cemetery maintenance	-	176,325	176,325
Other capital projects	-	4,182,711	4,182,711
Committed to:			
Tourism projects (hotel / motel tax funds)	224,824	-	224,824
Assigned to:			
Capital projects (airport and fire training center)	574,500	-	574,500
Unassigned:	20,763,589	(9,959)	20,753,630
Total fund balances	25,119,194	4,710,226	29,829,420
Total liabilities, deferred inflows of resources, and fund balances	$ 30,527,456	$ 5,159,625	

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.	32,799,090
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	258,121
Net pension asset is not a financial asset in governmental activities and therefore is not reported in governmental funds.	623,807
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.	(2,236,953)
Net position of governmental activities	$ 61,273,485

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, 2014

	General	Other Governmental Funds	Totals Governmental Funds
Revenues			
Property taxes	$ 4,807,000	$ -	$ 4,807,000
Sales taxes	1,942,248	-	1,942,248
Insurance premium taxes	676,679	-	676,679
Other taxes	884,982	555,728	1,440,710
Charges for services	-	1,145,482	1,145,482
Licenses and permits	153,117	-	153,117
Intergovernmental	1,003,890	1,971,472	2,975,362
Franchise fees	700,830	-	700,830
Fines and forfeitures	331,803	282,298	614,101
Interest revenue	66,170	244	66,414
Other revenues	924,451	-	924,451
Total revenues	11,491,170	3,955,224	15,446,394
Expenditures			
Current:			
General government	4,180,593	-	4,180,593
Judicial	517,253	-	517,253
Public safety	12,472,506	2,409,003	14,881,509
Public works	2,731,414	-	2,731,414
Parks and recreation	401,281	-	401,281
Housing and development	985,224	495,791	1,481,015
Capital outlay	-	609,401	609,401
Debt service:			
Principal	391,799	-	391,799
Interest	41,461	-	41,461
Total expenditures	21,721,531	3,514,195	25,235,726
Excess (deficiency) of revenues over (under) expenditures	(10,230,361)	441,029	(9,789,332)
Other financing sources (uses)			
Transfers in	9,453,614	1,078,924	10,532,538
Transfers out	-	(104,180)	(104,180)
Capital leases	815,030	-	815,030
Proceeds from the sale of capital assets	12,451	-	12,451
Total other financing sources (uses)	10,281,095	974,744	11,255,839
Net change in fund balances	50,734	1,415,773	1,466,507
Fund balances, beginning of year	25,068,460	3,294,453	28,362,913
Fund balances, end of year	$ 25,119,194	$ 4,710,226	$ 29,829,420

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, 2014

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	1,466,507
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.		1,094,128
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.		(18,421)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		51,181
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.		(423,231)
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.		136,902
	$	2,307,066

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, 2014

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues:				
Property taxes	$ 4,191,765	$ 4,191,765	$ 4,807,000	$ 615,235
Sales taxes	2,000,000	2,000,000	1,942,248	(57,752)
Insurance premium taxes	650,000	650,000	676,679	26,679
Other taxes	939,400	939,400	884,982	(54,418)
Licenses and permits	198,100	198,100	153,117	(44,983)
Intergovernmental	1,244,513	1,244,513	1,003,890	(240,623)
Franchise fees	704,000	704,000	700,830	(3,170)
Fines and forfeitures	270,000	270,000	331,803	61,803
Interest revenue	45,000	45,000	66,170	21,170
Other revenues	714,622	714,622	924,451	209,829
Total revenues	10,957,400	10,957,400	11,491,170	533,770
Expenditures:				
Current:				
General government:				
Administrative services	1,406,345	1,909,752	2,163,245	(253,493)
Elected and appointed officials	802,902	802,902	790,730	12,172
Maintenance department	644,694	644,694	537,649	107,045
Purchasing	132,880	132,880	118,428	14,452
Personnel	483,151	483,151	409,920	73,231
Risk management	183,260	183,260	160,621	22,639
Total general government	3,653,232	4,156,639	4,180,593	(23,954)
Judicial	523,707	523,707	517,253	6,454
Public safety:				
Police	6,216,459	7,252,989	7,136,762	116,227
Fire	5,838,218	5,832,033	5,335,744	496,289
Total public safety	12,054,677	13,085,022	12,472,506	612,516
Public works:				
Highways and streets	2,278,142	2,243,923	1,535,034	708,889
Engineering	674,906	710,156	592,925	117,231
Facilities maintenance	399,998	399,998	385,352	14,646
Telecommunications	287,633	287,633	218,103	69,530
Total public works	3,640,679	3,641,710	2,731,414	910,296
Parks and recreation:				
Recreation	233,900	241,900	241,072	828
Cemetery and parks	177,180	177,180	160,209	16,971
Total parks and recreation	411,080	419,080	401,281	17,799
Housing and development:				
Planning and zoning	1,037,754	1,037,754	900,379	137,375
Mainstreet program	86,426	86,426	84,845	1,581
Total housing and development	1,124,180	1,124,180	985,224	138,956

(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, 2014

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Expenditures: (Continued)				
Debt service:				
Principal	$ 280,507	$ 280,507	$ 391,799	$ (111,292)
Interest	37,184	37,364	41,461	(4,097)
	317,691	317,871	433,260	(115,389)
Total expenditures	21,725,246	23,268,209	21,721,531	1,546,678
Deficiency of revenues under expenditures	(10,767,846)	(12,310,809)	(10,230,361)	2,080,448
Other financing sources (uses)				
Transfers in	9,758,324	9,758,324	9,453,614	(304,710)
Capital leases	1,465,737	1,978,324	815,030	(1,163,294)
Proceeds from the sale of capital assets	-	-	12,451	12,451
Total other financing sources	11,224,061	11,736,648	10,281,095	(1,455,553)
Net change in fund balances	456,215	(574,161)	50,734	624,895
Fund balances, beginning of year	25,068,460	25,068,460	25,068,460	-
Fund balances, end of year	$ 25,524,675	$ 24,494,299	$ 25,119,194	$ 624,895

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 100	$ 428,170	$ 61,401	$ 1,230,490	$ 1,720,161
Investments	-	40,483,192	-	-	40,483,192
Accounts receivable, net of allowances	1,362,826	7,892,882	9,847	711,763	9,977,318
Due from other funds	4,199,599	15,844	-	528	4,215,971
Due from Newton County	189,038	-	-	-	189,038
Inventories	140,736	1,379,360	68,660	-	1,588,756
Prepaid expenses	9,088	81,869	911	6,082	97,950
Due from other governments	46,017	170,447	-	-	216,464
Restricted assets, cash	2,788,735	297,998	-	-	3,086,733
Total current assets	8,736,139	50,749,762	140,819	1,948,863	61,575,583
NONCURRENT ASSETS					
Net pension asset	93,304	87,973	10,663	69,312	261,252
Advance to component unit	185,475	-	-	-	185,475
Capital assets:					
Nondepreciable	3,871,970	290,110	7,105,069	13,002	11,280,151
Depreciable, net of accumulated depreciation	36,588,002	15,714,129	12,549,287	4,307,584	69,159,002
Total noncurrent assets	40,738,751	16,092,212	19,665,019	4,389,898	80,885,880
Total assets	49,474,890	66,841,974	19,805,838	6,338,761	142,461,463
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	462,952	4,453,172	3,950	66,574	4,986,648
Accrued liabilities	172,505	332,554	14,399	50,311	569,769
Current portion - notes payable	-	312,034	-	-	312,034
Current portion - due to others	94,118	-	-	-	94,118
Current portion - termination benefits	5,975	4,525	-	17,300	27,800
Customer deposits payable	-	1,708,348	-	-	1,708,348
Due to other funds	1,639,051	3,711,973	32,389	294,232	5,677,645
Unearned revenue	-	-	8,313	-	8,313
Payable from restricted assets:					
Revenue bonds payable, current portion	1,590,000	-	-	-	1,590,000
Total current liabilities	3,964,601	10,522,606	59,051	428,417	14,974,675
NONCURRENT LIABILITIES					
Revenue bonds payable, net of current portion	11,740,000	-	-	-	11,740,000
Notes payable, net of current portion	-	1,184,990	-	-	1,184,990
Termination benefits, net of current portion	4,122	15,313	-	33,220	52,655
Advance from other funds	-	-	3,133,155	-	3,133,155
Total long-term liabilities	11,744,122	1,200,303	3,133,155	33,220	16,110,800
Total liabilities	15,708,723	11,722,909	3,192,206	461,637	31,085,475
NET POSITION					
Net investment in capital assets	27,129,972	14,507,215	19,654,356	4,320,586	65,612,129
Restricted for					
Debt service	789,946	-	-	-	789,946
Unrestricted	5,846,249	40,611,850	(3,040,724)	1,556,538	44,973,913
Total net position	$ 33,766,167	$ 55,119,065	$ 16,613,632	$ 5,877,124	$ 111,375,988

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, 2014

	Water and Sewer Utility Fund	Gas and Electric Utility Fund	Airport Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Charges for services	$ 11,246,406	$ 59,863,205	$ 423,263	$ 3,150,414	$ 74,683,288
Other services	90,728	786,547	45,200	37,724	960,199
Total operating revenues	11,337,134	60,649,752	468,463	3,188,138	75,643,487
OPERATING EXPENSES					
Personal services	2,566,076	2,535,862	353,798	1,493,400	6,949,136
Water purchases	2,313,280	-	-	-	2,313,280
Purchased power	-	30,021,171	-	-	30,021,171
Natural gas purchases	-	11,040,487	-	-	11,040,487
Other costs of operations	2,406,963	2,609,109	483,451	1,484,056	6,983,579
Depreciation and amortization	1,797,341	853,559	275,665	558,281	3,484,846
Total operating expenses	9,083,660	47,060,188	1,112,914	3,535,737	60,792,499
Operating income (loss)	2,253,474	13,589,564	(644,451)	(347,599)	14,850,988
NONOPERATING INCOME (EXPENSES)					
Intergovernmental	-	109,599	-	-	109,599
Interest income (investment loss)	535	781,538	1	-	782,074
Interest expense	(264,430)	(7,807)	-	-	(272,237)
Gain on sale of capital assets	15,400	-	23,866	-	39,266
Total nonoperating income (expenses)	(248,495)	883,330	23,867	-	658,702
Income (loss) before transfers and capital contributions	2,004,979	14,472,894	(620,584)	(347,599)	15,509,690
CAPITAL CONTRIBUTIONS	86,519	-	10,143	-	96,662
TRANSFERS					
Transfers in	16,565	-	610,445	281,654	908,664
Transfers out	-	(11,337,022)	-	-	(11,337,022)
Total transfers	16,565	(11,337,022)	610,445	281,654	(10,428,358)
Change in net position	2,108,063	3,135,872	4	(65,945)	5,177,994
NET POSITION, beginning of year	31,658,104	51,983,193	16,613,628	5,943,069	106,197,994
NET POSITION, end of year	$ 33,766,167	$ 55,119,065	$ 16,613,632	$ 5,877,124	$ 111,375,988

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, 2014

	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	$ 11,156,444	$ 64,507,695	$ 456,818	$ 3,231,219	$ 79,352,176
Payments to suppliers	(4,560,512)	(44,135,632)	(787,842)	(1,528,595)	(51,012,581)
Payments to employees	(2,597,470)	(2,545,203)	(358,683)	(1,525,364)	(7,026,720)
Net cash provided by (used in) operating activities	3,998,462	17,826,860	(689,707)	177,260	21,312,875
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental revenue	86,519	109,599	-	-	196,118
Transfers out	16,565	(11,337,022)	-	-	(11,320,457)
Transfers in	-	-	610,445	281,654	892,099
Net cash provided by (used in) noncapital financing activities	103,084	(11,227,423)	610,445	281,654	(10,232,240)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	15,400	-	23,866	-	39,266
Acquisition and construction of capital assets	(767,863)	(3,039,844)	(316,711)	(165,714)	(4,290,132)
Proceeds from lease payable	-	1,600,000	-	-	1,600,000
Principal paid on bonds	(3,240,000)	-	-	-	(3,240,000)
Principal paid on notes payable, revenue bonds and intergovernmental agreement	-	(102,976)	-	-	(102,976)
Capital contributions	-	-	245,002	-	245,002
Payments on long term intergovernmental agreement	(88,581)	-	-	-	(88,581)
Interest paid	(275,350)	(7,807)	-	-	(283,157)
Net cash used in capital and related financing activities	(4,356,394)	(1,550,627)	(47,843)	(165,714)	(6,120,578)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	287,867	(7,982,693)	-	-	(7,694,826)
Proceeds from the sale of investments	-	2,496,884	-	-	2,496,884
Interest and dividends received	535	490,017	1	-	490,553
Net cash provided by (used in) investing activities	288,402	(4,995,792)	1	-	(4,707,389)
Change in cash and cash equivalents	33,554	53,018	(127,104)	293,200	252,668
Cash and cash equivalents:					
Beginning of year	2,755,281	673,150	188,505	937,290	4,554,226
End of year	$ 2,788,835	$ 726,168	$ 61,401	$ 1,230,490	$ 4,806,894
Classified as:					
Cash and cash equivalents	$ 100	$ 428,170	$ 61,401	$ 1,230,490	$ 1,720,161
Restricted assets, cash	2,788,735	297,998	-	-	3,086,733
	$ 2,788,835	$ 726,168	$ 61,401	$ 1,230,490	$ 4,806,894

(Continued)

CITY OF COVINGTON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	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)	$ 2,253,474	$ 13,589,564	$ (644,451)	$ (347,599)	$ 14,850,988
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,797,341	853,559	275,665	558,281	3,484,846
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(51,454)	(730,317)	(3,281)	18,188	(766,864)
Decrease in due from Newton County	38,007	-	-	-	38,007
Increase in inventories	(33,783)	(293,553)	(36,794)	-	(364,130)
Decrease in due from other funds	(1,647,280)	980,725	-	7,630	(658,925)
Decrease in prepaids and other assets	3,562	2,968	5,129	3,507	15,166
Increase in due from other governments	(14,219)	(29,563)	-	-	(43,782)
Increase in net pension asset	(47,766)	(45,036)	(5,459)	(35,483)	(133,744)
Increase (decrease) in accounts payable	183,543	(91,920)	(538,541)	(12,061)	(458,979)
Increase (decrease) in accrued liabilities	28,473	(55,514)	(4,885)	(40,472)	(72,398)
Increase (decrease) in termination benefits	(5,692)	8,849	-	8,508	11,665
Decrease in deferred revenues	-	-	(8,364)	-	(8,364)
Decrease in customer deposits	-	(74,875)	-	-	(74,875)
Increase in due to other funds and advances	1,494,256	3,711,973	271,274	16,761	5,494,264
Net cash provided by (used in) operating activities	$ 3,998,462	$ 17,826,860	$ (689,707)	$ 177,260	$ 21,312,875
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Increase in fair value of investments	$ -	$ 291,521	$ -	$ -	$ 291,521
	$ -	$ 291,521	$ -	$ -	$ 291,521

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

CITY OF COVINGTON, GEORGIA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Agency Fund Impound Evidence	Pension Trust Fund
ASSETS		
Cash and cash equivalents	$ 206,535	$ 4,179,677
Receivables:		
Miscellaneous	-	62,833
Investments, at fair value:		
Common stock	-	14,938,871
Governmental bonds	-	7,671,346
Corporate bonds	-	5,374,540
Total investments	-	27,984,757
Total assets	206,535	32,227,267
LIABILITIES		
Due to others	206,535	33,417
NET POSITION		
Held in trust for pension benefits	$ -	$ 32,193,850

A schedule of funding progress is presented on page 62.

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, 2014

	Pension Trust Fund
Additions	
Contributions:	
Employer	$ 2,646,088
Total contributions	2,646,088
Investment income:	
Interest income	726,443
Net appreciation in fair value of investments	2,801,598
Total additions	6,174,129
Deductions	
Benefits paid	1,688,917
Administrative expenses	243,045
Total deductions	1,931,962
Net increase	4,242,167
Net position available for benefits:	
Beginning of year	27,951,683
End of year	$ 32,193,850

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Covington, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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, 2014 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, 2014:

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, 2014, no interest was capitalized.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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

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*, 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 E911 charges, 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 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.

P. Use of Estimates

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

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

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net 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 $2,236,953 difference are as follows:

Capital leases payable	$	(1,454,281)
Compensated absences		(448,736)
Termination benefits		(328,610)
Accrued interest payable		(5,326)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(2,236,953)

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 $1,094,128 difference are as follows:

Capital outlay	$	3,165,204
Depreciation expense		(2,071,076)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	1,094,128

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

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

Another element of that reconciliation states that “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." The details of this $423,231 difference are as follows:

Capital lease proceeds	$	(815,030)
Prinicpal payments - capital leases		391,799
Net adjustment to decrease *net changes in fund balance - total governmental funds* to arrive at *changes in net position - governmental activities*	$	(423,231)

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 $136,902 difference are as follows:

Compensated absences	$	(32,046)
Net pension asset		319,343
Termination benefits		(153,904)
Accrued interest		3,509
Net adjustment to increase *net changes in fund balance - total governmental funds* to arrive at *changes in net position - governmental activities*	$	136,902

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2014, are summarized as follows:

As reported in the Statement of Net Position:		
Primary government		
Cash and cash equivalents	$	22,231,004
Investments		45,103,332
Restricted assets:		
Cash and cash equivalents		3,086,733
Agency Fund - cash and cash equivalents		206,535
Pension Trust Fund		
Cash and cash equivalents		4,179,677
Investments		27,984,757
Component Units - cash and cash equivalents		223,612
	$	103,015,650
Cash deposited with financial institutions	$	29,927,561
Certificates of deposit		3,332,309
Investment in Municipal Competitive Trust		40,440,019
Investment in U.S. Government Securities		642,922
Investment in Corporate Bonds		688,082
Pension Trust Fund investments		27,984,757
	$	103,015,650

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, 2014, 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	$ 16,379,065	$ 16,379,065	$ -	$ -	$ -	NR
Municipal Competitive Trust - Intermediate	24,060,954	24,060,954	-	-	-	NR
Government bonds	542,132	-	-	297,281	244,851	AA+
Government bonds	100,790	-	100,790	-	-	AA
Corporate bonds	100,920	-	100,920	-	-	AA+
Corporate bonds	50,414	-	-	50,414	-	AA
Corporate bonds	49,985	-	49,985	-	-	AA-
Corporate bonds	100,235	100,235	-	-	-	A+
Corporate bonds	150,651	-	-	150,651	-	A
Corporate bonds	235,877	132,311	103,566	-	-	A-
Certificates of deposit	3,332,309	3,121,935	210,374	-	-	N/A
Subtotal	45,103,332	43,794,500	565,635	498,346	244,851	
Pension Trust Fund:						
Common stock	14,938,871	N/A	-	-	-	N/A
Government bonds	155,240	-	155,240	-	-	AAA
Government bonds	6,851,330	520,300	333,960	3,514,575	2,482,495	AA+
Government bonds	820,017	610,973	-	209,044	-	AA
Government bonds	319,431	-	319,431	-	-	A
Corporate bonds	549,050	-	-	549,050	-	AAA
Corporate bonds	687,428	-	-	687,428	-	AA+
Corporate bonds	644,587	-	-	644,587	-	AA
Corporate bonds	797,678	-	216,148	-	581,530	AA-
Corporate bonds	108,209	-	108,209	-	-	A+
Corporate bonds	1,014,576	-	721,831	-	292,745	A
Corporate bonds	494,400	-	-	494,400	-	A-
Corporate bonds	403,880	-	403,880	-	-	BBB-
Certificates of deposit	200,060	-	200,060	-	-	N/A
Subtotal	27,984,757	1,131,273	2,458,759	6,099,084	3,356,770	
Total fair value	$ 73,088,089	$ 44,925,773	$ 3,024,394	$ 6,597,430	$ 3,601,621	

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, 2014, 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	$ 309,620	$ 53,325	$ -	$ -
Accounts	308,951	438,768	1,382,393	8,134,621
Intergovernmental	405,890	255,395	235,055	170,447
Gross receivables	1,024,461	747,488	1,617,448	8,305,068
Less: allowance for uncollectibles	(256,693)	(240,228)	(19,567)	(241,739)
Net total receivables	$ 767,768	$ 507,260	$ 1,597,881	$ 8,063,329

	Airport	Nonmajor Enterprise	Total
Receivables:			
Taxes	$ -	$ -	$ 362,945
Accounts	12,344	1,509,693	11,786,770
Intergovernmental	-	-	1,066,787
Gross receivables	12,344	1,509,693	13,216,502
Less: allowance for uncollectibles	(2,497)	(797,930)	(1,558,654)
Net total receivables	$ 9,847	$ 711,763	$ 11,657,848

NOTE 4. RECEIVABLES (CONTINUED)

Property Taxes

Property taxes were levied on behalf of the City by Newton County on July 1, 2013 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on August 16, 2013 and payable on or before December 20, 2013 for the fiscal year 2014 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, 2014, the allowance for uncollectible property taxes was $214,464.

The tax rate levied during calendar year 2013 for the City's operations was 8.208 mills (mill equals $1 per thousand dollars of assessed value).

NOTE 5. LEGAL COMPLIANCE – BUDGETS

A. Excess Expenditures over Appropriations

For the year ended June 30, 2014, expenditures exceeded budget in the following departments or functions as follows:

Department or Function	Excess
General Fund	
General government - administrative services	$ 253,493
Debt service - principal	111,292
Debt service - interest	4,097
Confiscated Assets Fund	
Public safety	152,527

These over expenditures were funded by additional unanticipated revenues.

B. Deficit Fund Balance

The Neighborhood Stabilization Fund reported a deficit fund balance of $9,959 which is expected to be reduced by future program income generated by the neighborhood stabilization program.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

Primary government:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 1,967,925	$ 495,007	$ (7,400)	$ -	$ 2,455,532
Construction in progress	950	-	-	-	950
Total capital assets, not being depreciated	1,968,875	495,007	(7,400)	-	2,456,482
Capital assets, being depreciated:					
Buildings and improvements	9,813,172	666,106	-	-	10,479,278
Machinery and equipment	8,729,589	173,089	(647)	-	8,902,031
Furniture and fixtures	921,655	-	-	-	921,655
Vehicles	3,783,921	1,071,440	(45,577)	-	4,809,784
Infrastructure	33,593,105	759,562	-	-	34,352,667
Total capital assets, being depreciated	56,841,442	2,670,197	(46,224)	-	59,465,415
Less accumulated depreciation for:					
Buildings and improvements	(2,620,109)	(211,103)	-	-	(2,831,212)
Machinery and equipment	(6,777,639)	(460,594)	647	-	(7,237,586)
Furniture and fixtures	(916,516)	(3,668)	-	-	(920,184)
Vehicles	(2,271,169)	(552,626)	34,556	-	(2,789,239)
Infrastructure	(14,501,501)	(843,085)	-	-	(15,344,586)
Total accumulated depreciation	(27,086,934)	(2,071,076)	35,203	-	(29,122,807)
Total capital assets, being depreciated, net	29,754,508	599,121	(11,021)	-	30,342,608
Governmental activities capital assets, net	$ 31,723,383	$ 1,094,128	$ (18,421)	$ -	$ 32,799,090

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 10,888,579	$ -	$ -	$ -	$ 10,888,579
Construction in progress	388,168	3,404	-	-	391,572
Total capital assets, not being depreciated	11,276,747	3,404	-	-	11,280,151
Capital assets, being depreciated:					
Buildings	2,656,909	8,738	-	-	2,665,647
Machinery and equipment	3,550,853	377,175	-	-	3,928,028
Vehicles	3,800,269	143,100	(90,553)	-	3,852,816
Intangibles	4,397,830	-	-	-	4,397,830
Improvements other than buildings	99,209,600	3,757,715	-	-	102,967,315
Total capital assets, being depreciated	113,615,461	4,286,728	(90,553)	-	117,811,636
Less accumulated depreciation for:					
Buildings	(2,158,896)	(31,948)	-	-	(2,190,844)
Machinery and equipment	(3,059,193)	(178,743)	-	-	(3,237,936)
Vehicles	(3,508,689)	(260,668)	90,553	-	(3,678,804)
Intangibles	(576,777)	(121,538)	-	-	(698,315)
Improvements other than buildings	(35,954,786)	(2,891,949)	-	-	(38,846,735)
Total accumulated depreciation	(45,258,341)	(3,484,846)	90,553	-	(48,652,634)
Total capital assets, being depreciated, net	68,357,120	801,882	-	-	69,159,002
Business-type activities capital assets, net	$ 79,633,867	$ 805,286	$ -	$ -	$ 80,439,153

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

Governmental activities:	
General government	$ 284,035
Public safety	787,968
Public works	990,935
Parks and recreation	141
Housing and development	7,997
Total depreciation expense - governmental activities	$ 2,071,076

Business-type activities:	
Water and sewer	$ 1,797,341
Gas and electric	853,559
Airport	275,665
Stormwater	451,071
Sanitation	107,210
Total depreciation expense - business-type activities	$ 3,484,846

NOTE 6. 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	$ 391,392	$ -	$ (41,667)	$ 349,725
Total capital assets, not being depreciated	391,392	-	(41,667)	349,725
Capital assets, being depreciated:				
Buildings and improvements	50,454	-	-	50,454
Total capital assets, being depreciated	50,454	-	-	50,454
Less accumulated depreciation for:				
Buildings and improvements	(2,465)	(2,008)	-	(4,473)
Total accumulated depreciation	(2,465)	(2,008)	-	(4,473)
Total capital assets, being depreciated, net	47,989	(2,008)	-	45,981
Redevelopment Authority assets, net	$ 439,381	$ (2,008)	$ (41,667)	$ 395,706

NOTE 6. CAPITAL ASSETS (CONTINUED)

Component units (Continued):

Airport Authority

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	$ 14,002	$ -	$ -	$ (14,002)	$ -
Total capital assets, not being depreciated	14,002	-	-	(14,002)	-
Capital assets, being depreciated:					
Buildings and improvements	-	349,618	-	14,002	363,620
Total capital assets, being depreciated	-	349,618	-	14,002	363,620
Less accumulated depreciation for:					
Buildings and improvements	-	(4,545)	-	-	(4,545)
Total accumulated depreciation	-	(4,545)	-	-	(4,545)
Airport Authority assets, net	$ 14,002	$ 345,073	$ -	$ -	$ 359,075

NOTE 7. 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, 2014 is as follows:

Description	Original Amount	Interest Rate	Due Date	Amount
2013 Revenue Refunding Bonds	$ 14,860,000	2.6%	2025	$ 13,330,000
				13,330,000
			Less current portion	(1,590,000)
				$ 11,740,000

NOTE 7. LONG-TERM DEBT (CONTINUED)

Revenue Bonds (Continued):

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

Fiscal Year Payable	Total	Principal	Interest
2015	$ 1,848,221	$ 1,590,000	$ 258,221
2016	1,835,261	1,610,000	225,261
2017	1,866,735	1,675,000	191,735
2018	1,802,539	1,645,000	157,539
2019	1,837,622	1,715,000	122,622
2020 - 2024	5,133,018	4,935,000	198,018
2025	161,648	160,000	1,648
	$ 14,485,044	$ 13,330,000	$ 1,155,044

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, 2014:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2014
Waste water treatment plant	$ 772,830	6.25%	2015	$ 94,118
				94,118
			Less current maturities	(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
2015	$ 100,000	$ 94,118	$ 5,882
	$ 100,000	$ 94,118	$ 5,882

NOTE 7. LONG-TERM DEBT (CONTINUED)

Termination Benefits:

During the years ended June 30, 2011 through December 31, 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 42 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, 2014, the City utilized a discount rate of 2% to record a total liability of $409,065.

Capital Leases:

The City has entered into lease agreements with financial institutions as lessee for financing the construction of a new fire station, compressed natural gas fueling station and the purchase of police vehicles. 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. The fire station and police vehicle leases are being serviced by General Fund payments with annual interest rates of 3.91% and 1.31%. The compressed natural gas fueling station construction lease is being serviced by Gas and Electric Fund payments with an annual interest rate of 1.50%.

The following is an analysis of capital assets leased under capital leases as of June 30, 2014:

Buildings	$	1,439,150
Vehicles		815,026
Infrastructure		1,623,546
Less accumulated depreciation		(314,447)
Carrying value	$	3,563,275

The City reported $127,358 in depreciation expense on the above leased assets as of June 30, 2014.

NOTE 7. LONG-TERM DEBT (CONTINUED)

Capital Leases (Continued):

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, 2014:

Fiscal year ending	Governmental Activities	Business-Type Activities
2015	$ 408,520	$ 332,350
2016	408,520	332,350
2017	293,025	332,350
2018	131,323	332,350
2019	131,323	221,567
2020 - 2021	196,985	-
Total minimum lease payments	1,569,696	1,550,967
Less amount representing interest	(115,415)	(53,943)
Present value of future minimum lease payments	1,454,281	1,497,024
Less current maturities	(373,075)	(312,034)
	$ 1,081,206	$ 1,184,990

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Governmental activities:					
Capital leases	$ 1,031,050	$ 815,030	$ (391,799)	$ 1,454,281	$ 373,075
Compensated absences	416,690	188,545	(156,499)	448,736	172,148
Termination benefits	174,706	248,625	(94,721)	328,610	117,763
Governmental activities long-term liabilities	$ 1,622,446	$ 1,252,200	$ (643,019)	$ 2,231,627	$ 662,986
Business-type activities:					
Revenue bonds	$ 16,570,000	$ -	$ (3,240,000)	$ 13,330,000	$ 1,590,000
Capital lease	-	1,600,000	(102,976)	1,497,024	312,034
Intergovernmental agreement	182,699	-	(88,581)	94,118	94,118
Compensated absences	120,980	88,467	(50,407)	159,040	55,447
Termination benefits	68,790	60,313	(48,648)	80,455	27,800
Business-type activities long-term liabilities	$ 16,942,469	$ 1,748,780	$ (3,530,612)	$ 15,160,637	$ 2,079,399

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

NOTE 7. LONG-TERM DEBT (CONTINUED)

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, 2014 are as follows:

Fiscal Year Payable	Total	Principal	Interest
2015	$ 32,800	$ 22,313	$ 10,487
2016	32,800	22,936	9,864
2017	32,799	23,575	9,224
2018	32,800	24,233	8,567
2019	32,799	24,909	7,890
2020 - 2024	163,999	135,367	28,632
2025 - 2028	129,199	122,535	6,664
	$ 457,196	$ 375,868	$ 81,328

NOTE 8. 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

NOTE 8. PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

(i) one and one half percent (1.5%) 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, 2014, the date of the most recent actuarial valuation, there were 572 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	160
Vested terminated employees not yet receiving benefits	180
Active employees	232
Total	572

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.

NOTE 8. PENSION PLAN (CONTINUED)

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, 2014, actuarial valuation using the entry age normal 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 open for this plan year.

D. Plan Disclosures

Effective July 1, 2013, the Plan implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which significantly changed the disclosures required related to the Plan. The information disclosed below is presented in accordance with this new standard. The Plan does not issue separate financial statements.

E. Net Pension Liability

The components of the net pension liability of the City at June 30, 2014 were as follows:

Total pension liability	$ 29,423,304
Plan fiduciary net position	21,580,263
City's net pension liability	$ 7,843,041
Plan fiduciary net position as a percentage of the total pension liability	73.3%

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

NOTE 8. PENSION PLAN (CONTINUED)

E. Net Pension Liability (Continued)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014. The following actuarial assumptions applied to all periods included in the measurement:

Inflation	3.5%
Salary increases, including inflation	3.5%
Investment rate of return	6.75%, including inflation

Mortality rates were based upon the 1994 GAR mortality table which uses separate rates for males and females.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are: Fixed Income – 4% and Domestic Equities – 9%.

Discount rate. The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
$ 13,402,993	$ 13,076,039	$ 12,749,085

NOTE 8. PENSION PLAN (CONTINUED)

E. Net Pension Liability (Continued)

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 a long-term perspective. Calculations are based on the substantive plan in effect as of June 30, 2014 and the current sharing pattern of costs between employer and employee.

F. Employer Disclosures

Until the City implements the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2014, the provisions of GASB Statement No. 27 continue to be followed in the financial statements from the employer perspective. The information disclosed below is presented in accordance with GASB Statement No. 27 and these measures and disclosed amounts differ from those used by the Plan under GASB Statement No. 67 as previously discussed.

Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset for 2014 were computed as follows:

		2014
Annual required contribution	$	1,937,844
Interest on net pension obligation		(100,289)
Adjustment to annual required contribution		109,358
Annual pension cost		1,946,913
Contributions made		2,400,000
Change in net pension asset		453,087
Net pension asset beginning of year		431,972
Net pension asset end of year	$	885,059
As reported in the Statement of Net Position:		
Governmental activities	$	623,807
Business-type activities		261,252
	$	885,059

NOTE 8. PENSION PLAN (CONTINUED)

F. Employer Disclosures (Continued)

Annual Pension Cost and Net Pension Asset (Continued)

The annual pension cost, percentage actually contributed by the City, and the net pension asset for the current and previous six years are presented in the table below.

Plan Year Ended December 31,	Annual Pension Cost (APC)	Actual Pension Contribution	Percentage of APC Contributed	Net Pension Asset
2014	$ 1,937,844	$ 2,400,000	123.8 %	$ 885,059
2013	2,358,400	2,200,000	93.3	431,972
2012	1,918,260	2,000,000	104.3	620,288

As of the most recent valuation date, 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)
1/1/2014	$ 30,280,909	$ 46,051,850	$ 15,770,941	65.8 %	$ 11,018,619	143.1 %

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 a long-term perspective. Calculations above are based on the substantive plan in effect as of June 30, 2014 and the current sharing pattern of costs between employer and employee.

NOTE 8. PENSION PLAN (CONTINUED)

F. Employer Disclosures (Continued)

Annual Pension Cost and Net Pension Asset (Continued)

The assumptions used in the January 1, 2014 actuarial valuation are as follows:

(1) Actuarial Assumptions

Valuation Date	June 30, 2014
Cost Method	Entry Age Normal
Actuarial Asset Valuation Method	Market Value of Assets
Assumed Rate of Return on Investments	6.75%
Projected Salary Increases	3.50%
Cost-of-living Adjustment	N/A
Amortization Method	Level dollar for unfunded liability

NOTE 9. DEFINED CONTRIBUTION PLANS

The City of Covington, Georgia Defined Contribution Retirement Plan is a defined contribution plan established by the City of Covington City Council to provide benefits for its full-time employees. This plan was originally adopted on July 1, 2011 and is set up under the provisions of the internal revenue code section 401(k). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of service from the date of employment. The plan as established by the City Council requires that the City contribute an amount equal to 4% of the employee's salary each month. Plan members are not required to make contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. Benefit provisions and contribution requirements are established and may be amended by the City Council. The City contributed $105,398 in fiscal year 2014.

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, 2014, City employees contributed $45,034 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 10. INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances and advances as of June 30, 2014, are as follows:

	Due From			
Due To	General Fund	Water Fund	Gas and Electric Fund	Airport
General Fund	$ -	$ 1,639,051	$ 3,519,243	$ 32,389
Water Fund	4,199,599	-	-	-
Gas and Electric	-	-	-	-
Nonmajor Governmental	35,223	-	192,228	-
Nonmajor Enterprise	26	-	502	-
Total	$ 4,234,848	$ 1,639,051	$ 3,711,973	$ 32,389

Due To	Nonmajor Governmental	Nonmajor Enterprise	Total
General Fund	$ -	$ 294,232	$ 5,484,915
Water Fund	-	-	4,199,599
Gas and Electric	15,844	-	15,844
Nonmajor Governmental	-	-	227,451
Nonmajor Enterprise	-	-	528
Total	$ 15,844	$ 294,232	$ 9,928,337

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, 2014, the City's General Fund has advanced the Airport Fund $3,133,155 for airport improvements anticipated to be funded by future grant revenues.

Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfer To		
Transfer From	Gas and Electric Fund	Nonmajor Governmental	Total
General Fund	$ 9,349,434	$ 104,180	$ 9,453,614
Water and Sewer Fund	16,565	-	16,565
Airport Fund	610,445	-	610,445
Nonmajor Governmental	1,078,924	-	1,078,924
Nonmajor Enterprise	281,654	-	281,654
Total	$ 11,337,022	$ 104,180	$ 11,441,202

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 11. 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 12. HOTEL/MOTEL LODGING TAX

The City has levied an 8% lodging tax. For the year ended June 30, 2014, $555,728 of hotel/motel tax was collected. Of the total collected, 100% was used for the promotion of tourism within the City ($208,421 to the Newton County Chamber of Commerce, $138,947 to the Covington Main Street Program, $104,180 to the Covington Tourism Association, and $104,180 to the City's General Fund).

NOTE 13. 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, 2014, 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 Sewerage 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 Sewerage Authority, 11325 Brown Bridge Road, Covington, Georgia 30016.

NOTE 13. JOINT VENTURES (CONTINUED)

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 14. OTHER POST-EMPLOYMENT BENEFITS

The City's Other Post-Employment Benefits (OPEB) plan provides health, dental, vision, and life AD&D insurances to all full time employees if they retire on or after the age of 55 with five years of service. The plan is fully funded by the retiree for each benefit they have chosen to maintain. At June 30, 2014, there were 60 participants. There are no assets or liabilities of the plan, and the only expenses of the City are the implicit costs of the retirees being members of the plan which are considered to be immaterial.

NOTE 15. 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 15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Agreements with the Municipal Electric Authority of Georgia (Continued)

As of June 30, 2014, 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 $30,021,171 in 2014.

At June 30, 2014, the outstanding debt of MEAG was approximately $5.838 billion. The City's guarantee varies by individual projects undertaken by MEAG and totals approximately $270.8 million at June 30, 2014.

Agreements with the Municipal Gas Authority of Georgia

The City has entered into a contract for the purchase of wholesale natural gas supplies and related services with the Municipal Gas Authority of Georgia (MGAG) that requires the City to purchase all of its natural gas from MGAG. The gas supply contract with MGAG authorizes MGAG to establish rates and charges so as to produce revenues sufficient to cover its operating costs and retire its bonds issued to acquire long-term gas supplies for sale to its members, including the City. In the event that revenues are insufficient to cover all costs and retire bonds issued by MGAG, the City is obligated to pay its obligation share of the costs of the gas supply and related services MGAG provides to the City, which costs include amounts equal to principal and interest on MGAG's bonds. These obligations, which extend through the year 2016, are general obligations of the City to which the City's full faith, credit and taxing powers are pledged. The City's obligation to MGAG for gas supply costs are based on MGAG's costs to provide such supply, including bonds issued to purchase long-term rights to bulk supply. Payments to MGAG are made monthly based on actual usage. The total payments under these contracts amounted to $11,040,487 in 2014.

At June 30, 2014, the outstanding debt of MGAG was approximately $419.4 million. The City's guarantee varies by individual projects undertaken by MGAG and totals approximately $25.6 million at June 30, 2014.

Contractual Commitments:

In addition to the liabilities enumerated in the balance sheet at June 30, 2014, the City has contractual commitments on uncompleted construction contracts of approximately $621,729.

NOTE 16. 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, 2014, the City has set aside approximately $1.54 million in reserves for potential future workers' compensation claims.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

City of Covington Employee's Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2014	$ 30,280,909	$ 46,051,850	$ 15,770,941	65.8 %	$ 11,018,619	143.1 %
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	16,227,561	1,911,368	88.2	11,651,226	16.4

The assumptions used in the preparation of the above schedule are disclosed in Note 8 to the financial statements.

CITY OF COVINGTON, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2014

		2014
Total pension liability		
Service cost	$	1,413,917
Interest on total pension liability		103,186
Changes in assumptions and/or cost method		5,476,111
Benefit payments, including refunds of employee contributions		(1,688,917)
Net change in total pension liability		5,304,297
Total pension liability - beginning		24,119,007
Total pension liability - ending (a)	$	29,423,304
Plan fiduciary net position		
Contributions - employer	$	2,400,000
Contributions - employee		246,088
Net investment income		3,528,041
Benefit payments, including refunds of member contributions		(1,688,917)
Administrative expenses		(243,045)
Net change in plan fiduciary net position		4,242,167
Plan fiduciary net position - beginning		17,338,096
Plan fiduciary net position - ending (b)	$	21,580,263
City's net pension liability - ending (a) - (b)	$	7,843,041
Plan fiduciary net position as a percentage of the total pension liability		73.3%
Covered-employee payroll	$	11,018,519
Net pension liability as a percentage of covered-employee payroll		71.2%

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

CITY OF COVINGTON, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF CITY CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2014

	2014
Actuarially determined contribution	$ 2,358,400
Contributions in relation to the actuarially determined contribution	2,400,000
Contribution deficiency (excess)	$ (41,600)
Covered employee payroll	$ 11,018,519
Contributions as a percentage of covered-employee payroll	21.78%

Notes to the Schedule:

(1) Actuarial Assumptions

Valuation Date	June 30, 2014
Cost Method	Entry Age Normal
Actuarial Asset Valuation Method	Market Value of Assets
Assumed Rate of Return on Investments	6.75%
Projected Salary Increases	3.50%
Cost-of-living Adjustment	N/A
Amortization Method	Level dollar for unfunded liability
Remaining Amortization Period	30 years (open)

(2) The schedule will present 10 years of information once it is accumulated.

CITY OF COVINGTON, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF PENSION INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2014

	2014
Annual money-weighted rate of return, net of investment expenses for the City's Pension Plan	11.6%

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

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, 2014

	Special Revenue Funds				
ASSETS	**Emergency Telephone Fund**	**Hotel/ Motel Tax Fund**	**Confiscated Assets Fund**	**Neighborhood Stabilization Fund**	**Cemetery Trust Fund**
Cash and cash equivalents	$ 50	$ -	$ 203,769	$ 25,410	$ 176,325
Taxes receivable	-	53,325	-	-	-
Accounts receivable	191,635	-	3,918	2,987	-
Due from other governments	24,349	-	-	-	-
Due from other funds	175,811	33,729	16,417	1,494	-
Prepaid expenditures	12,423	-	-	-	-
Total assets	$ 404,268	$ 87,054	$ 224,104	$ 29,891	$ 176,325
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 12,818	$ 87,054	$ 185	$ 24,006	$ -
Accrued liabilities	44,327	-	-	-	-
Due to other funds	-	-	-	15,844	-
Total liabilities	57,145	87,054	185	39,850	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - E911 charges	209,893	-	-	-	-
Total deferred inflows of resources	209,893	-	-	-	-
FUND BALANCES					
Nonspendable:					
Prepaid expenditures	12,423	-	-	-	-
Restricted for:					
Law enforcement	124,807	-	223,919	-	-
Cemetery maintenance	-	-	-	-	176,325
Capital projects	-	-	-		-
Unassigned:	-	-	-	(9,959)	-
Total fund balances	137,230	-	223,919	(9,959)	176,325
Total liabilities, deferred inflows of resources, and fund balances	$ 404,268	$ 87,054	$ 224,104	$ 29,891	$ 176,325

Capital Projects SPLOST Fund	Totals
$ 4,006,937	$ 4,412,491
-	53,325
-	198,540
231,046	255,395
-	227,451
-	12,423
$ 4,237,983	$ 5,159,625
$ 55,272	$ 179,335
-	44,327
-	15,844
55,272	239,506
-	209,893
-	209,893
-	12,423
-	348,726
-	176,325
4,182,711	4,182,711
-	(9,959)
4,182,711	4,710,226
$ 4,237,983	$ 5,159,625

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Special Revenue Funds				
	Emergency Telephone Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Neighborhood Stabilization Fund	Cemetery Trust Fund
Revenues:					
Other taxes	$ -	$ 555,728	$ -	$ -	$ -
Charges for services	1,127,552	-	-	17,930	-
Intergovernmental	-	-	-	-	-
Fines and forfeitures	-	-	282,298	-	-
Interest revenue	-	-	24	-	220
Total revenues	1,127,552	555,728	282,322	17,930	220
Expenditures:					
Public safety	2,206,476	-	202,527	-	-
Housing and development	-	451,548	-	44,243	-
Capital outlay	-	-	-	-	-
Total expenditures	2,206,476	451,548	202,527	44,243	-
Excess (deficiency) of revenues over (under) expenditures	(1,078,924)	104,180	79,795	(26,313)	220
Other financing sources (uses)					
Transfers in	1,078,924	-	-	-	-
Transfers out	-	(104,180)	-	-	-
Total other financing sources (uses)	1,078,924	(104,180)	-	-	-
Net change in fund balances	-	-	79,795	(26,313)	220
Fund balances, beginning of year	137,230	-	144,124	16,354	176,105
Fund balances (deficit), end of year	$ 137,230	$ -	$ 223,919	$ (9,959)	$ 176,325

Capital Projects SPLOST Fund	Totals
$ -	$ 555,728
-	1,145,482
1,971,472	1,971,472
-	282,298
-	244
1,971,472	3,955,224
-	2,409,003
-	495,791
609,401	609,401
609,401	3,514,195
1,362,071	441,029
-	1,078,924
-	(104,180)
-	974,744
1,362,071	1,415,773
2,820,640	3,294,453
$ 4,182,711	$ 4,710,226

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, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ 2,295,066	$ 2,295,066	$ 1,127,552	$ (1,167,514)
EXPENDITURES				
Public safety	2,919,732	2,919,732	2,206,476	713,256
Total expenditures	2,919,732	2,919,732	2,206,476	713,256
Deficiency of revenues under expenditures	(624,666)	(624,666)	(1,078,924)	(454,258)
OTHER FINANCING SOURCES				
Transfers in	624,666	624,666	1,078,924	454,258
Total other financing sources	624,666	624,666	1,078,924	454,258
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, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Other taxes	$ 400,000	$ 555,728	$ 555,728	$ -
EXPENDITURES				
Housing and development	325,000	451,548	451,548	-
Total expenditures	325,000	451,548	451,548	-
Excess of revenues over expenditures	75,000	104,180	104,180	-
OTHER FINANCING USES				
Transfers out	(75,000)	(104,180)	(104,180)	-
Total other financing uses	(75,000)	(104,180)	(104,180)	-
Net change in fund balances	-	-	-	-
FUND BALANCES, beginning of year	-	-	-	-
FUND BALANCES, end of year	$ -	$ -	$ -	$ -

CITY OF COVINGTON, GEORGIA
CONFISCATED ASSETS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Fines and forfeitures	$ 50,000	$ 50,000	$ 282,298	$ 232,298
Interest	-	-	24	24
Total revenues	50,000	50,000	282,322	232,322
EXPENDITURES				
Public safety	50,000	50,000	202,527	(152,527)
Total expenditures	50,000	50,000	202,527	(152,527)
Net change in fund balances	-	-	79,795	79,795
FUND BALANCES, beginning of year	144,124	144,124	144,124	-
FUND BALANCES, end of year	$ 144,124	$ 144,124	$ 223,919	$ 79,795

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, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Charges for services	$ -	$ 50,000	$ 17,930	$ (32,070)
Intergovernmental	1,112,000	200,000	-	(200,000)
Total revenues	1,112,000	250,000	17,930	(232,070)
EXPENDITURES				
Housing and development	1,112,000	250,000	44,243	205,757
Total expenditures	1,112,000	250,000	44,243	205,757
Net change in fund balances	-	-	(26,313)	(26,313)
FUND BALANCES, beginning of year	16,354	16,354	16,354	-
FUND DEFICIT, end of year	$ 16,354	$ 16,354	$ (9,959)	$ (26,313)

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, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance
REVENUES				
Interest revenues	$ 765	$ 765	$ 220	$ (545)
Total revenues	765	765	220	(545)
EXPENDITURES				
Public works	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	765	765	220	(545)
FUND BALANCES, beginning of year	176,105	176,105	176,105	-
FUND BALANCES, end of year	$ 176,870	$ 176,870	$ 176,325	$ (545)

CITY OF COVINGTON, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	$ 1,971,036	$ 609,401	$ 2,580,437
	$ 3,693,386	$ 3,693,386	$ 1,971,036	$ 609,401	$ 2,580,437

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, 2014

	Stormwater Utility Fund	Sanitation Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash	$ 1,230,490	$ -	$ 1,230,490
Accounts receivable, net of allowances	384,481	327,282	711,763
Due from other funds	26	502	528
Prepaid expenses	421	5,661	6,082
Total current assets	1,615,418	333,445	1,948,863
NONCURRENT ASSETS			
Net pension asset	7,998	61,314	69,312
Capital assets:			
Nondepreciable	-	13,002	13,002
Depreciable, net of accumulated depreciation	4,059,361	248,223	4,307,584
Total capital assets	4,059,361	261,225	4,320,586
Total noncurrent assets	4,067,359	322,539	4,389,898
Total assets	5,682,777	655,984	6,338,761
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	5,428	61,146	66,574
Accrued liabilities	4,398	45,913	50,311
Current portion - termination benefits	-	17,300	17,300
Due to other funds	27,361	266,871	294,232
Total current liabilities	37,187	391,230	428,417
LONG-TERM LIABILITIES			
Termination benefits, net of current portion	-	33,220	33,220
Total long-term liabilities	-	33,220	33,220
Total liabilities	37,187	424,450	461,637
NET POSITION			
Investment in capital assets	4,059,361	261,225	4,320,586
Unrestricted	1,586,229	(29,691)	1,556,538
Total net position	$ 5,645,590	$ 231,534	$ 5,877,124

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, 2014

	Stormwater Utility Fund	Sanitation Fund	Totals
OPERATING REVENUES			
Charges for services	$ 729,016	$ 2,421,398	$ 3,150,414
Other services	-	37,724	37,724
Total operating revenues	729,016	2,459,122	3,188,138
OPERATING EXPENSES			
Personal services	233,678	1,259,722	1,493,400
Other costs of operations	110,213	1,373,843	1,484,056
Depreciation	451,071	107,210	558,281
Total operating expenses	794,962	2,740,775	3,535,737
Operating loss	(65,946)	(281,653)	(347,599)
TRANSFERS			
Transfers in	-	281,654	281,654
Total transfers	-	281,654	281,654
Change in net position	(65,946)	1	(65,945)
NET POSITION, beginning of year	5,711,536	231,533	5,943,069
NET POSITION, end of year	$ 5,645,590	$ 231,534	$ 5,877,124

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Stormwater Utility Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 774,163	$ 2,457,056	$ 3,231,219
Payments to suppliers	(126,699)	(1,401,896)	(1,528,595)
Payments to employees	(233,551)	(1,291,813)	(1,525,364)
Net cash provided by (used in) operating activities	413,913	(236,653)	177,260
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	281,654	281,654
Net cash provided by noncapital financing activities	-	281,654	281,654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(120,713)	(45,001)	(165,714)
Net cash used in capital and related financing activities	(120,713)	(45,001)	(165,714)
Change in cash and cash equivalents	293,200	-	293,200
Cash and cash equivalents:			
Beginning of year	937,290	-	937,290
End of year	$ 1,230,490	$ -	$ 1,230,490

(Continued)

CITY OF COVINGTON, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Stormwater Utility Fund	Sanitation Fund	Totals
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$ (65,946)	$ (281,653)	$ (347,599)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	451,071	107,210	558,281
(Increase) decrease in accounts receivable	34,067	(15,879)	18,188
(Increase) decrease in due from other funds	8,132	(502)	7,630
Decrease in prepaids and other assets	820	2,687	3,507
(Increase) decrease in net pension asset	(4,095)	(31,388)	(35,483)
Increase (decrease) in accounts payable	(13,211)	1,150	(12,061)
Increase (decrease) in accrued liabilities	127	(40,599)	(40,472)
Increase in termination benefits	-	8,508	8,508
Increase in due to other funds	2,948	13,813	16,761
Net cash provided by (used in) operating activities	$ 413,913	$ (236,653)	$ 177,260

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, 2014, 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 18, 2014. Our report includes a reference to the changes in accounting principle resulting from the implementation of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*.

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 18, 2014

CITY OF COVINGTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

There was not an audit of major federal award programs as of June 30, 2014 due to the total amount expended being less than $500,000.

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 FISCAL YEAR ENDED JUNE 30, 201

STATUS OF PRIOR YEAR AUDIT FINDINGS

None reported.