

CITY OF COVINGTON, TENNESSEE

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

	Page
<u>INTRODUCTORY SECTION</u>	
City Officials	1
<u>FINANCIAL SECTION</u>	
INDEPENDENT AUDITOR'S REPORT	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-12
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	13-14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet - Governmental Funds	16-17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Statement of Net Position – Proprietary Funds	21-23
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25-27
Statement of Fiduciary Net Position - Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	29

TABLE OF CONTENTS - CONTINUED

	Page
BASIC FINANCIAL STATEMENTS - CONTINUED	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - General Fund	30-36
Notes to Financial Statements	37-73
REQUIRED SUPPLEMENTARY INFORMATION	
City of Covington Pension Plan - Schedule of Changes in Net Pension Liability and Related Ratios	74
City of Covington Pension Plan - Schedule of Contributions	75
City of Covington Pension Plan - Schedule of Investment Returns	76
Covington Electric System's Employees' Retirement Plan - Schedule of Changes in Net Pension Liability and Related Ratios	77
Covington Electric System's Employees' Retirement Plan - Schedule of Contributions	78
Covington Electric System's Employees' Retirement Plan - Schedule of Investment Returns	79
COMBINING FUND FINANCIAL STATEMENTS	
Combining Balance Sheet - Nonmajor Governmental Funds	80-82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	83-85
SCHEDULES	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - State Street Aid Fund	86
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Airport Fund	87
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Community Development Fund	88

TABLE OF CONTENTS - CONTINUED

	Page
SCHEDULES - CONTINUED	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Solid Waste/Sanitation Fund	89
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Tipton County Museum Fund	90
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Drug Fund	91
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - TIIP Fund	92
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Barbeque Festival Fund	93
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Airport Improvements Construction Bond Fund	94
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - PBACCT Bond Fund	95
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - General Obligation Refunding Bond Fund	96
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Munford Cemetery Fund	97
Schedule of Expenditures of Federal Awards	98
Schedule of Expenditures of State Awards	99
Long-Term Debt Principal and Interest Requirements by Year	100-104
Local Taxes and Intergovernmental Revenues	105
Water Fund - Operating Expenses	106
Sewer Fund - Operating Expenses	107

TABLE OF CONTENTS - CONTINUED

	Page
SCHEDULES - CONTINUED	
Gas Utility Fund - Operating Expenses	108
Bio Mass Gasification Fund - Operating Expenses	109
Covington Electric System Electric Fund - Operating Expenses	110
Property Taxes	111
Water Fund - Water Rates and Number of Customers	112
Water Fund - AWWA Reporting Worksheet	113-114
Sewer Fund - Sewer Rates and Number of Customers	115
Gas Utility Fund - Gas Rates and Number of Customers	116
Covington Electric System Electric Fund - Electric Rates	117
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	118-119
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	120-122
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	123-129
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	130

INTRODUCTORY SECTION

**CITY OF COVINGTON
CITY OFFICIALS
JUNE 30, 2015**

Mayor

Justin Hanson

Aldermen

Minnie Bommer
John E. Edwards
Drew Glass
Jere Hadley
Wayne McGowan
William Timberlake

Board Members, Covington Electric System

James Baddour
Quincy Barlow
Christy Hayden
Keith McCalla
William Scruggs

Department Heads

Recorder - Treasurer
Director of Purchasing and Personnel
Director of Public Works
Chief of Police
Fire Chief
Parks and Recreation Director
Museum Director
General Manager, Covington Electric System
Comptroller, Covington Electric System

Tina Dunn (CMFO Designee)
Tiny Barton
Robert Simpson
Devon Lewis
Michael Naifeh
Amy Payne
Barrie Foster
Tim Sallee
Kathy McClinton

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Justin Hanson, Mayor
Members of the Board of Aldermen
City of Covington, Tennessee
Covington, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Covington, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Covington, Tennessee's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Covington Electric System Electric Fund, which is both a major fund and 39 percent, 40 percent, and 74 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the business-type activities, nor did we audit the financial statements of the Covington Electric System's Employees' Retirement Plan.

Management's Responsibility for the Financial Statements

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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Covington Electric System Electric Fund, which is both a major fund and 39 percent, 40 percent, and 74 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the business-type activities, nor did we audit the financial statements of the Covington Electric System's Employees' Retirement Plan. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Covington Electric System Electric Fund and Covington Electric System's Employees' Retirement Plan, is based solely on the report of the other

auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Tennessee as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As described in Note 1 to the financial statements, in 2015, the City of Covington, Tennessee adopted new accounting guidance as required by the Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. Our opinions are 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 and pension plan/retirement plan schedules as listed in the table of contents 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 and other

auditors 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

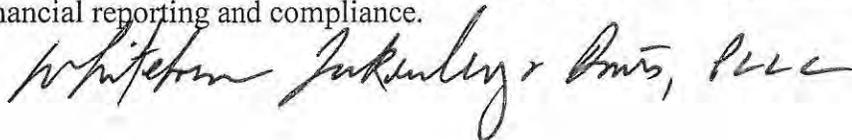
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Tennessee's basic financial statements. The introductory section, combining fund financial statements, and schedules, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and schedules, including the schedule of expenditures of federal awards, 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining fund financial statements and schedules, including the schedule of expenditures of federal awards, are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2016, on our consideration of the City of Covington, Tennessee's internal control over financial reporting and on our and the other auditors 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 and the other auditors testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Covington, Tennessee's internal control over financial reporting and compliance.



Covington, Tennessee
June 7, 2016

Management's Discussion and Analysis

As management of the City of Covington, we offer readers of the City of Covington's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2015. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Covington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$56,999,634 (net position). Of this amount, \$13,766,043 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,844,752 during the current fiscal year.
- As of the close of the current fiscal year, the City of Covington's governmental funds reported combined ending fund balances of \$2,960,747, a decrease of \$754,647 in comparison with the prior year. Of the total fund balances, \$1,234,224 are unassigned and are available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,247,968 or 12% of the total General Fund expenditures.
- The City of Covington's total long-term debt increased by \$6,232,281 (45%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Covington's basic financial statements. The City of Covington's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Covington's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Covington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Covington is improving or deteriorating.

The statement of activities presents information showing how the government'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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Covington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Covington include general government, public works, public safety, and health, welfare, recreation, and education. The business-type activities of the City of Covington include electric, gas, sewer, bio mass gasification, and water utility operations.

The government-wide financial statements include only the City of Covington itself (known as the primary government). The City operates electric, gas, sewer, bio mass gasification, and water utility systems. They are each reported as proprietary funds in the City's financial statements.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Covington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Covington can be divided into three categories: governmental funds, proprietary funds, 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 governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Covington maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Covington adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-20 and 30-36 of this report.

Proprietary funds. The City of Covington maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Covington uses an enterprise fund to account for each of its electric, gas, sewer, bio mass gasification, and water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, gas, sewer, bio mass gasification, and water operations, all of which are considered to be major funds of the City of Covington.

The basic proprietary fund financial statements can be found on pages 21-27 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 statements 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 City is the trustee, or fiduciary, for its employees' pension plans.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

Notes to 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 37-73 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Such information consists of information concerning the City of Covington's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 74-79 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining nonmajor fund statements and schedules can be found on pages 80-117 of this report.

Government-wide Financial Analysis

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 of Covington, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$56,999,634 at the close of the most recent fiscal year.

City of Covington's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 10,518,752	\$ 9,451,852	\$ 25,362,750	\$ 24,985,788	\$ 35,881,502	\$ 34,437,640
Capital assets	<u>20,107,853</u>	<u>18,614,097</u>	<u>32,920,650</u>	<u>34,100,162</u>	<u>53,028,503</u>	<u>52,714,259</u>
Total assets	<u>30,626,605</u>	<u>28,065,949</u>	<u>58,283,400</u>	<u>59,085,950</u>	<u>88,910,005</u>	<u>87,151,899</u>
Deferred Outflows	<u>629,761</u>	<u>-</u>	<u>291,794</u>	<u>-</u>	<u>921,555</u>	<u>-</u>
Long-term liabilities outstanding	8,588,189	3,247,215	10,490,541	9,093,294	19,078,730	12,340,509
Other liabilities	<u>4,096,638</u>	<u>3,201,945</u>	<u>4,169,793</u>	<u>5,084,144</u>	<u>8,266,441</u>	<u>8,286,089</u>
Total liabilities	<u>12,684,827</u>	<u>6,449,160</u>	<u>14,660,334</u>	<u>14,177,438</u>	<u>27,345,171</u>	<u>20,626,598</u>
Deferred inflows	<u>5,004,493</u>	<u>2,879,623</u>	<u>482,262</u>	<u>-</u>	<u>5,486,755</u>	<u>2,879,623</u>
Net Position						
Net investment in capital assets	18,168,453	16,328,597	23,699,012	24,502,204	41,867,465	40,830,801
Restricted	1,064,277	991,078	301,849	302,720	1,366,126	1,293,798
Unrestricted	<u>(5,665,684)</u>	<u>1,417,491</u>	<u>19,431,727</u>	<u>20,103,588</u>	<u>13,766,043</u>	<u>21,521,079</u>
Total Net Position ...	<u>\$ 13,567,046</u>	<u>\$ 18,737,166</u>	<u>\$ 43,432,588</u>	<u>\$ 44,908,512</u>	<u>\$ 56,999,634</u>	<u>\$ 63,645,678</u>

By far the largest portion of the City of Covington's net position (73%) reflects its investments in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Covington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Covington's investment 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 of Covington's net position (2%), \$1,366,126 represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$13,766,043 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Covington is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate business-type activities.

The government's net position decreased by \$6,646,044 during the current fiscal year, due primarily to the recording of net pension liability of approximately \$6,400,000.

City of Covington's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 2,264,723	\$ 2,243,344	\$ 27,597,313	\$ 26,537,601	\$ 29,862,036	\$ 28,780,945
Operating grants and contributions	444,575	541,029	-	-	444,575	541,029
Capital grants and contributions	1,144,257	277,846	-	-	1,144,257	277,846
General revenues						
Taxes	8,122,031	7,768,553	-	-	8,122,031	7,768,553
Investment earnings	2,845	3,811	47,668	44,437	50,513	48,248
Gain (loss) on disposal of capital assets	-	50,737	-	1,800	-	52,537
Insurance proceeds	66,337	-	-	-	66,337	-
Miscellaneous	57,418	75,923	443,662	444,031	501,080	519,954
Total revenues	<u>12,102,186</u>	<u>10,961,243</u>	<u>28,088,643</u>	<u>27,027,869</u>	<u>40,190,829</u>	<u>37,989,112</u>
Expenses						
General government	3,180,002	3,506,632	-	-	3,180,002	3,506,632
Public works	2,584,703	2,457,087	-	-	2,584,703	2,457,087
Public safety	3,807,780	3,555,013	-	-	3,807,780	3,555,013
Health, welfare, recreation, & education	1,595,867	1,568,395	-	-	1,595,867	1,568,395
Interest on long-term debt	52,966	72,317	-	-	52,966	72,317
Water	-	-	1,483,030	1,608,714	1,483,030	1,608,714
Sewer	-	-	1,995,722	2,185,725	1,995,722	2,185,725
Gas	-	-	2,875,205	3,351,043	2,875,205	3,351,043
Bio mass	-	-	340,243	66,205	340,243	66,205
Electric	-	-	20,430,559	18,843,599	20,430,559	18,843,599
Total expenses	<u>11,221,318</u>	<u>11,159,444</u>	<u>27,124,759</u>	<u>26,055,286</u>	<u>38,346,077</u>	<u>37,214,730</u>
Change in net position before extraordinary item and transfers						
	880,868	(198,201)	963,884	972,583	1,844,752	774,382
Transfers	565,135	571,935	(565,135)	(571,935)	-	-
Extraordinary item	-	-	-	(152,622)	-	(152,622)
Change in net position	1,446,003	373,734	398,749	248,026	1,844,752	621,760
Net position - beginning, as restated						
	<u>12,121,043</u>	<u>18,363,432</u>	<u>43,033,839</u>	<u>44,660,486</u>	<u>55,154,882</u>	<u>63,023,918</u>
Net position - ending						
	<u>\$ 13,567,046</u>	<u>\$ 18,737,166</u>	<u>\$ 43,432,588</u>	<u>\$ 44,908,512</u>	<u>\$ 56,999,634</u>	<u>\$ 63,645,678</u>

Governmental activities: Governmental activities decreased City of Covington's net position by \$5,170,120, thereby accounting for 78% of the decrease in the net position of the City of Covington.

Business-type activities. Business-type activities decreased the City of Covington's net position by \$1,475,924, accounting for 22% of the decrease in the total government's net position.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Covington's governmental funds reported combined ending fund balances of \$2,960,747 a decrease of \$754,647 in comparison with the prior year. Of the total fund balances, \$1,234,224 are unassigned.

The General Fund is the chief operating fund of the City of Covington. At the end of the current fiscal year, the fund balance of the General Fund was \$1,817,089 of which \$1,247,968 is unassigned. Unassigned fund balance represents 12% of total General Fund expenditures.

The fund balance of the City of Covington's General Fund decreased by \$862,773 during the current fiscal year. The City's original budget projected a decrease of \$200,233 in fund balance. Revenues were \$187,645 above the projected revenue and expenditures were \$356,036 below projected expenditures, as shown on the final budget.

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

Water Fund:

The unrestricted net position of the Water Fund at the end of the fiscal year amounted to \$2,094,566. The system's net position increased by \$310,202. Significant contributing factors were (1) revenues were \$90,082 above projected revenues, and (2) expenses were \$102,328 below projected expenses.

Sewer Fund:

The unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$1,786,210. The system's net position increased by \$113,851. Significant contributing factors were (1) revenues were \$49,123 above projected revenues, and (2) expenses were \$62,873 below projected expenses.

Gas Utility Fund:

The unrestricted net position of the Gas Utility Fund at the end of the fiscal year amounted to \$9,915,907. The system's net position increased by \$243,901. Significant contributing factors were (1) revenues were \$768,944 below projected revenues, and (2) expenses were \$999,715 below projected expenses.

Electric System's Electric Fund:

The unrestricted net position of the Electric Fund at the end of the fiscal year amounted to \$5,664,739. The system's net position increased by \$2,586.

Bio Mass Gasification Fund:

The unrestricted net position of the Bio Mass Gasification Fund at the end of the fiscal year amounted to (\$29,695). The system's net position decreased by \$271,791 primarily due to the plant not operating at full capacity.

General Fund Budgetary Highlights

During the fiscal year, there was an amendment to our General Fund budget to increase expenditures by \$636,500. The actual total revenues and transfers in versus the final budgeted total revenues and transfers in was positive by \$180,720 and the actual total expenditures and transfers out versus the total final budgeted expenditures and transfers out were positive by \$377,641. The actual change in fund balance versus the final budgeted change in fund balance was positive by \$10,960.

Capital Asset and Debt Administration

Capital Assets. The City of Covington's investment in capital assets for its governmental and business type activities as of June 30, 2015, amounts to \$53,028,503 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, distribution and collection systems, and construction in progress. The City of Covington's investment in capital assets for Governmental Activities is \$20,107,853, (38%) and for Business-Type Activities is \$32,920,650, (62%).

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,246,197	\$ 3,246,197	\$ 400,096	\$ 400,096	\$ 3,646,293	\$ 3,646,293
Buildings	2,712,674	2,844,196	6,430,584	6,754,505	9,143,258	9,598,701
Improvements	6,748,364	6,095,325	-	-	6,748,364	6,095,325
Equipment	1,801,292	1,539,335	447,445	418,051	2,248,737	1,957,386
Infrastructure	5,005,415	4,730,951	-	-	5,005,415	4,730,951
Unamortized acquisition adjustment	-	-	173,177	197,341	173,177	197,341
Plant for future use						
Biomass	-	-	2,157,200	2,243,189	2,157,200	2,243,189
Distribution and collection systems	-	-	23,184,633	23,946,024	23,184,633	23,946,024
Construction in progress	593,911	158,093	127,515	140,956	721,426	299,049
Total	\$ 20,107,853	\$ 18,614,097	\$ 32,920,650	\$ 34,100,162	\$ 53,028,503	\$ 52,714,259

Major capital asset events during the current fiscal year included the following:

- In the Governmental Activities, airport improvement projects are in progress.
- In the Business-type Activities, the bio mass gasification plant was put in service.

Additional information on the City of Covington's capital assets can be found in note 5 of this report.

Long-term debt. At the end of the current fiscal year, the City of Covington has total long-term debt of \$20,094,330. Of this amount, \$7,119,400 comprises debt backed by the full faith and credit of the government, \$3,891,040 represents bonds and notes secured by specified revenue sources (i.e., revenue bonds), and \$9,083,890 represents estimated liabilities for employee pension plan and compensated absences.

City of Covington's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds and Notes	\$ 1,939,400	\$ 2,285,500	\$ 5,180,000	\$ 5,334,000	\$ 7,119,400	\$ 7,619,500
Pension/Compensated Absences	7,022,296	1,627,150	2,061,594	488,207	9,083,890	2,115,357
Notes Payable	-	-	9,248	12,447	9,248	12,447
Revenue Bonds	-	-	3,881,792	4,114,745	3,881,792	4,114,745
Total	<u>\$ 8,961,696</u>	<u>\$ 3,912,650</u>	<u>\$ 11,132,634</u>	<u>\$ 9,949,399</u>	<u>\$ 20,094,330</u>	<u>\$ 13,862,049</u>

The City of Covington's total long-term debt increased by \$6,232,281, (45%) during the current fiscal year due to pension liability.

The City has no legal debt limit. Additional information on the City of Covington's long-term debt can be found in note 6 of this report.

Economic Factors and Next Year's Budget and Rates

During the current fiscal year, unassigned fund balance in the general fund decreased to \$1,247,968. The City of Covington has projected a \$250,000 increase in the 2015-16 fiscal year budget.

- Local option sales tax collections are projected to increase by approximately 3% due to changes in our economic conditions.
- Water rates will increase by 1% in FY 2015-16 beginning with July 2015 consumption.
- Sewer rates will increase by 1% in FY 2015-16 beginning with July 2015 consumption.
- Natural gas rates will increase or decrease on a monthly basis according to the wholesale cost of gas to the City.
- There will be a salary increase to various employees to bring salaries to mid-point level according to their skill level and a 2% increase to all employees.
- Renovation of Covington Municipal Center building with a grant of \$300,000 will be completed.
- Walking trail and pool cover at park with LPRF Grant of \$250,000 will be completed.
- AFG Grant will be used for the purchase of a fire truck.
- Projects of SIA Grant/Cold Storage/STP Project will be completed with assistance of grant and STP dollars.
- Fire personnel will change to a 24 hour shift with various pay increases.

Requests for Information

This financial report is designed to provide a general overview of the City of Covington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Recorder-Treasurer, 200 West Washington Avenue, P.O. Box 768, Covington, TN 38019.

BASIC FINANCIAL STATEMENTS

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and cash equivalents	\$ 5,031,607	\$ 21,548,002	\$ 26,579,609
Receivables			
Accounts receivable	188,966	3,003,193	3,192,159
Property taxes	2,663,189	-	2,663,189
Due from Tipton County, Tennessee	403,328	-	403,328
Due from State of Tennessee	419,394	-	419,394
Notes receivable	123,333	-	123,333
Grants receivable	236,670	-	236,670
Other	1,307,117	3,382	1,310,499
Inventories	53,950	265,797	319,747
Prepayments and other assets	91,198	197,690	288,888
Restricted assets			
Cash for debt service	-	313,961	313,961
Cash for construction	-	4	4
Investment for customer deposits	-	30,721	30,721
Capital assets, net	<u>20,107,853</u>	<u>32,920,650</u>	<u>53,028,503</u>
TOTAL ASSETS	<u>30,626,605</u>	<u>58,283,400</u>	<u>88,910,005</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	<u>629,761</u>	<u>291,794</u>	<u>921,555</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 31,256,366</u>	<u>\$ 58,575,194</u>	<u>\$ 89,831,560</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - CONTINUED
JUNE 30, 2015

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Accounts payable	\$ 286,772	\$ 3,706,943	\$ 3,993,715
Contracts payable	377,807	-	377,807
Accrued expenses	146,596	234,105	380,701
Utility customer deposits	575,738	1,056,675	1,632,413
Internal balances	1,489,039	(1,489,039)	-
Unearned revenue			
Grants	783,759	-	783,759
Rents	63,420	-	63,420
Other	-	19,026	19,026
Compensated absences			
Due within one year	10,307	263,391	273,698
Due in more than one year	648,962	-	648,962
Net pension liability - due in more than one year	6,363,027	1,798,203	8,161,230
Bonds and notes payable			
Due within one year	363,200	378,702	741,902
Due in more than one year	1,576,200	8,692,338	10,268,538
TOTAL LIABILITIES	<u>12,684,827</u>	<u>14,660,344</u>	<u>27,345,171</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues			
Property taxes	2,402,111	-	2,402,111
Payments in lieu of taxes	1,045,894	-	1,045,894
Pensions	1,556,488	482,262	2,038,750
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,004,493</u>	<u>482,262</u>	<u>5,486,755</u>
NET POSITION			
Net investment in capital assets	18,168,453	23,699,012	41,867,465
Restricted for			
Street expenditures	170,472	-	170,472
Solid Waste/Sanitation expenditures	541,135	-	541,135
Drug enforcement	46,549	-	46,549
Grant programs	55,294	-	55,294
Debt service	1,018	301,845	302,863
Capital expenditures	-	4	4
Perpetual care (nonexpendable)	249,809	-	249,809
Unrestricted	(5,665,684)	19,431,727	13,766,043
TOTAL NET POSITION	<u>13,567,046</u>	<u>43,432,588</u>	<u>56,999,634</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 31,256,366</u>	<u>\$ 58,575,194</u>	<u>\$ 89,831,560</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
PROGRAM ACTIVITIES							
Governmental activities							
General government	\$ 3,180,002	\$ -	\$ -	\$ -	\$ (3,180,002)	\$ -	\$ (3,180,002)
Public safety	3,807,780	226,121	104,560	-	(3,477,099)	-	(3,477,099)
Public works	2,584,703	1,565,687	255,720	540,135	(223,161)	-	(223,161)
Health, welfare, recreation and education	1,595,867	472,915	84,295	604,122	(434,535)	-	(434,535)
Interest on long-term debt	52,966	-	-	-	(52,966)	-	(52,966)
TOTAL GOVERNMENTAL ACTIVITIES	11,221,318	2,264,723	444,575	1,144,257	(7,367,763)	-	(7,367,763)
Business-type activities							
Water	1,483,030	1,732,172	-	-	-	249,142	249,142
Sewer	1,995,722	2,172,472	-	-	-	176,750	176,750
Gas	2,875,205	3,126,960	-	-	-	251,755	251,755
Bio Mass Gasification	340,243	68,387	-	-	-	(271,856)	(271,856)
Electric	20,430,559	20,497,322	-	-	-	66,763	66,763
TOTAL BUSINESS-TYPE ACTIVITIES	27,124,759	27,597,313	-	-	-	472,554	472,554
TOTAL GOVERNMENT	\$ 38,346,077	\$ 29,862,036	\$ 444,575	\$ 1,144,257	(7,367,763)	472,554	(6,895,209)
GENERAL REVENUES							
Taxes							
Property					3,079,014	-	3,079,014
Sales					4,093,456	-	4,093,456
Privilege					874,261	-	874,261
Income					75,300	-	75,300
Investment earnings					2,845	47,668	50,513
Insurance proceeds					66,337	-	66,337
Miscellaneous					57,418	443,662	501,080
TOTAL GENERAL REVENUES					8,248,631	491,330	8,739,961
TRANSFERS					565,135	(565,135)	-
TOTAL GENERAL REVENUES AND TRANSFERS					8,813,766	(73,805)	8,739,961
CHANGE IN NET POSITION					1,446,003	398,749	1,844,752
NET POSITION							
Balance at July 1, 2014, as restated					12,121,043	43,033,839	55,154,882
Balance at June 30, 2015					\$ 13,567,046	\$ 43,432,588	\$ 56,999,634

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
ASSETS			
Cash and cash equivalents	\$ 3,288,748	\$ 1,742,859	\$ 5,031,607
Receivables			
Accounts receivable	-	188,966	188,966
Property taxes	2,663,189	-	2,663,189
Due from Tipton County, Tennessee	403,328	-	403,328
Due from State of Tennessee	378,201	41,193	419,394
Notes receivable	-	123,333	123,333
Grants receivable	75,271	161,399	236,670
Other	1,268,400	38,717	1,307,117
Inventories	21,353	32,597	53,950
Prepaid expenses	91,198	-	91,198
Due from other funds	<u>24,715</u>	<u>2,191</u>	<u>26,906</u>
TOTAL ASSETS	<u>\$ 8,214,403</u>	<u>\$ 2,331,255</u>	<u>\$10,545,658</u>
LIABILITIES			
Accounts payable	\$ 116,457	\$ 170,315	\$ 286,772
Contracts payable	235,203	142,604	377,807
Accrued expenses	126,512	6,899	133,411
Utility customer deposits	575,738	-	575,738
Due to other funds	234,912	4,647	239,559
Unearned revenue			
Grants	-	783,759	783,759
Rents	-	63,420	63,420
Advances from other funds	<u>1,260,433</u>	<u>15,953</u>	<u>1,276,386</u>
TOTAL LIABILITIES	<u>2,549,255</u>	<u>1,187,597</u>	<u>3,736,852</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue			
Property taxes	2,644,088	-	2,644,088
Payments in lieu of taxes	1,060,458	-	1,060,458
State income tax	24,777	-	24,777
Grants	46,079	-	46,079
Penalties and interest on property taxes	<u>72,657</u>	<u>-</u>	<u>72,657</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,848,059</u>	<u>-</u>	<u>3,848,059</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2015

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
FUND BALANCE			
Nonspendable	\$ 21,353	\$ 282,406	\$ 303,759
Restricted	29,193	785,275	814,468
Committed	-	60,046	60,046
Assigned	518,575	29,675	548,250
Unassigned	<u>1,247,968</u>	<u>(13,744)</u>	<u>1,234,224</u>
TOTAL FUND BALANCE	<u>1,817,089</u>	<u>1,143,658</u>	<u>2,960,747</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
	<u>\$ 8,214,403</u>	<u>\$ 2,331,255</u>	<u>\$10,545,658</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>TOTAL GOVERNMENTAL FUNDS</u>
TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 2,960,747
 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 governmental funds balance sheet.	20,107,853
Deferred outflows of resources related to pensions in which the consumption of net position will occur in a future period; therefore, it is not reported in governmental funds balance sheet	629,761
Interest payable on long term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(13,185)
Deferred inflows of resources - unavailable revenues are not available to pay for current period expenditures and therefore are deferred in the governmental funds balance sheet	400,054
Deferred inflows of resources related to pensions in which the acquisition of net position will occur in a future period; therefore, it is not reported in governmental funds balance sheet	(1,556,488)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	<u>(8,961,696)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 13,567,046</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
REVENUES			
Local taxes	\$ 7,176,938	\$ -	\$ 7,176,938
Licenses and permits	41,876	-	41,876
Intergovernmental revenues	1,961,026	534,553	2,495,579
Charges for services	195,810	1,848,867	2,044,677
Fines, forfeits, and penalties	104,138	17,947	122,085
Other revenues	<u>44,512</u>	<u>43,638</u>	<u>88,150</u>
TOTAL REVENUES	<u>9,524,300</u>	<u>2,445,005</u>	<u>11,969,305</u>
EXPENDITURES			
Current			
General government	3,463,334	-	3,463,334
Public safety	3,889,261	20,099	3,909,360
Public works	1,370,813	1,620,806	2,991,619
Health, welfare, recreation and education ..	1,834,205	757,840	2,592,045
Debt service	<u>30,877</u>	<u>368,189</u>	<u>399,066</u>
TOTAL EXPENDITURES	<u>10,588,490</u>	<u>2,766,934</u>	<u>13,355,424</u>
EXCESS OF REVENUES			
(UNDER) EXPENDITURES	<u>(1,064,190)</u>	<u>(321,929)</u>	<u>(1,386,119)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	574,475	490,524	1,064,999
Insurance proceeds	66,337	-	66,337
Transfers out	<u>(439,395)</u>	<u>(60,469)</u>	<u>(499,864)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>201,417</u>	<u>430,055</u>	<u>631,472</u>
NET CHANGE IN FUND BALANCE	(862,773)	108,126	(754,647)
FUND BALANCE			
Balance at July 1, 2014	<u>2,679,862</u>	<u>1,035,532</u>	<u>3,715,394</u>
Balance at June 30, 2015	<u>\$ 1,817,089</u>	<u>\$ 1,143,658</u>	<u>\$ 2,960,747</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

**NET CHANGE IN FUND BALANCE - TOTAL
GOVERNMENTAL FUNDS** \$ (754,647)

**AMOUNTS REPORTED FOR GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF ACTIVITIES
ARE DIFFERENT BECAUSE:**

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 as depreciation expense.

Capital outlays capitalized	2,561,869
Depreciation expense	(1,068,113)

The issuance of long term debt (e.g. bonds and notes) 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.

Bond proceeds	-
Bond and note principal payments	346,100

The amount of expense for compensated absences reported in the statement of activities is more than the amount reported as expenditures in governmental funds. (54,545)

The amount of expense for pension cost reported in the statement of activities is less than the amount reported as expenditures in governmental funds 348,795

Some property tax and other revenues do not provide current financial resources and are reported as deferred inflows of resources in the governmental funds. This is the net difference between the amounts deferred in the current and prior year. 66,544

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,446,003

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2015

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 2,546,878	\$ 2,144,745	\$ 9,296,782	\$ 34,635	\$ 7,524,962	\$ 21,548,002
Receivables						
Trade	225,218	245,908	149,941	-	2,382,126	3,003,193
Other	-	3,042	-	-	340	3,382
Due from other funds	15,788	47,500	234,825	-	-	298,113
Inventories	14,885	8,176	21,051	-	221,685	265,797
Prepayments and other current assets	-	-	-	-	165,999	165,999
TOTAL CURRENT ASSETS	2,802,769	2,449,371	9,702,599	34,635	10,295,112	25,284,486
NONCURRENT ASSETS						
Restricted Assets						
Cash and cash equivalents on deposit						
Debt service	-	3,439	-	-	310,522	313,961
Construction	-	4	-	-	-	4
	-	3,443	-	-	310,522	313,965
Investments - customer deposits	-	-	-	-	30,721	30,721
Total Restricted Assets	-	3,443	-	-	341,243	344,686
Capital Assets						
Not being depreciated						
Land, land rights and improvements	12,015	51,191	116,178	-	220,712	400,096
Construction in process	22,292	-	-	-	105,223	127,515
	34,307	51,191	116,178	-	325,935	527,611
Being depreciated						
Buildings	3,209,454	10,197,813	927,592	-	-	14,334,859
Distribution and collection systems	9,192,289	13,249,293	2,110,577	-	12,396,818	36,948,977
General plant	-	-	-	-	6,422,473	6,422,473
Transmission plant	-	-	-	-	2,161,810	2,161,810
Bio Mass plant	-	-	-	2,243,189	-	2,243,189
Equipment	194,003	440,763	470,718	78,374	-	1,183,858
Unamortized acquisition adjustment	-	-	-	-	241,642	241,642
Less accumulated depreciation/amortization . . .	(8,037,450)	(11,559,621)	(2,493,336)	(97,745)	(8,955,617)	(31,143,769)
Total Capital Assets, Net of Accumulated Depreciation/ Amortization	4,592,603	12,379,439	1,131,729	2,223,818	12,593,061	32,920,650
Other Assets						
Unamortized debt expense	-	-	-	-	18,953	18,953
Advances from other funds	-	-	1,276,386	-	-	1,276,386
Other	-	-	-	-	2,110	2,110
Advances to customers - home insulation	-	-	-	-	10,628	10,628
Total Other Assets	-	-	1,276,386	-	31,691	1,308,077
TOTAL NONCURRENT ASSETS	4,592,603	12,382,882	2,408,115	2,223,818	12,965,995	34,573,413

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CONTINUED
JUNE 30, 2015

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
DEFERRED OUTFLOWS OF RESOURCES						
Pensions	\$ 46,769	\$ 57,613	\$ 51,879	\$ -	\$ 135,533	\$ 291,794
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,442,141</u>	<u>\$14,889,866</u>	<u>\$12,162,593</u>	<u>\$ 2,258,453</u>	<u>\$ 23,396,640</u>	<u>\$ 60,149,693</u>
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable	\$ 43,144	\$ 49,337	\$ 369,133	\$ 135	\$ 3,245,194	\$ 3,706,943
Accrued expenses	47,158	9,927	32,381	907	117,975	208,348
Payroll and other taxes	7,830	7,478	(1,667)	-	-	13,641
Current maturities of long-term debt	86,960	115,742	-	66,000	-	268,702
Due to other funds	11,161	11,011	-	63,288	-	85,460
Customer deposits	-	-	-	-	1,025,954	1,025,954
Compensated absences	57,613	60,900	62,713	-	82,165	263,391
TOTAL CURRENT LIABILITIES	<u>253,866</u>	<u>254,395</u>	<u>462,560</u>	<u>130,330</u>	<u>4,471,288</u>	<u>5,572,439</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS						
Customer deposits	-	-	-	-	30,721	30,721
Accrued interest	-	-	-	-	12,116	12,116
Current maturities of long-term debt	-	-	-	-	110,000	110,000
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,837</u>	<u>152,837</u>
NONCURRENT LIABILITIES						
Bonds payable, less current maturities	1,241,471	4,321,211	-	2,059,000	1,065,000	8,686,682
Unamortized bond premium (discount)	-	19,295	-	-	(11,163)	8,132
Advances-home insulation program	-	-	-	-	10,894	10,894
Net pension liability	472,548	582,120	524,176	-	219,359	1,798,203
Notes payable, less current maturities	-	5,656	-	-	-	5,656
TOTAL NONCURRENT LIABILITIES	<u>1,714,019</u>	<u>4,928,282</u>	<u>524,176</u>	<u>2,059,000</u>	<u>1,284,090</u>	<u>10,509,567</u>
TOTAL LIABILITIES	<u>1,967,885</u>	<u>5,182,677</u>	<u>986,736</u>	<u>2,189,330</u>	<u>5,908,215</u>	<u>16,234,843</u>
DEFERRED INFLOWS OF RESOURCES						
Pensions	115,592	142,395	128,221	-	96,054	482,262

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CONTINUED
JUNE 30, 2015

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
NET POSITION						
Net investment in capital assets ..	\$ 3,264,098	\$ 7,775,141	\$ 1,131,729	\$ 98,818	\$ 11,429,226	\$ 23,699,012
Restricted for debt service	-	3,439	-	-	298,406	301,845
Restricted for construction	-	4	-	-	-	4
Unrestricted	<u>2,094,566</u>	<u>1,786,210</u>	<u>9,915,907</u>	<u>(29,695)</u>	<u>5,664,739</u>	<u>19,431,727</u>
TOTAL NET POSITION ...	<u>5,358,664</u>	<u>9,564,794</u>	<u>11,047,636</u>	<u>69,123</u>	<u>17,392,371</u>	<u>43,432,588</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 7,442,141</u>	<u>\$14,889,866</u>	<u>\$12,162,593</u>	<u>\$ 2,258,453</u>	<u>\$ 23,396,640</u>	<u>\$ 60,149,693</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	<u>BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>GAS UTILITY FUND</u>	<u>BIO MASS GASIFICATION FUND</u>	<u>COVINGTON ELECTRIC SYSTEM ELECTRIC FUND</u>	
OPERATING REVENUES						
Charges for services	\$ 1,732,172	\$ 2,172,472	\$ 3,126,960	\$ 68,387	\$20,497,322	\$ 27,597,313
Miscellaneous	95,675	28,845	25,922	-	293,220	443,662
TOTAL OPERATING REVENUES	<u>1,827,847</u>	<u>2,201,317</u>	<u>3,152,882</u>	<u>68,387</u>	<u>20,790,542</u>	<u>28,040,975</u>
OPERATING EXPENSES						
Purification	425,832	-	-	-	-	425,832
Transmission and distribution	311,588	-	350,168	-	-	661,756
Operations expense	-	-	-	219,749	1,723,811	1,943,560
Collection	-	238,346	-	-	-	238,346
Treatment and disposal	-	468,285	-	-	-	468,285
Purchased gas and power	-	-	1,961,531	-	17,141,050	19,102,581
General and administrative	433,687	544,984	478,135	-	-	1,456,806
Maintenance expense	-	-	-	-	701,849	701,849
Taxes	-	-	-	-	92,312	92,312
Depreciation and amortization	264,378	600,200	85,371	93,826	703,259	1,747,034
TOTAL OPERATING EXPENSES	<u>1,435,485</u>	<u>1,851,815</u>	<u>2,875,205</u>	<u>313,575</u>	<u>20,362,281</u>	<u>26,838,361</u>
OPERATING INCOME (LOSS)	<u>392,362</u>	<u>349,502</u>	<u>277,677</u>	<u>(245,188)</u>	<u>428,262</u>	<u>1,202,615</u>
NONOPERATING REVENUES (EXPENSES)						
Interest earned and other revenue	1,185	956	20,074	65	25,388	47,668
Other expenses	-	-	-	-	(18,842)	(18,842)
Interest expense	(47,545)	(143,907)	-	(26,668)	(49,436)	(267,556)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(46,360)</u>	<u>(142,951)</u>	<u>20,074</u>	<u>(26,603)</u>	<u>(42,890)</u>	<u>(238,730)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>346,002</u>	<u>206,551</u>	<u>297,751</u>	<u>(271,791)</u>	<u>385,371</u>	<u>963,884</u>
TRANSFERS						
Transfers out	(35,800)	(92,700)	(53,850)	-	(382,785)	(565,135)
CHANGE IN NET POSITION	310,202	113,851	243,901	(271,791)	2,586	398,749
NET POSITION						
Balance at July 1, 2014, as restated ..	5,048,462	9,450,943	10,803,735	340,914	17,389,785	43,033,839
Balance at June 30, 2015	<u>\$ 5,358,664</u>	<u>\$ 9,564,794</u>	<u>\$11,047,636</u>	<u>\$ 69,123</u>	<u>\$17,392,371</u>	<u>\$ 43,432,588</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,733,472	\$ 2,170,903	\$ 3,204,650	\$ 68,386	\$20,542,427	\$ 27,719,838
Cash payments to suppliers for goods and services	(793,414)	(705,522)	(2,446,571)	(135,329)	(19,417,769)	(23,498,605)
Cash payments to employees for services	(376,493)	(487,928)	(396,900)	(20,291)	Included above	(1,281,612)
Cash payments to General Fund for share of joint costs	(84,000)	(84,000)	(84,000)	-	-	(252,000)
Cash payments to General Fund for payments in lieu of taxes (transfers)	(35,800)	(92,700)	(76,200)	-	(382,786)	(587,486)
Cash payments for other taxes	(37,867)	(35,157)	(31,054)	(570)	(92,312)	(196,960)
Other income received	95,675	28,845	25,922	-	-	150,442
Customer deposits received	-	-	-	-	280,950	280,950
Customer deposits refunded	-	-	-	-	(213,369)	(213,369)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>501,573</u>	<u>794,441</u>	<u>195,847</u>	<u>(87,804)</u>	<u>717,141</u>	<u>2,121,198</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
(Decrease) in advances from TVA	-	-	-	-	(2,497)	(2,497)
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,497)</u>	<u>(2,497)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(44,304)	(29,000)	(48,284)	-	(431,834)	(553,422)
Disposal of capital assets	-	-	-	-	56,378	56,378
Plant removal costs	-	-	-	-	(59,045)	(59,045)
Materials salvaged from retirements	-	-	-	-	20,421	20,421
Principal paid on capital debt	(104,010)	(117,141)	-	(64,000)	(105,000)	(390,151)
Interest and fees paid on capital debt	(47,545)	(145,321)	-	(26,668)	(50,408)	(269,942)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(195,859)</u>	<u>(291,462)</u>	<u>(48,284)</u>	<u>(90,668)</u>	<u>(569,488)</u>	<u>(1,195,761)</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2015**

	<u>BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>GAS UTILITY FUND</u>	<u>BIO MASS GASIFICATION FUND</u>	<u>COVINGTON ELECTRIC SYSTEM ELECTRIC FUND</u>	
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment income	\$ 1,186	\$ 956	\$ 20,491	\$ 65	\$ 25,388	\$ 48,086
(Increase) in advances to other funds	-	-	(685,430)	-	-	(685,430)
(Expenses) from other nonoperating expenses	-	-	-	-	(18,842)	(18,842)
Decrease in conservation loans	-	-	-	-	2,497	2,497
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,186</u>	<u>956</u>	<u>(664,939)</u>	<u>65</u>	<u>9,043</u>	<u>(653,689)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	306,900	503,935	(517,376)	(178,407)	154,199	269,251
CASH AND CASH EQUIVALENTS						
Beginning of year	<u>2,239,978</u>	<u>1,644,253</u>	<u>9,814,158</u>	<u>213,042</u>	<u>7,681,285</u>	<u>21,592,716</u>
End of year	<u>\$ 2,546,878</u>	<u>\$ 2,148,188</u>	<u>\$ 9,296,782</u>	<u>\$ 34,635</u>	<u>\$ 7,835,484</u>	<u>\$ 21,861,967</u>
RECONCILIATION OF ENDING CASH AND CASH EQUIVALENTS TO LINE ITEMS IN STATEMENT OF NET POSITION						
Unrestricted cash and cash equivalents	\$ 2,546,878	\$ 2,144,745	\$ 9,296,782	\$ 34,635	\$ 7,524,962	\$ 21,548,102
Restricted cash and cash equivalents	-	3,443	-	-	310,522	313,965
Cash and cash equivalents	<u>\$ 2,546,878</u>	<u>\$ 2,148,188</u>	<u>\$ 9,296,782</u>	<u>\$ 34,635</u>	<u>\$ 7,835,484</u>	<u>\$ 21,862,067</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2015**

	<u>BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>GAS UTILITY FUND</u>	<u>BIO MASS GASIFICATION FUND</u>	<u>COVINGTON ELECTRIC SYSTEM ELECTRIC FUND</u>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 392,362	\$ 349,502	\$ 277,677	\$ (245,188)	\$ 428,262	\$ 1,202,615
Adjustments to reconcile net operating income to net cash provided by operating activities						
Depreciation and amortization	264,378	600,200	85,371	93,826	675,250	1,719,025
Transfer (out)	(35,800)	(92,700)	(53,850)	-	(382,785)	(565,135)
Bad debts	3,396	5,391	4,630	-	-	13,417
Net change in pension deferred inflows/outflows	68,823	84,782	76,342	-	15,307	245,254
Changes in assets and liabilities						
Receivables	5,830	(9,865)	82,477	-	(248,116)	(169,674)
Inventory	9,005	157	(2,344)	-	13,823	20,641
Prepayments and other current assets	-	-	-	204	1,749	1,953
Accounts payable, accrued expenses and payroll and other taxes	(107,694)	21,408	(173,937)	66	146,068	(114,089)
Compensated absences and pension benefits	(94,726)	(133,344)	(115,210)	-	-	(343,280)
Interfund accounts	(4,001)	(31,090)	14,691	63,288	-	42,888
Customer deposits	-	-	-	-	67,583	67,583
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 501,573</u>	<u>\$ 794,441</u>	<u>\$ 195,847</u>	<u>\$ (87,804)</u>	<u>\$ 717,141</u>	<u>\$ 2,121,198</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
None						

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2015

	<u>TRUST FUNDS</u>		
	<u>COVINGTON ELECTRIC SYSTEM'S EMPLOYEES' RETIREMENT PLAN</u>	<u>CITY OF COVINGTON PENSION FUND</u>	<u>TOTALS</u>
ASSETS			
Cash and cash equivalents	\$ 2,353	\$ 377,031	\$ 379,384
Due from brokers	-	16,399	16,399
Accrued income	-	7,613	7,613
Investments	<u>2,980,963</u>	<u>10,102,140</u>	<u>13,083,103</u>
TOTAL ASSETS	<u>\$ 2,983,316</u>	<u>\$ 10,503,183</u>	<u>\$ 13,486,499</u>
LIABILITIES			
Due to brokers	\$ -	\$ 16,697	\$ 16,697
NET POSITION			
Restricted for pension benefits	<u>2,983,316</u>	<u>10,486,486</u>	<u>13,469,802</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,983,316</u>	<u>\$ 10,503,183</u>	<u>\$ 13,486,499</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015

	TRUST FUNDS		
	COVINGTON ELECTRIC SYSTEM'S EMPLOYEES' RETIREMENT PLAN	CITY OF COVINGTON PENSION FUND	TOTALS
ADDITIONS			
Contributions - employer	\$ 232,093	\$ 1,142,940	\$ 1,375,033
Investment earnings			
Net increase (decrease) in fair value			
of investments	(27,293)	50,659	23,366
Dividends and interest	87,911	249,981	337,892
Total investment earnings	60,618	300,640	361,258
TOTAL ADDITIONS	<u>292,711</u>	<u>1,443,580</u>	<u>1,736,291</u>
DEDUCTIONS			
Benefits	96,330	573,124	669,454
Administrative expenses	28,073	103,646	131,719
TOTAL DEDUCTIONS	<u>124,403</u>	<u>676,770</u>	<u>801,173</u>
CHANGE IN NET POSITION	<u>168,308</u>	<u>766,810</u>	<u>935,118</u>
NET POSITION			
Balance at July 1, 2014	<u>2,815,008</u>	<u>9,719,676</u>	<u>12,534,684</u>
Balance at June 30, 2015	<u>\$ 2,983,316</u>	<u>\$ 10,486,486</u>	<u>\$ 13,469,802</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Local taxes	\$ 6,998,600	\$ 6,998,600	\$ 7,176,938	\$ 178,338
Licenses and permits	40,700	40,700	41,876	1,176
Intergovernmental revenues	1,796,305	1,956,305	1,961,026	4,721
Charges for services	183,950	203,950	195,810	(8,140)
Fines, forfeits and penalties	135,000	120,000	104,138	(15,862)
Other revenues	17,100	17,100	44,512	27,412
TOTAL REVENUES	<u>9,171,655</u>	<u>9,336,655</u>	<u>9,524,300</u>	<u>187,645</u>
EXPENDITURES				
General government				
Board of Aldermen				
Personal services	2,211,100	2,361,100	2,356,898	4,202
Contractual services	42,350	42,350	28,766	13,584
Fixed charges	146,000	146,000	145,695	305
Grants and donations	273,005	273,005	193,948	79,057
Capital outlay	563,738	283,738	-	283,738
	<u>3,236,193</u>	<u>3,106,193</u>	<u>2,725,307</u>	<u>380,886</u>
City court				
Personal services	12,000	12,000	12,000	-
General elections				
Supplies	1,000	1,000	912	88
Recorder-treasurer				
Personal services	274,600	291,600	290,761	839
Contractual services	50,800	50,800	48,577	2,223
Supplies	18,000	18,000	16,973	1,027
Bad debt expense	1,000	1,000	-	1,000
Capital outlay	2,000	-	-	-
Reimbursements - enterprise funds	-	(112,000)	(142,131)	30,131
	<u>346,400</u>	<u>249,400</u>	<u>214,180</u>	<u>35,220</u>
City attorney				
Personal services	6,000	6,000	6,000	-
Contractual services	95,000	65,000	27,824	37,176
	<u>101,000</u>	<u>71,000</u>	<u>33,824</u>	<u>37,176</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
General government - continued				
Purchasing				
Personal services	\$ 109,550	\$ 109,550	\$ 104,013	\$ 5,537
Contractual services	14,860	14,860	20,460	(5,600)
Supplies	3,000	3,000	2,771	229
Capital outlay	2,000	2,000	-	2,000
Reimbursements - enterprise funds	-	(38,000)	(47,799)	9,799
	<u>129,410</u>	<u>91,410</u>	<u>79,445</u>	<u>11,965</u>
Data processing				
Contractual services	63,000	63,000	61,494	1,506
Capital outlay	-	-	1,667	(1,667)
Reimbursements - enterprise funds	-	(15,000)	(19,354)	4,354
	<u>63,000</u>	<u>48,000</u>	<u>43,807</u>	<u>4,193</u>
Developmental services				
Personal services	74,000	79,000	76,669	2,331
Contractual services	36,550	35,550	28,012	7,538
Supplies	8,000	8,000	6,201	1,799
Capital outlay	2,500	3,500	2,637	863
Reimbursements - enterprise funds	-	(28,000)	(35,048)	7,048
	<u>121,050</u>	<u>98,050</u>	<u>78,471</u>	<u>19,579</u>
Grounds maintenance				
Personal services	193,400	198,400	198,223	177
Contractual services	11,300	8,300	7,998	302
Supplies	10,300	10,300	8,278	2,022
Capital outlay	500	13,500	11,073	2,427
	<u>215,500</u>	<u>230,500</u>	<u>225,572</u>	<u>4,928</u>
City Hall buildings				
Contractual services	38,612	70,612	64,682	5,930
Supplies	2,800	1,800	1,242	558
Capital outlay	-	1,000	497	503
Reimbursements - enterprise funds	-	(13,000)	(16,605)	3,605
	<u>41,412</u>	<u>60,412</u>	<u>49,816</u>	<u>10,596</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
General government - continued				
Total general government	\$ 4,266,965	\$ 3,967,965	\$ 3,463,334	\$ 504,631
Public Safety				
Police				
Personal services	1,656,400	1,681,400	1,679,869	1,531
Contractual services	194,862	194,862	185,597	9,265
Supplies	132,000	132,000	123,353	8,647
Capital outlay	<u>124,500</u>	<u>124,500</u>	<u>161,161</u>	<u>(36,661)</u>
	<u>2,107,762</u>	<u>2,132,762</u>	<u>2,149,980</u>	<u>(17,218)</u>
Fire protection and control				
Personal services	1,253,850	1,383,850	1,331,988	51,862
Contractual services	81,050	106,050	105,724	326
Supplies	55,500	65,500	63,558	1,942
Capital outlay	<u>70,000</u>	<u>61,000</u>	<u>148,511</u>	<u>(87,511)</u>
	<u>1,460,400</u>	<u>1,616,400</u>	<u>1,649,781</u>	<u>(33,381)</u>
Outside fire expenditures				
Personal services	34,000	34,000	17,850	16,150
Contractual services	8,000	2,000	1,843	157
Supplies	15,000	15,000	9,974	5,026
Capital outlay	<u>17,800</u>	<u>17,800</u>	<u>36,305</u>	<u>(18,505)</u>
	<u>74,800</u>	<u>68,800</u>	<u>65,972</u>	<u>2,828</u>
Civil defense				
Contractual services	3,000	3,000	-	3,000
Supplies	<u>23,800</u>	<u>23,800</u>	<u>23,528</u>	<u>272</u>
	<u>26,800</u>	<u>26,800</u>	<u>23,528</u>	<u>3,272</u>
Total public safety	<u>3,669,762</u>	<u>3,844,762</u>	<u>3,889,261</u>	<u>(44,499)</u>
Public works				
Highways, streets and roadways				
Personal services	211,400	211,400	200,286	11,114
Contractual services	69,600	109,600	108,283	1,317
Supplies	51,500	52,500	51,574	926
Fixed charges	-	2,000	1,980	20
Capital outlay	<u>445,400</u>	<u>888,900</u>	<u>811,020</u>	<u>77,880</u>
	<u>777,900</u>	<u>1,264,400</u>	<u>1,173,143</u>	<u>91,257</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
Public works - continued				
Street lighting				
Contractual services	\$ 10,000	\$ 10,000	\$ 8,373	\$ 1,627
Capital outlay	<u>4,000</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
	<u>14,000</u>	<u>12,000</u>	<u>8,373</u>	<u>3,627</u>
City garage				
Personal services	120,400	123,400	123,089	311
Contractual services	26,850	26,850	22,847	4,003
Supplies	13,300	10,300	8,805	1,495
Capital outlay	5,800	33,800	28,392	5,408
Reimbursements - enterprise funds	<u>-</u>	<u>(46,000)</u>	<u>(58,554)</u>	<u>12,554</u>
	<u>166,350</u>	<u>148,350</u>	<u>124,579</u>	<u>23,771</u>
GIS Department				
Personal services	500	500	-	500
Supplies	3,850	3,850	3,333	517
Fixed charges	<u>5,000</u>	<u>5,000</u>	<u>5,500</u>	<u>(500)</u>
	<u>9,350</u>	<u>9,350</u>	<u>8,833</u>	<u>517</u>
Cemetery maintenance				
Contractual services	<u>1,000</u>	<u>3,000</u>	<u>1,885</u>	<u>1,115</u>
Industrial development				
Contractual services	<u>61,000</u>	<u>61,000</u>	<u>54,000</u>	<u>7,000</u>
Total public works	<u>1,029,600</u>	<u>1,498,100</u>	<u>1,370,813</u>	<u>127,287</u>
Health, welfare, recreation and education				
Rabies and animal control				
Personal services	38,100	50,100	45,129	4,971
Contractual services	2,912	2,912	2,773	139
Supplies	17,500	17,500	14,224	3,276
Capital outlay	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
	<u>59,012</u>	<u>71,012</u>	<u>62,126</u>	<u>8,886</u>
Recreation administration				
Personal services	60,950	60,950	61,040	(90)
Contractual services	6,250	6,250	648	5,602
Supplies	3,900	3,900	47	3,853
Fixed charges	<u>2,300</u>	<u>2,300</u>	<u>2,068</u>	<u>232</u>
	<u>73,400</u>	<u>73,400</u>	<u>63,803</u>	<u>9,597</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
Health, welfare, recreation and education - continued				
Recreation centers				
Contractual services	\$ 27,312	\$ 27,312	\$ 15,557	\$ 11,755
Supplies	<u>5,000</u>	<u>5,000</u>	<u>5,372</u>	<u>(372)</u>
	<u>32,312</u>	<u>32,312</u>	<u>20,929</u>	<u>11,383</u>
Playgrounds				
Contractual services	127,300	127,300	127,035	265
Capital outlay	<u>460,000</u>	<u>465,000</u>	<u>501,189</u>	<u>(36,189)</u>
	<u>587,300</u>	<u>592,300</u>	<u>628,224</u>	<u>(35,924)</u>
Swimming pools				
Personal services	56,900	56,900	32,205	24,695
Contractual services	24,750	24,750	22,350	2,400
Supplies	28,750	28,750	9,881	18,869
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>9,990</u>	<u>10</u>
	<u>120,400</u>	<u>120,400</u>	<u>74,426</u>	<u>45,974</u>
Sportsplex				
Personal services	268,025	268,025	244,170	23,855
Contractual services	49,000	49,000	82,856	(33,856)
Supplies	38,500	38,500	30,207	8,293
Capital outlay	<u>20,000</u>	<u>20,000</u>	<u>4,104</u>	<u>15,896</u>
	<u>375,525</u>	<u>375,525</u>	<u>361,337</u>	<u>14,188</u>
Frazier Building				
Contracted services	<u>14,050</u>	<u>14,050</u>	<u>11,817</u>	<u>2,233</u>
People Helping People				
Supplies	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Park security				
Personal services	30,000	30,000	29,388	612
Contractual services	1,500	1,500	638	862
Supplies	<u>3,100</u>	<u>3,100</u>	<u>3,332</u>	<u>(232)</u>
	<u>34,600</u>	<u>34,600</u>	<u>33,358</u>	<u>1,242</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
Health, welfare, recreation and education - continued				
Municipal Center				
Contractual services	\$ 18,050	\$ 18,050	\$ 14,689	\$ 3,361
Supplies	100	100	-	100
Capital outlay	-	255,000	553,480	(298,480)
	<u>18,150</u>	<u>273,150</u>	<u>568,169</u>	<u>(295,019)</u>
Library				
Contractual services	-	19,000	9,596	9,404
Supplies	-	1,000	420	580
	<u>-</u>	<u>20,000</u>	<u>10,016</u>	<u>9,984</u>
Total health, welfare, recreation and education	<u>1,315,749</u>	<u>1,607,749</u>	<u>1,834,205</u>	<u>(226,456)</u>
Debt service				
Principal	10,000	10,000	10,000	-
Interest	<u>15,950</u>	<u>15,950</u>	<u>20,877</u>	<u>(4,927)</u>
Total debt service	<u>25,950</u>	<u>25,950</u>	<u>30,877</u>	<u>(4,927)</u>
TOTAL EXPENDITURES	<u>10,308,026</u>	<u>10,944,526</u>	<u>10,588,490</u>	<u>356,036</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,136,371)</u>	<u>(1,607,871)</u>	<u>(1,064,190)</u>	<u>543,681</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	833,400	581,400	574,475	(6,925)
Transfers out	(461,000)	(461,000)	(439,395)	21,605
Insurance proceeds	-	50,000	66,337	16,337
Proceeds from bonds	<u>563,738</u>	<u>563,738</u>	<u>-</u>	<u>(563,738)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>936,138</u>	<u>734,138</u>	<u>201,417</u>	<u>(532,721)</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL FUND - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
NET CHANGE IN FUND BALANCE	\$ (200,233)	\$ (873,733)	\$ (862,773)	\$ 10,960
FUND BALANCE				
Balance at July 1, 2014	<u>2,679,862</u>	<u>2,679,862</u>	<u>2,679,862</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 2,479,629</u>	<u>\$ 1,806,129</u>	<u>\$ 1,817,089</u>	<u>\$ 10,960</u>

Note: The budgetary basis of accounting is the same as the accounting basis used for fund reporting purposes.

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL STATEMENT - The City of Covington, Tennessee (the "City") complies with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

FINANCIAL REPORTING ENTITY - The City is a municipal corporation governed by an elected Mayor and elected six-member board. Included as a part of the City is the Covington Electric System (Electric System). The Electric System is governed by an appointed five-member board. Since the Electric System is not legally separate from the City, it is considered part of the primary government. There are no component units, entities for which the City is considered to be financial accountable, to be included in the City's financial statements.

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City mayor and/or the City board appoint the board members of the Industrial Development Board of the Town of Covington, Tennessee and the Covington Housing Authority.

The City is a participant with other governments and utilities in Tipton, Lauderdale, and Haywood Counties in HTL Advantage (HTL), a joint venture formed to establish and operate an office that markets the entire defined region for economic development and to bring the region to the attention of prospective industrial and commercial interests, which would be beneficial for the common good of all entities involved. HTL is governed by a board of directors comprised of one representative from each participant. The City has agreed to provide approximately 18 percent of the total annual contributions required to fund HTL. The City does not have an equity interest in HTL. Summary financial information for HTL is presented in Note 13.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements include a statement of net position and a statement of activities. They include all funds of the financial reporting entity except for fiduciary funds. These statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

BASIS OF PRESENTATION - GOVERNMENTAL FUND FINANCIAL STATEMENTS - Governmental fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - GOVERNMENTAL FINANCIAL STATEMENTS - CONTINUED

expenses. Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. Transactions relating to resources obtained and used for delivery of those services traditionally provided by a city government, which are not accounted for in other funds, are accounted for in the General Fund. These services include, among other things, general government, public safety, public works, and health, welfare, recreation and education.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are restricted or committed to expenditures for specified purposes. The Special Revenue Funds consist of the following:

State Street Aid Fund - Accounts for the receipts and expenditures of the City's share of state gasoline tax.

Airport Fund - Accounts for the receipts and expenditures of the City's municipal airport operations.

Community Development Fund - Accounts for the receipts and expenditures of grant funds.

Solid Waste/Sanitation Fund - Accounts for the receipts and expenditures of the City's solid waste removal services.

Tipton County Museum Fund - Accounts for the receipts and expenditures of the City's museum operations.

Drug Fund - Accounts for the receipts and expenditures related to court drug fines and drug seizures.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - GOVERNMENTAL FUND FINANCIAL STATEMENTS - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

Special Revenue Funds - Continued

TIIP Fund - Accounts for the receipts and expenditures of grant funds.

Barbeque Festival Fund - Accounts for the receipts and expenditures of the annual barbeque festival.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balances of the Debt Service Funds are restricted or assigned for debt service expenditures. The Debt Service Funds consist of the following:

Airport Improvements Construction Bond Fund - Used to accumulate resources to pay the debt service requirements of the City's Public Works Airport Bonds.

PBACCT Bond Fund - Used to accumulate resources to pay the debt service requirements of the City's Pooled Financing Revenue Bonds - Series 1994 and 2001.

General Obligation Refunding Bond Fund - Used to accumulate resources to pay the debt service requirements of the City's General Obligation Refunding Bonds - Series 2004.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and Trust Funds). There were no Capital Project Funds utilized during this year.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs. The Permanent Funds consist of the Munford Cemetery Fund, which is used to account for maintenance of the City's cemeteries.

BASIS OF PRESENTATION - PROPRIETARY FUND FINANCIAL STATEMENTS -

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows for each major proprietary fund.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - PROPRIETARY FUND FINANCIAL STATEMENTS - CONTINUED

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for business-like activities that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Enterprise Funds consist of the following:

Water Fund - Accounts for the operations of the water system. Operating revenues are derived from service charges. Revenues derived from physical connection to the system do not substantially exceed the cost incurred to provide such services.

Sewer Fund - Accounts for the operation of the sewer system. Operating revenues are derived from service charges. Revenues derived from physical connection to the system do not substantially exceed the cost incurred to provide such services.

Gas Utility Fund - Accounts for the operation of the natural gas system. Operating revenues are derived from service charges. Revenues derived from physical connection to the system do not substantially exceed the cost incurred to provide such services.

Bio Mass Gasification Fund - Accounts for the operation of a bio mass gasification plant. Operating revenues are derived from charges to the Solid Waste/Sanitation Fund for disposal of certain wood solid waste materials. Future operating revenues may also be derived from charges to the Sewer Fund for electricity used to power the sewer treatment plant.

Covington Electric System Electric Fund - Accounts for the operation of the electric system. Operating revenues are derived from service charges. Revenues derived from physical connection to the system do not substantially exceed the cost incurred to provide such services.

BASIS OF PRESENTATION - FIDUCIARY FUND FINANCIAL STATEMENTS - Fiduciary fund financial statements include a statement of fiduciary net position and a statement of changes in fiduciary net position.

FIDUCIARY FUNDS

Pension (and Other Employee Benefit) Trust Funds - Pension (and Other Employee Benefit) Trust Funds are used to account for the resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans. The Pension (and Other

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - FIDUCIARY FUND FINANCIAL STATEMENTS - CONTINUED

FIDUCIARY FUNDS - CONTINUED

Employee Benefit) Trust Funds consist of the City of Covington Pension Fund, which is used to account for the resources of the defined benefit pension plan covering all employees except Covington Electric System employees and the Covington Electric System's Employees' Retirement Plan, which is used to account for the resources of the defined benefit pension plan covering Covington Electric System employees.

The Covington Electric System's Employees' Retirement Plan issued a separate audited financial report based on the plan's year end of March 31, 2015. Those financial statements are presented herein the City's financial report for the year ended June 30, 2015. Any differences in amounts between the two reporting periods are not material to the financial statements as a whole. For the prior June 30, 2014 year end, there was no separate audited financial report based on the plan's year end. The June 30, 2014 financial statements were presented on the City's June 30th fiscal year. Therefore, the net position at July 1, 2014, as shown on the statement of changes in fiduciary net position-fiduciary funds on page 29, differs from the net position at June 30, 2014, as reported in the June 30, 2014 financial report.

MAJOR FUNDS - The City's major funds are as follows:

- Governmental Funds
 - General Fund
- Proprietary Funds
 - Water Fund
 - Sewer Fund
 - Gas Utility Fund
 - Bio Mass Gasification Fund
 - Covington Electric System Electric Fund

See the foregoing fund descriptions for the activities conducted in the major funds.

MEASUREMENT FOCUS - Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. In the statement of activities, transactions between governmental and business-type activities have not been eliminated.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

MEASUREMENT FOCUS - CONTINUED-

On the government-wide statement of net position and the statement of activities both governmental and business-type activities are presented using the “economic resources” measurement focus.

Accordingly, all of the City’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position.

Proprietary funds and fiduciary funds are accounted for using the “economic resources” measurement focus. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position.

Operating revenues in the proprietary funds and fiduciary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

In the fund financial statements, the “current financial resources” measurement focus or “economic resources” measurement focus is used as appropriate. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

BASIS OF ACCOUNTING - Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide statement of net position and statement of activities both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred or economic asset used. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF ACCOUNTING - CONTINUED

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and certain other taxes. Certain other taxes, charges for services, fines and forfeits, and other revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until they are received. Investment earnings are recorded when earned since they are measurable and available. Expenditures are recorded in the accounting period in which the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Proprietary funds and fiduciary funds utilize the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Customers are billed at various times throughout the months. The estimated value of services provided but unbilled at year end has been included in the accompanying financial statements.

UNEARNED REVENUE - Unearned revenue arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures, or when rental payments are received in advance of the rental period.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES - In addition to assets, the statements of net position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of net position and the balance sheet of governmental funds report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

INTERFUND TRANSACTIONS - 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" on the fund financial statements. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Interfund receivables and payables between funds are eliminated in the statement of net position.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INTERFUND TRANSACTIONS - CONTINUED -

Permanent reallocation of resources between funds of the City are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

With the exception of the Electric System, all governmental and proprietary operations are administered from primarily one municipal building. Certain administrative employees perform duties that serve both governmental operations and proprietary operations. Certain expenditures/expenses for contractual services and supplies are incurred for both governmental operations and proprietary operations. These joint purpose direct costs are initially paid by the General Fund. The General Fund charges the Water Fund, Sewer Fund, and Gas Utility Fund (proprietary funds) for their allocable share of these joint costs. The allocation method used is based on the ratio of total combined revenues of the proprietary funds (after deducting the cost of gas) to the total combined revenues of the governmental funds, with one exception; occupancy expenditures/expenses are allocated based on the ratio of total building space used by the proprietary funds to the total building space used by the governmental funds. The General Fund reflects such reimbursements as reduction of expenditures in the affected departments. The proprietary funds reflect such expenses under the caption, "General and Administrative".

BUDGETS AND BUDGETARY ACCOUNTING - The budget of the City, which is prepared at the object expenditure level, is legally enacted through passage of an ordinance.

Budgets are adopted on a basis consistent with generally accepted accounting principles. Appropriations, which consist of expenditures and transfers out, lapse at the end of the year.

Budgets were prepared for all of the governmental funds. Budgeted amounts are as amended.

The Barbeque Festival Fund and the Munford Cemetery Fund incurred expenditures in excess of appropriations in the amounts of approximately \$1,400 and \$2,000, respectively for the year ended June 30, 2015. The excess expenditures of the Barbeque Festival Fund and the Munford Cemetery Fund were covered by available fund balances.

ENCUMBRANCES - Encumbrance accounting is not used since it is not legally required.

DEPOSITS - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Although the City has not formally adopted a policy regarding collateralization of deposits, the City follows collateralization requirements of State statutes. State statutes require that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, the Tennessee Bank Collateral Pool, or by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INVESTMENTS - State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, instrumentalities and obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements, the Tennessee local government investment pool, certificates of deposit at state and federally chartered banks and savings and loan associations and the City's own bonds or notes. The City has not adopted a formal investment policy that limits its interest rate or credit risk. Investments are carried at fair value. Fair value is based on quoted market prices for investments for which market quotations are readily available. For investments that lack readily available market quotations, reasonable estimates of fair value are used based on the market value of similar investments.

RECEIVABLES - Receivables result primarily from unpaid billings for service to customers, unpaid billings related to work performed for or materials sold to certain entities, local taxes from businesses and individuals, and intergovernmental revenues due from other government entities. Receivables are reported net of an allowance for uncollectible accounts and revenues are reported net of uncollectibles. Allowances are reported when accounts are proven, or estimated, to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable and uncollectibles netted with revenues are as follows:

	<u>Allowances Netted with Receivables</u>	<u>Uncollectibles Netted with Revenue</u>
<u>Governmental Activities/Fund</u>		
General Fund		
Property taxes	\$ 106,392	\$ 4,055
Solid Waste/Sanitation Fund		
Garbage collection fees	-	4,896
TIIP Fund		
Grants receivable	<u>612,044</u>	<u>-</u>
	<u>\$ 718,436</u>	<u>\$ 8,951</u>
<u>Business-Type Activities/Fund</u>		
Water Fund		
Utility billings	\$ -	\$ 3,396
Sewer Fund		
Utility billings	-	5,391
Gas Utility Fund		
Utility billings	<u>-</u>	<u>4,630</u>
	<u>\$ -</u>	<u>\$ 13,417</u>

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECEIVABLES - CONTINUED

No other allowances for uncollectible accounts are considered necessary based on past history of uncollectible accounts and management’s analysis of current accounts.

INVENTORIES AND PREPAID ITEMS - Material and supplies inventories and fuel inventories are stated at the lower of cost (first-in, first-out) or market with the exception of material and supplies inventories of the Electric System which are stated at the lower of average cost or market, using the first-in, first-out method.

Obsolete and possible excess quantities of inventory are reduced to net realizable value.

No other inventories are provided, as disbursements for other inventory items are considered expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

CAPITAL ASSETS - Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City does not have a formal capitalization policy, but generally only assets with an individual cost of at least \$500 and an estimated useful life in excess of one year (five years for the Electric System) are capitalized. The City’s assets are capitalized at historical cost or estimated historical cost. Gifts or contributions of capital assets are recorded at fair value when received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, net of interest income from the proceeds of related tax-exempt debt, is included as part of the capitalized cost of the assets constructed.

Land, land rights and land improvements are not depreciated. Buildings, improvements, equipment, and infrastructure of the City is depreciated using the straight-line method over the following estimated useful lives:

Buildings	5-50 years
Improvements	20-40 years
Equipment	5-25 years
Infrastructure	15-35 years

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

PROPERTY TAXES - The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by February 28 following the October 1 levy date and are considered delinquent after February 28 of each year. Once taxes become delinquent for one year, they may be turned over to Chancery Court for collection.

COMPENSATED ABSENCES - Employees of the City are allowed to accumulate unused sick leave without limitation and unused annual leave of varying amounts based on length of service. Upon termination, one-third of the accumulated sick leave days, and all of the accumulated annual leave will be paid to the employee. Sick leave in excess of the one-third amount is not paid upon termination but will be paid only upon illness while in the employment of the City.

It is the Electric System's policy to permit employees to accumulate earned but unused vacation benefits. All vacation pay has been accrued and is reflected as a current liability on the financial statements.

Vested or accumulated annual leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated annual leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentation. Vested or accumulated annual leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

The City's contingent liability for the unused, nonvesting, accumulated portions of sick leave as of June 30, 2015 is approximately \$809,000.

RESTRICTED ASSETS - Certain proceeds of bond issues, certain resources set aside for their repayment, as well as certain other cash and investments are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants and/or external parties. The City elects to use restricted assets before unrestricted assets when the situation arises where either can be used. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

LONG-TERM OBLIGATIONS - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

LONG-TERM OBLIGATIONS - CONTINUED

net of the applicable bond premium or discount. In the fund financial statements, governmental fund types report the face amount of debt issuances or capital lease obligations as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except as explained in the following paragraph.

The Electric System reports bond costs as an asset and amortizes those costs over the life of the bonds instead of expensing those costs in the current year in accordance with certain provisions included in GASB Statement No. 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This regulatory option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the Electric System.

GOVERNMENT-WIDE NET POSITION - Equity is classified as net position and displayed in the following three components:

Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted - Consists of net position for which constraints are placed thereon by outside sources or external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Unrestricted - All other net position that do not meet the description of the above categories.

GOVERNMENTAL FUND BALANCE - Equity is classified as fund balance and displayed in the following five components, if applicable:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Consists of fund balance for which constraints are placed thereon by outside sources or external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENTAL FUND BALANCE - CONTINUED

Committed - Amounts that can be used only for specific purposes determined by a formal action of the City's Board of Mayor and Aldermen's highest level of decision-making authority (passage of an ordinance). Commitments may be modified or rescinded only by a like action.

Assigned - Amounts that are intended to be used for specific purposes that are not considered restricted or committed. The authority to assign, modify, and/or rescind prior assignments of fund balance has been granted to the Finance and Administration Committee.

Unassigned - All amounts not included in other spendable classifications.

CASH FLOWS - For purposes of reporting cash flows for the year ended June 30, 2015, cash consists of cash on hand and on deposit with banks. Highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

PENSIONS - For purposes of measuring the net pension liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's participation in the City of Covington Pension Fund and the Covington Electric System's Employees' Retirement Plan, and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City of Covington Pension Plan and the Covington Electric System's Employees' Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the City of Covington Pension Plan and the Covington Electric System's Employees' Retirement Plan. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

CHANGE IN ACCOUNTING PRINCIPLE - As a result of implementing GASB No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, the City has restated the beginning net position of the Governmental Activities, Business - Type Activities, Water Fund, Sewer Fund, Gas Utility Fund, and Covington Electric System Electric Fund, as shown below. Information is not available to determine the effect on the prior June 30, 2014 financial statements of the aforementioned reporting units.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

CHANGE IN ACCOUNTING PRINCIPLE - CONTINUED

	<u>GOVERN- MENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>GAS UTILITY FUND</u>	<u>COVINGTON ELECTRIC SYSTEM ELECTRIC FUND</u>
Beginning net position, as previously reported	\$18,737,166	\$ 44,908,512	\$ 5,528,908	\$ 10,046,066	\$ 11,342,786	\$17,649,838
Restatement due to GASB Statements No. 68 and 71	<u>(6,616,123)</u>	<u>(1,874,673)</u>	<u>(480,446)</u>	<u>(595,123)</u>	<u>(539,051)</u>	<u>(260,053)</u>
Beginning net position, as restated	<u>\$12,121,043</u>	<u>\$ 43,033,839</u>	<u>\$ 5,048,462</u>	<u>\$ 9,450,943</u>	<u>\$ 10,803,735</u>	<u>\$17,389,785</u>

NOTE 2 - DEPOSITS AND INVESTMENTS

DEPOSITS - The bank balances of deposits as of June 30, 2015 were entirely insured by federal depository insurance or by the Bank Collateral Pool of the State of Tennessee.

INVESTMENTS - The City's investments at June 30, 2015 consisted of the following:

<u>INVESTMENT</u>	<u>MATURITIES</u>	<u>COST</u>	<u>FAIR VALUE</u>
Certificates of deposit	1 year or less	\$ 30,721	\$ 30,721
TOTAL INVESTMENTS - GOVERNMENT-WIDE FINANCIAL STATEMENTS		<u>30,721</u>	<u>30,721</u>
Investments in Pension Funds			
Trustee's investment pool			
Short term investments	N/A	119,394	119,394
Equities			
Common stock	N/A	5,041,736	5,541,251
Mutual funds	N/A	1,736,931	1,683,858
Balanced Funds			
Mutual funds	N/A	816,908	712,520
Fixed Income			
Mutual funds	N/A	3,082,416	3,050,818
International			
Foreign stock	N/A	<u>1,951,959</u>	<u>1,975,261</u>
		<u>12,749,344</u>	<u>13,083,102</u>
TOTAL INVESTMENTS - FUND FINANCIAL STATEMENTS		<u>\$12,780,065</u>	<u>\$13,113,823</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 3 - UTILITY AND GARBAGE COLLECTION FEES RECEIVABLE AND CUSTOMER DEPOSITS

Included in the accounts receivable balance of \$3,192,159 are unbilled receivables of \$344,788. The unbilled receivables represent estimated charges for usage from the last billing date through June 30, 2015.

The General Fund holds meter deposits of water and gas customers, and the deposits appear as a liability on the General Fund balance sheet.

NOTE 4 - INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2015 is as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
MAJOR FUNDS		
General Fund		
Airport Fund	\$ 1,662	\$ -
Solid Waste/Sanitation Fund	-	2,191
Tipton County Museum Fund	56	-
Water Fund	11,161	-
Sewer Fund	11,011	-
Gas Utility Fund	-	1,493,154 (1)
Munford Cemetery Fund	825	-
	<u>24,715</u>	<u>1,495,345</u>
Water Fund		
General Fund	-	11,161
Bio Mass Gasification Fund	15,788	-
	<u>15,788</u>	<u>11,161</u>
Sewer Fund		
General Fund	-	11,011
Bios Mass Gasification Fund	47,500	-
	<u>47,500</u>	<u>11,011</u>
Gas Utility Fund		
General Fund	1,493,154 (1)	-
Solid Waste/Sanitation Fund	18,057 (2)	-
	<u>1,511,211</u>	<u>-</u>
NONMAJOR GOVERNMENTAL FUNDS		
Airport Fund		
General Fund	-	1,662
Solid Waste/Sanitation Fund		
General Fund	2,191	-
Gas Utility Fund	-	18,057 (2)
Tipton County Museum Fund		
General Fund	-	56
Munford Cemetery Fund		
General Fund	-	825
Bio Mass Gasification Fund		
Water Fund	-	15,788
Sewer Fund	-	47,500
	<u>2,191</u>	<u>83,888</u>
TOTALS	<u>\$ 1,601,405</u>	<u>\$ 1,601,405</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED

(1) This includes a capital outlay note payable to the Gas Utility Fund by the General Fund with a balance of \$188,889. This note is to be repaid in annual installments of \$37,778 principal, plus interest at 2%, through 2020. Also included is a second capital outlay note payable to the Gas Utility Fund by the General Fund with a balance of \$1,058,149. This note is to be repaid in annual installments of \$157,208, including interest at 1%, through 2022. Also included is a third capital outlay note payable to the Gas Utility Fund by the General Fund with a balance of \$223,890. This note is to be repaid in annual installments of \$30,563, including interest at 2%, through 2023.

(2) This includes a capital outlay note payable to the Gas Utility Fund by the Solid/Waste Sanitation Fund with a balance of \$18,057. This note is to be repaid in annual installments of \$2,465, including interest at 2%, through 2023.

Interfund balances other than (1) and (2) above are related to goods and service transactions arising in the normal course of operations.

Interfund balances other than the long term portion of (1) and (2) above (\$1,276,386) are expected to be repaid within one year.

The foregoing interfund balances are classified as follows in the financial statements:

	<u>INTERFUND BALANCES - ASSETS</u>	<u>INTERFUND BALANCES - LIABILITIES</u>
Governmental Funds		
Due from/to other funds	\$ 26,906	\$ 239,559
Advances to/from other funds	-	1,276,386
Proprietary Funds		
Due from/to other funds	298,113	85,460
Advances to/from other funds	<u>1,276,386</u>	<u>-</u>
	<u>\$ 1,601,405</u>	<u>\$ 1,601,405</u>

The composition of interfund transfers for the year ended June 30, 2015 is as follows:

	<u>TRANSFERS FROM OTHER FUNDS</u>	<u>TRANSFERS TO OTHER FUNDS</u>
MAJOR FUNDS		
General Fund		
Airport Fund	\$ -	\$ 50,000
Tipton County Museum Fund	-	68,000
Barbeque Festival Fund	8,515 (2)	-

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED

	<u>TRANSFERS FROM OTHER FUNDS</u>	<u>TRANSFERS TO OTHER FUNDS</u>
MAJOR FUNDS - CONTINUED		
General Fund - Continued		
PBACCT Bond Fund	\$ -	\$ 320,922
General Obligation Refunding Bond Fund	-	473
Water Fund	35,800 (1)	-
Sewer Fund	92,700 (1)	-
Gas Utility Fund	53,849 (1)	-
Covington Electric System Electric Fund	382,786 (1)	-
Munford Cemetery Fund	825	-
	<u>574,475</u>	<u>439,395</u>
Water Fund		
General Fund	-	35,800 (1)
Sewer Fund		
General Fund	-	92,700 (1)
Gas Utility Fund		
General Fund	-	53,849 (1)
Covington Electric System Electric Fund		
General Fund	-	382,786 (1)
NONMAJOR GOVERNMENTAL FUNDS		
Airport Fund		
General Fund	50,000	-
Airport Improvements Construction Bond Fund	-	8,475
Solid Waste/Sanitation Fund		
PBACCT Bond Fund	-	42,654
Tipton County Museum Fund		
General Fund	68,000	-
Barbeque Festival Fund		
General Fund	-	8,515 (2)
Airport Improvements Construction Bond Fund		
Airport Fund	8,475	-
PBACCT Bond Fund		
General Fund	320,922	-
Solid Waste/Sanitation Fund	42,654	-
General Obligation Refunding Bond Fund		
General Fund	473	-
Munford Cemetery Fund		
General Fund	-	825
	<u>490,524</u>	<u>60,469</u>
TOTALS	<u>\$ 1,064,999</u>	<u>\$ 1,064,999</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED

(1) These represent payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided.

(2) The Barbeque Festival Fund was closed during the year since a separate fund was no longer considered necessary. The payment represents the transfer of the remaining fund balance.

Interfund transfers other than (1) and (2) above were used to finance various programs accounted for in other funds and/or to move funds to the debt service fund as debt service payments became due.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	BALANCE JULY 1, 2014	ADDITIONS	DELETIONS	TRANSFERS	BALANCE JUNE 30, 2015
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated					
Land, land rights and improvements ..	\$ 3,246,197	\$ -	\$ -	\$ -	\$ 3,246,197
Construction in progress	158,093	435,818	-	-	593,911
Total capital assets not being depreciated	3,404,290	435,818	-	-	3,840,108
Other capital assets					
Improvements	9,814,555	864,825	-	-	10,679,380
Buildings	5,420,073	-	-	-	5,420,073
Equipment	3,065,808	543,549	(230,267)	-	3,379,090
Infrastructure	8,487,323	717,677	(228,645)	-	8,976,355
Total other capital assets at historical cost	26,787,759	2,126,051	(458,912)	-	28,454,898
Less accumulated depreciation					
Improvements	(3,719,230)	(211,786)	-	-	(3,931,016)
Buildings	(2,575,877)	(131,522)	-	-	(2,707,399)
Equipment	(1,526,473)	(281,592)	230,267	-	(1,577,798)
Infrastructure	(3,756,372)	(443,213)	228,645	-	(3,970,940)
Total accumulated depreciation	(11,577,952)	(1,068,113)	458,912	-	(12,187,153)
Other capital assets, net	15,209,807	1,057,938	-	-	16,267,745
GOVERNMENTAL ACTIVITIES					
CAPITAL ASSETS, NET	\$ 18,614,097	\$ 1,493,756	\$ -	\$ -	\$ 20,107,853
DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES FUNCTIONS AS FOLLOWS					
General government		\$ 26,792			
Public safety		263,423			
Public works		459,883			
Health, welfare, recreation and education		318,015			
TOTAL GOVERNMENTAL ACTIVITIES DEPRECIATION EXPENSE		\$ 1,068,113			

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 5 - CAPITAL ASSETS - CONTINUED

	<u>BALANCE</u> <u>JULY 1, 2014</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>TRANSFERS</u>	<u>BALANCE</u> <u>JUNE 30, 2015</u>
BUSINESS-TYPE ACTIVITIES					
Capital assets not being depreciated					
Land, land rights and improvements ..	\$ 400,096	\$ -	\$ -	\$ -	400,096
Plant held for future use	2,243,189	-	-	(2,243,189)	-
Construction in progress	<u>140,956</u>	<u>17,305</u>	<u>(30,746)</u>	<u>-</u>	<u>127,515</u>
Total capital assets not being depreciated	<u>2,784,241</u>	<u>17,305</u>	<u>(30,746)</u>	<u>(2,243,189)</u>	<u>527,611</u>
Other capital assets					
Buildings	14,334,859	-	-	-	14,334,859
Distribution and collection systems ...	24,552,159	-	-	-	24,552,159
General plant	6,391,987	30,486	-	-	6,422,473
Transmission plant	2,161,810	-	-	-	2,161,810
Distribution plant	12,063,330	431,777	(98,289)	-	12,396,818
Bio Mass plant	-	-	-	2,243,189	2,243,189
Equipment	1,126,035	104,286	(46,463)	-	1,183,858
Unamortized acquisition	<u>241,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,642</u>
Total other capital assets at historical cost	<u>60,871,822</u>	<u>566,549</u>	<u>(144,752)</u>	<u>2,243,189</u>	<u>63,536,808</u>
Less accumulated depreciation/amortization					
Buildings	(7,580,354)	(323,921)	-	-	(7,904,275)
Distribution and collection systems ...	(12,902,502)	(558,973)	-	-	(13,461,475)
General plant	(1,874,554)	(206,841)	-	-	(2,081,395)
Transmission plant	(950,677)	(84,540)	-	-	(1,035,217)
Distribution plant	(5,495,529)	(411,921)	136,910	-	(5,770,540)
Bio Mass plant	-	(85,989)	-	-	(85,989)
Equipment	(707,984)	(74,892)	46,463	-	(736,413)
Unamortized acquisition adjustment ..	<u>(44,301)</u>	<u>(24,164)</u>	<u>-</u>	<u>-</u>	<u>(68,465)</u>
Total accumulated depreciation/amortization	<u>(29,555,901)</u>	<u>(1,771,241)</u>	<u>183,373</u>	<u>-</u>	<u>(31,143,769)</u>
Other capital assets, net	<u>31,315,921</u>	<u>(1,204,692)</u>	<u>38,621</u>	<u>2,243,189</u>	<u>32,393,039</u>
BUSINESS-TYPE ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$ 34,100,162</u>	<u>\$ (1,187,387)</u>	<u>\$ 7,875</u>	<u>\$ -</u>	<u>\$ 32,920,650</u>
DEPRECIATION AND AMORTIZATION EXPENSE WAS CHARGED TO BUSINESS-TYPE ACTIVITIES FUNCTIONS AS FOLLOWS					
Water		\$ 264,378			
Sewer		600,200			
Gas		85,371			
Bio Mass		93,826			
Electric		<u>703,259</u>			
TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION AND AMORTIZATION EXPENSE CHARGED TO OPERATIONS		1,747,034			
Charged to transportation clearing		<u>24,207</u>			
TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION AND AMORTIZATION EXPENSE		<u>\$ 1,771,241</u>			

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 5 - CAPITAL ASSETS - CONTINUED

In May 2012, the Covington Electric System made an agreement to pay Southwest Tennessee Electric Membership Corporation a one time payment in the amount of \$241,642 for lost revenue in a recent Vandergrift annexation. This payment took place in the fiscal year 2013 when the project was closed. The annexation cost is reflected as an unamortized acquisition adjustment on the Statement of Net Position and is amortized monthly over 10 years. The amortization expense related to this annexation as of June 30, 2015 was \$24,164.

NOTE 6 - LONG-TERM DEBT

Debt outstanding as of June 30, 2015 consisted of the following:

	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>ISSUED</u>	<u>DEBTS OUTSTANDING</u>
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
Public Works Airport Bonds	5.00%	2019	\$ 136,000	\$ 29,000
Pooled Financing Revenue Bonds . .	.40% *	2023	2,500,000	1,139,400
Pooled Financing Revenue Bonds . .	.26% *	2017	2,000,000	375,000
General Obligation				
Refunding Bonds	2.00-3.50%	2029	215,000	<u>200,000</u>
				<u>\$ 1,743,400</u>
General Obligation Notes				
General Obligation Capital				
Outlay Notes	4.20%	2019	500,000	<u>\$ 196,000</u>
BUSINESS-TYPE ACTIVITIES				
General Obligation Bonds				
Bio Mass Gasification Bonds	1.06% *	2037	\$ 2,250,000	\$ 2,125,000
General Obligation Refunding Bonds	2.00-3.75%	2035	3,180,000	3,055,000
Revenue Bonds				
Water Revenue Improvement Bonds .	2.00%	2020	1,000,000	340,673
Electric System				
Revenue Bonds	2.50%-4.375%	2024	2,280,000	1,175,000
Water Revenue and Tax Bond	4.125%	2047	1,082,000	987,758
Sewer Revenue and Tax Bond	3.755%	2048	1,489,000	<u>1,378,361</u>
				<u>\$ 9,061,792</u>
Notes Payable				
Sewer Notes	1.76%*	2018	\$ -	<u>\$ 9,248</u>

General obligation bonds and notes are the general obligation of the City with all tax revenues, to the extent required, pledged for repayment of the bonds and notes. Certain general obligation bonds are to be repaid by revenues of enterprise funds.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 6 - LONG-TERM DEBT - CONTINUED

Certain bonds and notes bear interest at a rate adjusted weekly as determined by the remarketing agent. For such bonds, the interest rate as of June 30, 2015 shown in the foregoing schedule is denoted by an asterisk (*).

At the option of the City, the general obligation bonds are subject to redemption prior to maturity, in whole or in part, at prices set forth in the debt resolutions.

Revenue bonds are secured by the net revenues to be derived from operation of the respective utility system. Revenue bonds with an aggregate outstanding balance of \$2,366,119 at June 30, 2015 are additionally secured by the general credit of the City to the extent that revenues of the respective utility system is insufficient to retire the outstanding indebtedness.

The Water Revenue Improvement Bonds provide for the repayment of principal and interest at the rate of thirty percent (30%) of the revenue from water consumption derived from the bondholder, subject to a maximum payment based on a 15 year amortization period. If total principal and interest have not been repaid at the end of the 15 year amortization period, annual payments will continue for an additional 5 year period subject to the same limitations as above. At the end of this additional 5 year period, any unpaid principal and interest will be forgiven. Debt service requirements relative to this bond are shown at the maximum annual debt service requirement.

At the option of the City, certain revenue bonds are subject to redemption prior to maturity, in whole or in part, at prices set forth in the debt resolutions.

A summary of long-term debt activity for the year ended June 30, 2015 is as follows:

	<u>BALANCE AT JULY 1, 2014</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE AT JUNE 30, 2015</u>	<u>DUE WITHIN ONE YEAR</u>
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Public Works Airport Bonds	\$ 35,000	\$ -	\$ (6,000)	\$ 29,000	\$ 7,000
Pooled Financing Revenue Bonds	1,250,500	-	(111,100)	1,139,400	117,200
Pooled Financing Revenue Bonds	550,000	-	(175,000)	375,000	183,000
General Obligation Refunding Bonds	210,000	-	(10,000)	200,000	10,000
General Obligation Notes					
General Obligation Capital					
Outlay Notes	240,000	-	(44,000)	196,000	46,000
	2,285,500	-	(346,100)	1,939,400	363,200
Compensated absences	604,724	54,545	-	659,269	10,307
Net pension liability	7,638,549	-	(1,275,522)	6,363,027	-
	<u>10,528,773</u>	<u>54,545</u>	<u>(1,621,622)</u>	<u>8,961,696</u>	<u>373,507</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 6 - LONG-TERM DEBT - CONTINUED

	<u>BALANCE AT JULY 1, 2014</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE AT JUNE 30, 2015</u>	<u>DUE WITHIN ONE YEAR</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Bio Mass Gasification Bonds	\$ 2,189,000	\$ -	\$ (64,000)	\$ 2,125,000	\$ 66,000
General Obligation Refunding					
Bonds	3,145,000	-	(90,000)	3,055,000	90,000
Revenue Bonds					
Water Revenue Improvement					
Bonds	427,200	-	(86,527)	340,673	71,012
Electric System					
Revenue Bonds	1,280,000	-	(105,000)	1,175,000	110,000
Water Revenue and Tax Bond	1,005,242	-	(17,484)	987,758	15,948
Sewer Revenue and Tax Bond	1,402,303	-	(23,942)	1,378,361	22,150
Notes Payable					
Sewer Notes	12,447	-	(3,199)	9,248	3,592
Compensated absences	298,201	-	(34,810)	263,391	263,391
Net pension liability	2,154,865	-	(356,662)	1,798,203	-
	<u>11,914,258</u>	<u>-</u>	<u>(781,624)</u>	<u>11,132,634</u>	<u>642,093</u>
	<u>\$22,443,031</u>	<u>\$ 54,545</u>	<u>\$(2,403,246)</u>	<u>\$20,094,330</u>	<u>\$ 1,015,600</u>

Governmental funds that have typically been used to liquidate compensated absences and pension liabilities are as follows:

General Fund
 Airport Fund
 Solid Waste Sanitation Fund
 Tipton County Museum Fund

Presented below is a summary of debt service requirements by years:

	<u>GOVERNMENTAL ACTIVITIES</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
GENERAL OBLIGATION BONDS AND NOTES			
<u>YEAR ENDING JUNE 30</u>			
2016	\$ 363,200	\$ 20,528	\$ 383,728
2017	380,700	17,101	397,801
2018	202,500	13,541	216,041
2019	212,600	10,268	222,868
2020	160,200	6,834	167,034
2021-2025	560,200	20,339	580,539
2026-2029	60,000	5,136	65,136
	<u>\$ 1,939,400</u>	<u>\$ 93,747</u>	<u>\$ 2,033,147</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 6 - LONG-TERM DEBT - CONTINUED

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
<u>GENERAL OBLIGATION BONDS</u>			
<u>YEAR ENDING JUNE 30</u>			
2016	\$ 156,000	\$ 114,625	\$ 270,625
2017	168,000	112,146	280,146
2018	170,000	109,444	279,444
2019	173,000	106,724	279,724
2020	220,000	103,972	323,972
2021-2025	1,185,000	456,304	1,641,304
2026-2030	1,297,000	316,695	1,613,695
2031-2035	1,545,000	140,553	1,685,553
2036-2037	266,000	4,131	270,131
	<u>\$ 5,180,000</u>	<u>\$ 1,464,594</u>	<u>\$ 6,644,594</u>

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
<u>REVENUE BONDS</u>			
<u>YEAR ENDING JUNE 30</u>			
2016	\$ 219,110	\$ 145,195	\$ 364,305
2017	227,047	137,939	364,986
2018	235,072	130,345	365,417
2019	243,191	122,386	365,577
2020	222,528	114,010	336,538
2021-2025	825,747	451,340	1,277,087
2026-2030	304,835	345,685	650,520
2031-2035	370,620	279,990	650,610
2036-2040	450,638	199,882	650,520
2041-2045	547,977	102,543	650,520
2046-2048	235,027	10,311	245,338
	<u>\$ 3,881,792</u>	<u>\$ 2,039,626</u>	<u>\$ 5,921,418</u>

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
<u>NOTES PAYABLE</u>			
<u>YEAR ENDING JUNE 30</u>			
2016	\$ 3,592	\$ 134	\$ 3,726
2017	3,656	70	3,726
2018	2,000	11	2,011
	<u>\$ 9,248</u>	<u>\$ 215</u>	<u>\$ 9,463</u>

The total interest incurred in the business-type activities for the year ended June 30, 2015 was \$267,556, all of which was charged to expense.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 7 - GOVERNMENTAL FUND BALANCES

Governmental fund balances as of June 30, 2015 consisted of the following:

	<u>GENERAL FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
NONSPENDABLE			
Not in spendable form-inventories	\$ 21,353	\$ 32,597	\$ 53,950
Legally or contractually required to be maintained intact - cemetery perpetual care funds	<u>-</u>	<u>249,809</u>	<u>249,809</u>
	<u>21,353</u>	<u>282,406</u>	<u>303,759</u>
RESTRICTED			
Street expenditures	-	170,472	170,472
Solid waste/sanitation expenditures	-	541,135	541,135
Drug enforcement	-	46,549	46,549
Grant programs	29,193	26,101	55,294
Debt service	<u>-</u>	<u>1,018</u>	<u>1,018</u>
	<u>29,193</u>	<u>785,275</u>	<u>814,468</u>
COMMITTED			
Museum expenditures	<u>-</u>	<u>60,046</u>	<u>60,046</u>
ASSIGNED			
Subsequent year's appropriations	200,233	-	200,233
Outside fire expenditures	305,689	-	305,689
Citizen assistance funds	12,653	-	12,653
Debt service	<u>-</u>	<u>29,675</u>	<u>29,675</u>
	<u>518,575</u>	<u>29,675</u>	<u>548,250</u>
UNASSIGNED	<u>1,247,968</u>	<u>(13,744)</u>	<u>1,234,224</u>
	<u>\$ 1,817,089</u>	<u>\$ 1,143,658</u>	<u>\$ 2,960,747</u>

NOTE 8 - OPERATING LEASES

The City is the lessor of certain farm land and airport buildings under cancelable operating leases. The cost of the farm land is approximately \$133,000. The cost and carrying amount of the airport buildings are included in a pool of airport improvement costs and, as such, their specific cost and carrying value is not readily determinable.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 9 - CONTINGENCIES AND COMMITMENTS

As of June 30, 2015, the City had entered into fixed price purchase commitments for the future delivery of natural gas in the amount of approximately \$139,000.

The balance of unfulfilled construction contracts at June 30, 2015 was approximately \$774,000.

The City is a defendant in a lawsuit with two plaintiff groups. Plaintiffs sought to build multi-family housing complexes in Covington and filed suit, alleging various improprieties in the process they were required to follow in order to obtain the necessary approvals. The necessary approvals were obtained and the complexes were built. Plaintiffs refused to dismiss the case, however, contending that they still had a federal claim pending. Plaintiffs amended the Complaint to add the Planning Commission and its members as parties and hired experts. Both parties filed motions for summary judgment. The Court granted a portion of the Plaintiff's motion, finding that the City violated the Fair Housing Act. The case was tried in February 2013 on the issue of damages only. The jury returned a verdict in favor of the Plaintiffs. The judgment for one plaintiff was \$1,201,095. The judgment for the other plaintiff was \$4,551,835, but was reduced by the Trial Judge to \$2,983,744. The City appealed and the Court of Appeals reversed, sending the case back to be tried again. The trial has been set for May 2017. At the new trial, the City will be able to present a defense. Although the City believes that it did not violate the Fair Housing Act and intends to continue to vigorously defend this case, it is not likely that the case will be dismissed without a trial. Should the Plaintiffs prevail at trial, the judgement could again be substantial. There is no insurance coverage for this lawsuit.

The City is a defendant in a number of other lawsuits that have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of the City's legal counsel, these actions when finally adjudicated will not have a material adverse effect on the financial position of the City.

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 10 - PENSION AND RETIREMENT PLANS

General Information About the Plan

Plan administration - The City of Covington Pension Plan (Plan) is a single-employer defined benefit pension plan sponsored and administered by the City. Management of the Plan is vested in the Finance and Administration Committee which consists of the Mayor and 6 aldermen, each elected to 4-year terms. The Plan covers all full-time employees of the City, with the exception of employees of Covington Electric System, which are covered by another plan. All Elected Officials other than the Mayor are excluded from the Plan.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information About the Plan - Continued

Plan membership - At December 31, 2014, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits	52
Terminated participants entitled to but not yet receiving benefits	79
Active participants	<u>138</u>
	<u>269</u>

Benefits provided - The Plan provides retirement, disability and death benefits. Retirement benefits are calculated as the sum of (a) 1.30% of Average Annual Compensation up to \$16,800 times years of Credited Service, plus (b) 1.95 % of Average Annual Compensation in excess of \$16,800 times years of Credited Service Years not in excess of 35 years. The minimum benefit for a 100% Vested Participant is \$100 per month. The normal form of benefit is a straight life annuity with other actuarially equivalent forms available. Average Compensation is defined as Compensation for the highest 5-year consecutive period in the last 10 years. Compensation is defined as total compensation for a plan year, excluding reimbursements or other expense allowances, fringe benefits, moving expenses, deferred compensation, welfare benefits, overtime, bonuses and commissions. Normal retirement is the later of age 65 and the 5th anniversary of hire. Early retirement is the later of age 55 and 7 years of service with a benefit equal to the vested accrued benefit reduced by 0.50% for each month prior to age 62. Disability benefits are equal to the early retirement benefit without regard to age and service requirements. Death benefits are equal to the "minimum spouse's death benefit" as defined in the Internal Revenue Code.

Contributions - The City establishes the annual contributions based on the recommendations of an independent actuary. The actuarially determined contribution is the estimated amount necessary to finance the costs of benefits earned by participants during the year, with an additional amount to finance any unfunded accrued liability. The City contributes at an actuarially determined rate. Administrative costs of the Plan are paid by the Plan. For the plan year ending December 31, 2014, the City's contribution rate was 23.01% of annual payroll. For the plan year ending December 31, 2015, the City's recommended contribution rate is 21.02% of covered payroll.

Investments

Investment policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Finance and Administration Committee. It is the policy of the Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from drastically shifting asset class allocations over short time spans. The following was the Committee's adopted asset allocation policy as of June 30, 2015:

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Investments - Continued

Domestic Equity	50 %
International Equity	15 %
Alternative Investments	20 %
Fixed Income	10 %
Cash	5 %

Rate of return - For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.74%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the City

The City's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015.

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement. The results of this valuation were rolled forward to the reporting date of June 30, 2015:

Inflation	2.1%
Salary increases	3.5% including inflation
Investment rate of return	7.0% net of investment expense, including inflation

Mortality rates were based on 94 Group Annuity Reserving Table for Males or Females, as appropriate. Withdrawal rates were based on the Saranson Crocker Table T5.

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an experience study done for the 5 or 10 year period ending on December 31, 2012 by Burleigh Consulting Group. The 5 or 10 year period for an active employee depended upon the length of service of such employee with the City.

The long-term expected rate of return on pension plan investment 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 weighing 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, 2015 (see the discussion of the pension plan's investment policy above) are summarized in the following table.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability of the City - Continued

Actuarial assumptions - Continued

Domestic Equity	5.75 %
International Equity	6.20 %
Alternative Investments	4.75 %
Fixed Income	1.20 %
Cash	-.20 %

Discount rate - The discount rate used to measure the total pension liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be equal to 18.70% of covered payroll. Based on this assumption, 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.

Amortization of Deferred Inflows and Outflows - The difference between actual investment results and expected returns are allocated to pension expense over a closed 5-year period. Gains and losses arising from demographic experience and from changes in actuarial assumptions are amortized over a closed period equal to the average expected remaining service lives of all participants. For the January 1, 2015 valuation, this period was 6.56 years, calculated as follows:

$$\frac{\text{Sum of the expected remaining service period for all actives participants}}{\text{Number of total pension plan participants (active and inactive)}} = \frac{1,764,433}{269}$$

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability of the City - Continued

Changes in net pension liability:

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (a)	PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (a) - (b)
Balances at June 30, 2014	\$ 19,253,561	\$ 9,719,676	\$ 9,533,885
Changes for the year:			
Service Cost	556,576	-	556,576
Interest	962,300	-	962,300
Contributions - Employer	-	1,142,940	(1,142,940)
Actuarial Liability Loss (Gain) ..	521,145	-	521,145
Change in Assumptions	(2,292,102)	-	(2,292,102)
Benefit Payments	(573,124)	(573,124)	-
Net Investment Income	-	267,400	(267,400)
Administrative Expense	-	(70,406)	70,406
Net Changes	<u>\$ (825,205)</u>	<u>\$ 766,810</u>	<u>\$ (1,592,015)</u>
Balances at June 30, 2015	<u>\$ 18,428,356</u>	<u>\$ 10,486,486</u>	<u>\$ 7,941,870</u>

Change of Assumptions -

The discount rate used to measure pension liability was changed from 5.00% to 6.00%.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the City, calculated using the discount rate of 6.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that was 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Current Rate (6.00%)	1% Increase (7.00%)
Net pension liability	<u>\$ 10,696,179</u>	<u>\$ 7,941,870</u>	<u>\$ 5,672,307</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plan

For the fiscal year ended June 30, 2015, the City's recognized pension expense is \$707,599. The City's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of June 30, 2015 are:

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Differences between expected and actual experience	\$ 441,702	\$ -
Changes of Assumptions	-	1,942,696
Net difference between projected and actual earnings on pension plan assets	<u>344,320</u>	<u>-</u>
	<u>\$ 786,022</u>	<u>\$ 1,942,696</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ (183,883)
2017	(183,883)
2018	(183,883)
2019	(183,883)
2020	(269,963)
Thereafter	(151,179)

General Information About the Plan

Plan description - The Covington Electric System's Employees' Retirement Plan (Plan) accounts for the activity of the Plan for employees of the Electric System. The Plan is a single employer public employee retirement System (PERS) administered by Ellis & Ward Consulting Group Inc.. All employees of the Covington Electric System participate as of April 1st following one year of service.

The Retirement Plan for employees of the Electric System issues a publically available report that can be obtained by contacting Ellis & Ward Consulting Group Inc. P.O. Box 2470, Cordova, TN 38088-2470.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information About the Plan - Continued

Benefits provided: The Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest at a rate of 20% per year beginning with three years of service. Employees may retire after age 60 and the completion of 10 years of service with a reduction for early commencement.

At June 30, 2015, the Retirement Plan membership consisted of:

Inactive plan members or beneficiaries currently receiving benefits	17
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>19</u>
	<u>36</u>

Contributions - Required contributions are determined by the Plan for employees of the Electric System based on calculations performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employee contributions are based on the employee's annual covered salary. For the year ended June 30, 2015, the employee contribution rate was 10.50%. The Plan for employees of the Electric System is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Electric System's contribution rate and required contribution for the year ended June 30, 2015 were 10.62% and \$127,307, respectively. Actual contributions for the year equaled \$127,307, or 10.62% of required contributions.

Investments

Investment policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement Plan Committee (Committee). Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the plan. The following was the Committee's adopted asset allocation policy as of June 30, 2015:

Equities	38 %
Fixed income	48 %
Balanced	47 %
International	9 %
Cash	1 %

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Investments - Continued

The following investments represent more than 5% of the fiduciary net position and are not issued or explicitly guaranteed by the U.S. government at March 31, 2015:

Fidelity Investment Grade Bond Portfolio	\$ 359,542
JP Morgan Core Bond Fund	360,901

Rate of return - For the year ended March 31, 2015, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 4.80 percent. The money-weighted rate of return expresses investment performance adjusted for the changing amounts actually invested.

Net Pension Liability

The Electric System's net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions: The total pension liability as of the March 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Aggregate
Asset valuation method	Market value
Inflation	2.5%
Salary increases	3.0%
Investment rate of return	6.5%, net of plan investment expense, including inflation
Retirement age	65
Mortality	RP-2000
Withdrawal rates	None

The actuarial assumptions used in the April 1, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period April 1, 2014 through March 31, 2015. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The method of determining the long-term expected rate of return on plan investments and the best estimates of arithmetic real rates of return for each major asset class included in the plan's target allocation as of June 30, 2015 were not provided by the actuary.

Discount rate - The discount rate used to measure the total pension liability was 6.5 %. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and the employer will continue to contribute the actuarially determined contribution in accordance with the plan's current funding policy on an annual basis. Based on that

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability - Continued

Discount rate - continued

assumption, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability:

	TOTAL PENSION LIABILITY (a)	INCREASE (DECREASE) PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (a) - (b)
Balance at March 31, 2014	\$ 3,106,888	\$ 2,815,008	\$ 291,880
Changes for the year:			
Service cost	92,286	-	92,286
Interest cost	201,831	-	201,831
Difference between expected and actual experience	(102,458)	-	(102,458)
Employer contributions	\$ -	\$ 127,307	\$ (127,307)
Net investment income	-	164,946	(164,946)
Benefit payments	(95,873)	(95,873)	-
Administrative expense	-	(28,073)	28,073
Net changes	95,786	168,307	(72,521)
	<u>\$ 3,202,674</u>	<u>\$ 2,983,315</u>	<u>\$ 219,359</u>

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the Electric System calculated using the discount rate of 6.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current rate.

Net pension liability with a 1% decrease in discount rate: 5.5%	\$ 665,784
Net pension liability at current discount rate: 6.5%	\$ 219,359
Net pension liability with a 1% increase in discount rate: 7.5%	\$ (157,724)

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

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

For the year ended June 30, 2015, the Electric System recognized pension expense of \$135,599. At June 30, 2015, deferred outflows of resources and deferred inflows of resources in relation to pensions were as follows:

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Difference between expected and actual experience	\$ 15,241	\$ -
Net difference between projected and actual earnings in pension investments	-	96,054
Pension contributions subsequent to measurement date	<u>120,292</u>	<u>-</u>
	<u>\$ 135,533</u>	<u>\$ 96,054</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30,	
2016	\$ (10,214)
2017	(10,214)
2018	(10,214)
2019	(10,214)
2020	(6,404)
Thereafter	(33,553)

Payable to The Retirement Plan for employees of the Electric System

At June 30, 2015, the Electric System showed no amounts outstanding for contributions due to the retirement plan.

NOTE 11 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is available to all City employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 11 - DEFERRED COMPENSATION PLAN- CONTINUED

These assets are required to be placed in trust, thus eliminating the requirement that assets be reflected in the statement of net assets of the City.

NOTE 12 - POWER CONTRACT

The Covington Electric System (an Enterprise Fund) has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishing, advancing, lending, pledging, or otherwise diverting electric system funds, revenues or property to other operations of the municipality and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

NOTE 13 - JOINT VENTURE

Following is summary information for HTL Advantage as of and for the fiscal year ended June 30, 2015, which is taken from its separately issued audited financial statements.

Cash	\$ 834,428
Other assets	<u>28,192</u>
Total assets	<u>\$ 862,620</u>
Liabilities	\$ 6,530
Net position	<u>856,090</u>
Total liabilities and net position .	<u>\$ 862,620</u>
Total revenues	\$ 348,097
Total expenses	<u>259,750</u>
Change in net position	<u>\$ 88,347</u>

Complete financial statements for HTL Advantage can be obtained from the President/CEO at 1469 South Main Street, Covington, Tennessee 38019.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City considers it to be more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for certain general liability, workers' compensation and property and casualty insurance. As such, the City participates in the Tennessee Municipal League Risk Management Pool (TML), which is a public entity risk pool consisting of member political subdivisions of the State of Tennessee. The City pays an annual premium to the TML pool for its certain general liability, workers' compensation and property and casualty insurance. Each political subdivision that has participated in the TML pool is subject to assessment if the funds it paid as premiums are insufficient to meet the obligations of the TML pool. The TML pool may reinsure through the Local Government Reinsurance Fund of Tennessee or a commercial insurance company.

The City continues to carry commercial insurance for all other risks of loss, including certain general liability, workers' compensation, property and casualty insurance, and employee health, life and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There was no significant reduction in the amount of coverage provided during this year.

NOTE 15 - RELATED PARTY TRANSACTIONS

Account balances and transactions with related organizations and joint venture are as follows:

<u>ENTITY</u>	<u>BALANCE FROM (TO)</u>	<u>REVENUE FROM</u>	<u>EXPENDITURE TO</u>
Covington Housing Authority	\$ 16,713	\$ 16,713	\$ -
HTL Advantage	-	-	50,000

NOTE 16 - IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March of 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and in November 2013 issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB statement No. 68*. Statements No. 68 and 71 improve accounting and financial reporting by state and local governments for pensions and is effective for fiscal years beginning after June 15, 2014. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statements No. 68 and 71 detail the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statements No. 68 and 71 are to improve accounting and financial reporting by state and local

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015

NOTE 16 - IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - CONTINUED

governments for pensions. These pension standards include significant changes to how governmental employers report liabilities related to pension obligations. The City has implemented Statements No. 68 and No. 71 for the year ended June 30, 2015. This implementation resulted in the reporting of deferred outflows, deferred inflows, and net pension liability on the Statement of Net Position of the government-wide financial statements and on the Statement of Net Position - Proprietary Funds of the fund financial statements.

NOTE 17 - SUBSEQUENT EVENTS

In July 2015, a resolution was adopted to close membership in the existing defined benefit pension plan that covers all full-time employees of the City, except for the employees of the Electric System, which are covered by a separate defined benefit pension plan. The resolution further authorizes that new employees, and current employees who elect to do so, will participate in the TCRS, effective October 1, 2015. The plan provided through TCRS is the "Local Government Hybrid Plan", a defined contribution plan, providing for initial employer contributions at the rate of 5.9% of eligible compensation.

In October 2015, a resolution was passed to issue capital outlay notes in the amount of \$866,000 for the purchase of a new fire truck. A grant awarded to the City in August 2015 in the approximate amount of \$579,000 will be used to pay on the capital outlay note balance, resulting in a net cost to the City of approximately \$287,000.

In September 2015, a lease agreement was approved whereby a Company leased the Biomass Gasification Plant from the City. The term of the lease is for 18 months beginning on October 1, 2015 and expiring on March 31, 2017, at a monthly rental of \$10,000. The lessee has the option to renew the lease for 2 successive 1 year periods, with the first of such periods commencing April 1, 2017. At the end of the initial lease term or any option term of the lease, the lessee has the right to offer to purchase the property. The City has the option to accept or reject such offer to purchase.

Subsequent to June 30, 2015, the City has awarded construction contracts for various purposes in the aggregate amount of approximately \$496,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF COVINGTON, TENNESSEE
CITY OF COVINGTON PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 556,576	\$ 555,479
Interest	962,300	857,122
Actuarial liability loss/(gain)	521,145	581,220
Changes in assumptions	(2,292,102)	(1,914,894)
Benefit payments, including return of participant contribution	<u>(573,124)</u>	<u>(437,457)</u>
Net change in pension liability	(825,205)	(358,530)
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	<u>19,253,561</u>	<u>19,612,091</u>
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 18,428,356</u>	<u>\$ 19,253,561</u>
PLAN FIDUCIARY POSITION		
Contributions from employer	\$ 1,142,940	1,046,280
Net investment income	267,400	360,301
Benefit payments, including return of participant contributions ...	(573,124)	(434,561)
Administrative expenses	<u>(70,406)</u>	<u>(28,104)</u>
Net change in plan fiduciary position	766,810	943,916
PLAN FIDUCIARY POSITION, BEGINNING OF YEAR	<u>9,719,676</u>	<u>8,775,760</u>
PLAN FIDUCIARY POSITION, END OF YEAR	<u>\$ 10,486,486</u>	<u>\$ 9,719,676</u>
NET PENSION LIABILITY	<u>\$ 7,941,870</u>	<u>\$ 9,533,885</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>56.90%</u>	<u>50.48%</u>
COVERED EMPLOYEE PAYROLL	<u>\$ 5,136,373</u>	<u>\$ 4,913,446</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	<u>154.62%</u>	<u>194.04%</u>

NOTES TO SCHEDULE

Benefit changes: None

Changes in assumptions: The discount rate used to measure pension liability was changed from 5.00% to 6.00%.

This is a 10 year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF COVINGTON, TENNESSEE
CITY OF COVINGTON PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015**

<u>PLAN YEAR ENDED</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contributions	\$ 1,173,543	\$ 1,446,948	\$ 1,357,490	\$ 866,614	\$ 615,201	\$ 631,021	\$ 566,947	\$ 511,938	\$ 482,142	\$ 463,101
Actual contributions	<u>1,181,845</u>	<u>1,133,535</u>	<u>898,920</u>	<u>945,000</u>	<u>810,000</u>	<u>690,000</u>	<u>700,000</u>	<u>550,000</u>	<u>480,000</u>	<u>468,000</u>
Contribution excess (deficiency)	<u>\$ 8,302</u>	<u>\$ (313,413)</u>	<u>\$ (458,570)</u>	<u>\$ 78,386</u>	<u>\$ 194,799</u>	<u>\$ 58,979</u>	<u>\$ 133,053</u>	<u>\$ 38,062</u>	<u>\$ (2,142)</u>	<u>\$ 4,899</u>
Covered employee payroll	<u>\$ 5,136,373</u>	<u>\$ 4,980,764</u>	<u>\$ 4,923,916</u>	<u>\$ 4,730,687</u>	<u>\$ 4,569,308</u>	<u>\$ 4,662,946</u>	<u>\$ 4,258,046</u>	<u>\$ 3,988,446</u>	<u>\$ 3,872,762</u>	<u>\$ 3,764,621</u>
Contribution as a percentage of covered employee payroll	<u>23.01%</u>	<u>22.76%</u>	<u>18.26%</u>	<u>19.98%</u>	<u>17.73%</u>	<u>14.80%</u>	<u>16.44%</u>	<u>13.79%</u>	<u>12.39%</u>	<u>12.43%</u>

NOTES TO SCHEDULES

Valuation date

Actuarially determined contribution rates are calculated as of January 1st prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	18 years
Asset valuation method	Market value including contributions receivable
Inflation	2.1%
Salary increases	3.5%, average, including inflation
Investment rate of return	7.0%, net of investment expense, including inflation
Retirement age	Later of 65 or current age
Mortality	1994 Group Annuity Reserving Table for Males and Females, as appropriate
Marriage	85% of participants are assumed to be married, with males 3 years younger
Rehire rates	None assumed

Difference in methods and assumptions used to determine contribution rates for prior valuations

Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Investment rate of return	See rates in Schedule of Investment Returns
Mortality	Prior to January 2, 2011, the 1983 Group Annuity Table

**CITY OF COVINGTON, TENNESSEE
CITY OF COVINGTON PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return	<u>2.58%</u>	<u>3.83%</u>

This is a 10 year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF COVINGTON, TENNESSEE
 COVINGTON ELECTRIC SYSTEM'S EMPLOYEES' RETIREMENT PLAN
 SCHEDULE OF CHANGES IN NET PENSION
 LIABILITY AND RELATED RATIOS
 JUNE 30, 2015**

	2015
TOTAL PENSION LIABILITY	
Service cost	\$ 92,286
Interest	201,831
Changes of benefit terms	-
Difference between expected and actual experience	(102,458)
Changes in assumptions	-
Benefit payments, including refunds of employee contributions ...	(95,873)
Net change in pension liability	95,786
 TOTAL PENSION LIABILITY, BEGINNING OF YEAR	 3,106,888
 TOTAL PENSION LIABILITY, END OF YEAR	 \$ 3,202,674
 PLAN FIDUCIARY POSITION	
Contributions from employer	\$ 127,307
Net investment income	164,946
Benefit payments, including refunds of employee contributions ...	(95,873)
Administrative expenses	(28,073)
Net change in plan fiduciary position	168,307
 PLAN FIDUCIARY POSITION, BEGINNING OF YEAR	 2,815,008
 PLAN FIDUCIARY POSITION, END OF YEAR	 \$ 2,983,315
 NET PENSION LIABILITY	 \$ 219,359
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	 93.15%
 COVERED EMPLOYEE PAYROLL	 \$ 1,198,494
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	 18.30%

This is a 10 year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM'S EMPLOYEES' RETIREMENT PLAN
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015

<u>PLAN YEAR ENDED</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 114,669	\$ 129,105	\$ 128,184	\$ 123,842	\$ 131,156	\$ 108,706	\$ -	\$ 82,448	\$ 80,554	\$ 60,912
Contributions in relation to the actuarially determined contribution	<u>114,669</u>	<u>129,105</u>	<u>128,184</u>	<u>123,842</u>	<u>139,681</u>	<u>115,772</u>	<u>-</u>	<u>82,448</u>	<u>80,554</u>	<u>60,912</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,525)</u>	<u>\$ (7,066)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 1,198,494</u>	<u>\$ 1,100,383</u>	<u>\$ 1,175,222</u>	<u>\$ 1,127,434</u>	<u>\$ 1,063,315</u>	<u>\$ 1,019,007</u>	<u>\$ 1,060,750</u>	<u>\$ 1,154,592</u>	<u>\$ 1,077,294</u>	<u>\$ 1,021,573</u>
Contribution as a percentage of covered employee payroll	<u>9.57%</u>	<u>11.73%</u>	<u>10.91%</u>	<u>10.98%</u>	<u>13.14%</u>	<u>11.36%</u>	<u>0.00%</u>	<u>7.14%</u>	<u>7.48%</u>	<u>5.96%</u>

NOTES TO SCHEDULE

Valuation date

Actuarially determined contribution rates are calculated as of July 1, twelve months prior to the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates

Actuarial cost method	Aggregate cost
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Inflation	2.50%
Withdrawal rates	None
Salary increases	3.0%, average, including inflation
Investment rate of return	6.50%, average, net of plan investment expenses, including inflation
Retirement age	65
Mortality	RP-2000 Mortality Table

**CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM'S EMPLOYEES' RETIREMENT PLAN
SCHEDULE OF INVESTMENT RETURNS
YEAR ENDED JUNE 30, 2015**

	<u>2014</u>
Annual money-weighted rate of return	<u>4.80 %</u>

This is a 10 year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF COVINGTON, TENNESSEE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

	SPECIAL REVENUE FUNDS					
	STATE STREET AID FUND	AIRPORT FUND	COMMUNITY DEVELOPMENT FUND	SOLID WASTE/ SANITATION FUND	TIPTON COUNTY MUSEUM FUND	DRUG FUND
ASSETS						
Cash	\$ 143,490	\$ 83,151	\$ 660,426	\$ 465,518	\$ 62,549	\$ 46,398
Accounts receivable ...	-	4,626	-	184,340	-	-
Grants receivable	-	161,399	-	-	-	-
Due from other funds ..	-	-	-	2,191	-	-
Due from						
State of Tennessee	41,193	-	-	-	-	-
Other receivables	-	38,566	-	-	-	151
Fuel inventory	-	32,597	-	-	-	-
Notes receivable	-	-	123,333	-	-	-
TOTAL ASSETS	<u>\$ 184,683</u>	<u>\$ 320,339</u>	<u>\$ 783,759</u>	<u>\$ 652,049</u>	<u>\$ 62,549</u>	<u>\$ 46,549</u>
LIABILITIES						
Accounts payable	\$ 14,211	\$ 65,610	\$ -	\$ 89,215	\$ 1,279	\$ -
Contracts payable	-	142,604	-	-	-	-
Accrued expenses	-	2,089	-	3,642	1,168	-
Due to other funds	-	1,662	-	2,104	56	-
Advances from						
other funds	-	-	-	15,953	-	-
Unearned revenue -						
grant revenue	-	-	783,759	-	-	-
Unearned revenue -						
rent income	-	63,420	-	-	-	-
TOTAL						
LIABILITIES	<u>14,211</u>	<u>275,385</u>	<u>783,759</u>	<u>110,914</u>	<u>2,503</u>	<u>-</u>
FUND BALANCE						
Nonspendable	-	32,597	-	-	-	-
Restricted	170,472	26,101	-	541,135	-	46,549
Committed	-	-	-	-	60,046	-
Assigned	-	-	-	-	-	-
Unassigned	-	(13,744)	-	-	-	-
TOTAL FUND						
BALANCE	<u>170,472</u>	<u>44,954</u>	<u>-</u>	<u>541,135</u>	<u>60,046</u>	<u>46,549</u>
TOTAL LIABILITIES						
AND FUND						
BALANCE	<u>\$ 184,683</u>	<u>\$ 320,339</u>	<u>\$ 783,759</u>	<u>\$ 652,049</u>	<u>\$ 62,549</u>	<u>\$ 46,549</u>

CITY OF COVINGTON, TENNESSEE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2015

	<u>SPECIAL REVENUE FUNDS</u>	<u>DEBT SERVICE FUNDS</u>			<u>TOTALS</u>
	<u>TOTALS</u>	<u>AIRPORT IMPROVEMENTS CONSTRUCTION BOND FUND</u>	<u>PBACCT BOND FUND</u>	<u>GENERAL OBLIGATION REFUNDING BOND FUND</u>	
ASSETS					
Cash	\$ 1,461,532	\$ 1,018	\$ 24,958	\$ 4,717	\$ 30,693
Accounts receivable	188,966	-	-	-	-
Grants receivable	161,399	-	-	-	-
Due from other funds	2,191	-	-	-	-
Due from State of Tennessee	41,193	-	-	-	-
Other receivables	38,717	-	-	-	-
Fuel inventory	32,597	-	-	-	-
Notes receivable	<u>123,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,049,928</u>	<u>\$ 1,018</u>	<u>\$ 24,958</u>	<u>\$ 4,717</u>	<u>\$ 30,693</u>
LIABILITIES					
Accounts payable	\$ 170,315	\$ -	\$ -	\$ -	\$ -
Contracts payable	142,604	-	-	-	-
Accrued expenses	6,899	-	-	-	-
Due to other funds	3,822	-	-	-	-
Advances from other funds	15,953	-	-	-	-
Unearned revenue - grant revenue	783,759	-	-	-	-
Unearned revenue - rent revenue	<u>63,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,186,772</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE					
Nonspendable	32,597	-	-	-	-
Restricted	784,257	1,018	-	-	1,018
Committed	60,046	-	-	-	-
Assigned	-	-	24,958	4,717	29,675
Unassigned	<u>(13,744)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCE	<u>863,156</u>	<u>1,018</u>	<u>24,958</u>	<u>4,717</u>	<u>30,693</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,049,928</u>	<u>\$ 1,018</u>	<u>\$ 24,958</u>	<u>\$ 4,717</u>	<u>\$ 30,693</u>

**CITY OF COVINGTON, TENNESSEE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2015**

	<u>PERMANENT FUND MUNFORD CEMETERY FUND</u>	<u>TOTAL NONMAJOR GOVERN- MENTAL FUNDS</u>
ASSETS		
Cash	\$ 250,634	\$ 1,742,859
Accounts receivable	-	188,966
Grants receivable	-	161,399
Due from other funds	-	2,191
Due from State of Tennessee	-	41,193
Other receivables	-	38,717
Fuel inventory	-	32,597
Notes receivable	-	<u>123,333</u>
TOTAL ASSETS	<u>\$ 250,634</u>	<u>\$ 2,331,255</u>
LIABILITIES		
Accounts payable	\$ -	\$ 170,315
Contracts payable	-	142,604
Accrued expenses	-	6,899
Due to other funds	825	4,647
Advances from other funds	-	15,953
Unearned revenue - grant revenue	-	783,759
Unearned revenue rent revenue	-	<u>63,420</u>
TOTAL LIABILITIES	<u>825</u>	<u>1,187,597</u>
FUND BALANCE		
Nonspendable	249,809	282,406
Restricted	-	785,275
Committed	-	60,046
Assigned	-	29,675
Unassigned	-	<u>(13,744)</u>
TOTAL FUND BALANCE	<u>249,809</u>	<u>1,143,658</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 250,634</u>	<u>\$ 2,331,255</u>

CITY OF COVINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS					
	STATE STREET AID FUND	AIRPORT FUND	SOLID WASTE/ SANITATION FUND	TIPTON COUNTY MUSEUM FUND	DRUG FUND	BARBEQUE FESTIVAL FUND
REVENUES						
Intergovernmental						
revenues	\$ 237,273	\$ 229,280	\$ -	\$ 68,000	\$ -	\$ -
Charges for services	-	359,732	1,476,802	12,333	-	-
Fines, forfeits, and						
penalties	-	-	-	-	17,947	-
Other revenues	1,841	26	13,243	11,586	19	13,432
TOTAL REVENUES ...	<u>239,114</u>	<u>589,038</u>	<u>1,490,045</u>	<u>91,919</u>	<u>17,966</u>	<u>13,432</u>
EXPENDITURES						
Public safety	-	-	-	-	20,099	-
Public works	180,853	-	1,439,953	-	-	-
Health, welfare,						
recreation and education ...	-	609,875	-	128,183	-	17,884
Debt service	-	-	381	-	-	-
TOTAL						
EXPENDITURES	<u>180,853</u>	<u>609,875</u>	<u>1,440,334</u>	<u>128,183</u>	<u>20,099</u>	<u>17,884</u>
EXCESS OF REVENUES						
OVER (UNDER)						
EXPENDITURES	<u>58,261</u>	<u>(20,837)</u>	<u>49,711</u>	<u>(36,264)</u>	<u>(2,133)</u>	<u>(4,452)</u>
OTHER FINANCING						
SOURCES (USES)						
Transfers in	-	50,000	-	68,000	-	-
Transfers out	-	(8,475)	(42,654)	-	-	(8,515)
TOTAL OTHER						
FINANCING						
SOURCES (USES)	<u>-</u>	<u>41,525</u>	<u>(42,654)</u>	<u>68,000</u>	<u>-</u>	<u>(8,515)</u>
NET CHANGE IN						
FUND BALANCE	58,261	20,688	7,057	31,736	(2,133)	(12,967)
FUND BALANCE						
Balance at July 1, 2014	<u>112,211</u>	<u>24,266</u>	<u>534,078</u>	<u>28,310</u>	<u>48,682</u>	<u>12,967</u>
Balance at June 30, 2015 ...	<u>\$ 170,472</u>	<u>\$ 44,954</u>	<u>\$ 541,135</u>	<u>\$ 60,046</u>	<u>\$ 46,549</u>	<u>\$ -</u>

CITY OF COVINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS			TOTALS
		AIRPORT IMPROVEMENTS CONSTRUCTION BOND FUND	PBACCT BOND FUND	GENERAL OBLIGATION REFUNDING BOND FUND	
REVENUES					
Intergovernmental revenues	\$ 534,553	\$ -	\$ -	\$ -	\$ -
Charges for services	1,848,867	-	-	-	-
Fines, forfeits, and penalties	17,947	-	-	-	-
Other revenues	40,147	-	64	2	66
TOTAL REVENUES ..	2,441,514	-	-	2	66
EXPENDITURES					
Public safety	20,099	-	-	-	-
Public works	1,620,806	-	-	-	-
Health, welfare,- recreation and education ..	755,942	-	-	-	-
Debt service	381	7,600	359,147	1,061	367,808
TOTAL EXPENDITURES	2,397,228	7,600	359,147	1,061	367,808
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES					
	44,286	(7,600)	(359,083)	(1,059)	(367,742)
OTHER FINANCING SOURCES (USES)					
Transfers in	118,000	8,475	363,576	473	372,524
Transfers out	(59,644)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES) ...	58,356	8,475	363,576	473	372,524
NET CHANGE IN FUND BALANCE					
	102,642	875	4,493	(586)	4,782
FUND BALANCE					
Balance at July 1, 2014 ...	760,514	143	20,465	5,303	25,911
Balance at June 30, 2015 ..	<u>\$ 863,156</u>	<u>\$ 1,018</u>	<u>\$ 24,958</u>	<u>\$ 4,717</u>	<u>\$ 30,693</u>

CITY OF COVINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2015

	<u>PERMANENT FUND MUNFORD FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES		
Intergovernmental revenues	\$ -	\$ 534,553
Charges for services	-	1,848,867
Fines, forfeits, and penalties	-	17,947
Other revenues	<u>3,425</u>	<u>43,638</u>
TOTAL REVENUES ..	<u>3,425</u>	<u>2,445,005</u>
EXPENDITURES		
Public works	-	20,099
Public safety	-	1,620,806
Health, welfare, recreation and education ..	1,898	757,840
Debt service	<u>-</u>	<u>368,189</u>
TOTAL EXPENDITURES	<u>1,898</u>	<u>2,766,934</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		
	<u>1,527</u>	<u>(321,929)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	490,524
Transfers out	<u>(825)</u>	<u>(60,469)</u>
TOTAL OTHER FINANCING SOURCES (USES) ...	<u>(825)</u>	<u>430,055</u>
NET CHANGE IN FUND BALANCE		
	702	108,126
FUND BALANCE		
Balance at July 1, 2014 ...	<u>249,107</u>	<u>1,035,532</u>
Balance at June 30, 2015 ..	<u>\$ 249,809</u>	<u>\$ 1,143,658</u>

SCHEDULES

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - STATE STREET AID FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues	\$ 242,400	\$ 242,400	\$ 237,273	\$ (5,127)
Other revenues	<u>6,800</u>	<u>6,800</u>	<u>1,841</u>	<u>(4,959)</u>
TOTAL REVENUES	<u>249,200</u>	<u>249,200</u>	<u>239,114</u>	<u>(10,086)</u>
EXPENDITURES				
Public works				
Building materials	54,000	54,000	38,248	15,752
Street lighting	136,000	136,000	135,391	609
Capital outlay	<u>52,400</u>	<u>52,400</u>	<u>7,214</u>	<u>45,186</u>
TOTAL EXPENDITURES	<u>242,400</u>	<u>242,400</u>	<u>180,853</u>	<u>61,547</u>
EXCESS OF REVENUES OVER EXPENDITURES	6,800	6,800	58,261	51,461
FUND BALANCE				
Balance at July 1, 2014	<u>112,211</u>	<u>112,211</u>	<u>112,211</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 119,011</u>	<u>\$ 119,011</u>	<u>\$ 170,472</u>	<u>\$ 51,461</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - AIRPORT FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues	\$ 103,000	\$ 453,000	\$ 229,280	\$ (223,720)
Charges for services	357,200	357,200	359,732	2,532
Other revenues	<u>-</u>	<u>-</u>	<u>26</u>	<u>26</u>
TOTAL REVENUES	<u>460,200</u>	<u>810,200</u>	<u>589,038</u>	<u>(221,162)</u>
EXPENDITURES				
Health, welfare, recreation, and education				
Personal services	176,800	176,800	164,188	12,612
Contractual services	71,350	71,350	58,349	13,001
Supplies	130,300	133,300	132,580	720
Fixed charges	17,600	17,600	10,374	7,226
Capital outlay	<u>91,000</u>	<u>437,000</u>	<u>244,384</u>	<u>192,616</u>
TOTAL EXPENDITURES	<u>487,050</u>	<u>836,050</u>	<u>609,875</u>	<u>226,175</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(26,850)</u>	<u>(25,850)</u>	<u>(20,837)</u>	<u>5,013</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
Transfers out	<u>(7,750)</u>	<u>(8,750)</u>	<u>(8,475)</u>	<u>275</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>42,250</u>	<u>41,250</u>	<u>41,525</u>	<u>275</u>
NET CHANGE IN FUND BALANCE	15,400	15,400	20,688	5,288
FUND BALANCE				
Balance at July 1, 2014	<u>24,266</u>	<u>24,266</u>	<u>24,266</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 39,666</u>	<u>\$ 39,666</u>	<u>\$ 44,954</u>	<u>\$ 5,288</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - COMMUNITY DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ 5,000	\$ 5,000	\$ -	\$ (5,000)
EXPENDITURES				
Health, welfare, recreation, and education Community development program Capital outlay	<u>86,050</u>	<u>86,050</u>	-	<u>86,050</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(81,050)	(81,050)	-	81,050
FUND BALANCE				
Balance at July 1, 2014	-	-	-	-
Balance at June 30, 2015	<u>\$ (81,050)</u>	<u>\$ (81,050)</u>	<u>\$ -</u>	<u>\$ 81,050</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - SOLID WASTE/SANITATION FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Charges for services	\$ 1,479,300	\$ 1,479,300	\$ 1,476,802	\$ (2,498)
Other revenues	<u>12,000</u>	<u>12,000</u>	<u>13,243</u>	<u>1,243</u>
TOTAL REVENUES ..	<u>1,491,300</u>	<u>1,491,300</u>	<u>1,490,045</u>	<u>(1,255)</u>
EXPENDITURES				
Public works				
Personal services	276,500	305,500	286,948	18,552
Contractual services	1,039,612	1,039,612	1,021,766	17,846
Supplies	41,400	41,400	31,393	10,007
Building materials	75,000	75,000	74,895	105
Fixed charges	5,500	5,500	4,777	723
Capital outlay	<u>3,350</u>	<u>23,350</u>	<u>20,174</u>	<u>3,176</u>
Total public works	<u>1,441,362</u>	<u>1,490,362</u>	<u>1,439,953</u>	<u>50,409</u>
Debt Service				
Interest and fees	-	1,000	381	619
TOTAL EXPENDITURES	<u>1,441,362</u>	<u>1,491,362</u>	<u>1,440,334</u>	<u>51,028</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>49,938</u>	<u>(62)</u>	<u>49,711</u>	<u>49,773</u>
OTHER FINANCING (USES)				
Transfers out	<u>(48,200)</u>	<u>(48,200)</u>	<u>(42,654)</u>	<u>5,546</u>
NET CHANGE IN FUND BALANCE	1,738	(48,262)	7,057	55,319
FUND BALANCE				
Balance at July 1, 2014	<u>534,078</u>	<u>534,078</u>	<u>534,078</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 535,816</u>	<u>\$ 485,816</u>	<u>\$ 541,135</u>	<u>\$ 55,319</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - TIPTON COUNTY MUSEUM FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues	\$ 68,000	\$ 68,000	\$ 68,000	\$ -
Charges for services	8,000	8,000	12,333	4,333
Other revenues	<u>3,000</u>	<u>3,000</u>	<u>11,586</u>	<u>8,586</u>
TOTAL REVENUES	<u>79,000</u>	<u>79,000</u>	<u>91,919</u>	<u>12,919</u>
EXPENDITURES				
Health, welfare, recreation and education				
Museum/Nature Center				
Personal services	110,750	110,750	101,521	9,229
Contractual services	27,125	27,125	19,193	7,932
Supplies	2,350	2,350	2,329	21
Fixed charges	5,250	5,250	4,094	1,156
Capital outlay	<u>1,500</u>	<u>1,500</u>	<u>1,046</u>	<u>454</u>
TOTAL EXPENDITURES ...	<u>146,975</u>	<u>146,975</u>	<u>128,183</u>	<u>18,792</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(67,975)</u>	<u>(67,975)</u>	<u>(36,264)</u>	<u>31,711</u>
OTHER FINANCING SOURCES				
Transfers in	<u>68,000</u>	<u>68,000</u>	<u>68,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	25	25	31,736	31,711
FUND BALANCE				
Balance at July 1, 2014	<u>28,310</u>	<u>28,310</u>	<u>28,310</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 28,335</u>	<u>\$ 28,335</u>	<u>\$ 60,046</u>	<u>\$ 31,711</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - DRUG FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Fines, forfeits, and penalties	\$ 5,500	\$ 15,000	\$ 17,947	\$ 2,947
Other revenues	<u>-</u>	<u>-</u>	<u>19</u>	<u>19</u>
TOTAL REVENUES	<u>5,500</u>	<u>15,000</u>	<u>17,966</u>	<u>2,966</u>
EXPENDITURES				
Public safety				
Drug investigation and control				
Supplies	15,000	15,000	1,073	13,927
Capital outlay	<u>-</u>	<u>20,000</u>	<u>19,026</u>	<u>974</u>
TOTAL EXPENDITURES	<u>15,000</u>	<u>35,000</u>	<u>20,099</u>	<u>14,901</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,500)	(20,000)	(2,133)	17,867
FUND BALANCE				
Balance at July 1, 2014	<u>48,682</u>	<u>48,682</u>	<u>48,682</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 39,182</u>	<u>\$ 28,682</u>	<u>\$ 46,549</u>	<u>\$ 17,867</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - TIIP FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues	\$ 609,555	\$ 609,555	\$ -	\$ (609,555)
EXPENDITURES				
Public works				
Charms expansion				
Construction costs	55,623	55,623	-	55,623
ELS project				
Construction costs	453,932	453,932	-	453,932
Producers Mid-South project				
Construction costs	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
TOTAL				
EXPENDITURES	<u>609,555</u>	<u>609,555</u>	<u>-</u>	<u>609,555</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	-	-	-	-
FUND BALANCE				
Balance at July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - BARBEQUE FESTIVAL FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ 15,000	\$ 15,000	\$ 13,432	\$ (1,568)
EXPENDITURES				
Health, welfare, recreation and education				
Festival expenses	<u>15,000</u>	<u>18,000</u>	<u>17,884</u>	<u>116</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>-</u>	<u>(3,000)</u>	<u>(4,452)</u>	<u>(1,452)</u>
OTHER FINANCING (USES)				
Transfers out	<u>-</u>	<u>(7,000)</u>	<u>(8,515)</u>	<u>(1,515)</u>
FUND BALANCE				
Balance at July 1, 2014	<u>12,967</u>	<u>12,967</u>	<u>12,967</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 12,967</u>	<u>\$ 2,967</u>	<u>\$ -</u>	<u>\$ (2,967)</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - AIRPORT IMPROVEMENTS
CONSTRUCTION BOND FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Principal retirement	6,000	6,000	6,000	-
Interest and fees	<u>1,750</u>	<u>1,750</u>	<u>1,600</u>	<u>150</u>
TOTAL EXPENDITURES	<u>7,750</u>	<u>7,750</u>	<u>7,600</u>	<u>150</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,750)	(7,750)	(7,600)	150
OTHER FINANCING SOURCES				
Transfers in	<u>7,750</u>	<u>7,750</u>	<u>8,475</u>	<u>725</u>
NET CHANGE IN FUND BALANCE	-	-	875	875
FUND BALANCE				
Balance at July 1, 2014	<u>143</u>	<u>143</u>	<u>143</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 143</u>	<u>\$ 143</u>	<u>\$ 1,018</u>	<u>\$ 875</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - PBACCT BOND FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ -	\$ -	\$ 64	\$ 64
EXPENDITURES				
Principal retirement	330,600	330,600	330,100	500
Interest and fees	<u>59,600</u>	<u>59,600</u>	<u>29,047</u>	<u>30,553</u>
TOTAL EXPENDITURES	<u>390,200</u>	<u>390,200</u>	<u>359,147</u>	<u>31,053</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(390,200)	(390,200)	(359,083)	31,117
OTHER FINANCING SOURCES				
Transfers in	<u>390,200</u>	<u>390,200</u>	<u>363,576</u>	<u>(26,624)</u>
NET CHANGE IN FUND BALANCE	-	-	4,493	4,493
FUND BALANCE				
Balance at July 1, 2014	<u>20,465</u>	<u>20,465</u>	<u>20,465</u>	<u>-</u>
Balance at June 30, 2015	<u>\$ 20,465</u>	<u>\$ 20,465</u>	<u>\$ 24,958</u>	<u>\$ 4,493</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - GENERAL OBLIGATION
REFUNDING BOND FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ -	\$ -	\$ 2	\$ 2
EXPENDITURES				
Interest and fees	1,000	1,000	1,061	(61)
EXCESS OF REVENUES (UNDER) EXPENDITURES				
	(1,000)	(1,000)	(1,059)	(59)
OTHER FINANCING SOURCES				
Transfers in	1,000	1,000	473	(527)
NET CHANGE IN FUND BALANCE				
	-	-	(586)	(586)
FUND BALANCE				
Balance at July 1, 2014	5,303	5,303	5,303	-
Balance at June 30, 2015	<u>\$ 5,303</u>	<u>\$ 5,303</u>	<u>\$ 4,717</u>	<u>\$ (586)</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - MUNFORD CEMETERY FUND
YEAR ENDED JUNE 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ 700	\$ 700	\$ 3,425	\$ 2,725
EXPENDITURES				
Health, welfare, recreation, and education				
Contractual services	-	-	1,898	(1,898)
EXCESS OF REVENUES OVER EXPENDITURES	700	700	1,527	827
OTHER FINANCING (USES)				
Transfers out	(700)	(700)	(825)	(125)
NET CHANGE IN FUND BALANCE	-	-	702	702
FUND BALANCE				
Balance at July 1, 2014	<u>249,107</u>	<u>249,107</u>	<u>249,107</u>	-
Balance at June 30, 2015	<u>\$ 249,107</u>	<u>\$ 249,107</u>	<u>\$ 249,809</u>	<u>\$ 702</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	RECEIVABLE (DEFERRED)/ (RESTRICTED) BALANCE AT JULY 1, 2014	RECEIPTS	DISBURSE- MENTS	RECEIVABLE (DEFERRED)/ (RESTRICTED) BALANCE AT JUNE 30, 2015
<u>CASH FEDERAL AWARDS</u>						
Department of Agriculture						
Community Facilities Loans and Grants	10.766	N/A	\$ -	\$ (17,065)	\$ 17,065	\$ -
Department of Housing and Urban Development						
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	N/A	(778,403)	(5,355)	-	(783,758)
Passed through State of Tennessee Department of Economic and Community Development						
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	33004-84013	-	(303,158)	303,158	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	33004-20214	-	(152,597)	173,543	20,946
Total Department of Housing and Urban Development			<u>(778,403)</u>	<u>(461,110)</u>	<u>476,701</u>	<u>(762,812)</u>
Department of Justice						
Bulletproof Vest Partnership Program	16.607	N/A	-	(801)	801	-
Department of Transportation						
Passed through State of Tennessee Department of Transportation						
Highway Planning and Construction	20.205	84LPM-F3-022, 84LPM-F0-021	-	(46,849)	46,849	-
Alcohol Open Container Requirements	20.607	Z14GHS081	-	(8,986)	17,232	8,246
Airport Improvement Program	20.106	AERO-15-140-00	-	(46,878)	160,279	113,401
Total Department of Transportation			<u>-</u>	<u>(102,713)</u>	<u>224,360</u>	<u>121,647</u>
Department of Homeland Security						
Passed through State of Tennessee Emergency Management Agency						
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4171-DR-TN	32,348	(32,348)	-	-
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4189-DR-TN	-	(132,844)	132,844	-
Total Department of Homeland Security			<u>32,348</u>	<u>(165,192)</u>	<u>132,844</u>	<u>-</u>
TOTAL CASH FEDERAL AWARDS			<u>\$ (746,055)</u>	<u>\$ (746,881)</u>	<u>\$ 851,771</u>	<u>\$ (641,165)</u>

Note: Significant Accounting Policies

All of the federal awards are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2015

<u>PROGRAM TITLE</u>	<u>GRANTOR'S NUMBER</u>	<u>RECEIVABLE (DEFERRED)/ (RESTRICTED) BALANCE AT JULY 1, 2014</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>RECEIVABLE (DEFERRED)/ (RESTRICTED) BALANCE AT JUNE 30, 2015</u>
<u>CASH STATE AWARDS</u>					
Department of Transportation					
Maintenance Grant (FY 14)	AERM-14-346-00	\$ 1,731	\$ (1,731)	\$ -	\$ -
Maintenance Grant (FY 15)	AERM-15-111-00	-	(3,163)	4,745	1,582
Airport Improvements	AERO-12-123-00	-	-	25,518	25,518
Airport Improvements	AERO-15-140-00	-	(2,468)	8,436	5,968
Airport Improvements	AERO-15-190-00	-	(9,856)	19,721	9,865
Airport Improvements	AERO-15-139-00	-	(5,515)	10,581	5,066
Department of Economic & Community Development					
Fast Track Infrastructure Development Program	None	-	(102,563)	102,563	-
Department of Environment & Conservation					
Local Park and Recreation Fund	32701-01569	9,244	(183,524)	174,280	-
Tennessee Emergency Management Agency					
Public Assistance	FEMA-4171-DR-TN	5,266	(5,266)	-	-
Tennessee Emergency Maintenance Agency					
Public Assistance	FEMA-4189-DR-TN	-	(6,405)	6,405	-
TOTAL CASH STATE AWARDS		<u>\$ 16,241</u>	<u>\$ (320,491)</u>	<u>\$ 352,249</u>	<u>\$ 47,999</u>

Note: Significant Accounting Policies

All of the state awards are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR
JUNE 30, 2015

ENDING	WATER REVENUE IMPROVEMENT BOND (TAXABLE) - SERIES 2000		WATER REVENUE AND TAX BOND SERIES 2008		SEWER REVENUE AND TAX BONDS - SERIES 2008	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	\$ 71,012	\$ 6,813	\$ 15,948	\$ 40,536	\$ 22,150	\$ 51,470
2017	72,432	5,393	16,619	39,865	22,996	50,624
2018	73,880	3,945	17,317	39,167	23,875	49,745
2019	75,358	2,467	18,046	38,438	24,787	48,833
2020	47,991	960	18,804	37,680	25,733	47,887
2021	-	-	19,595	36,889	26,716	46,904
2022	-	-	20,418	36,066	27,737	45,883
2023	-	-	21,277	35,207	28,796	44,824
2024	-	-	22,171	34,313	29,896	43,724
2025	-	-	23,103	33,381	31,038	42,582
2026	-	-	24,074	32,410	32,224	41,396
2027	-	-	25,087	31,397	33,455	40,165
2028	-	-	26,141	30,343	34,733	38,887
2029	-	-	27,240	29,244	36,059	37,561
2030	-	-	28,385	28,099	37,437	36,183
2031	-	-	29,579	26,905	38,867	34,753
2032	-	-	30,822	25,662	40,351	33,269
2033	-	-	32,118	24,366	41,893	31,727
2034	-	-	33,468	23,016	43,493	30,217
2035	-	-	34,875	21,609	45,154	28,466
2036	-	-	36,341	20,143	46,879	26,741
2037	-	-	37,869	18,615	48,670	24,950
2038	-	-	39,461	17,023	50,529	23,091
2039	-	-	41,119	15,365	52,459	21,161
2040	-	-	42,848	13,636	54,463	19,157
2041	-	-	44,649	11,835	56,543	17,077
2042	-	-	46,526	9,958	58,703	14,917
2043	-	-	48,482	8,002	60,946	12,674
2044	-	-	50,520	5,964	63,274	10,346
2045	-	-	52,644	3,840	65,690	7,930
2046	-	-	54,857	1,627	68,200	5,420
2047	-	-	7,355	49	70,805	2,815
2048	-	-	-	-	33,810	400
	<u>\$ 340,673</u>	<u>\$ 19,578</u>	<u>\$ 987,758</u>	<u>\$ 770,650</u>	<u>\$ 1,378,361</u>	<u>\$ 1,011,779</u>

**CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2015**

ENDING	SEWER NOTES PAYABLE		BIO MASS GASIFICATION BONDS		COVINGTON ELECTRIC SYSTEM REVENUE BONDS - SERIES 2003	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	\$ 3,592	\$ 134	\$ 66,000	\$ 21,888	\$ 110,000	\$ 46,376
2017	3,656	70	68,000	21,208	115,000	42,057
2018	2,000	11	70,000	20,507	120,000	37,488
2019	-	-	73,000	19,786	125,000	32,648
2020	-	-	75,000	19,034	130,000	27,483
2021	-	-	78,000	18,262	135,000	22,034
2022	-	-	81,000	17,459	140,000	16,188
2023	-	-	84,000	16,624	145,000	9,954
2024	-	-	87,000	15,759	155,000	3,391
2025	-	-	90,000	14,863	-	-
2026	-	-	93,000	13,936	-	-
2027	-	-	96,000	12,978	-	-
2028	-	-	99,000	11,989	-	-
2029	-	-	103,000	10,970	-	-
2030	-	-	106,000	9,909	-	-
2031	-	-	110,000	8,817	-	-
2032	-	-	114,000	7,684	-	-
2033	-	-	118,000	6,510	-	-
2034	-	-	122,000	5,294	-	-
2035	-	-	126,000	4,038	-	-
2036	-	-	131,000	2,740	-	-
2037	-	-	135,000	1,391	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
	<u>\$ 9,248</u>	<u>\$ 215</u>	<u>\$ 2,125,000</u>	<u>\$ 281,646</u>	<u>\$ 1,175,000</u>	<u>\$ 237,619</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2015

ENDING	PUBLIC WORKS AIRPORT BONDS		POOLED REFINANCING REVENUE BONDS - SERIES 1994		POOLED REFINANCING REVENUE BONDS - SERIES 2001	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	\$ 7,000	\$ 1,450	\$ 117,200	\$ 4,558	\$ 183,000	\$ 975
2017	7,000	1,100	123,700	4,089	192,000	499
2018	7,000	750	130,500	3,594	-	-
2019	8,000	400	137,600	3,072	-	-
2020	-	-	145,200	2,522	-	-
2021	-	-	153,200	1,941	-	-
2022	-	-	161,600	1,328	-	-
2023	-	-	170,400	682	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
	<u>\$ 29,000</u>	<u>\$ 3,700</u>	<u>\$ 1,139,400</u>	<u>\$ 21,786</u>	<u>\$ 375,000</u>	<u>\$ 1,474</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2015

ENDING	GENERAL OBLIGATION CAPITAL OUTLAY NOTE SERIES 2007		GENERAL OBLIGATION REFUNDING BONDS - SERIES 2014		GENERAL OBLIGATION CAPITAL OUTLAY NOTE SERIES 2009	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	\$ 46,000	\$ 8,232	\$ 100,000	\$ 98,050	\$ 37,778	\$ 3,778
2017	48,000	6,300	110,000	96,050	37,778	3,022
2018	50,000	4,284	115,000	93,850	37,778	2,267
2019	52,000	2,184	115,000	91,550	37,777	1,511
2020	-	-	160,000	89,250	37,777	756
2021	-	-	160,000	86,050	-	-
2022	-	-	165,000	82,450	-	-
2023	-	-	170,000	78,325	-	-
2024	-	-	175,000	74,075	-	-
2025	-	-	170,000	68,825	-	-
2026	-	-	165,000	63,725	-	-
2027	-	-	170,000	58,363	-	-
2028	-	-	175,000	52,838	-	-
2029	-	-	180,000	46,713	-	-
2030	-	-	170,000	40,413	-	-
2031	-	-	175,000	34,463	-	-
2032	-	-	185,000	28,556	-	-
2033	-	-	190,000	22,313	-	-
2034	-	-	200,000	15,188	-	-
2035	-	-	205,000	7,688	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
	<u>\$ 196,000</u>	<u>\$ 21,000</u>	<u>\$ 3,255,000</u>	<u>\$ 1,228,735</u>	<u>\$ 188,888</u>	<u>\$ 11,334</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2015

ENDING	GENERAL OBLIGATION CAPITAL OUTLAY NOTE SERIES 2012		GENERAL OBLIGATION CAPITAL OUTLAY NOTE SERIES 2014		GRAND TOTALS
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2016	\$ 146,631	\$ 10,577	\$ 28,189	\$ 4,839	\$ 1,254,176
2017	148,097	9,111	28,753	4,275	1,277,694
2018	149,578	7,630	29,328	3,700	1,093,194
2019	151,074	6,134	29,915	3,113	1,097,693
2020	152,585	4,623	30,513	2,515	1,056,313
2021	154,111	3,097	31,123	1,905	974,827
2022	156,073	1,556	31,746	1,282	985,786
2023	-	-	32,380	648	838,117
2024	-	-	-	-	640,329
2025	-	-	-	-	473,792
2026	-	-	-	-	465,765
2027	-	-	-	-	467,445
2028	-	-	-	-	468,931
2029	-	-	-	-	470,787
2030	-	-	-	-	456,426
2031	-	-	-	-	458,384
2032	-	-	-	-	465,344
2033	-	-	-	-	466,927
2034	-	-	-	-	472,676
2035	-	-	-	-	472,830
2036	-	-	-	-	263,844
2037	-	-	-	-	266,495
2038	-	-	-	-	130,104
2039	-	-	-	-	130,104
2040	-	-	-	-	130,104
2041	-	-	-	-	130,104
2042	-	-	-	-	130,104
2043	-	-	-	-	130,104
2044	-	-	-	-	130,104
2045	-	-	-	-	130,104
2046	-	-	-	-	130,104
2047	-	-	-	-	81,024
2048	-	-	-	-	34,210
	<u>\$ 1,058,149</u>	<u>\$ 42,728</u>	<u>\$ 241,947</u>	<u>\$ 22,277</u>	\$ 16,173,945

Less interfund capital outlay notes

(1,565,323)

Outside long-term debt

\$ 14,608,622

CITY OF COVINGTON, TENNESSEE
LOCAL TAXES AND INTERGOVERNMENTAL REVENUES
YEAR ENDED JUNE 30, 2015

LOCAL TAXES

General Fund

Property taxes	\$ 2,357,203
Interest and penalty	26,120
Payments in lieu of taxes	533,119
Local sales tax	3,408,083
Wholesale beer tax	431,299
Wholesale liquor tax	72,278
Business taxes	270,488
Franchise fees	<u>78,348</u>

TOTAL LOCAL TAXES **\$ 7,176,938**

INTERGOVERNMENTAL REVENUES

General Fund

TVA payment in lieu of tax	\$ 104,752
State law enforcement and fire protection expense reimbursements	30,000
Federal grants	631,230
State grants	283,248
Tipton County grants and reimbursements	56,727
State sales tax	684,508
State telecommunications sales tax	865
State income tax	49,553
State beer tax	4,323
State mixed drink tax	17,525
State special petroleum tax	18,447
State highway maintenance	46,401
State excise tax	25,747
Other	<u>7,700</u>
	<u>1,961,026</u>

Special Revenue Funds

State Street Aid Fund

State gasoline and motor fuel tax	162,764
State gas 3 cent tax	48,420
State gas 1989 tax	26,089

Airport Fund

Federal grants	160,279
State grants	69,001

Tipton County Museum Fund

County funds	<u>68,000</u>
	<u>534,553</u>

TOTAL INTERGOVERNMENTAL REVENUES **\$ 2,495,579**

**CITY OF COVINGTON, TENNESSEE
WATER FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2015**

PURIFICATION

Personal services - salaries	\$ 109,810
Contractual services	283,011
Supplies	<u>33,011</u>
	<u>425,832</u>

TRANSMISSION AND DISTRIBUTION

Personal services - salaries	159,492
Contractual services	137,674
Supplies	<u>14,422</u>
	<u>311,588</u>

GENERAL AND ADMINISTRATIVE

Personal services - salaries and employee benefits	267,572
Contractual services	27,155
Supplies	3,004
Fixed charges - insurance	29,459
Joint costs to General Fund	<u>106,497</u>
	<u>433,687</u>

DEPRECIATION 264,378

TOTAL OPERATING EXPENSES \$ 1,435,485

**CITY OF COVINGTON, TENNESSEE
SEWER FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2015**

COLLECTION

Personal services - salaries	\$ 142,844
Contractual services	82,039
Supplies	<u>13,463</u>
	<u>238,346</u>

TREATMENT AND DISPOSAL

Personal services - salaries	115,102
Contractual services	264,478
Supplies	<u>88,705</u>
	<u>468,285</u>

GENERAL AND ADMINISTRATIVE

Personal services - salaries and employee benefits	356,709
Contractual services	7,103
Supplies	3,658
Fixed charges	71,017
Joint costs to General Fund	<u>106,497</u>
	<u>544,984</u>

DEPRECIATION 600,200

TOTAL OPERATING EXPENSES \$ 1,851,815

**CITY OF COVINGTON, TENNESSEE
GAS UTILITY FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2015**

PURCHASED GAS	<u>\$ 1,961,531</u>
TRANSMISSION AND DISTRIBUTION	
Personal services - salaries	235,508
Contractual services	86,205
Supplies	<u>28,455</u>
	<u>350,168</u>
GENERAL AND ADMINISTRATIVE	
Personal services - salaries and employee benefits	311,696
Contractual services	38,429
Supplies	7,840
Fixed charges - insurance	13,673
Joint costs to General Fund	<u>106,497</u>
	<u>478,135</u>
DEPRECIATION	<u>85,371</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,875,205</u>

**CITY OF COVINGTON, TENNESSEE
BIO MASS GASIFICATION FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2015**

OPERATIONS

Personal services - salaries and employee benefits	\$ 87,217
Contractual services	107,064
Supplies	6,314
Fixed charges - insurance	<u>19,154</u>
	<u>219,749</u>

DEPRECIATION 93,826

TOTAL OPERATING EXPENSES \$ 313,575

**CITY OF COVINGTON, TENNESSEE
 COVINGTON ELECTRIC SYSTEM ELECTRIC FUND - OPERATING EXPENSES
 YEAR ENDED JUNE 30, 2015**

COST OF POWER	<u>\$ 17,141,050</u>
OPERATIONS EXPENSE	
Distribution expense	525,779
Customer accounts expense	337,672
Customer service and information expense	12,137
General and administrative	<u>848,223</u>
	<u>1,723,811</u>
MAINTENANCE EXPENSE	
Distribution	616,619
General and administrative	<u>85,230</u>
	<u>701,849</u>
DEPRECIATION AND AMORTIZATION	<u>703,259</u>
TAXES	<u>92,312</u>
TOTAL OPERATING EXPENSES	<u>\$ 20,362,281</u>

**CITY OF COVINGTON, TENNESSEE
PROPERTY TAXES
YEAR ENDED JUNE 30, 2015**

Property tax rates for the ten most recent years follow:

<u>YEAR OF LEVY</u>	<u>RATE PER \$100 OF ASSESSED VALUE</u>	<u>TOTAL ASSESSED VALUES</u>
2015	\$1.33	\$182,430,601
2014	1.33	179,477,976
2013	1.29	176,358,813
2012	1.19	178,950,710
2011	1.19	185,646,869
2010	1.19	179,805,580
2009	1.19	179,843,130
2008	1.19	181,362,353
2007	1.40	146,261,070
2006	1.10	130,732,100

Following is a schedule of changes in property taxes receivable:

<u>YEAR OF LEVY</u>	<u>BALANCE JULY 1, 2014</u>	<u>ASSESSMENT</u>	<u>ADJUSTMENTS/ ABATEMENTS</u>	<u>COLLECTIONS</u>	<u>BALANCE JUNE 30, 2015</u>
2015	\$ -	\$2,426,375	\$ -	\$ -	\$2,426,375
2014	2,387,088	-	9,036	(2,240,320)	155,804
2013	141,613	-	(335)	(81,812)	59,466
2012	49,761	-	-	(27,258)	22,503
2011	82,596	-	-	(15,956)	66,640
2010	14,240	-	-	(5,354)	8,886
2009	11,905	-	-	(289)	11,616
2008	8,495	-	-	(243)	8,252
2007	6,332	-	-	(21)	6,311
2006	3,728	-	-	-	3,728
2005	<u>2,213</u>	<u>-</u>	<u>(2,213)</u>	<u>-</u>	<u>-</u>
Totals	2,707,971	<u>\$2,426,375</u>	<u>\$ 6,488</u>	<u>\$(2,371,253)</u>	2,769,581
Allowance for uncollectible property taxes	<u>(102,337)</u>				<u>(106,392)</u>
Net receivables	<u>\$2,605,634</u>				<u>\$2,663,189</u>

Uncollected taxes for years prior to 2006 have been charged off for financial reporting purposes. Such amounts are not significant. Uncollected taxes for tax years prior to 2013 have been turned over to Chancery Court for collection.

**CITY OF COVINGTON, TENNESSEE
WATER FUND - WATER RATES AND NUMBER OF CUSTOMERS
JUNE 30, 2015**

<u>MINIMUM CHARGE - BY METER SIZE</u>	<u>INSIDE CITY LIMITS</u>	<u>OUTSIDE CITY LIMITS</u>
5/8"	\$ 8.47	\$ 12.76
3/4"	11.63	21.65
1"	23.84	32.40
1½"	45.40	64.81
2"	73.48	107.96
3"	120.89	172.71
4"	151.12	215.85
6"	215.85	323.79
8"	431.67	647.52

INSIDE CITY LIMITS

<u>NUMBER OF GALLONS USED</u>	<u>RATE PER 1,000 GALLONS USED</u>
First 2,000	\$ 4.25
Next 8,000	2.89
Next 40,000	2.73
Next 50,000	2.27
Over 100,000	2.17

OUTSIDE CITY LIMITS

<u>NUMBER OF GALLONS USED</u>	<u>RATE PER 1,000 GALLONS USED</u>
First 3,000	\$ 4.25
Next 7,000	3.68
Next 10,000	3.38
Over 20,000	2.41

AUTOMATIC ADJUSTMENT OF RATES TO REFLECT COST OF LIVING

The minimum charge and the cost per 1,000 gallons as set out in the schedule of rates shall be adjusted on an annual basis in an amount equal to the percentage change in the Consumer Price Index for Urban Areas (CPIBU, US City Average, All Items) for the prior calendar year as determined by the U.S. Department of Labor. Said annual adjustment shall be effective with the July billing cycle each year. The Board of Mayor and Aldermen may reject the automatic adjustment by passage of a resolution.

NUMBER OF CUSTOMERS

There were approximately 4,100 water customers at June 30, 2015.

AWWA Free Water Audit Software
Reporting Worksheet

Water Audit Report for: **City of Govington (0000144)**
Reporting Year: **2015** 7/2014 - 6/2015

Please enter data in the white cells below. Where available, metered values should be used, if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

Volume from own sources: 9 615.559 MG/Yr
Water imported: n/a MG/Yr
Water exported: n/a MG/Yr

WATER SUPPLIED: 615.559 MG/Yr

Master Meter and Supply Error Adjustments

Pcnt: Value: MG/Yr
Pcnt: Value: MG/Yr
Pcnt: Value: MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered: 9 523.679 MG/Yr
Billed unmetered: 7 0.030 MG/Yr
Unbilled metered: 9 53.995 MG/Yr
Unbilled unmetered: 7 7.694 MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 585.398 MG/Yr

Click here: for help using option buttons below

Pcnt: Value: MG/Yr
1.25% 0

Use buttons to select percentage of water supplied OR value

Pcnt: Value: MG/Yr
0.25% 0

Pcnt: Value: MG/Yr
0.25% 0

WATER LOSSES (Water Supplied - Authorized Consumption)

30.161 MG/Yr

Apparent Losses

Unauthorized consumption: 1.539 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 7 0.000 MG/Yr

Systematic data handling errors: 1.309 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 2.848 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 27.312 MG/Yr

WATER LOSSES: 30.161 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 91.850 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 7 97.0 miles
Number of active AND inactive service connections: 7 4,782
Service connection density: 49 conn./mile main

Are customer meters typically located at the curbstops or property line? Select. (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: 10 0.0 ft

Average operating pressure: 9 63.4 psi

COST DATA

Total annual cost of operating water system: 9 \$1,573,613 \$/Year
Customer retail unit cost (applied to Apparent Losses): 7 \$4.11 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): 10 \$2,500.00 \$/Million gallons Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 82 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WAS v5.0

AWWA Free Water Audit Software

Water Audit Report for: **City of Govington (0000144)**
Reporting Year: **2015** | **7/2014 - 6/2015**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 82 out of 100 ***

System Attributes:

Apparent Losses:	<input type="text" value="2.848"/>	MG/Yr
+ Real Losses:	<input type="text" value="27.312"/>	MG/Yr
= Water Losses:	<input type="text" value="30.161"/>	MG/Yr

Unavoidable Annual Real Losses (UARL): MG/Yr

Annual cost of Apparent Losses:

Annual cost of Real Losses:

Valued at **Customer Retail Unit Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied:
Non-revenue water as percent by cost of operating system: Real Losses valued at Customer Retail Unit Cost

Operational Efficiency: { Apparent Losses per service connection per day: gallons/connection/day
Real Losses per service connection per day: gallons/connection/day
Real Losses per length of main per day*:
Real Losses per service connection per day per psi pressure: gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]:

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

**CITY OF COVINGTON, TENNESSEE
SEWER FUND - SEWER RATES AND NUMBER OF CUSTOMERS
JUNE 30, 2015**

	<u>NON-PRESSURIZED</u>		<u>PRESSURIZED</u>	
	<u>INSIDE CITY LIMITS</u>	<u>OUTSIDE CITY LIMITS</u>	<u>INSIDE CITY LIMITS</u>	<u>OUTSIDE CITY LIMITS</u>
Minimum Charge - By Meter Size				
5/8" - 3/4"	\$ 7.11	\$ 10.24	\$ 8.03	\$ 11.55
1"	8.44	12.45	9.52	14.04
1½"	16.45	24.91	18.56	28.08
2"	21.79	32.90	24.56	37.09
3"	35.55	53.32	40.09	60.11
4"	73.78	111.11	83.19	125.28
6"	98.60	148.44	111.16	167.37
8"	139.57	209.77	157.35	236.51
Unit Charge				
Per 1,000 gallons of metered water	\$ 4.11	\$ 5.51	\$ 4.64	\$ 6.22

AUTOMATIC ADJUSTMENT OF RATES TO REFLECT COST OF LIVING

The minimum charge and the cost per 1,000 gallons as set out in the schedule of rates shall be adjusted on an annual basis in an amount equal to the percentage change in the Consumer Price Index for Urban Areas (CPIBU, US City Average, All Items) for the prior calendar year as determined by the U.S. Department of Labor. Said annual adjustment shall be effective with the July billing cycle each year. The Board of Mayor and Aldermen may reject the automatic adjustment by passage of a resolution.

NUMBER OF CUSTOMERS

There were approximately 3,300 sewer customers at June 30, 2015.

CITY OF COVINGTON, TENNESSEE
GAS UTILITY FUND - GAS RATES AND NUMBER OF CUSTOMERS
JUNE 30, 2015

	<u>PER 1,000 CUBIC FEET</u>
<u>RESIDENTIAL CUSTOMERS</u>	
Inside City Limits	\$ 5.39
Outside City Limits	5.45
<u>COMMERCIAL CUSTOMERS</u>	
Inside City Limits	\$ 4.56
Outside City Limits	4.59
<u>INDUSTRIAL CUSTOMERS</u>	
Firm - Schedule 24	\$ 4.8942
Interruptible - Schedule 93 (Charms, Mueller, Quebecor)	4.5214
Interruptible - Schedule 93 (Unilever)	4.5214
Firm - Transportation	4.8924

NUMBER OF CUSTOMERS

There were approximately 3,100 gas customers at June 30, 2015.

**CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM ELECTRIC FUND -
ELECTRIC RATES
JUNE 30, 2015**

RESIDENTIAL RATE SCHEDULE

Customer charge - per delivery point per month	\$ 10.11
Energy charge - cent per kWh - all kWh	0.09022

GENERAL POWER SCHEDULE

GSA1 (Under 50 kW demand and less than 15,000 kWh)	
Customer charge - per delivery point per month	\$ 30.00
Energy charge - cents per kWh	0.10165
GSA2 (51-1,000 kW demand or more than 15,000 kWh)	
Customer charge - per delivery point per month	\$ 100.00
Demand charges - per kW per month	
First 50 kW	No charge
Excess over 50 kW	\$ 12.96
Energy charge - cents per kWh	
First 15,000 kWh per month	0.10165
Additional kWh per month	0.06116
GSA3 (1,000 - 5,000 kW demand)	
Customer charge - per delivery point per month	\$ 225.00
Demand charges - per kW per month	
First 1,000 kW	11.94
Excess over 1,000 kW	11.91
Excess over 2,500 kW	12.21
Energy charge - cents per kWh	0.06573
SMSB (Seasonal Demand and Energy - Manufacturing Service)	
Customer charge - per delivery point per month	\$ 1,500.00
Administrative charge	350.00
Summer kW (all)	19.54
Energy charge - cents per kWh	0.06520

**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**

The Honorable Justin Hanson, Mayor
Members of the Board of Aldermen
City of Covington, Tennessee
Covington, Tennessee

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, each major fund, and the aggregate remaining fund information of City of Covington, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Covington, Tennessee's basic financial statements and have issued our report thereon dated June 7, 2016. Our report includes a reference to other auditors who audited the financial statements of Covington Electric System Electric Fund and Covington Electric System's Employees' Retirement Plan, as described in our report on City of Covington, Tennessee's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Covington, Tennessee'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Covington, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Covington, Tennessee's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings

and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (Item Nos. 2015-001, 2015-002, and 2015-003).

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (Item Nos. 2015-004 and 2015-005).

Compliance and Other Matters

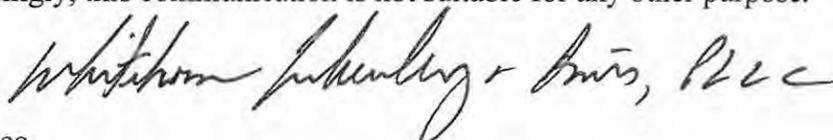
As part of obtaining reasonable assurance about whether City of Covington, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs (Item Nos. 2015-006 and 2015-007).

City of Covington, Tennessee's Responses to Findings

City of Covington, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Covington Tennessee's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Covington, Tennessee
June 7, 2016

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

The Honorable Justin Hanson, Mayor
Members of the Board of Aldermen
City of Covington, Tennessee
Covington, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the City of Covington, Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Covington, Tennessee's major federal programs for the year ended June 30, 2015. City of Covington, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Covington, Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Covington, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Covington, Tennessee's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Covington, Tennessee, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item No. 2015-005. Our opinion on each major federal program is not modified with respect to this matter.

City of Covington, Tennessee's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Covington, Tennessee's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Item No. 2015-005, that we consider to be a material weakness.

City of Covington, Tennessee's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Covington, Tennessee's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A handwritten signature in cursive script that reads "Whitcomb Jenkins & Davis, PLLC". The signature is written in dark ink and is centered on the page.

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion of the financial statements of City of Covington, Tennessee.
2. Three material weaknesses relating to the audit of the financial statements are reported in the reports on compliance and internal control at pages 118 and 119.
3. Two instances of noncompliance material to the financial statements of City of Covington, Tennessee which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal award program is reported in the report on compliance and internal control at pages 120 through 122. This significant deficiency is considered to be a material weakness.
5. The auditor's report on compliance for the major federal award program of City of Covington, Tennessee expresses an unmodified opinion.
6. There was one audit finding relative to the major federal award program of City of Covington, Tennessee reported in the report on compliance and internal control at pages 120 through 122.
7. The program tested as a major program was: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - CFDA 14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. City of Covington, Tennessee was determined to not be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weaknesses

Item No. 2015-001: Preparation of Financial Statements

Condition: Due either to the lack of time available by current financial personnel or the lack of financial personnel possessing the necessary skills and knowledge, the City relies upon the auditor to draft the annual audited financial statements.

Criteria: The City is responsible for internal controls over the preparation of its annual audited financial statements.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2015

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Material Weaknesses - Continued

Item No. 2015-001: Preparation of Financial Statements - Continued

Effect: There is a lack of internal control over the preparation of its annual audited financial statements.

Recommendation: Consideration should be given to retaining a qualified individual to assist in the review of the draft of the annual audited financial statements.

Management response: We believe the cost to correct this deficiency would exceed the benefits to be derived. As such, we will continue to rely on the auditor to draft the annual audited financial statements. However, we believe our knowledge and experience enables us to review the financial statements and understand them fully.

Item No. 2015-002: Material Audit Adjustments

Condition: In the General Fund, material audit adjustments were made to record additional accrued salaries, increase the allocation of pension cost to the General Fund, reflect an expenditure for the transfer of retainage on a construction contract to an escrow account, reflect prepaid expense for medical insurance premiums paid, and reflect additional joint cost reimbursements due from utility funds.

In the Airport Fund, a material audit adjustment was made to reflect additional grants receivable.

In the Water Fund, a material audit adjustment was made to reduce depreciation expense.

In the Gas Utility Fund, material audit adjustments were made to reduce the liability for gas held in storage and to reduce depreciation expense.

In the Bio Mass Gasification Fund, material audit adjustments were made to correct for the recording of bond principal payments and to record depreciation expense.

In the Governmental Activities, Water Fund, Sewer Fund, and Gas Utility Fund, material audit adjustments were made to increase the amount of net pension liability as of July 1, 2014, as a result of GASB Statements No. 68 and 71.

Criteria: The City is responsible for internal controls over the adjustment of its general ledger balances and financial statements.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2015

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Material Weaknesses - Continued

Item No. 2015-002: Material Audit Adjustments - Continued

Effect: The account balances of the General Fund, Airport Fund, Water Fund, Gas Utility Fund, Bio Mass Gasification Fund, and Governmental Activities were materially misstated.

Recommendation: Appropriate care should be taken to ensure that general ledger balances are properly stated prior to commencement of the audit.

Management response: In the future, we will take care to ensure all material transactions are recorded properly in the general ledger accounts.

Item No. 2015-003 Utility Deposits - Detail Records and Unclaimed Property Reporting

Condition: There is no detail utility customer deposit record that reconciles to the general ledger account balance for utility customer deposits. In addition, it appears that some deposits related to customers who have left the utility system(s) may still be held by the City instead of being turned over to the State as unclaimed property.

Criteria: Sufficient internal controls dictate that a detail customer deposit report should be generated periodically, at least annually, and reconciled to the general ledger account balance for the utility customer deposits. State statutes require that all unclaimed property be remitted to the State.

Effect: The lack of sufficient internal controls over customer deposit balances presents the potential for a misappropriation of funds. In addition, the City may not be in compliance with unclaimed property laws.

Recommendation: Each utility customer's account should be posted with the correct amount of deposit held. Thereafter, a detail customer deposit report should be generated periodically, at least annually, and reconciled to the general ledger account balance for utility customer deposits. Any customer deposits held on account of customer who have left the system(s) should be remitted to the State as unclaimed property.

Management response: We are in the process of updating the computer records for utility customer deposits. Once the updating is completed, the detail balance of utility customer deposits will be reconciled to the general ledger account balance on a regular basis. Any old customer deposits held will be remitted to the State as unclaimed property.

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Significant Deficiencies

Item No. 2015-004: Unrecorded Bank Accounts and Transactions

Condition: There were two special bank accounts which were used for the direct deposit of grant payments received from the State of Tennessee. Soon after the direct deposit of the grant receipts to these special accounts, such funds were transferred to the General Fund's regular bank account, where such receipts were recorded as grant revenues. There were no corresponding general ledger accounts for these two special bank accounts and therefore the transactions in these special bank accounts were not explicitly recorded in the general ledger accounts.

Criteria: A sufficient system of internal control dictates that all bank accounts should be reflected in the general ledger and all such transactions in those bank accounts should be recorded in the general ledger accounts.

Effect: Unrecorded bank accounts present a potential opportunity to be used to divert City funds for unauthorized purposes.

Recommendation: Bank account transactions should be recorded on a "gross" basis and not netted for bank account transfers. The City should try to get the State to change the bank account number so funds will be direct deposited into the intended bank account. If this cannot be done, general ledger accounts should be created in the General Fund for these special bank accounts, and thereafter, all transactions in the special bank accounts should be recorded on a "gross" basis. Furthermore, any unnecessary bank accounts should be closed, with such approval for closing evidenced in the Board minutes.

Management response: We will try to get the State to change the bank account numbers for the direct deposits. If this cannot be done, we will set up general ledger accounts for these bank accounts and record transactions as recommended.

Item No. 2015-005: Award of Construction Contract

Condition: The awarding of the Highway 59 bridge contract to Ford Construction Co. was not evidenced in the Board's minutes.

Criteria: The City's purchasing ordinance requires that bids for construction projects be presented to the Board of Mayor and Aldermen for awarding of construction contracts.

Effect: The City violated its purchasing ordinance.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2015

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Significant Deficiencies - Continued

Item No. 2015-005: Award of Construction Contract - Continued

Recommendation: Bids for construction projects should be presented to the Board of Mayor and Aldermen for awarding of construction contracts.

Management response: It was an oversight that the awarding of this contract was not evidenced in the Board minutes. Appropriate care will be taken in the future to insure that all contract awards are evidenced in the Board's minutes.

Compliance and Other Matters

Item No. 2015-006: Collection of Grant Receivables

Condition: The TIIP Fund has been reporting grant receivables of approximately \$612,000 related to grant projects that were complete, or substantially complete, as of June 30, 2001. These grant receivables were to be used to repay other City Funds that made advances to the TIIP Fund to pay for the project costs. The reimbursement requests for grant funds were submitted in April 2006. In a prior year, the State of Tennessee's Department of Economic and Community Development confirmed the receipt of those reimbursement requests, but they indicated some relatively minor information is still needed to process the reimbursement requests. In addition, since the grant contract period has long since expired, a lengthy special approval process is necessary to consider the reimbursement requests. Due to the uncertainty regarding the collectibility of these grant receivables, in the fiscal year ended June 30, 2008 it was deemed necessary to record an allowance and an accompanying charge-off for the entire \$612,000 balance.

During the current audit, the State of Tennessee Department of Economic and Community Development did not respond to first or second audit confirmation requests, nor did they respond to a telephone voice mail message by the auditors requesting information on the status of this matter.

Criteria: The City should endeavor to collect all funds that are due to the City in a timely manner.

Effect: The City has been denied the use of these funds for an inordinate amount of time and there appears to be a significant uncertainty as to the ultimate collectibility of these grant receivables.

Recommendation: The City should consider if this matter warrants further pursuit. If so, a definitive resolution should be sought. If further action is not considered to be warranted, the Board should approve the termination of the TIIP Fund.

Management response: We will present this to the Board for their consideration and disposition.

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Compliance and Other Matters - Continued

Item No. 2015-007: Expenditures in Excess of Budget

Condition: Total fund expenditures of the BBQ Festival Fund and the Munford Cemetery Fund exceeded the budgeted amount by approximately \$1,400 and \$2,000, respectively.

In addition, there were several line item budget overruns within the General Fund.

In the Community Development Fund, both the original and final budgets resulted in a budgeted deficit in fund balance.

Criteria: Expenditures should be kept within amounts appropriated in the budget ordinance and any amendments thereto.

Effect: Expenditures were in excess of approved amounts.

Recommendation: Expenditures should not be incurred in amounts that exceed the budget. Either the expenditures should be delayed or the budget should be amended for such additional expenditures. Budgets should be amended in amounts to cover actual expenditures for the year both in total and in line item amounts.

Budgeted revenues and beginning fund balance should be sufficient to cover budgeted expenditures in order to avoid any budgeted fund deficits.

Management response: We will take care to amend the budget in sufficient amounts to avoid overruns.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

Finding: Department of Housing and Urban Development

Item No. 2015-005: Passed through State of Tennessee Department of Economic and Community Development, Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii - CFDA No. 14.228, Pass-Through Grantor No. 33004-84013, Grant Period - Year ended June 30, 2015

Condition: The awarding of the Highway 59 bridge contract to Ford Construction Co. was not evidenced in the Board's minutes.

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM - CONTINUED

Finding: Department of Housing and Urban Development - Continued

Item No. 2015-005: Passed through State of Tennessee Department of Economic and Community Development, Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii - CFDA No. 14.228, Pass-Through Grantor No. 33004-84013, Grant Period - Year ended June 30, 2015 - Continued

Criteria: The City's purchasing ordinance requires that bids for construction projects be presented to the board of Mayor and Aldermen for awarding of construction contracts. Federal award programs require that the grantee comply with its own purchasing policies in the procurement of services for the grant program.

Cause: The awarding of the contract was omitted due to an oversight by the Recorder-Treasurer.

Effect: The City violated its purchasing ordinance.

Recommendation: Bids for construction projects should be presented to the Board of Mayor and Aldermen for awarding of construction contracts.

Management response and planned corrective action: The City agrees with the finding. It was an oversight that the awarding of this contract was not evidenced in the Board minutes. Appropriate care will be taken in the future to insure that all contract awards are evidenced in the Board's minutes.

Questioned Costs: None

**CITY OF COVINGTON, TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2007-001	Preparation of Financial Statements (Original finding #2007-001)	Repeated (2015-001)
2007-003	Material Audit Adjustments (Original finding #2007-003)	Repeated (2015-002)
2008-001	Collection of Grant Receivables (Original finding #2008-001)	Repeated (2015-005)
2013-002	Expenditures in Excess of Budget (Original finding #2013-002)	Repeated (2015-006)
2013-003	Losses in Utility Funds (Original finding #2013-003)	Corrected

