

CITY OF COVINGTON, TENNESSEE

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

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INTRODUCTORY SECTION

**CITY OF COVINGTON
CITY OFFICIALS
YEAR ENDED JUNE 30, 2019**

Mayor

Justin Hanson

Aldermen

Minnie Bommer
John E. Edwards (1)
Justin D. Glass (1)
Jere Hadley (1)
Wayne McGowan (1)
Jeff Morris (2)
Keith Phelps (2)
Cyburn H. Sullivan IV
Danny Wallace (2)
Johnetta Yarbrough (2)

Board Members, Covington Electric System

James Baddour
Christy Hayden
Mary Jones
Keith McCalla
Cyburn H. Sullivan IV

CMFO Designee

Tina Dunn, Recorder - Treasurer

(1) Left office during year
(2) Took office during year

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 the City of Covington, Tennessee as of and for the year ended June 30, 2019, 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 37 percent, 37 percent, and 73 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 Defined Benefit Plan and the financial statements of the Covington Electric System 457 plan which collectively represent 23 percent, 24 percent, and 27 percent, respectively, of the assets, net position, and revenues/additions to net position of the aggregate remaining fund information.

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 37 percent, 37 percent, and 73 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 Defined Benefit Plan and the financial statements of the Covington Electric System 457 plan which collectively represent 23 percent, 24

percent, and 27 percent, respectively, of the assets, net position, and revenues/additions to net position of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Covington Electric System Electric Fund, Covington Electric System Defined Benefit Plan, and Covington Electric System 457 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, 2019, 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.

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 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, schedules, nonaccounting information, and management's corrective action plan are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining fund financial statements, schedules, and 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, schedules, and 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, nonaccounting information, and management's corrective action plan have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020, 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 solely 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 effectiveness of the City of Covington, Tennessee's 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.

Whitcomb Jamieson & Davis, PLLC

Covington, Tennessee
February 10, 2020

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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, 2019. 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 \$65,169,418 (net position). Of this amount, \$18,255,712 (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 \$1,892,188 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 \$3,445,756, a decrease of \$155,070 from the prior year. Of the total fund balances, \$1,470,570 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 \$1,470,520 or 14% of the total General Fund expenditures.
- The City of Covington's total long-term debt decreased by \$497,807 (3%) 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.

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019**

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 14-16 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.

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019**

The City of Covington maintains twelve 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 eleven 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 17-21 and 29-37 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 22-28 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 29-30 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 38-80 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.

CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019

Required supplementary information can be found on pages 81-90 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 can be found on pages 91-96 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 \$65,169,418 at the close of the most recent fiscal year.

City of Covington's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other						
assets	\$ 9,576,845	\$ 9,818,495	\$ 29,764,961	\$ 30,408,906	\$ 39,341,806	\$ 40,227,401
Capital assets	<u>22,414,074</u>	<u>22,168,057</u>	<u>30,405,306</u>	<u>29,671,124</u>	<u>52,819,380</u>	<u>51,839,181</u>
Total assets	<u>31,990,919</u>	<u>31,986,552</u>	<u>60,170,267</u>	<u>60,080,030</u>	<u>92,161,186</u>	<u>92,066,582</u>
Deferred Outflows	<u>1,275,796</u>	<u>342,562</u>	<u>462,973</u>	<u>342,141</u>	<u>1,738,769</u>	<u>684,703</u>
Long-term liabilities						
outstanding	7,043,278	6,671,170	8,329,296	9,146,170	15,372,574	15,817,340
Other liabilities	<u>2,844,265</u>	<u>3,022,923</u>	<u>5,023,672</u>	<u>4,898,133</u>	<u>7,867,937</u>	<u>7,921,056</u>
Total liabilities	<u>9,887,543</u>	<u>9,694,093</u>	<u>13,352,968</u>	<u>14,044,303</u>	<u>23,240,511</u>	<u>23,738,396</u>
Deferred inflows	<u>4,802,139</u>	<u>5,126,163</u>	<u>687,887</u>	<u>609,496</u>	<u>5,490,026</u>	<u>5,735,659</u>
Net Position						
Net investment in						
capital assets	20,333,732	19,685,638	22,957,029	21,853,137	43,290,761	41,538,775
Restricted	1,629,235	1,478,392	1,993,710	316,224	3,622,945	1,794,616
Unrestricted	<u>(3,385,934)</u>	<u>(3,655,172)</u>	<u>21,641,646</u>	<u>23,599,011</u>	<u>18,255,712</u>	<u>19,943,839</u>
Total Net Position ...	<u>\$ 18,577,033</u>	<u>\$ 17,508,858</u>	<u>\$ 46,592,385</u>	<u>\$ 45,768,372</u>	<u>\$ 65,169,418</u>	<u>\$ 63,277,230</u>

By far the largest portion of the City of Covington's net position (66%) 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 (6%), \$3,622,945 represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$18,255,712 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019

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 increased by \$1,892,188 during the current fiscal year.

City of Covington's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Program revenues						
Charges for services	\$ 2,469,724	\$ 2,469,396	\$ 27,404,459	\$ 27,742,189	\$ 29,874,183	\$ 30,211,585
Operating grants and contributions	558,436	525,550	-	-	558,436	525,550
Capital grants and contributions	719,481	1,126,616	402,821	-	1,122,302	1,126,616
General revenues						
Taxes	9,009,721	8,983,968	-	-	9,009,721	8,983,968
Investment earnings	80,589	42,499	398,883	215,409	479,472	257,908
Gain (loss) disposal of capital assets and insurance proceeds	84,161	81,661	30,326	765	114,487	82,426
Miscellaneous	70,472	71,324	469,570	413,821	540,042	485,145
Total revenues	<u>12,992,584</u>	<u>13,301,014</u>	<u>28,706,059</u>	<u>28,372,184</u>	<u>41,698,643</u>	<u>41,673,198</u>
Expenses						
General government	1,634,409	1,599,945	-	-	1,634,409	1,599,945
Public works	2,535,620	2,539,288	-	-	2,535,620	2,539,288
Public safety	6,211,022	5,634,225	-	-	6,211,022	5,634,225
Health, welfare, recreation, & education	1,894,568	2,150,850	-	-	1,894,568	2,150,850
Interest on long-term debt	71,310	74,229	-	-	71,310	74,229
Water	-	-	1,574,040	1,418,797	1,574,040	1,418,797
Sewer	-	-	2,019,066	2,064,535	2,019,066	2,064,535
Gas	-	-	2,832,324	2,671,152	2,832,324	2,671,152
Bio mass	-	-	170,515	165,874	170,515	165,874
Electric	-	-	20,863,581	20,378,433	20,863,581	20,378,433
Total expenses	<u>12,346,929</u>	<u>11,998,537</u>	<u>27,459,526</u>	<u>26,698,791</u>	<u>39,806,455</u>	<u>38,697,328</u>
Change in net position before transfers	645,655	1,302,477	1,246,533	1,673,393	1,892,188	2,975,870
Transfers	422,520	459,903	(422,520)	(459,903)	-	-
Change in net position	1,068,175	1,762,380	824,013	1,213,490	1,892,188	2,975,870
Net position - beginning	<u>17,508,858</u>	<u>15,746,478</u>	<u>45,768,372</u>	<u>44,554,882</u>	<u>63,277,230</u>	<u>60,301,360</u>
Net position - ending	<u>\$ 18,577,033</u>	<u>\$ 17,508,858</u>	<u>\$ 46,592,385</u>	<u>\$ 45,768,372</u>	<u>\$ 65,169,418</u>	<u>\$ 63,277,230</u>

Governmental activities: Governmental activities increased City of Covington's net position by \$1,068,175, thereby accounting for 56% of the increase in the net position of the City of Covington.

Business-type activities: Business-type activities increased the City of Covington's net position by \$824,013, accounting for 44% of the increase in the total government's net position.

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019**

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 \$3,445,756 a decrease of \$155,070 from the prior year. Of the total fund balances, \$1,470,570 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 \$1,766,560 of which \$1,470,520 is unassigned. Unassigned fund balance represents 14% of total General Fund expenditures.

The fund balance of the City of Covington's General Fund decreased by \$326,926 during the current fiscal year. Revenues were below projected revenues in the amount of \$216,342.

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 \$3,451,325. The system's net position increased by \$615,788. A significant contributing factor was the receipt of grant revenues in the amount of \$208,601.

Sewer Fund:

The unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$3,589,810. The system's net position increased by \$538,292. A significant contributing factor was the receipt of grant revenue in the amount of \$194,220.

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019**

Gas Utility Fund:

The unrestricted net position of the Gas Utility Fund at the end of the fiscal year amounted to \$10,231,824. The system's net position increased by \$137,294. There were no significant changes from last year.

Electric System's Electric Fund:

The unrestricted net position of the Electric Fund at the end of the fiscal year amounted to \$4,372,360. The system's net position decreased by \$446,852. Significant contributing factors were the decrease in operating revenues by approximately \$245,000 and the increase in operating expenses by approximately \$510,000.

Bio Mass Gasification Fund:

The unrestricted net position of the Bio Mass Gasification Fund at the end of the fiscal year amounted to \$(3,673). The system's net position decreased by \$20,509. There were no significant changes from last year.

General Fund Budgetary Highlights

During the fiscal year, there was an amendment to our General Fund budget to increase expenditures by \$25,999 (net of \$321,000 cost reimbursements from proprietary funds). The actual total revenues versus the final budgeted total revenues was negative by \$576,340 and the actual total expenditures versus the total final budgeted expenditures was positive by \$749,356. The actual change in fund balance versus the final budgeted change in fund balance was positive by \$349,064.

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, 2019, amounts to \$52,819,380 (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 \$22,414,074, (42%) and for Business-Type Activities is \$30,405,306, (58%).

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019**

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,246,197	\$ 3,246,197	\$ 400,096	\$ 400,096	\$ 3,646,293	\$ 3,646,293
Buildings	3,529,072	3,674,829	5,335,567	5,649,149	8,864,639	9,323,978
Improvements	7,739,783	7,649,156	-	-	7,739,783	7,649,156
Equipment	3,107,183	2,939,029	773,424	874,296	3,880,607	3,813,325
Infrastructure	4,791,839	4,658,846	-	-	4,791,839	4,658,846
Unamortized acquisition adjustment	-	-	76,520	100,684	76,520	100,684
Biomass plant	-	-	1,798,288	1,888,016	1,798,288	1,888,016
Distribution and collection systems	-	-	21,340,384	20,639,002	21,340,384	20,639,002
Construction in progress	-	-	<u>681,027</u>	<u>119,881</u>	<u>681,027</u>	<u>119,881</u>
Total	<u>\$ 22,414,074</u>	<u>\$ 22,168,057</u>	<u>\$ 30,405,306</u>	<u>\$ 29,671,124</u>	<u>\$ 52,819,380</u>	<u>\$ 51,839,181</u>

Significant contributing factors in the change in capital assets were the acquisition of capital assets in Governmental Activities and Business-Type Activities of \$1,601,325 and \$2,568,619, respectively, and depreciation expense in Governmental Activities and Business-Type Activities of \$1,295,510 and \$1,833,771, respectively.

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 \$16,240,650. Of this amount, \$6,593,342 comprises debt backed by the full faith and credit of the government, \$2,914,161 represents bonds and notes secured by specified revenue sources (i.e., revenue bonds), and \$6,733,147 represents estimated liabilities for employee pension plan and compensated absences.

City of Covington's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds, Notes and Leases	\$ 2,080,342	\$ 2,482,419	\$ 4,513,000	\$ 4,686,000	\$ 6,593,342	\$ 7,168,419
Pension/Compensated Absences	5,413,941	4,734,459	1,319,206	1,758,365	6,733,147	6,492,824
Revenue Bonds	-	-	<u>2,914,161</u>	<u>3,077,214</u>	<u>2,914,161</u>	<u>3,077,214</u>
Total	<u>\$ 7,494,283</u>	<u>\$ 7,216,878</u>	<u>\$ 8,746,367</u>	<u>\$ 9,521,579</u>	<u>\$ 16,240,650</u>	<u>\$ 16,738,457</u>

The City of Covington's total long-term debt decreased by \$497,807, (3%) during the current fiscal year.

**CITY OF COVINGTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
YEAR ENDED JUNE 30, 2019**

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 \$1,470,520. The City of Covington has projected a \$16,460 surplus in the 2019-20 fiscal year budget.

- Local option sales tax collections are projected to remain constant.
- Water and sewer rates will increase by 1.9% in FY 2019-20 beginning with July consumption.
- Natural gas rates will increase or decrease on a monthly basis according to the wholesale cost of gas to the City.
- The TDOT Grant for the James Street Project will continue.
- The 2018 Transportation Alternatives Program Grant will begin with Phase 1 for the construction of sidewalks along the west side of Hwy 51 from Tatlock Avenue to Lanny Bridges Road and along east side of Hwy 51 from Lanny Bridges to TN College of Applied Technology.
- The Site Development Grant will be used to remove asbestos water lines of the Rialto Industrial Park.
- The 2018 CDBG grant in the amount of \$118,000 will be closed for the sewer rehabilitation and application will be made for the 2020 CDBG for sewer rehabilitation.
- A donation in the amount of \$560,000 will be made from the Gas Fund to be used for the purchase of land for industrial use.
- Lease purchase of automated utility meters in the amount of \$2,814,855.

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, 2019

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and cash equivalents	\$ 4,213,611	\$ 24,562,727	\$ 28,776,338
Receivables			
Accounts receivable	186,664	2,651,971	2,838,635
Property taxes	2,731,585	-	2,731,585
Due from Tipton County, Tennessee	447,284	-	447,284
Due from State of Tennessee	436,403	-	436,403
Grants receivable	364,327	19,527	383,854
Other	1,164,040	323	1,164,363
Inventories	32,931	312,096	345,027
Prepayments and other assets	-	197,602	197,602
Restricted assets			
Cash for operation and maintenance	-	704,320	704,320
Cash for debt service	-	331,289	331,289
Cash for construction	-	66	66
Customer deposits	-	20,800	20,800
Net pension asset	-	964,240	964,240
Capital assets, net	<u>22,414,074</u>	<u>30,405,306</u>	<u>52,819,380</u>
TOTAL ASSETS	<u>31,990,919</u>	<u>60,170,267</u>	<u>92,161,186</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	<u>1,275,796</u>	<u>462,973</u>	<u>1,738,769</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
	<u>\$ 33,266,715</u>	<u>\$ 60,633,240</u>	<u>\$ 93,899,955</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - CONTINUED
JUNE 30, 2019

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
LIABILITIES			
Accounts payable	\$ 227,383	\$ 3,424,078	\$ 3,651,461
Contracts payable	270,835	21,381	292,216
Accrued expenses	282,651	295,799	578,450
Utility customer deposits	760,786	1,305,881	2,066,667
Internal balances	448,953	(448,953)	-
Unearned revenue			
Grants	347,527	-	347,527
Rents	55,125	-	55,125
Other	-	8,415	8,415
Compensated absences			
Due within one year	59,347	22,534	81,881
Due in more than one year	534,123	202,807	736,930
Net pension liability - due in more than one year	4,820,471	1,093,865	5,914,336
Bonds, notes, and capital lease obligations			
Due within one year	391,658	394,537	786,195
Due in more than one year	<u>1,688,684</u>	<u>7,032,624</u>	<u>8,721,308</u>
TOTAL LIABILITIES	<u>9,887,543</u>	<u>13,352,968</u>	<u>23,240,511</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues			
Property taxes	2,434,634	-	2,434,634
Payments in lieu of taxes	939,649	-	939,649
Pensions	<u>1,427,856</u>	<u>687,887</u>	<u>2,115,743</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,802,139</u>	<u>687,887</u>	<u>5,490,026</u>
NET POSITION			
Net investment in capital assets	20,333,732	22,957,029	43,290,761
Restricted for			
Operation and maintenance	-	704,320	704,320
Street expenses	239,456	-	239,456
Solid Waste/Sanitation expenses	916,485	-	916,485
Drug enforcement	30,297	-	30,297
Grants and donations	108,365	-	108,365
Debt service	1,054	325,084	326,138
Capital assets	-	66	66
Pension	-	964,240	964,240
Perpetual care (nonexpendable)	333,578	-	333,578
Unrestricted	<u>(3,385,934)</u>	<u>21,641,646</u>	<u>18,255,712</u>
TOTAL NET POSITION	<u>18,577,033</u>	<u>46,592,385</u>	<u>65,169,418</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 33,266,715</u>	<u>\$ 60,633,240</u>	<u>\$ 93,899,955</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
PROGRAM ACTIVITIES							
Governmental activities							
General government	\$ 1,634,409	\$ -	\$ -	\$ -	\$ (1,634,409)	\$ -	\$ (1,634,409)
Public safety	6,211,022	260,100	115,699	-	(5,835,223)	-	(5,835,223)
Public works	2,535,620	1,635,086	333,469	351,596	(215,469)	-	(215,469)
Health, welfare, recreation, and education	1,894,568	574,538	109,268	367,885	(842,877)	-	(842,877)
Interest on long-term debt	71,310	-	-	-	(71,310)	-	(71,310)
TOTAL GOVERNMENTAL ACTIVITIES	<u>12,346,929</u>	<u>2,469,724</u>	<u>558,436</u>	<u>719,481</u>	<u>(8,599,288)</u>	<u>-</u>	<u>(8,599,288)</u>
Business-type activities							
Water	1,574,040	1,832,676	-	208,601	-	467,237	467,237
Sewer	2,019,066	2,348,824	-	194,220	-	523,978	523,978
Gas	2,832,324	2,791,727	-	-	-	(40,597)	(40,597)
Bio Mass Gasification	170,515	30,000	-	-	-	(140,515)	(140,515)
Electric	20,863,581	20,401,232	-	-	-	(462,349)	(462,349)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>27,459,526</u>	<u>27,404,459</u>	<u>-</u>	<u>402,821</u>	<u>-</u>	<u>347,754</u>	<u>347,754</u>
TOTAL GOVERNMENT	<u>\$ 39,806,455</u>	<u>\$ 29,874,183</u>	<u>\$ 558,436</u>	<u>\$ 1,122,302</u>	<u>(8,599,288)</u>	<u>347,754</u>	<u>(8,251,534)</u>
GENERAL REVENUES							
Taxes							
Property					3,572,176	-	3,572,176
Sales					4,565,982	-	4,565,982
Privilege					833,402	-	833,402
Income					38,161	-	38,161
Investment earnings					80,589	398,883	479,472
Gain on capital assets and insurance proceeds					84,161	30,326	114,487
Miscellaneous					70,472	469,570	540,042
TOTAL GENERAL REVENUES					<u>9,244,943</u>	<u>898,779</u>	<u>10,143,722</u>
TRANSFERS					<u>422,520</u>	<u>(422,520)</u>	<u>-</u>
TOTAL GENERAL REVENUES AND TRANSFERS					<u>9,667,463</u>	<u>476,259</u>	<u>10,143,722</u>
CHANGE IN NET POSITION					1,068,175	824,013	1,892,188
NET POSITION							
Balance at July 1, 2018					<u>17,508,858</u>	<u>45,768,372</u>	<u>63,277,230</u>
Balance at June 30, 2019					<u>\$ 18,577,033</u>	<u>\$ 46,592,385</u>	<u>\$ 65,169,418</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
ASSETS			
Cash and cash equivalents	\$ 2,266,522	\$ 1,947,089	\$ 4,213,611
Receivables			
Accounts receivable	-	186,664	186,664
Property taxes	2,731,585	-	2,731,585
Due from Tipton County, Tennessee	447,284	-	447,284
Due from State of Tennessee	383,170	53,233	436,403
Grants receivable	89,848	274,479	364,327
Other	1,122,600	41,440	1,164,040
Inventories	19,228	13,703	32,931
Due from other funds	<u>52,083</u>	<u>1,730</u>	<u>53,813</u>
TOTAL ASSETS	<u>\$ 7,112,320</u>	<u>\$ 2,518,338</u>	<u>\$ 9,630,658</u>
LIABILITIES			
Accounts payable	\$ 95,758	\$ 131,625	\$ 227,383
Contracts payable	-	270,835	270,835
Accrued expenses	236,535	14,750	251,285
Utility customer deposits	760,786	-	760,786
Due to other funds	225,817	11,968	237,785
Unearned revenue			
Grants	-	347,527	347,527
Rents	-	55,125	55,125
Advances from other funds	<u>257,669</u>	<u>7,312</u>	<u>264,981</u>
TOTAL LIABILITIES	<u>1,576,565</u>	<u>839,142</u>	<u>2,415,707</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue			
Property taxes	2,703,855	-	2,703,855
Payments in lieu of taxes	959,592	-	959,592
State income tax	13,557	-	13,557
Grants	21,547	-	21,547
Penalties and interest on property taxes	<u>70,644</u>	<u>-</u>	<u>70,644</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,769,195</u>	<u>-</u>	<u>3,769,195</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
BALANCE SHEET - GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2019

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
FUND BALANCE			
Nonspendable	\$ 19,228	\$ 347,281	\$ 366,509
Restricted	68,930	1,205,180	1,274,110
Committed	-	107,567	107,567
Assigned	207,882	19,168	227,050
Unassigned	<u>1,470,520</u>	<u>-</u>	<u>1,470,520</u>
TOTAL FUND BALANCE	<u>1,766,560</u>	<u>1,679,196</u>	<u>3,445,756</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
	<u>\$ 7,112,320</u>	<u>\$ 2,518,338</u>	<u>\$ 9,630,658</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, 2019**

	<u>TOTAL GOVERNMENTAL FUNDS</u>
TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 3,445,756
 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.	22,414,074
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	1,275,796
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.	(31,366)
Deferred inflows of resources related to unavailable revenues are not available to pay for current period expenditures and therefore are deferred in the governmental funds balance sheet	394,912
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	(1,427,856)
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.	(2,080,342)
Compensated absences and net pension liability are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	<u>(5,413,941)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 18,577,033</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, 2019

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
REVENUES			
Local taxes	\$ 7,999,658	\$ -	\$ 7,999,658
Licenses and permits	62,398	-	62,398
Intergovernmental revenues	1,529,313	780,733	2,310,046
Charges for services	324,893	1,895,777	2,220,670
Fines, forfeits, and penalties	102,506	12,014	114,520
Other revenues	<u>112,192</u>	<u>67,545</u>	<u>179,737</u>
TOTAL REVENUES	<u>10,130,960</u>	<u>2,756,069</u>	<u>12,887,029</u>
EXPENDITURES			
Current			
General government	1,719,274	-	1,719,274
Public safety	6,616,737	1,171	6,617,908
Public works	1,058,797	1,718,358	2,777,155
Health, welfare, recreation and education ..	1,061,863	958,989	2,020,852
Debt service	<u>290,307</u>	<u>246,832</u>	<u>537,139</u>
TOTAL EXPENDITURES	<u>10,746,978</u>	<u>2,925,350</u>	<u>13,672,328</u>
EXCESS OF REVENUES			
(UNDER) EXPENDITURES	<u>(616,018)</u>	<u>(169,281)</u>	<u>(785,299)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	551,635	338,150	889,785
Proceeds from capital lease	63,750	-	63,750
Proceeds from capital asset sales and insurance	115,969	27,990	143,959
Transfers out	<u>(442,262)</u>	<u>(25,003)</u>	<u>(467,265)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>289,092</u>	<u>341,137</u>	<u>630,229</u>
NET CHANGE IN FUND BALANCE	(326,926)	171,586	(155,070)
FUND BALANCE			
Balance at July 1, 2018	<u>2,093,486</u>	<u>1,507,340</u>	<u>3,600,826</u>
Balance at June 30, 2019	<u>\$ 1,766,560</u>	<u>\$ 1,679,196</u>	<u>\$ 3,445,756</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, 2019**

NET CHANGE IN FUND BALANCE - TOTAL
GOVERNMENTAL FUNDS \$ (155,070)

**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	1,601,325
Depreciation expense	(1,295,510)

In the statement of activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the disposition increase financial resources. Thus the change in net assets differs from the change in fund balance by the net cost of the capital assets

(59,798)

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds	(63,750)
Principal payments	465,827

The amount of expense for compensated absences reported in the statement of activities is less than the amount reported as expenditures in governmental funds.

31,841

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

521,913

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.

21,093

Accrued interest expense related to long term debt is reported in the statement of activities, but does not require the use of current financial resources; therefore, this item is not reported as expenditures in governmental funds. This is net difference between the amounts accrued in the current and prior year.

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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,068,175

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019

	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	\$ 3,722,187	\$ 3,794,786	\$10,340,004	\$ 10,781	\$ 6,694,969	\$ 24,562,727
Receivables						
Trade	232,932	259,787	147,903	-	2,011,349	2,651,971
Grants	19,527	-	-	-	-	19,527
Other	-	-	-	-	323	323
Due from other funds	94	-	245,134	-	-	245,228
Inventories	34,768	3,657	23,005	-	250,666	312,096
Prepayments and other current assets	-	-	-	-	180,744	180,744
TOTAL CURRENT ASSETS	<u>4,009,508</u>	<u>4,058,230</u>	<u>10,756,046</u>	<u>10,781</u>	<u>9,138,051</u>	<u>27,972,616</u>
NONCURRENT ASSETS						
Restricted Assets						
Cash and cash equivalents on deposit						
Operation and maintenance ...	345,220	359,100	-	-	-	704,320
Debt service	-	-	-	-	331,289	331,289
Construction	-	66	-	-	-	66
Customer deposits	-	-	-	-	20,800	20,800
Net pension asset	-	-	-	-	964,240	964,240
Total Restricted Assets	<u>345,220</u>	<u>359,166</u>	<u>-</u>	<u>-</u>	<u>1,316,329</u>	<u>2,020,715</u>
Capital Assets						
Not being depreciated						
Land, land rights and improvements	12,015	51,191	116,178	-	220,712	400,096
Construction in process	373,956	279,530	-	-	27,541	681,027
	<u>385,971</u>	<u>330,721</u>	<u>116,178</u>	<u>-</u>	<u>248,253</u>	<u>1,081,123</u>
Being depreciated						
Buildings	3,209,454	10,392,165	927,592	-	-	14,529,211
Distribution and collection systems	9,526,059	13,298,070	2,110,577	-	14,019,300	38,954,006
General plant	-	-	-	-	6,932,785	6,932,785
Transmission plant	-	-	-	-	2,161,810	2,161,810
Bio Mass plant	-	-	-	2,243,189	-	2,243,189
Equipment	214,787	845,269	561,949	78,374	-	1,700,379
Unamortized acquisition adjustment	-	-	-	-	241,642	241,642
Less accumulated depreciation/amortization ...	<u>(8,931,069)</u>	<u>(13,985,623)</u>	<u>(2,709,087)</u>	<u>(488,005)</u>	<u>(11,325,055)</u>	<u>(37,438,839)</u>
Total Capital Assets, Net of Accumulated Depreciation/ Amortization	<u>4,405,202</u>	<u>10,880,602</u>	<u>1,007,209</u>	<u>1,833,558</u>	<u>12,278,735</u>	<u>30,405,306</u>
Other Assets						
Unamortized debt expense	-	-	-	-	9,275	9,275
Advances to other funds	-	-	267,089	-	-	267,089
Other	-	-	-	-	7,472	7,472
Advances to customers - home insulation	-	-	-	-	111	111
Total Other Assets	<u>-</u>	<u>-</u>	<u>267,089</u>	<u>-</u>	<u>16,858</u>	<u>283,947</u>
TOTAL NONCURRENT ASSETS	<u>4,750,422</u>	<u>11,239,768</u>	<u>1,274,298</u>	<u>1,833,558</u>	<u>13,611,922</u>	<u>32,709,968</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CONTINUED
JUNE 30, 2019

	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	\$ 78,932	\$ 98,193	\$ 108,840	\$ -	\$ 177,008	\$ 462,973
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,838,862</u>	<u>\$ 15,396,191</u>	<u>\$ 12,139,184</u>	<u>\$ 1,844,339</u>	<u>\$ 22,926,981</u>	<u>\$ 61,145,557</u>
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable	\$ 45,094	\$ 17,916	\$ 233,716	\$ 12	\$ 3,127,340	\$ 3,424,078
Contract payable	21,381	-	-	-	-	21,381
Accrued expenses	131,613	15,679	34,299	-	94,186	275,777
Payroll and other taxes	9,185	10,118	(5,486)	-	-	13,817
Current maturities of long-term debt	18,804	170,733	-	75,000	-	264,537
Due to other funds	21,868	20,618	20,878	-	-	63,364
Customer deposits	-	-	-	-	1,285,081	1,285,081
Current portion of compensated absences	4,445	3,434	5,764	-	8,891	22,534
TOTAL CURRENT LIABILITIES	<u>252,390</u>	<u>238,498</u>	<u>289,171</u>	<u>75,012</u>	<u>4,515,498</u>	<u>5,370,569</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS						
Customer deposits	-	-	-	-	20,800	20,800
Accrued interest	-	-	-	-	6,205	6,205
Current maturities of long-term debt	-	-	-	-	130,000	130,000
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,005</u>	<u>157,005</u>
NONCURRENT LIABILITIES						
Bonds payable, less current maturities	903,202	3,781,422	-	1,773,000	575,000	7,032,624
Unamortized bond premium (discount)	-	13,638	-	-	(5,463)	8,175
Advances-home insulation program	-	-	-	-	240	240
Net pension liability	301,561	361,058	431,246	-	-	1,093,865
Compensated absences, less current portion	40,007	30,901	51,877	-	80,022	202,807
TOTAL NONCURRENT LIABILITIES	<u>1,244,770</u>	<u>4,187,019</u>	<u>483,123</u>	<u>1,773,000</u>	<u>649,799</u>	<u>8,337,711</u>
TOTAL LIABILITIES	<u>1,497,160</u>	<u>4,425,517</u>	<u>772,294</u>	<u>1,848,012</u>	<u>5,322,302</u>	<u>13,865,285</u>
DEFERRED INFLOWS OF RESOURCES						
Pensions	89,344	106,889	127,857	-	363,797	687,887

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CONTINUED
JUNE 30, 2019

	<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>	
NET POSITION						
Net investment in capital assets ..	\$ 3,455,813	\$ 6,914,809	\$ 1,007,209	\$ -	\$ 11,579,198	\$ 22,957,029
Restricted for operation and maintenance	345,220	359,100	-	-	-	704,320
Restricted for debt service	-	-	-	-	325,084	325,084
Restricted for construction	-	66	-	-	-	66
Restricted for pension	-	-	-	-	964,240	964,240
Unrestricted	<u>3,451,325</u>	<u>3,589,810</u>	<u>10,231,824</u>	<u>(3,673)</u>	<u>4,372,360</u>	<u>21,641,646</u>
TOTAL NET POSITION ...	<u>7,252,358</u>	<u>10,863,785</u>	<u>11,239,033</u>	<u>(3,673)</u>	<u>17,240,882</u>	<u>46,592,385</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 8,838,862</u>	<u>\$15,396,191</u>	<u>\$12,139,184</u>	<u>\$ 1,844,339</u>	<u>\$ 22,926,981</u>	<u>\$ 61,145,557</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, 2019

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
OPERATING REVENUES						
Charges for services	\$ 1,832,676	\$ 2,348,824	\$ 2,791,727	\$ 30,000	\$ 20,401,232	\$ 27,404,459
Miscellaneous	<u>105,820</u>	<u>29,589</u>	<u>27,108</u>	<u>-</u>	<u>307,053</u>	<u>469,570</u>
TOTAL OPERATING REVENUES	<u>1,938,496</u>	<u>2,378,413</u>	<u>2,818,835</u>	<u>30,000</u>	<u>20,708,285</u>	<u>27,874,029</u>
OPERATING EXPENSES						
Purification	508,705	-	-	-	-	508,705
Transmission and distribution	549,775	-	540,632	-	-	1,090,407
Operations expense	-	-	-	21,009	2,115,258	2,136,267
Collection	-	209,965	-	-	-	209,965
Treatment and disposal	-	713,849	-	-	-	713,849
Purchased gas and power	-	-	1,673,543	-	16,952,319	18,625,862
General and administrative	244,649	328,639	465,432	-	-	1,038,720
Maintenance expense	-	-	-	-	932,303	932,303
Taxes	-	-	-	-	92,271	92,271
Depreciation and amortization	<u>230,295</u>	<u>628,789</u>	<u>98,717</u>	<u>97,565</u>	<u>732,448</u>	<u>1,787,814</u>
TOTAL OPERATING EXPENSES	<u>1,533,424</u>	<u>1,881,242</u>	<u>2,778,324</u>	<u>118,574</u>	<u>20,824,599</u>	<u>27,136,163</u>
OPERATING INCOME (LOSS)	<u>405,072</u>	<u>497,171</u>	<u>40,511</u>	<u>(88,574)</u>	<u>(116,314)</u>	<u>737,866</u>
NONOPERATING REVENUES (EXPENSES)						
Interest earned and other revenue	77,731	74,725	203,583	6	42,838	398,883
Contributions for economic development	-	-	(54,000)	-	-	(54,000)
Other expenses	-	-	-	-	(8,916)	(8,916)
Gain on disposal of capital assets ...	-	-	-	-	30,326	30,326
Interest expense	<u>(40,616)</u>	<u>(137,824)</u>	<u>-</u>	<u>(51,941)</u>	<u>(30,066)</u>	<u>(260,447)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>37,115</u>	<u>(63,099)</u>	<u>149,583</u>	<u>(51,935)</u>	<u>34,182</u>	<u>105,846</u>
INCOME (LOSS) BEFORE CONTRI- BUTIONS AND TRANSFERS	<u>442,187</u>	<u>434,072</u>	<u>190,094</u>	<u>(140,509)</u>	<u>(82,132)</u>	<u>843,712</u>
CAPITAL CONTRIBUTIONS	<u>208,601</u>	<u>194,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>402,821</u>
TRANSFERS						
Transfers in	-	-	-	120,000	-	120,000
Transfers out	<u>(35,000)</u>	<u>(90,000)</u>	<u>(52,800)</u>	<u>-</u>	<u>(364,720)</u>	<u>(542,520)</u>
NET TRANSFERS	<u>(35,000)</u>	<u>(90,000)</u>	<u>(52,800)</u>	<u>120,000</u>	<u>(364,720)</u>	<u>(422,520)</u>
CHANGE IN NET POSITION	615,788	538,292	137,294	(20,509)	(446,852)	824,013
NET POSITION						
Balance at July 1, 2018	<u>6,636,570</u>	<u>10,325,493</u>	<u>11,101,739</u>	<u>16,836</u>	<u>17,687,734</u>	<u>45,768,372</u>
Balance at June 30, 2019	<u>\$ 7,252,358</u>	<u>\$10,863,785</u>	<u>\$11,239,033</u>	<u>\$ (3,673)</u>	<u>\$ 17,240,882</u>	<u>\$ 46,592,385</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS						
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 1,823,246	\$ 2,427,275	\$ 2,852,372	\$ 30,000	\$20,778,018	\$ 27,910,911
Cash payments to suppliers for goods and services	(887,016)	(864,642)	(2,110,514)	(20,997)	(21,397,904)	(25,281,073)
Cash payments to employees for services	(352,528)	(375,548)	(476,321)	-	Included above	(1,204,397)
Cash payments to General Fund for share of joint costs	(121,381)	(135,381)	(112,981)	-	-	(369,743)
Cash payments to General Fund for payments in lieu of taxes (transfers)	(35,000)	(77,430)	(52,800)	-	(364,720)	(529,950)
Cash payments for other taxes	(24,664)	(34,587)	(34,505)	-	(92,271)	(186,027)
Cash payments for economic development	-	-	(54,000)	-	-	(54,000)
Customer deposits received	-	-	-	-	283,300	283,300
Customer deposits refunded	-	-	-	-	(249,518)	(249,518)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	402,657	939,687	11,251	9,003	(1,043,095)	319,503
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer in	-	-	-	120,000	-	120,000
(Decrease) in advances from TVA	-	-	-	-	(2,179)	(2,179)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	-	-	120,000	(2,179)	117,821
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(430,022)	(279,530)	(37,895)	-	(2,114,575)	(2,862,022)
Disposal of capital assets	-	-	-	-	352,877	352,877
Plant removal costs	-	-	-	-	(16,017)	(16,017)
Materials salvaged from retirements	-	-	-	-	16,662	16,662
Capital contributions	189,074	194,220	-	-	-	383,294
Principal paid on capital debt	(15,867)	(122,185)	-	(73,000)	(125,000)	(336,052)
Interest and fees paid on capital debt	(40,616)	(139,238)	-	(51,941)	(32,648)	(264,443)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(297,431)	(346,733)	(37,895)	(124,941)	(1,918,701)	(2,725,701)

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2019**

	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 INVESTING ACTIVITIES						
Investment income	\$ 77,732	\$ 74,725	\$ 203,583	\$ 6	\$ 42,838	\$ 398,884
Decrease in advances to other funds	-	-	311,082	-	-	311,082
(Expenses) for other nonoperating expenses	-	-	-	-	(8,916)	(8,916)
(Increase) in other assets	-	-	-	-	(1,307)	(1,307)
Decrease in conservation loans	-	-	-	-	2,040	2,040
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>77,732</u>	<u>74,725</u>	<u>514,665</u>	<u>6</u>	<u>34,655</u>	<u>701,783</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	182,958	667,679	488,021	4,068	(2,929,320)	(1,586,594)
CASH AND CASH EQUIVALENTS						
Beginning of year	<u>3,884,449</u>	<u>3,486,273</u>	<u>9,851,983</u>	<u>6,713</u>	<u>9,955,578</u>	<u>27,184,996</u>
End of year	<u>\$ 4,067,407</u>	<u>\$ 4,153,952</u>	<u>\$10,340,004</u>	<u>\$ 10,781</u>	<u>\$ 7,026,258</u>	<u>\$ 25,598,402</u>
RECONCILIATION OF ENDING CASH AND CASH EQUIVALENTS TO LINE ITEMS IN STATEMENT OF NET POSITION						
Unrestricted cash and cash equivalents	\$ 3,722,187	\$ 3,794,786	\$10,340,004	\$ 10,781	\$ 6,694,969	\$ 24,562,727
Restricted cash and cash equivalents	<u>345,220</u>	<u>359,166</u>	<u>-</u>	<u>-</u>	<u>331,289</u>	<u>1,035,675</u>
Cash and cash equivalents	<u>\$ 4,067,407</u>	<u>\$ 4,153,952</u>	<u>\$10,340,004</u>	<u>\$ 10,781</u>	<u>\$ 7,026,258</u>	<u>\$ 25,598,402</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2019**

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 405,072	\$ 497,171	\$ 40,511	\$ (88,574)	\$ (116,314)	\$ 737,866
Adjustments to reconcile net operating income to net cash provided (used) by operating activities						
Depreciation and amortization	230,295	628,789	98,717	97,565	733,873	1,789,239
Transfer (out)	(35,000)	(90,000)	(52,800)	-	(364,720)	(542,520)
Economic development payments	-	-	(54,000)	-	-	(54,000)
Bad debts (recoveries)	863	329	1,744	-	-	2,936
Net change in pension deferred inflows/outflows	(86,406)	(103,499)	(84,062)	-	(1,095,301)	(1,369,268)
Changes in assets and liabilities						
Receivables	(4,841)	3,874	(21,466)	-	69,733	47,300
Inventory	(8,707)	3,179	(3,748)	-	(25,988)	(35,264)
Prepayments and other current assets	-	-	-	-	(3,516)	(3,516)
Accounts payable, accrued expenses, and payroll and other taxes	55,554	4,219	(42,249)	12	(275,985)	(258,449)
Compensated absences and pension benefits	(49,683)	(59,592)	45,293	-	-	(63,982)
Interfund accounts	(104,490)	55,217	83,311	-	-	34,038
Customer deposits	-	-	-	-	35,123	35,123
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 402,657</u>	<u>\$ 939,687</u>	<u>\$ 11,251</u>	<u>\$ 9,003</u>	<u>\$(1,043,095)</u>	<u>\$ 319,503</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Liabilities incurred for acquisition of capital assets	<u>\$ 27,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,381</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2019

	<u>TRUST FUNDS</u>			<u>TOTALS</u>
	<u>CITY OF COVINGTON PENSION FUND</u>	<u>COVINGTON ELECTRIC SYSTEM DEFINED BENEFIT PLAN</u>	<u>COVINGTON ELECTRIC SYSTEM 457 PLAN</u>	
ASSETS				
Cash and cash equivalents	\$ 929,965	\$ 13,086	\$ -	\$ 943,051
Accrued income	8,501	-	-	8,501
Investments	<u>15,431,052</u>	<u>5,059,361</u>	<u>532,403</u>	<u>21,022,816</u>
TOTAL ASSETS	<u>\$ 16,369,518</u>	<u>\$ 5,072,447</u>	<u>\$ 532,403</u>	<u>\$ 21,974,368</u>
NET POSITION				
Restricted for pension benefits ..	<u>\$ 16,369,518</u>	<u>\$ 5,072,447</u>	<u>\$ 532,403</u>	<u>\$ 21,974,368</u>
NET POSITION	<u>\$ 16,369,518</u>	<u>\$ 5,072,447</u>	<u>\$ 532,403</u>	<u>\$ 21,974,368</u>

See notes to financial statements

CITY OF COVINGTON, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2019

	<u>TRUST FUNDS</u>			<u>TOTALS</u>
	<u>CITY OF COVINGTON PENSION FUND</u>	<u>COVINGTON ELECTRIC SYSTEM DEFINED BENEFIT PLAN</u>	<u>COVINGTON ELECTRIC SYSTEM 457 PLAN</u>	
ADDITIONS				
Contributions - employer	\$ 1,416,000	\$ 1,632,956	\$ 53,648	\$ 3,102,604
Investment earnings				
Dividends and interest	310,381	107,268	15,276	432,925
Realized gains on investments	227,367	7,107	-	234,474
Net increase in fair value of investments	<u>508,660</u>	<u>67,210</u>	<u>9,695</u>	<u>585,565</u>
Total investment earnings ..	<u>1,046,408</u>	<u>181,585</u>	<u>24,971</u>	<u>1,252,964</u>
TOTAL ADDITIONS	<u>2,462,408</u>	<u>1,814,541</u>	<u>78,619</u>	<u>4,355,568</u>
DEDUCTIONS				
Benefits paid	850,916	128,358	18,600	997,874
Administrative expenses	<u>100,367</u>	<u>34,943</u>	<u>806</u>	<u>136,116</u>
TOTAL DEDUCTIONS	<u>951,283</u>	<u>163,301</u>	<u>19,406</u>	<u>1,133,990</u>
CHANGE IN NET POSITION	<u>1,511,125</u>	<u>1,651,240</u>	<u>59,213</u>	<u>3,221,578</u>
NET POSITION				
Balance at July 1, 2018	<u>14,858,393</u>	<u>3,421,207</u>	<u>473,190</u>	<u>18,752,790</u>
Balance at June 30, 2019	<u>\$ 16,369,518</u>	<u>\$ 5,072,447</u>	<u>\$ 532,403</u>	<u>\$ 21,974,368</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Local taxes				
Property taxes	\$ -	\$ -	\$ 2,414,861	\$ -
Interest and penalty	-	-	46,598	-
Payments in lieu of taxes	-	-	985,073	-
Local sales tax	-	-	3,755,061	-
Wholesale beer tax	-	-	388,702	-
Wholesale liquor tax	-	-	84,521	-
Business taxes	-	-	267,387	-
Franchise fees	-	-	57,455	-
	<u>8,216,000</u>	<u>8,216,000</u>	<u>7,999,658</u>	<u>(216,342)</u>
Licenses and permits	34,000	34,000	62,398	28,398
Intergovernmental revenues				
TVA payment in lieu of taxes . . .	-	-	107,028	-
State law enforcement and fire protection expense reimbursements	-	-	31,200	-
Federal grants	-	-	329,779	-
Tipton County grants and reimbursements	-	-	84,499	-
State sales tax	-	-	801,595	-
State telecommunications sales tax	-	-	9,326	-
State income tax	-	-	27,215	-
State beer tax	-	-	4,184	-
State mixed drink tax	-	-	31,153	-
State special petroleum tax	-	-	17,967	-
State highway maintenance	-	-	60,045	-
State airport maintenance	-	-	5,612	-
State excise tax	-	-	19,710	-
	<u>1,951,800</u>	<u>1,951,800</u>	<u>1,529,313</u>	<u>(422,487)</u>
Charges for services	282,000	282,000	324,893	42,893
Fines, forfeits and penalties	125,000	125,000	102,506	(22,494)
Other revenues	106,500	98,500	112,192	13,692
TOTAL REVENUES	<u>10,715,300</u>	<u>10,707,300</u>	<u>10,130,960</u>	<u>(576,340)</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES				
General government				
Board of Aldermen				
Personal services	\$ -	\$ -	\$ 211,948	\$ -
Contractual services	-	-	33,964	-
Fixed charges	-	-	179,089	-
Grants and donations	-	-	4,973	-
	<u>2,989,500</u>	<u>433,431</u>	<u>429,974</u>	<u>3,457</u>
City court				
Personal services	12,000	18,170	17,878	292
General elections				
Contractual services	1,500	1,500	-	1,500
Recorder-treasurer				
Personal services	-	-	429,335	-
Contractual services	-	-	59,069	-
Supplies	-	-	11,339	-
Bad debt expense	-	-	(2,122)	-
Capital outlay	-	-	1,640	-
Reimbursements - enterprise funds	-	-	(146,381)	-
	<u>373,150</u>	<u>397,084</u>	<u>352,880</u>	<u>44,204</u>
City attorney				
Personal services	-	-	6,000	-
Contractual services	-	-	58,080	-
	<u>66,000</u>	<u>76,000</u>	<u>64,080</u>	<u>11,920</u>
Purchasing				
Personal services	-	-	235,768	-
Contractual services	-	-	18,548	-
Supplies	-	-	2,669	-
Capital outlay	-	-	383	-
Reimbursements - enterprise funds	-	-	(76,347)	-
	<u>186,360</u>	<u>200,603</u>	<u>181,021</u>	<u>19,582</u>
Data processing				
Contractual services	-	-	80,804	-
Capital outlay	-	-	1,124	-
Reimbursements - enterprise funds	-	-	(25,646)	-
	<u>81,000</u>	<u>58,541</u>	<u>56,282</u>	<u>2,259</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
General government - continued				
Developmental services				
Personal services	\$ -	\$ -	\$ 136,033	\$ -
Contractual services	-	-	32,395	-
Supplies	-	-	6,954	-
Capital outlay	-	-	1,694	-
Reimbursements - enterprise funds	-	-	(42,911)	-
	<u>156,300</u>	<u>164,032</u>	<u>134,165</u>	<u>29,867</u>
Grounds maintenance				
Personal services	-	-	400,713	-
Contractual services	-	-	17,394	-
Supplies	-	-	27,884	-
Capital outlay	-	-	1,889	-
	<u>347,800</u>	<u>494,788</u>	<u>447,880</u>	<u>46,908</u>
City Hall buildings				
Contractual services	-	-	44,515	-
Supplies	-	-	2,304	-
Reimbursements - enterprise funds	-	-	(11,705)	-
	<u>55,900</u>	<u>45,650</u>	<u>35,114</u>	<u>10,536</u>
Total general government	<u>4,269,510</u>	<u>1,889,799</u>	<u>1,719,274</u>	<u>170,525</u>
Public Safety				
Police				
Personal services	-	-	2,931,669	-
Contractual services	-	-	281,226	-
Supplies	-	-	146,600	-
Capital outlay	-	-	7,097	-
	<u>2,439,000</u>	<u>3,539,290</u>	<u>3,366,592</u>	<u>172,698</u>
Fire protection and control				
Personal services	-	-	2,597,470	-
Contractual services	-	-	108,101	-
Supplies	-	-	57,603	-
Capital outlay	-	-	35,970	-
	<u>1,813,100</u>	<u>2,826,724</u>	<u>2,799,144</u>	<u>27,580</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
Public Safety - Continued				
Outside fire expenditures				
Personal services	\$ -	\$ -	\$ 58,491	\$ -
Contractual services	-	-	5,170	-
Supplies	-	-	13,606	-
Capital outlay	-	-	343,914	-
	<u>303,050</u>	<u>361,503</u>	<u>421,181</u>	<u>(59,678)</u>
Civil defense				
Contractual services	-	-	2,193	-
Supplies	-	-	27,627	-
	<u>30,000</u>	<u>40,000</u>	<u>29,820</u>	<u>10,180</u>
Total public safety	<u>4,585,150</u>	<u>6,767,517</u>	<u>6,616,737</u>	<u>150,780</u>
Public works				
Highways, streets and roadways				
Personal services	-	-	231,272	-
Contractual services	-	-	52,866	-
Supplies	-	-	34,587	-
Capital outlay	-	-	492,457	-
	<u>1,312,300</u>	<u>1,281,990</u>	<u>811,182</u>	<u>470,808</u>
Street lighting				
Contractual services	<u>15,000</u>	<u>15,000</u>	<u>3,811</u>	<u>11,189</u>
City garage				
Personal services	-	-	190,097	-
Contractual services	-	-	33,357	-
Supplies	-	-	9,794	-
Capital outlay	-	-	13,739	-
Reimbursements - enterprise funds	-	-	(63,559)	-
	<u>180,850</u>	<u>195,797</u>	<u>183,428</u>	<u>12,369</u>
GIS Department				
Supplies	-	-	876	-
Fixed charges	-	-	5,500	-
	<u>9,350</u>	<u>9,350</u>	<u>6,376</u>	<u>2,974</u>
Cemetery maintenance				
Contractual services	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>2,000</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
EXPENDITURES - CONTINUED				
Public works - Continued				
Industrial development				
Contractual services	\$ 54,000	\$ 54,000	\$ 54,000	\$ -
Total public works	<u>1,573,500</u>	<u>1,558,137</u>	<u>1,058,797</u>	<u>499,340</u>
Health, welfare, recreation and education				
Rabies and animal control				
Personal services	-	-	58,655	-
Contractual services	-	-	2,761	-
Supplies	-	-	10,764	-
Capital outlay	-	-	153	-
	<u>61,600</u>	<u>81,844</u>	<u>72,333</u>	<u>9,511</u>
Recreation administration				
Personal services	-	-	103,289	-
Contractual services	-	-	6,571	-
Supplies	-	-	175	-
Fixed charges	-	-	2,497	-
	<u>80,550</u>	<u>116,864</u>	<u>112,532</u>	<u>4,332</u>
Recreation centers				
Contractual services	2,000	2,000	869	1,131
Playgrounds				
Contractual services	-	-	75,674	-
Supplies	-	-	5,276	-
Capital outlay	-	-	49,027	-
	<u>109,500</u>	<u>109,500</u>	<u>129,977</u>	<u>(20,477)</u>
Swimming pools				
Personal services	-	-	120,893	-
Contractual services	-	-	38,966	-
Supplies	-	-	10,836	-
Capital outlay	-	-	21,971	-
	<u>162,050</u>	<u>203,763</u>	<u>192,666</u>	<u>11,097</u>
Sportsplex				
Personal services	-	-	333,018	-
Contractual services	-	-	39,929	-
Supplies	-	-	38,840	-
Capital outlay	-	-	28,944	-
	<u>324,600</u>	<u>465,035</u>	<u>440,731</u>	<u>24,304</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, 2019

	<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				
2018 CDBG HOME program				
Grants and donations	\$ -	\$ -	\$ 2,250	\$ (2,250)
Municipal Center				
Personal services	-	-	30,226	-
Contractual services	-	-	58,963	-
Supplies	-	-	19,536	-
Fixed charges	-	-	1,031	-
Capital outlay	-	-	749	-
	<u>114,300</u>	<u>114,300</u>	<u>110,505</u>	<u>3,795</u>
Total health, welfare, recreation and education	<u>854,600</u>	<u>1,093,306</u>	<u>1,061,863</u>	<u>31,443</u>
Debt service				
Principal	-	-	244,271	-
Interest	-	-	46,036	-
Total debt service	<u>187,575</u>	<u>187,575</u>	<u>290,307</u>	<u>(102,732)</u>
TOTAL EXPENDITURES	<u>11,470,335</u>	<u>11,496,334</u>	<u>10,746,978</u>	<u>749,356</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(755,035)</u>	<u>(789,034)</u>	<u>(616,018)</u>	<u>173,016</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	908,800	587,800	551,635	(36,165)
Transfers out	(474,756)	(474,756)	(442,262)	32,494
Proceeds from capital asset sales and insurance	-	-	115,969	115,969
Proceeds from capital lease	-	-	63,750	63,750
TOTAL OTHER FINANCING SOURCES (USES)	<u>434,044</u>	<u>113,044</u>	<u>289,092</u>	<u>176,048</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
NET CHANGE IN FUND BALANCE	\$ (320,991)	\$ (675,990)	\$ (326,926)	\$ 349,064
FUND BALANCE				
Balance at July 1, 2018	<u>2,093,486</u>	<u>2,093,486</u>	<u>2,093,486</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 1,772,495</u>	<u>\$ 1,417,496</u>	<u>\$ 1,766,560</u>	<u>\$ 349,064</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, 2019**

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 Electric System is under the regulatory authority of Tennessee Valley Authority.

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

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - GOVERNMENTAL FINANCIAL STATEMENTS - CONTINUED

self-balancing accounts which constitute its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. 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.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - GOVERNMENTAL FUND FINANCIAL STATEMENTS - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

Special Revenue Funds - Continued

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

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 General Obligation Capital Outlay Notes.

General Obligation Refunding Bond Fund - Holds resources that were set aside to pay the debt service requirements of the City's General Obligation Refunding Bonds - Series 2004, which have been paid off.

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, 2019**

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 rental of the bio mass gasification 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 Employee Benefit) Trust Funds consist of the following:

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION - FIDUCIARY FUND FINANCIAL STATEMENTS - CONTINUED

FIDUCIARY FUNDS - CONTINUED

City of Covington Pension Fund - Used to account for the resources of the defined benefit pension plan covering all employees hired before October 1, 2015, except Covington Electric System employees.

Covington Electric System Defined Benefit Plan - Used to account for resources of the defined benefit pension plan covering Covington Electric System Employees. The plan reports on a March 31 year end.

Covington Electric System 457 Plan - This deferred compensation trust fund is used to account for assets held for employees of Covington Electric System in accordance with the provisions of Internal Revenue Code Section 457.

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.

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

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

MEASUREMENT FOCUS - CONTINUED-

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.

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,

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF ACCOUNTING - CONTINUED

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.

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.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

INTERFUND TRANSACTIONS - CONTINUED -

With the exception of the Electric System, substantially all governmental and proprietary operations are administered primarily from 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 departmental 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 following funds incurred expenditures and transfers out in excess of appropriations in the following approximate amounts:

<u>Fund</u>	<u>Amount</u>
Tipton County Museum Fund	\$ 8,700
Munford Cemetery Fund	\$ 5,100

The above excess expenditures and transfers out were covered by additional revenues and other financing sources and/or available fund balance.

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, 2019

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.

The City of Covington's Pension Fund 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 Covington Electric System Defined Benefit Plan's policy in regard to the allocation of invested assets is established and may be amended by the Electric System's Board of Directors by a majority vote of its members. It is the policy of the Electric System's Board of Directors to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. Investments are stated at fair market value. The Plan's investments consist of stocks in U.S. and foreign publically traded companies and mutual funds. Dividend income is accrued on the ex-dividend date. Purchases and sales of securities are recorded on the trade-date basis. Realized gains and losses from security transactions are reported on the average cost method.

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:

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECEIVABLES - CONTINUED

	<u>Allowances Netted with Receivables</u>	<u>Uncollectibles Netted with Revenue</u>	<u>Recoveries Added with Revenue</u>
<u>Governmental Activities/Fund</u>			
General Fund			
Property taxes	\$ 109,747	\$ 281	\$ -
Other	80,768	8,115	-
Solid Waste/Sanitation Fund			
Garbage collection fees	-	-	902
	<u>\$ 190,515</u>	<u>\$ 8,396</u>	<u>\$ 902</u>
<u>Business-Type Activities/Fund</u>			
Water Fund			
Utility billings	\$ -	\$ -	\$ 863
Sewer Fund			
Utility billings	-	-	329
Gas Utility Fund			
Utility billings	-	-	1,743
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,935</u>

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.

**CITY OF COVINGTON, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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 liabilities 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

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

COMPENSATED ABSENCES - CONTINUED

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, 2019 is approximately \$752,000.

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 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 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.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENT-WIDE NET POSITION - CONTINUED

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.

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, 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 Defined Benefit 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 Defined Benefit 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 Defined Benefit 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.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

PENSIONS - CONTINUED

For purposes of measuring the net pension liability, 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 Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public 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 Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

NOTE 2 - DEPOSITS AND INVESTMENTS

DEPOSITS - The bank balances of deposits as of June 30, 2019 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, 2019 (March 31, 2019 for the Covington Electric System Defined Benefit Plan) consisted of the following:

<u>INVESTMENT</u>	<u>FAIR VALUE</u>
Investments in Pension Plans	
Trustee's investment pool	
Equities	\$ 13,616,427
Balanced Funds	517,331
Fixed Income	4,057,332
International	<u>2,831,726</u>
	<u>\$ 21,022,816</u>

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 June 30, 2019 (March 31, 2019 for the Covington Electric System Defined Benefit Plan):

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

INVESTMENTS - CONTINUED

	<u>COVINGTON ELECTRIC SYSTEM DEFINED BENEFIT PLAN</u>	<u>COVINGTON ELECTRIC SYSTEM 457 PLAN</u>	<u>CITY OF COVINGTON PENSION PLAN</u>
Ishares Core S&P 500 ETF	\$ 488,020	\$ -	\$ 2,896,508
Baron Emerging Markets Fund	336,939	-	1,264,094
JPMorgan Hedged Equity Fund	-	-	937,424
Baird Aggregate Bond Fund	620,580	-	-
Fidelity Investment Grade Bond Fund	620,627	-	-
Amer Cent One Choice 2045 Portfolio	-	118,135	-
Amer Cent One Choice 2035 Portfolio	-	43,440	-
American Funds Fdmntl Inv R4	-	43,087	-
VOYA Fixed Account	-	242,875	-

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following fair value measurements as of June 30, 2019 (March 31, 2019 for the Covington Electric System Defined Benefit Plan):

<u>TOTAL</u>	<u>QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)</u>	<u>SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)</u>	<u>SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)</u>
INVESTMENTS BY FAIR VALUE LEVEL			
Equity securities			
Mutual Funds	\$ 7,406,389	\$ 7,406,389	\$ -
Common stocks	<u>13,616,427</u>	<u>13,616,427</u>	<u>-</u>
<u>\$ 21,022,816</u>	<u>\$ 21,022,816</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

During 2019, the City of Covington Pension Plan realized a net gain of \$227,367 from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in fair value of investments during 2019 was \$508,660. This amount takes into account all changes in the fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end was \$2,225,778.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

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

Included in the accounts receivable balance of \$2,838,635 are unbilled receivables of \$363,172. The unbilled receivables represent estimated charges for usage from the last billing date through June 30, 2019.

The General Fund holds meter deposits of water, sewer, gas, and solid waste 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, 2019 is as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
MAJOR FUNDS		
General Fund		
Airport Fund	\$ 482	\$ -
Solid Waste/Sanitation Fund	-	1,730
Water Fund	21,868	-
Sewer Fund	20,618	-
Gas Utility Fund	-	481,756 (1)
Munford Cemetary Fund	<u>9,115</u>	<u>-</u>
	<u>52,083</u>	<u>483,486</u>
Water Fund		
General Fund	-	21,868
Solid Waste/Sanitation Fund	<u>94</u>	<u>-</u>
	<u>94</u>	<u>21,868</u>
Sewer Fund		
General Fund	<u>-</u>	<u>20,618</u>
Gas Utility Fund		
General Fund	481,756 (1)	-
Solid Waste/Sanitation Fund	<u>9,589 (2)</u>	<u>-</u>
	<u>491,345</u>	<u>-</u>
NONMAJOR GOVERNMENTAL FUNDS		
Airport Fund		
General Fund	-	482
Solid Waste/Sanitation Fund		
General Fund	1,730	-
Water Fund	-	94
Gas Utility Fund	-	9,589 (2)
Munford Cemetery Fund		
General Fund	<u>-</u>	<u>9,115</u>
	<u>1,730</u>	<u>19,280</u>
TOTALS	<u>\$ 545,252</u>	<u>\$ 545,252</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED

(1) This includes the following capital outlay notes payable to the Gas Utility Fund by the General Fund:

- (a) Note with a balance of \$38,533, payable in annual installments of \$38,533, plus interest at 2%, through 2020.
- (b) Note with a balance of \$352,716, payable in annual installments of \$176,358, plus interest at 1%, through 2021.
- (c) Note with a balance of \$111,385, payable in annual installments of \$30,243 plus interest at 2% through 2023.

(2) This represents a capital outlay note payable to the Gas Utility Fund by the Solid Waste/Sanitation Fund. The note is payable 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 (\$267,089) are expected to be repaid within one year.

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

	INTERFUND BALANCES - ASSETS	INTERFUND BALANCES - LIABILITIES
Governmental Funds		
Due from/to other funds	\$ 53,813	\$ 237,785
Advances to/from other funds	-	264,981
Proprietary Funds		
Due from/to other funds	224,350	42,486
Advances to/from other funds	<u>267,089</u>	<u>-</u>
	<u>\$ 545,252</u>	<u>\$ 545,252</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED

The composition of interfund transfers for the year ended June 30, 2019 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	
PBACCT Bond Fund	-	204,262	
Water Fund	35,000 (1)	-	
Sewer Fund	90,000 (1)	-	
Gas Utility Fund	52,800 (1)	-	
Bio Mass Gasification Fund	-	120,000	
Covington Electric System Electric Fund	364,720 (1)	-	
Munford Cemetery Fund	<u>9,115</u>	<u>-</u>	
	<u>551,635</u>	<u>442,262</u>	
Water Fund			
General Fund	<u>-</u>	<u>35,000</u>	(1)
Sewer Fund			
General Fund	<u>-</u>	<u>90,000</u>	(1)
Gas Utility Fund			
General Fund	<u>-</u>	<u>52,800</u>	(1)
Bio Mass Gasification Fund			
General Fund	<u>120,000</u>	<u>-</u>	
Covington Electric System Electric Fund			
General Fund	<u>-</u>	<u>364,720</u>	(1)
NONMAJOR GOVERNMENTAL FUNDS			
Airport Fund			
General Fund	50,000	-	
Airport Improvements Construction Bond Fund	-	7,762	
Solid Waste/Sanitation Fund			
PBACCT Bond Fund	-	8,126	
Tipton County Museum Fund			
General Fund	68,000	-	
Airport Improvements Construction Bond Fund			
Airport Fund	7,762	-	
PBACCT Bond Fund			
General Fund	204,262	-	
Solid Waste/Sanitation Fund	8,126	-	
Munford Cemetery Fund			
General Fund	<u>-</u>	<u>9,115</u>	
	<u>338,150</u>	<u>25,003</u>	
TOTALS	<u>\$ 1,009,785</u>	<u>\$ 1,009,785</u>	

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

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.

Interfund transfers other than (1) 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, 2019 was as follows:

	<u>BALANCE</u> <u>JULY 1, 2018</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>TRANSFERS</u>	<u>BALANCE</u> <u>JUNE 30, 2019</u>
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated					
Land, land rights and improvements ..	\$ 3,246,197	\$ -	\$ -	\$ -	\$ 3,246,197
Other capital assets					
Improvements	11,738,807	369,992	-	-	12,108,799
Buildings	6,775,577	33,595	(25,325)	-	6,783,847
Equipment	4,653,957	697,334	(217,962)	-	5,133,329
Infrastructure	<u>9,709,008</u>	<u>500,404</u>	<u>(77,065)</u>	<u>-</u>	<u>10,132,347</u>
Total other capital assets at historical cost	<u>32,877,349</u>	<u>1,601,325</u>	<u>(320,352)</u>	<u>-</u>	<u>34,158,322</u>
Less accumulated depreciation					
Improvements	(4,089,651)	(279,365)	-	-	(4,369,016)
Buildings	(3,100,748)	(158,460)	4,433	-	(3,254,775)
Equipment	(1,799,928)	(405,274)	179,056	-	(2,026,146)
Infrastructure	<u>(4,965,162)</u>	<u>(452,411)</u>	<u>77,065</u>	<u>-</u>	<u>(5,340,508)</u>
Total accumulated depreciation	<u>(13,955,489)</u>	<u>(1,295,510)</u>	<u>260,554</u>	<u>-</u>	<u>(14,990,445)</u>
Other capital assets, net	<u>18,921,860</u>	<u>305,815</u>	<u>(59,798)</u>	<u>-</u>	<u>19,167,877</u>
GOVERNMENTAL ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$ 22,168,057</u>	<u>\$ 305,815</u>	<u>\$ (59,798)</u>	<u>\$ -</u>	<u>\$ 22,414,074</u>
DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES FUNCTIONS AS FOLLOWS					
General government		\$ 27,300			
Public safety		326,037			
Public works		524,705			
Health, welfare, recreation and education		<u>417,468</u>			
TOTAL GOVERNMENTAL ACTIVITIES DEPRECIATION EXPENSE		<u>\$ 1,295,510</u>			

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS - CONTINUED

	BALANCE JULY 1, 2018	ADDITIONS	DELETIONS	TRANSFERS	BALANCE JUNE 30, 2019
BUSINESS-TYPE ACTIVITIES					
Capital assets not being depreciated					
Land, land rights and improvements ..	\$ 400,096	\$ -	\$ -	\$ -	\$ 400,096
Construction in progress	<u>119,881</u>	<u>596,752</u>	<u>(35,606)</u>	<u>-</u>	<u>681,027</u>
Total capital assets not being depreciated	<u>519,977</u>	<u>596,752</u>	<u>(35,606)</u>	<u>-</u>	<u>1,081,123</u>
Other capital assets					
Buildings	14,529,211	-	-	-	14,529,211
Distribution and collection systems ...	24,841,134	93,572	-	-	24,934,706
General plant	6,636,755	398,982	(102,952)	-	6,932,785
Transmission plant	2,161,810	-	-	-	2,161,810
Distribution plant	12,792,200	1,477,024	(249,924)	-	14,019,300
Bio Mass plant	2,243,189	-	-	-	2,243,189
Equipment	1,672,486	37,895	(10,002)	-	1,700,379
Unamortized acquisition	<u>241,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,642</u>
Total other capital assets at historical cost	<u>65,118,427</u>	<u>2,007,473</u>	<u>(362,878)</u>	<u>-</u>	<u>66,763,022</u>
Less accumulated depreciation/amortization					
Buildings	(8,880,062)	(313,582)	-	-	(9,193,644)
Distribution and collection systems ...	(15,034,974)	(513,310)	-	-	(15,548,284)
General plant	(2,678,439)	(228,390)	89,078	-	(2,817,751)
Transmission plant	(1,288,992)	(84,540)	-	-	(1,373,532)
Distribution plant	(6,790,492)	(441,311)	263,153	-	(6,968,650)
Bio Mass plant	(355,173)	(89,728)	-	-	(444,901)
Equipment	(798,211)	(138,746)	10,002	-	(926,955)
Unamortized acquisition adjustment ..	<u>(140,958)</u>	<u>(24,164)</u>	<u>-</u>	<u>-</u>	<u>(165,122)</u>
Total accumulated depreciation/ amortization	<u>(35,967,301)</u>	<u>(1,833,771)</u>	<u>362,233</u>	<u>-</u>	<u>(37,438,839)</u>
Other capital assets, net	<u>29,151,126</u>	<u>173,702</u>	<u>(645)</u>	<u>-</u>	<u>29,324,183</u>
BUSINESS-TYPE ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$ 29,671,103</u>	<u>\$ 770,454</u>	<u>\$ (36,251)</u>	<u>\$ -</u>	<u>\$ 30,405,306</u>
DEPRECIATION AND AMORTIZATION EXPENSE WAS CHARGED TO BUSINESS-TYPE ACTIVITIES FUNCTIONS AS FOLLOWS					
Water		\$ 230,295			
Sewer		628,789			
Gas		98,717			
Bio Mass		97,565			
Electric		<u>732,448</u>			
TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION AND AMORTIZATION EXPENSE CHARGED TO OPERATIONS		1,787,814			
Charged to transportation clearing		<u>45,957</u>			
TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION AND AMORTIZATION EXPENSE		<u>\$ 1,833,771</u>			

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

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 for the year ended June 30, 2019 was \$24,164.

NOTE 6 - LONG-TERM DEBT

Debt outstanding as of June 30, 2019 consisted of the following:

	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>ISSUED</u>	<u>DEBTS OUTSTANDING</u>
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
General Obligation Refunding Bonds	2.00-3.50%	2029	\$ 215,000	\$ 149,834
Direct borrowings and direct placements				
Pooled Financing Revenue Bonds	1.63%	2023	2,500,000	<u>630,400</u>
				<u>780,234</u>
General Obligation Notes				
Direct borrowings and direct placements				
Note Payable - Lawsuit Settlement	2.00%	2027	1,200,000	<u>1,066,667</u>
Capital Lease Obligations				
Direct borrowings and direct placements				
Capital Lease Obligation - Truck	5.39%	2020	20,334	5,560
Capital Lease Obligation - Sweeper	2.85%	2022	217,030	109,953
Capital Lease Obligation - Police Car . .	6.00%	2020	30,781	10,249
Capital Lease Obligation - Truck	6.00%	2022	23,254	16,928
Capital Lease Obligation - Truck	6.00%	2022	28,579	20,804
Capital Lease Obligation - Police Cars .	6.00%	2020	61,017	20,317
Capital Lease Obligation - SUV	7.20%	2022	46,430	33,585
Capital Lease Obligation - Field Machine	5.00%	2023	17,320	<u>16,045</u>
				<u>233,441</u>
				<u>\$ 2,080,342</u>

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 6 - LONG-TERM DEBT - CONTINUED

	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>ISSUED</u>	<u>DEBTS OUTSTANDING</u>
BUSINESS-TYPE ACTIVITIES				
General Obligation Bonds				
General Obligation Refunding Bonds	2.00-3.75%	2035	\$ 3,180,000	\$ 2,665,000
Direct borrowings and direct placements				
Bio Mass Gasification Bonds	2.61%	2037	2,250,000	1,848,000
Revenue Bonds				
Electric System				
Revenue Bonds	2.50%-4.375%	2024	2,280,000	705,000
Direct borrowings and direct placements				
Water Revenue and Tax Bond	4.125%	2047	1,082,000	922,006
Sewer Revenue and Tax Bond	3.755%	2048	1,489,000	<u>1,287,155</u>
				<u>\$ 7,427,161</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.

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, 2019 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 \$2,209,161 at June 30, 2019 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.

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.

The Pooled Financing Revenue Bonds contain a provision that in the event of default outstanding amounts may be declared immediately due and payable. The Electric System Revenue Bonds contain a provision that in the event of default outstanding amounts may be declared immediately due and payable and accrue interest at highest post maturity interest rate. The Water Revenue and Tax Bond and the Sewer Revenue and Tax Bond contain provisions that in the event of default a receiver can be appointed to charge and collect rates sufficient to operate the system and meet bond payment requirements.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 6 - LONG-TERM DEBT - CONTINUED

A summary of long-term debt activity for the year ended June 30, 2019 is as follows:

	<u>BALANCE AT JULY 1, 2018</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE AT JUNE 30, 2019</u>	<u>DUE WITHIN ONE YEAR</u>
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
General Obligation Refunding Bonds	\$ 164,890	\$ -	\$ (15,056)	\$ 149,834	\$ 15,000
Direct borrowings and direct placements					
Public Works Airport Bonds	8,000	-	(8,000)	-	-
Pooled Financing Revenue Bonds	768,000	-	(137,600)	630,400	145,200
General Obligation Notes					
Direct borrowings and direct placements					
General Obligation Capital					
Outlay Notes	52,000	-	(52,000)	-	-
Note Payable - Lawsuit Settlement	- 1,200,000	-	(133,333)	1,066,667	133,333
Capital Lease Obligations					
Direct borrowings and direct placements					
Capital Lease Obligation - Truck	10,333	-	(4,773)	5,560	5,560
Capital Lease Obligation - Sweeper	144,591	-	(34,638)	109,953	35,626
Capital Lease Obligation - Police Car	19,917	-	(9,668)	10,249	10,249
Capital Lease Obligation - Police Cars	23,353	-	(23,353)	-	-
Capital Lease Obligation - Truck	23,254	-	(6,326)	16,928	5,320
Capital Lease Obligation - Truck	28,579	-	(7,775)	20,804	6,538
Capital Lease Obligation - Police Cars	39,502	-	(19,185)	20,317	20,317
Capital Lease Obligation - SUV	-	46,430	(12,845)	33,585	10,426
Capital Lease Obligation - Field Machine	-	17,320	(1,275)	16,045	4,089
	<u>2,482,419</u>	<u>63,750</u>	<u>(465,827)</u>	<u>2,080,342</u>	<u>391,658</u>
Compensated absences	625,311	-	(31,841)	593,470	59,347
Net pension liability	<u>4,109,148</u>	<u>711,323</u>	<u>-</u>	<u>4,820,471</u>	<u>-</u>
	<u>7,216,878</u>	<u>775,073</u>	<u>(497,668)</u>	<u>7,494,283</u>	<u>451,005</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
General Obligation Refunding Bonds					
	2,765,000	-	(100,000)	2,665,000	145,000
Direct borrowings and direct placements					
Bio Mass Gasification Bonds	1,921,000	-	(73,000)	1,848,000	75,000
Revenue Bonds					
Electric System					
Revenue Bonds	830,000	-	(125,000)	705,000	130,000
Direct borrowings and direct placements					
Water Revenue and Tax Bond	937,874	-	(15,868)	922,006	18,804
Sewer Revenue and Tax Bond	<u>1,309,340</u>	<u>-</u>	<u>(22,185)</u>	<u>1,287,155</u>	<u>25,733</u>
	7,763,214	-	(336,053)	7,427,161	394,537
Compensated absences	263,926	-	(38,585)	225,341	22,534
Net pension liability	<u>1,494,439</u>	<u>-</u>	<u>(400,574)</u>	<u>1,093,865</u>	<u>-</u>
	<u>9,521,579</u>	<u>-</u>	<u>(775,212)</u>	<u>8,746,367</u>	<u>417,071</u>
	<u>\$ 16,738,457</u>	<u>\$ 775,073</u>	<u>\$ (1,272,880)</u>	<u>\$16,244,650</u>	<u>\$ 868,076</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 6 - LONG-TERM DEBT - CONTINUED

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

The City has entered into capital lease agreements under which the related governmental activities capital assets will become the property of the City when all terms of the lease agreements are met. The cost and accumulated amortization of the governmental activities capital assets under the capital leases are \$490,158 and \$116,987, respectively. Amortization of the leased governmental activities capital assets is included with depreciation expense.

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

	<u>GOVERNMENTAL ACTIVITIES</u>				
	<u>BONDS</u>		<u>DIRECT BORROWINGS AND DIRECT PLACEMENTS</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
GENERAL OBLIGATION BONDS, NOTES, AND LEASE OBLIGATIONS					
<u>YEAR ENDING JUNE 30</u>					
2020	\$ 15,000	\$ 4,312	\$ 376,658	\$ 42,156	\$ 438,126
2021	15,000	4,013	351,212	32,399	402,624
2022	15,000	3,675	362,430	24,419	405,524
2023	15,000	3,300	306,873	16,170	341,343
2024	15,000	2,925	133,333	10,667	161,925
2025-2029	<u>74,834</u>	<u>7,613</u>	<u>400,002</u>	<u>16,000</u>	<u>498,449</u>
	<u>\$ 149,834</u>	<u>\$ 25,838</u>	<u>\$ 1,930,508</u>	<u>\$ 141,811</u>	<u>\$ 2,247,991</u>
<u>BUSINESS-TYPE ACTIVITIES</u>					
<u>GENERAL OBLIGATION BONDS</u>					
<u>YEAR ENDING JUNE 30</u>					
2020	\$ 145,000	\$ 84,938	\$ 75,000	\$ 48,233	\$ 353,171
2021	145,000	82,037	78,000	46,275	351,312
2022	150,000	78,775	81,000	44,240	354,015
2023	155,000	75,025	84,000	42,125	356,150
2024	160,000	71,150	87,000	39,933	358,083
2025-2029	785,000	282,850	481,000	164,038	1,712,888
2030-2034	920,000	140,931	570,000	96,831	1,727,762
2035-2037	<u>205,000</u>	<u>7,691</u>	<u>392,000</u>	<u>20,698</u>	<u>625,389</u>
	<u>2,665,000</u>	<u>823,397</u>	<u>1,848,000</u>	<u>502,373</u>	<u>5,838,770</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 6 - LONG-TERM DEBT - CONTINUED

	<u>BUSINESS-TYPE ACTIVITIES</u>				
	<u>BONDS</u>		<u>DIRECT BORROWINGS AND DIRECT PLACEMENTS</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
REVENUE BONDS					
YEAR ENDING JUNE 30					
2020	\$ 130,000	\$ 27,483	\$ 44,537	\$ 85,567	\$ 287,587
2021	135,000	22,034	46,311	83,793	287,138
2022	140,000	16,188	48,155	81,949	286,292
2023	145,000	9,954	50,073	80,031	285,058
2024	155,000	3,391	52,067	78,037	288,495
2025-2029	-	-	293,154	357,366	650,520
2030-2034	-	-	356,413	294,197	650,610
2035-2039	-	-	433,356	217,164	650,520
2040-2044	-	-	526,954	123,566	650,520
2045-2048	-	-	358,141	22,081	380,222
	<u>705,000</u>	<u>79,050</u>	<u>2,209,161</u>	<u>1,423,751</u>	<u>4,416,962</u>
	<u>\$ 3,370,000</u>	<u>\$ 902,447</u>	<u>\$ 4,057,161</u>	<u>\$ 1,926,124</u>	<u>\$10,255,732</u>

The total interest incurred in the business-type activities for the year ended June 30, 2019 was \$260,447, all of which was charged to expense.

NOTE 7 - GOVERNMENTAL FUND BALANCES

Governmental fund balances as of June 30, 2019 consisted of the following:

	<u>GENERAL FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
NONSPENDABLE			
Not in spendable form-inventories	\$ 19,228	\$ 13,703	\$ 32,931
Legally or contractually required to be maintained intact - cemetery perpetual care funds	<u>-</u>	<u>333,578</u>	<u>333,578</u>
	<u>19,228</u>	<u>347,281</u>	<u>366,509</u>
RESTRICTED			
Street expenditures	-	239,456	239,456
Solid waste/sanitation expenditures	-	916,485	916,485
Drug enforcement	-	30,297	30,297
Grants and donations	68,930	17,888	86,818
Debt service	<u>-</u>	<u>1,054</u>	<u>1,054</u>
	<u>68,930</u>	<u>1,205,180</u>	<u>1,274,110</u>
COMMITTED			
Airport expenditures	-	1,931	1,931
Museum expenditures	<u>-</u>	<u>105,636</u>	<u>105,636</u>
	<u>-</u>	<u>107,567</u>	<u>107,567</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 7 - GOVERNMENTAL FUND BALANCES - CONTINUED

	<u>GENERAL FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
ASSIGNED			
Outside fire expenditures	\$ 152,982	\$ -	\$ 152,982
Citizen assistance funds	16,900	-	16,900
Street expenditures	38,000	-	38,000
Debt service	-	19,168	19,168
	<u>207,882</u>	<u>19,168</u>	<u>227,050</u>
UNASSIGNED	<u>1,470,520</u>	<u>-</u>	<u>1,470,520</u>
	<u>\$ 1,766,560</u>	<u>\$ 1,679,196</u>	<u>\$ 3,445,756</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.

The City is the lessor of certain real property including buildings, parking areas, and facilities to a local non-profit organization at the rental rate of \$1 per year. The initial lease term expires February 1, 2036, but the lease shall automatically renew for an additional twenty years, upon all terms, conditions and obligations contained in the initial lease.

The City was the lessor of the Biomass Gasification Plant under a noncancelable operating lease that expired on September 30, 2018. The monthly rental amount was \$10,000. In March 2019, the City executed a lease for the Biomass Gasification Plant under a noncancelable operating lease with a term of thirty years, including renewal options. The lessee has the option to offer to purchase the Biomass Gasification Plant at the end of the initial lease term or any option term of the lease. The rental payments are to be \$12,500 per month. The lease will not commence until all permitting is approved by the State of Tennessee, which is still pending. The cost and carrying amount of the Biomass Gasification Plant was \$2,243,189 and \$1,798,288, respectively, at June 30, 2019.

NOTE 9 - CONTINGENCIES AND COMMITMENTS

As of June 30, 2019, the City had entered into fixed price purchase commitments for the future delivery of natural gas in the amount of approximately \$2,237,000.

The balance of unfulfilled construction contracts at June 30, 2019 was approximately \$344,000.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 9 - CONTINGENCIES AND COMMITMENTS - CONTINUED

The City has entered into two contracts for maintenance on water tanks through November 2021. The remaining balance on the contracts as of June 30, 2019 was approximately \$290,000.

The City is a defendant in a lawsuit that arose in the normal course of business. While substantial damages are alleged in this action, the outcome cannot be predicted with certainty. In the opinion of the City's legal counsel, the action 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 hired before October 1, 2015, 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. Effective October 1, 2015, the Plan was closed to new participants. The Plan does not issue a standard-alone financial report.

Plan membership - At December 31, 2018, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits	71
Terminated participants entitled to but not yet receiving benefits	79
Active participants	<u>95</u>
	<u>245</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. Members are 100% vested (cliff vesting schedule) upon completion of seven years of service. 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

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information About the Plan - Continued

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, 2018, the City’s contribution rate was 32.60% of annual payroll. For the plan year ending December 31, 2019, the City’s recommended contribution rate is 32.00% 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, 2019:

Domestic Equity	45 %
International Equity	25 %
Alternative Investments	11 %
Fixed Income	12 %
Cash	7 %

Rate of return - For the year ended December 31, 2018 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (5.91%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability of the City

The City's net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019.

Actuarial assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2019, 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, 2019:

Inflation	1.90%
Salary increases	3.50% including inflation
Investment rate of return	5.50% net of investment expense, including inflation

Mortality rates were based on the Society of Actuaries' RP2014 Table with MP2017 for males and females, as appropriate. Withdrawal rates were based on the Saranson Crocker Table T5.

Other than mortality, the actuarial assumptions used in the January 1, 2019 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.

Changes in assumptions - In 2019, the following assumptions were changed: increased inflation rate from 1.75% to 1.90%; decreased discount rate from 6.00% to 5.50%; and decreased investment rate of return from 6.00% to 5.50%

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, 2019 (see the discussion of the pension plan's investment policy above) are summarized in the following table.

Domestic Equity	4.40 %
International Equity	5.40 %
Alternative Investments	2.50 %
Fixed Income	1.30 %
Cash	0.00 %

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability of the City - Continued

Discount rate - The discount rate used to measure the total pension liability was 5.50%. The projection of cash flows used to determine the discount rate assumed that City contributions will be equal to 27.5% 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, 2019 valuation, this period was 4.79 years, calculated as follows:

<u>Sum of the expected remaining service period for all actives participants</u>	=	<u>1,174</u>
Number of total pension plan participants (active and inactive)		245

Changes in net pension liability:

	<u>TOTAL PENSION LIABILITY</u>	<u>INCREASE (DECREASE) PLAN FIDUCIARY NET POSITION</u>	<u>NET PENSION LIABILITY</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balances at June 30, 2018	\$ 20,099,393	\$ 14,858,393	\$ 5,241,000
Changes for the year:			
Service Cost	466,870	-	466,870
Interest	1,094,500	-	1,094,500
Contributions - Employer	-	1,416,000	(1,416,000)
Actuarial Liability Loss (Gain) .	67,052	-	67,052
Change in Assumptions	1,390,654	-	1,390,654
Benefit Payments	(851,102)	(851,102)	-
Net Investment Income	-	1,046,594	(1,046,594)
Administrative Expense	-	(100,367)	100,367
Net Changes	<u>2,167,974</u>	<u>1,511,125</u>	<u>656,849</u>
Balances at June 30, 2019	<u>\$ 22,267,367</u>	<u>\$ 16,369,518</u>	<u>\$ 5,897,849</u>

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability of the City - Continued

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 5.50%, 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 (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

	1% Decrease (4.50%)	Current Rate (5.50%)	1% Increase (6.50%)
Net pension liability	\$ 9,300,757	\$ 5,897,849	\$ 3,109,756

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

For the fiscal year ended June 30, 2019, the City's recognized pension expense is \$659,404.

The City's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of June 30, 2019 are:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	\$ 176,984	\$ 351,442
Changes of Assumptions	1,214,467	699,299
Net difference between projected and actual earnings on pension plan assets	-	700,041
	\$ 1,391,451	\$ 1,750,782

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,	
2020	\$ (258,512)
2021	(293,663)
2022	8,831
2023	184,013
2024	-
Thereafter	-

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information about the Pension Plan

Plan description - Employees of the City hired after October 1, 2015 are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

Benefits provided - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 60 and vested or pursuant to the rule of 80 in which the member's age and service credit total 80. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms - At the measurement date of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>38</u>
	<u>42</u>

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information about the Pension Plan - Continued

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2019, the employer contributions for the City were \$115,511 based on a rate of 5.86 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the cost of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

The City's net pension liability (asset) was measured as of June 30, 2018, 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 June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability (Asset) - Continued

combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

	<u>LONG-TERM EXPECTED REAL RATE OF RETURN</u>	<u>TARGET ALLOCATION</u>
U.S. equity	5.69 %	31 %
Developed market international equity	5.29 %	14 %
Emerging market international equity	6.36 %	4 %
Private equity and strategic lending	5.79 %	20 %
U.S. fixed income	2.01 %	20 %
Real estate	4.32 %	10 %
Short-term securities	0.00 %	<u>1 %</u>
		<u>100 %</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive 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.

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability (Asset) - Continued

Changes in the Net Pension Liability (Asset):

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (a)	PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (ASSET) (a) - (b)
Balance at 6/30/17	\$ 16,884	\$ 24,628	\$ (7,744)
Changes for the year:			
Service cost	31,573	-	31,573
Interest	3,513	-	3,513
Differences between expected and actual experience	48,143	-	48,143
Change in assumptions	-	-	-
Contributions - employer	-	57,739	(57,739)
Net investment income	-	4,314	(4,314)
Benefit payments	-	-	-
Administrative expenses	-	(3,056)	3,056
Other changes	-	-	-
Net changes	<u>83,229</u>	<u>58,997</u>	<u>24,232</u>
Balance at 6/30/18	<u>\$ 100,113</u>	<u>\$ 83,625</u>	<u>\$ 16,488</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate - The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% DECREASE (6.25%)	CURRENT DISCOUNT RATE (7.25%)	1% INCREASE (8.25%)
Net pension liability (asset)	<u>\$ 43,634</u>	<u>\$ 16,488</u>	<u>\$ (4,117)</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

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

Pension expense - For the year ended June 30, 2019, the City recognized pension expense of \$39,477.

Deferred outflows of resources and deferred inflows of resource - For the year ended June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Differences between expected and actual experience	\$ 54,507	\$ 451
Net difference between projected and actual earnings on pension plan investments	-	713
Change in assumptions	291	-
Contributions subsequent to the measurement date of June 30, 2018	<u>115,511</u>	<u>-</u>
	<u>\$ 170,309</u>	<u>\$ 1,164</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

Year ended June 30,	
2020	\$ 4,485
2021	4,485
2022	4,477
2023	4,574
2024	4,683
Thereafter	30,930

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information About the Plan

Plan description - The Covington Electric System's Retirement Plan Committee (Committee) 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 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.

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. The amount of normal retirement benefit to be provided for each Participant who retires on the Participant's Normal Retirement Date shall be a monthly income equal to the number of years of continuous service multiplied by 1.6% of the final average monthly compensation. For early retirement, death benefits and benefits upon termination of employment, the accrued retirement income will be determined using the final average monthly compensation and continuous services at the date of termination. A participant is eligible for early retirement when he/she has both completed at least 10 years of service and attained age sixty (60). The normal retirement for early retirement is the accrued retirement income calculated as described above, and reduced by an actuarial reduction factor due to younger age at retirement and earlier commencement of retirement income payments. Upon death of a participant after his/her initial vesting date and prior to his/her normal retirement date, his/her beneficiary will receive the actuarial equivalent of the participant's vested accrued benefit. A participant whose employment is terminated due to total and permanent disability shall be entitled to the retirement income at normal retirement age which the participant would have received had he continued in employment to his normal retirement date assuming constant earnings. The normal form of retirement is life only income.

At March 31, 2019, the Retirement Plan membership consisted of:

Inactive plan members or beneficiaries currently receiving benefits	22
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>17</u>

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**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

General Information About the Plan - Continued

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.

Contributions are based on the employee's annual covered salary. For the year ended June 30, 2019, the contribution rate was 136.31%. The Electric System's required contribution for the year ended June 30, 2019 was \$132,956. Actual contributions for the year were \$1,658,086, or 1,200.47% of required contributions.

Net Pension Liability

The Electric System's net pension liability was measured as of March 31, 2019, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The total pension liability as of the March 31, 2019 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%, including inflation
Investment rate of return	6.5%, net of plan investment expense, including inflation
Retirement age	65
Mortality	PUB G-2010 for General Employees
Withdrawal rates	None

The actuarial assumptions used in the April 1, 2019 actuarial valuation were based on the results of an actuarial experience study performed for the period April 1, 2018 through March 31, 2019. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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 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,

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

Net Pension Liability - Continued

Discount rate - Continued

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 (asset):

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (a)	PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (ASSET) (a) - (b)
Balances at March 31, 2018	\$ 3,783,796	\$ 3,421,209	\$ 362,587
Changes for the year:			
Service cost	99,478	-	99,478
Interest cost	245,008	-	245,008
Difference between expected and actual experience	(183,733)	-	(183,733)
Changes in assumptions	292,016	-	292,016
Employer contributions	-	1,632,956	(1,632,956)
Net investment income	-	270,142	(270,142)
Actual versus expected income	-	(88,559)	88,559
Benefit payments	(128,358)	(128,358)	-
Administrative expense	-	(34,943)	34,943
Net changes	<u>324,411</u>	<u>1,651,238</u>	<u>(1,326,827)</u>
Balances at March 31, 2019	\$ <u>4,108,207</u>	\$ <u>5,072,447</u>	\$ <u>(964,240)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate - The following presents the net pension liability (asset) of the Electric System calculated using the discount rate of 6.5 percent, as well as what the net pension liability (asset) 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 (asset) with a 1% decrease in discount rate: 5.5%	\$ (381,279)
Net pension liability (asset) at current discount rate: 6.5%	(964,240)
Net pension liability (asset) with a 1% increase in discount rate: 7.5%	(1,455,054)

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

For the year ended June 30, 2019, the Electric System recognized pension expense of \$426,375. At June 30, 2019, deferred outflows of resources and deferred inflows of resources in relation to pensions were as follows:

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions - Continued**

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Difference between expected and actual experience	\$ 89,945	\$ 363,797
Net difference between projected and actual earnings in pension investments	61,933	-
Pension contributions subsequent to measurement date	<u>25,130</u>	<u>-</u>
	<u>\$ 177,008</u>	<u>\$ 363,797</u>

The amount shown above for “Pension contributions subsequent to measurement date”, will be recognized as a decrease to net pension liability in the following measurement period.

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

Year ended June 30,	
2020	\$ 25,072
2021	(28,857)
2022	(9,381)
2023	(1,315)
2024	(19,104)
Thereafter	(178,334)

NOTE 11 - DEFERRED COMPENSATION PLANS

The City offers its employees deferred compensation plans created in accordance with the Internal Revenue Code Sections 457 and 401(k), as a participating employer in the Tennessee State Employees Deferred Compensation Plan and Trust. The plans are available to all City employees with the exception of employees of Covington Electric System. The plans permit them to defer a portion of their salary until future years while the City does not match any contributions. 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, 2019**

NOTE 11 - DEFERRED COMPENSATION PLANS - CONTINUED

These assets are required to be placed in trust and the City does not control the assets in the trust, thus eliminating the requirement that assets be reflected in the statement of net position of the City.

The Electric System offers a deferred compensation plan (Covington Electric System Employees' 457 Plan) that is administered by VOYA. The contribution rates for this plan are determined by the employee while the Electric System does not match any contributions. The employee can change contributions rates at any time while on the plan. The amount of pension expense recognized by the Electric System in the current period was \$0. The amount of forfeitures reflected in pension expense were \$0 during the current period, and there will never be forfeitures due to the fact that the employee is 100% vested at the time of contribution. The Electric System did not have a liability at June 30, 2019.

NOTE 12 - POWER CONTRACT

The Electric System 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, 2019, which is taken from its separately issued audited financial statements.

Cash	\$ 1,035,311
Other assets	<u>24,683</u>
 Total assets	 <u>\$ 1,059,994</u>
 Liabilities	 \$ 115,301
Net position	<u>944,693</u>
 Total liabilities and net position .	 <u>\$ 1,059,994</u>

CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019

NOTE 13 - JOINT VENTURE - CONTINUED

Total revenues	\$ 327,647
Total expenses	<u>273,165</u>
Change in net position	<u>\$ 54,482</u>

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

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 Public Entities Partners risk management pool, 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 pool for its certain general liability, workers' compensation and property and casualty insurance. Each political subdivision that has participated in the pool is subject to assessment if the funds it paid as premiums are insufficient to meet the obligations of the pool. The 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 - RISKS AND UNCERTAINTIES - PENSION PLANS

The plans invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and, that such changes could materially affect the amounts reported in the statement of net position available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**CITY OF COVINGTON, TENNESSEE
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTE 16 - 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	\$ 19,943	\$ 19,943	\$ -
HTL Advantage	-	-	50,000

NOTE 17 - SUBSEQUENT EVENTS

In September 2019, a contract was awarded in the amount of approximately \$118,000 for the 2018 CDBG Sewer Rehabilitation project. This project is 100% funded by a federal grant.

In October 2019, the City entered into an equipment lease purchase agreement in the amount of \$2,814,855 for the purchase of automated utility meters. The cost is to be split between the Water Fund, Sewer Fund, and Gas Utility Fund.

In October 2019, a resolution was passed authorizing revenue from the Gas Utility Fund in the amount of \$560,000 be appropriated to HTL Advantage for economic development purposes.

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, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY						
Service Cost	\$ 466,870	\$ 451,271	\$ 489,410	\$ 415,308	\$ 556,576	\$ 555,479
Interest	1,094,500	1,169,500	1,146,100	1,101,200	962,300	857,122
Actuarial liability loss/(gain)	67,052	(320,630)	(139,075)	(240,798)	521,145	581,220
Changes in assumptions	1,390,654	(36,287)	(285,326)	305,165	(2,292,102)	(1,914,894)
Benefit payments, including return of participant contribution	<u>(851,102)</u>	<u>(860,520)</u>	<u>(818,631)</u>	<u>(705,650)</u>	<u>(573,124)</u>	<u>(437,457)</u>
Net change in pension liability	2,167,974	403,334	392,478	875,225	(825,205)	(358,530)
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	<u>20,099,393</u>	<u>19,696,059</u>	<u>19,303,581</u>	<u>18,428,356</u>	<u>19,253,561</u>	<u>19,612,091</u>
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 22,267,367</u>	<u>\$ 20,099,393</u>	<u>\$ 19,696,059</u>	<u>\$ 19,303,581</u>	<u>\$ 18,428,356</u>	<u>\$ 19,253,561</u>
PLAN FIDUCIARY POSITION						
Contributions from employer	1,416,000	\$ 1,416,000	\$ 1,416,000	\$ 1,320,000	1,142,940	\$ 1,046,280
Net investment income (loss)	1,046,594	1,502,671	1,305,195	(16,071)	267,400	360,301
Benefit payments, including return of participant contributions	(851,102)	(860,520)	(818,631)	(705,650)	(573,124)	(434,561)
Administrative expenses	<u>(100,367)</u>	<u>(67,108)</u>	<u>(62,274)</u>	<u>(57,705)</u>	<u>(70,406)</u>	<u>(28,104)</u>
Net change in plan fiduciary position	1,511,125	1,991,043	1,840,290	540,574	766,810	943,916
PLAN FIDUCIARY POSITION, BEGINNING OF YEAR	<u>14,858,393</u>	<u>12,867,350</u>	<u>11,027,060</u>	<u>10,486,486</u>	<u>9,719,676</u>	<u>8,775,760</u>
PLAN FIDUCIARY POSITION, END OF YEAR	<u>\$ 16,369,518</u>	<u>\$ 14,858,393</u>	<u>\$ 12,867,350</u>	<u>\$ 11,027,060</u>	<u>\$ 10,486,486</u>	<u>\$ 9,719,676</u>
NET PENSION LIABILITY	<u>\$ 5,897,849</u>	<u>\$ 5,241,000</u>	<u>\$ 6,828,709</u>	<u>\$ 8,276,521</u>	<u>\$ 7,941,870</u>	<u>\$ 9,533,885</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>73.51%</u>	<u>73.92%</u>	<u>65.33%</u>	<u>57.12%</u>	<u>56.90%</u>	<u>50.48%</u>
COVERED EMPLOYEE PAYROLL	<u>\$ 4,359,745</u>	<u>\$ 4,558,878</u>	<u>\$ 4,798,394</u>	<u>\$ 5,309,249</u>	<u>\$ 5,136,373</u>	<u>\$ 4,830,722</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	<u>135.28%</u>	<u>114.96%</u>	<u>142.31%</u>	<u>155.89%</u>	<u>154.62%</u>	<u>197.36%</u>

**CITY OF COVINGTON, TENNESSEE
CITY OF COVINGTON PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS - CONTINUED
YEAR ENDED JUNE 30, 2019**

NOTES TO SCHEDULE

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.

Benefit changes: None

Methods and assumptions used to determine contribution rates for January 1, 2019 valuation

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	14 years
Asset valuation method	Market value including contributions receivable
Inflation	1.90%
Salary increases	3.50% including inflation
Investment rate of return	5.50% net of investment expense, including inflation
Retirement age	Later of 65 or current age
Mortality	Society of Actuaries, RP2014 Table with MP 2016 for Males or Females, as appropriate
Marriage	85% of Participants are assumed to be married, with males 3 years younger
Rehire rates	None assumed

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

Actuarial cost method	Prior to January 1, 2015, Projected Union Credit
Inflation	1.75% in prior year
Discount rate	See rates in Schedule of City Contributions
Investment rate of return	See rates in Schedule of City Contributions
Mortality	Prior to January 1, 2011, the 1983 Group Annuity Table; from January 1, 2011 to December 31, 2015, the 1994 Group Annuity Reserving Table; January 1, 2016, the Society of Actuaries RP2014 Table with MP2015 for Males and Females, as appropriate.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

**CITY OF COVINGTON, TENNESSEE
CITY OF COVINGTON PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2019**

<u>PLAN YEAR ENDED</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contributions	\$ 1,050,000	\$ 1,117,376	\$ 1,167,346	\$ 1,079,633	\$ 1,173,543	\$ 1,446,948	\$ 1,357,490	\$ 866,614	\$ 615,201	\$ 631,021
Actual contributions	<u>1,416,000</u>	<u>1,416,000</u>	<u>1,368,000</u>	<u>1,231,470</u>	<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>
Contribution excess (deficiency)	<u>\$ 366,000</u>	<u>\$ 298,624</u>	<u>\$ 200,654</u>	<u>\$ 151,837</u>	<u>\$ 8,302</u>	<u>\$ (313,413)</u>	<u>\$ (458,570)</u>	<u>\$ 78,386</u>	<u>\$ 194,799</u>	<u>\$ 58,979</u>
Covered employee payroll	<u>\$ 4,343,615</u>	<u>\$ 4,671,875</u>	<u>\$ 4,798,394</u>	<u>\$ 5,309,249</u>	<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>
Contribution as a percentage of covered employee payroll	<u>32.60%</u>	<u>30.31%</u>	<u>28.51%</u>	<u>23.19%</u>	<u>23.01%</u>	<u>22.76%</u>	<u>18.26%</u>	<u>19.98%</u>	<u>17.73%</u>	<u>14.80%</u>
Discount rate/assumed investment return	5.50%/5.50%	6.00%/6.00%	6.00%/6.50%	5.00%/7.00%	5.00%/7.00%	4.25%/4.25%	4.50%/4.50%	5.50%/6.50%	5.50%/6.50%	6.50%/7.50%

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.

Benefit changes: None

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	14 years
Asset valuation method	Market value including contributions receivable
Inflation	1.90%
Salary increases	3.5%, average, including inflation
Investment rate of return	6.0%, net of investment expense, including inflation
Retirement age	Later of 65 or current age
Mortality	Society of Actuaries, RP2014 Table with MP2015 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	Prior to January 1, 2015, Projected Unit Credit
Inflation	1.75% in prior year
Discount rate	See above
Investment rate of return	See above
Mortality	Prior to January 2, 2011, the 1983 Group Annuity Table; from January 1, 2011 to December 31, 2015, the 1994 Group Annuity Reserving Table; January 1, 2016, the Society of Actuaries RP2014 Table with MP2015 for Males and Females, as appropriate.

**CITY OF COVINGTON, TENNESSEE
CITY OF COVINGTON PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
YEAR ENDED JUNE 30, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return	<u>(5.91%)</u>	<u>18.13%</u>	<u>5.25%</u>	<u>(1.37%)</u>	<u>3.74%</u>	<u>3.83%</u>

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND
RELATED RATIOS BASED ON PARTICIPATION IN THE PUBLIC
EMPLOYEE PENSION PLAN OF TCRS
YEAR ENDED JUNE 30, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>
TOTAL PENSION LIABILITY			
Service cost	\$ 31,573	\$ 2,492	\$ 2,112
Interest	3,513	311	158
Changes in benefit terms	-	-	-
Difference between actual and expected experience	48,143	12,081	(619)
Change in assumptions	-	349	-
Benefit payments, including refunds of employee contributions	-	-	-
Net change in pension liability	<u>83,229</u>	<u>15,233</u>	<u>1,651</u>
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	<u>16,884</u>	<u>1,651</u>	<u>-</u>
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 100,113</u>	<u>\$ 16,884</u>	<u>\$ 1,651</u>
PLAN FIDUCIARY POSITION			
Contributions from employer	\$ 57,739	\$ 23,049	\$ 2,112
Contributions from employees	-	-	-
Net investment income	4,314	1,425	26
Benefit payments, including return of participant contributions	-	-	-
Administrative expenses	<u>(3,056)</u>	<u>(1,648)</u>	<u>(336)</u>
Net change in plan fiduciary position	58,997	22,826	1,802
PLAN FIDUCIARY POSITION BEGINNING OF YEAR	<u>24,628</u>	<u>1,802</u>	<u>-</u>
PLAN FIDUCIARY POSITION END OF YEAR	<u>\$ 83,625</u>	<u>\$ 24,628</u>	<u>\$ 1,802</u>
NET PENSION LIABILITY (ASSET)	<u>\$ 16,488</u>	<u>\$ (7,744)</u>	<u>\$ (151)</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>83.53%</u>	<u>145.87%</u>	<u>109.15%</u>
COVERED EMPLOYEE PAYROLL	<u>\$ 1,147,892</u>	<u>\$ 390,656</u>	<u>\$ 35,804</u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	<u>1.44%</u>	<u>(1.98%)</u>	<u>(0.42%)</u>

NOTES TO SCHEDULE

Changes in assumptions - In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment and salary growth.

2016 was the initial year of participation in TCRS.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
LAST FISCAL YEAR ENDING JUNE 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contributions	\$ 115,511	\$ 57,739	\$ 23,047	\$ 2,112
Actual contributions	<u>115,511</u>	<u>57,739</u>	<u>23,047</u>	<u>2,112</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$1,971,177</u>	<u>\$1,147,892</u>	<u>\$ 390,627</u>	<u>\$ 35,804</u>
Contribution as a percentage of covered employee payroll	<u>5.86%</u>	<u>5.03%</u>	<u>5.90%</u>	<u>5.90%</u>

2016 was the initial year of participation in TCRS.

NOTES TO SCHEDULE

Valuation date

Actuarially determined contribution rates for fiscal year 2019 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.5%
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.25%

Changes of assumptions - In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; and decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent.

**CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM'S DEFINED BENEFIT PLAN
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY (ASSET) AND RELATED RATIOS
YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TOTAL PENSION LIABILITY					
Service cost	\$ 99,478	\$ 103,352	\$ 91,976	\$ 95,438	\$ 92,286
Interest	245,008	237,814	217,905	207,893	201,831
Changes of benefit terms	-	-	-	-	-
Difference between actual and expected experience	(183,733)	(104,479)	109,220	(36,904)	(102,458)
Changes in assumptions	292,016	-	-	-	-
Benefit payments, including refunds of employee contributions	(128,358)	(119,767)	(117,249)	(104,077)	(95,873)
Net change in pension liability	324,411	116,920	301,852	162,350	95,786
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	<u>3,783,796</u>	<u>3,666,876</u>	<u>3,365,024</u>	<u>3,202,674</u>	<u>3,106,888</u>
TOTAL PENSION LIABILITY, END OF YEAR	<u>\$ 4,108,207</u>	<u>\$ 3,783,796</u>	<u>\$ 3,666,876</u>	<u>\$3,365,024</u>	<u>\$3,202,674</u>
PLAN FIDUCIARY POSITION					
Contributions from employer	\$ 1,632,956	\$ 146,866	\$ 135,141	\$ 120,292	\$ 127,307
Contributions from employees	-	-	-	-	-
Net investment income (loss)	270,142	246,691	285,550	(75,956)	164,946
Actual vs expected income	(88,559)	-	-	-	-
Benefit payments, including refunds of employee contributions	(128,358)	(119,767)	(117,249)	(104,077)	(95,873)
Administrative expenses	(34,943)	(27,583)	(28,884)	(23,130)	(28,073)
Net change in plan fiduciary position	1,651,238	246,207	274,558	(82,871)	168,307
PLAN FIDUCIARY POSITION, BEGINNING OF YEAR	<u>3,421,209</u>	<u>3,175,002</u>	<u>2,900,444</u>	<u>2,983,315</u>	<u>2,815,008</u>
PLAN FIDUCIARY POSITION, END OF YEAR	<u>\$ 5,072,447</u>	<u>\$ 3,421,209</u>	<u>\$ 3,175,002</u>	<u>\$2,900,444</u>	<u>\$2,983,315</u>
NET PENSION LIABILITY (ASSET)	<u>\$ (964,240)</u>	<u>\$ 362,587</u>	<u>\$ 491,874</u>	<u>\$ 464,580</u>	<u>\$ 219,359</u>

**CITY OF COVINGTON, TENNESSEE
 COVINGTON ELECTRIC SYSTEM'S DEFINED BENEFIT PLAN
 SCHEDULE OF CHANGES IN NET PENSION
 LIABILITY (ASSET) AND RELATED RATIOS - CONTINUED
 YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>123.47%</u>	<u>90.42%</u>	<u>86.59%</u>	<u>86.19%</u>	<u>93.15%</u>
COVERED EMPLOYEE PAYROLL	<u>\$1,216,369</u>	<u>\$ 1,255,270</u>	<u>\$ 1,105,403</u>	<u>\$ 1,150,884</u>	<u>\$ 1,198,494</u>
NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	<u>(79.27%)</u>	<u>28.89%</u>	<u>44.50%</u>	<u>40.37%</u>	<u>18.30%</u>

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

**CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM'S DEFINED BENEFIT PLAN
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 132,956	\$ 146,866	\$ 135,141	\$ 120,292	\$ 127,307
Actual contributions	<u>1,658,086</u>	<u>146,866</u>	<u>135,141</u>	<u>120,292</u>	<u>127,307</u>
Contribution excess (deficiency)	<u>\$1,525,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$1,216,369</u>	<u>\$ 1,255,270</u>	<u>\$ 1,105,403</u>	<u>\$ 1,150,884</u>	<u>\$ 1,198,494</u>
Contribution as a percentage of covered employee payroll	<u>136.31%</u>	<u>11.70%</u>	<u>12.23%</u>	<u>10.45%</u>	<u>10.62%</u>

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

NOTES TO SCHEDULE

Valuation date

Actuarially determined contribution rates are calculated as of April 1st, three 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	Market value
Inflation	2.50%
Withdrawal rates	None
Salary increases	3.0%, including inflation
Investment rate of return	6.50%, average, net of plan investment expenses, including inflation
Retirement age	Age 65
Mortality	PUB G-2010 for general employees

**CITY OF COVINGTON, TENNESSEE
 COVINGTON ELECTRIC SYSTEM'S DEFINED BENEFIT PLAN
 SCHEDULE OF INVESTMENT RETURNS
 YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return	<u>4.28%</u>	<u>6.70%</u>	<u>8.70%</u>	<u>(3.30)%</u>	<u>4.80%</u>

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF COVINGTON, TENNESSEE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	SPECIAL REVENUE FUNDS					
	STATE STREET AID FUND	AIRPORT FUND	COMMUNITY DEVELOPMENT FUND	SOLID WASTE/ SANITATION FUND	TIPTON COUNTY MUSEUM FUND	DRUG FUND
ASSETS						
Cash	\$ 199,517	\$ 58,886	\$ 353,705	\$ 827,713	\$ 109,156	\$ 30,297
Accounts receivable ...	-	50	-	186,614	-	-
Grants receivable	-	274,479	-	-	-	-
Due from other funds ..	-	-	-	1,730	-	-
Due from						
State of Tennessee	53,233	-	-	-	-	-
Other receivables	-	32,939	8,501	-	-	-
Fuel inventory	-	13,703	-	-	-	-
TOTAL ASSETS	<u>\$ 252,750</u>	<u>\$ 380,057</u>	<u>\$ 362,206</u>	<u>\$ 1,016,057</u>	<u>\$ 109,156</u>	<u>\$ 30,297</u>
LIABILITIES						
Accounts payable	\$ 13,294	\$ 18,697	\$ 14,679	\$ 83,372	\$ 1,583	\$ -
Contracts payable	-	270,835	-	-	-	-
Accrued expenses	-	1,396	-	6,517	1,937	-
Due to other funds	-	482	-	2,371	-	-
Advances from						
other funds	-	-	-	7,312	-	-
Unearned revenue -						
grant revenue	-	-	347,527	-	-	-
Unearned revenue -						
rent income	-	55,125	-	-	-	-
TOTAL						
LIABILITIES	<u>13,294</u>	<u>346,535</u>	<u>362,206</u>	<u>99,572</u>	<u>3,520</u>	<u>-</u>
FUND BALANCE						
Nonspendable	-	13,703	-	-	-	-
Restricted	239,456	17,888	-	916,485	-	30,297
Committed	-	1,931	-	-	105,636	-
Assigned	-	-	-	-	-	-
TOTAL FUND						
BALANCE	<u>239,456</u>	<u>33,522</u>	<u>-</u>	<u>916,485</u>	<u>105,636</u>	<u>30,297</u>
TOTAL						
LIABILITIES						
AND FUND						
BALANCE	<u>\$ 252,750</u>	<u>\$ 380,057</u>	<u>\$ 362,206</u>	<u>\$ 1,016,057</u>	<u>\$ 109,156</u>	<u>\$ 30,297</u>

**CITY OF COVINGTON, TENNESSEE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2019**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS			TOTALS
	TOTALS	AIRPORT IMPROVEMENTS CONSTRUCTION BOND FUND	PBACCT BOND FUND	GENERAL OBLIGATION REFUNDING BOND FUND	
ASSETS					
Cash	\$ 1,579,274	\$ 1,054	\$ 14,297	\$ 4,871	\$ 20,222
Accounts receivable	186,664	-	-	-	-
Grants receivable	274,479	-	-	-	-
Due from other funds	1,730	-	-	-	-
Due from State of Tennessee .	53,233	-	-	-	-
Other receivables	41,440	-	-	-	-
Fuel inventory	<u>13,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,150,523</u>	<u>\$ 1,054</u>	<u>\$ 14,297</u>	<u>\$ 4,871</u>	<u>\$ 20,222</u>
LIABILITIES					
Accounts payable	\$ 131,625	\$ -	\$ -	\$ -	\$ -
Contracts payable	270,835	-	-	-	-
Accrued expenses	9,850	-	-	-	-
Due to other funds	2,853	-	-	-	-
Advances from other funds . .	7,312	-	-	-	-
Unearned revenue - grant revenue	347,527	-	-	-	-
Unearned revenue - rent revenue	<u>55,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES ..	<u>825,127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE					
Nonspendable	13,703	-	-	-	-
Restricted	1,204,126	1,054	-	-	1,054
Committed	107,567	-	-	-	-
Assigned	<u>-</u>	<u>-</u>	<u>14,297</u>	<u>4,871</u>	<u>19,168</u>
TOTAL FUND BALANCE	<u>1,325,396</u>	<u>1,054</u>	<u>14,297</u>	<u>4,871</u>	<u>20,222</u>
TOTAL LIABILITIES AND FUND BALANCE .	<u>\$ 2,150,523</u>	<u>\$ 1,054</u>	<u>\$ 14,297</u>	<u>\$ 4,871</u>	<u>\$ 20,222</u>

**CITY OF COVINGTON, TENNESSEE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2019**

	<u>PERMANENT FUND MUNFORD CEMETERY FUND</u>	<u>TOTAL NONMAJOR GOVERN- MENTAL FUNDS</u>
ASSETS		
Cash	\$ 347,593	\$ 1,947,089
Accounts receivable	-	186,664
Grants receivable	-	274,479
Due from other funds	-	1,730
Due from State of Tennessee	-	53,233
Other receivables	-	41,440
Fuel inventory	-	13,703
TOTAL ASSETS	<u>\$ 347,593</u>	<u>\$ 2,518,338</u>
LIABILITIES		
Accounts payable	\$ -	\$ 131,625
Contracts payable	-	270,835
Accrued expenses	4,900	14,750
Due to other funds	9,115	11,968
Advances from other funds	-	7,312
Unearned revenue - grant revenue	-	347,527
Unearned revenue rent revenue	-	55,125
TOTAL LIABILITIES	<u>14,015</u>	<u>839,142</u>
FUND BALANCE		
Nonspendable	333,578	347,281
Restricted	-	1,205,180
Committed	-	107,567
Assigned	-	19,168
TOTAL FUND BALANCE	<u>333,578</u>	<u>1,679,196</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 347,593</u>	<u>\$ 2,518,338</u>

CITY OF COVINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	SPECIAL REVENUE FUNDS					
	STATE STREET AID FUND	AIRPORT FUND	COMMUNITY DEVELOP- MENT FUND	SOLID WASTE SANITATION FUND	TIPTON COUNTY MUSEUM FUND	DRUG FUND
REVENUES						
Intergovernmental revenues	\$ 315,771	\$ 341,806	\$ 51,656	\$ -	\$ 71,500	\$ -
Charges for services	-	364,450	-	1,509,819	13,368	-
Fines, forfeits, and penalties	-	-	-	-	-	12,014
Other revenues	6,783	907	-	32,110	14,188	584
TOTAL REVENUES ...	<u>322,554</u>	<u>707,163</u>	<u>51,656</u>	<u>1,541,929</u>	<u>99,056</u>	<u>12,598</u>
EXPENDITURES						
Public safety	-	-	-	-	-	1,171
Public works	214,509	-	-	1,503,849	-	-
Health, welfare, recreation and education ...	-	750,528	51,656	-	156,805	-
Debt service	-	-	-	5,799	-	21,516
TOTAL EXPENDITURES	<u>214,509</u>	<u>750,528</u>	<u>51,656</u>	<u>1,509,648</u>	<u>156,805</u>	<u>22,687</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>108,045</u>	<u>(43,365)</u>	<u>-</u>	<u>32,281</u>	<u>(57,749)</u>	<u>(10,089)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	50,000	-	-	68,000	-
Proceeds from capital asset sales and insurance	-	-	-	27,990	-	-
Proceeds from capital lease ..	-	-	-	-	-	-
Transfers out	-	(7,762)	-	(8,126)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>42,238</u>	<u>-</u>	<u>19,864</u>	<u>68,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>108,045</u>	<u>(1,127)</u>	<u>-</u>	<u>52,145</u>	<u>10,251</u>	<u>(10,089)</u>
FUND BALANCE						
Balance at July 1, 2018	<u>131,411</u>	<u>34,649</u>	<u>-</u>	<u>864,340</u>	<u>95,385</u>	<u>40,386</u>
Balance at June 30, 2019 ...	<u>\$ 239,456</u>	<u>\$ 33,522</u>	<u>\$ -</u>	<u>\$ 916,485</u>	<u>\$ 105,636</u>	<u>\$ 30,297</u>

CITY OF COVINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2019

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS			TOTALS
	TOTALS	AIRPORT IMPROVEMENTS CONSTRUCTION BOND FUND	PBACCT BOND FUND	GENERAL OBLIGATION REFUNDING BOND FUND	
REVENUES					
Intergovernmental					
revenues	\$ 780,733	\$ -	\$ -	\$ -	\$ -
Charges for services	1,887,637	-	-	-	-
Fines, forfeits, and					
penalties	12,014	-	-	-	-
Other revenues	<u>54,572</u>	<u>21</u>	<u>1,343</u>	<u>94</u>	<u>1,458</u>
TOTAL REVENUES ..	<u>2,734,956</u>	<u>21</u>	<u>1,343</u>	<u>94</u>	<u>1,458</u>
EXPENDITURES					
Public safety	1,171	-	-	-	-
Public works	1,718,358	-	-	-	-
Health, welfare,-					
recreation and education ..	958,989	-	-	-	-
Debt service	<u>27,315</u>	<u>7,762</u>	<u>211,755</u>	<u>-</u>	<u>219,517</u>
TOTAL					
EXPENDITURES	<u>2,705,833</u>	<u>7,762</u>	<u>211,755</u>	<u>-</u>	<u>219,517</u>
EXCESS OF REVENUES					
OVER (UNDER)					
EXPENDITURES	<u>29,123</u>	<u>(7,741)</u>	<u>(210,412)</u>	<u>94</u>	<u>(218,059)</u>
OTHER FINANCING					
SOURCES (USES)					
Transfers in	118,000	7,762	212,388	-	220,150
Proceeds from capital asset					
sales and insurance	27,990	-	-	-	-
Proceeds from capital lease					
.....	-	-	-	-	-
Transfers out	<u>(15,888)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER					
FINANCING					
SOURCES (USES) ...	<u>130,102</u>	<u>7,762</u>	<u>212,388</u>	<u>-</u>	<u>220,150</u>
NET CHANGE IN					
FUND BALANCE					
.....	159,225	21	1,976	94	2,091
FUND BALANCE					
Balance at July 1, 2018 ...	<u>1,166,171</u>	<u>1,033</u>	<u>12,321</u>	<u>4,777</u>	<u>18,131</u>
Balance at June 30, 2019 ..	<u>\$ 1,325,396</u>	<u>\$ 1,054</u>	<u>\$ 14,297</u>	<u>\$ 4,871</u>	<u>\$ 20,222</u>

CITY OF COVINGTON, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
YEAR ENDED JUNE 30, 2019

	<u>PERMANENT FUND MUNFORD CEMETERY FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES		
Intergovernmental revenues	\$ -	\$ 780,733
Charges for services	8,140	1,895,777
Fines, forfeits, and penalties	-	12,014
Other revenues	<u>11,515</u>	<u>67,545</u>
TOTAL REVENUES ..	<u>19,655</u>	<u>2,756,069</u>
EXPENDITURES		
Public safety	-	1,171
Public works	-	1,718,358
Health, welfare, recreation and education ..	-	958,989
Debt service	<u>-</u>	<u>246,832</u>
TOTAL EXPENDITURES	<u>-</u>	<u>2,925,350</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>19,655</u>	<u>(169,281)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	338,150
Proceeds from capital asset sales and insurance	-	27,990
Proceeds from capital lease	-	-
Transfers out	<u>(9,115)</u>	<u>(25,003)</u>
TOTAL OTHER FINANCING SOURCES (USES) ...	<u>(9,115)</u>	<u>341,137</u>
NET CHANGE IN FUND BALANCE	10,540	171,856
FUND BALANCE		
Balance at July 1, 2018 ...	<u>323,038</u>	<u>1,507,340</u>
Balance at June 30, 2019 ..	<u>\$ 333,578</u>	<u>\$ 1,679,196</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues				
State gasoline and motor fuel tax .	\$ -	\$ -	\$ 171,975	\$ -
State gas 3 cent tax	-	-	50,800	-
State gas 1989 tax	-	-	27,416	-
State gas 2017 tax	-	-	<u>65,580</u>	<u>-</u>
	<u>285,400</u>	<u>285,400</u>	<u>315,771</u>	<u>30,371</u>
Other revenues	<u>-</u>	<u>-</u>	<u>6,783</u>	<u>6,783</u>
TOTAL REVENUES	<u>285,400</u>	<u>285,400</u>	<u>322,554</u>	<u>37,154</u>
EXPENDITURES				
Public works				
Building materials	-	-	41,531	-
Street lighting	-	-	147,428	-
Capital outlay	<u>-</u>	<u>-</u>	<u>25,550</u>	<u>-</u>
TOTAL EXPENDITURES ...	<u>285,400</u>	<u>285,400</u>	<u>214,509</u>	<u>70,891</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	108,045	108,045
FUND BALANCE				
Balance at July 1, 2018	<u>131,411</u>	<u>131,411</u>	<u>131,411</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 131,411</u>	<u>\$ 131,411</u>	<u>\$ 239,456</u>	<u>\$ 108,045</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - AIRPORT FUND
YEAR ENDED JUNE 30, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues				
Federal grants	\$ -	\$ -	\$ 273,516	\$ -
State grants	-	-	68,290	-
	<u>620,439</u>	<u>620,439</u>	<u>341,806</u>	<u>(278,633)</u>
Charges for services	358,600	358,600	364,450	5,850
Other revenues	-	-	907	907
TOTAL REVENUES	<u>979,039</u>	<u>979,039</u>	<u>707,163</u>	<u>(271,876)</u>
EXPENDITURES				
Health, welfare, recreation, and education				
Personal services	-	-	177,500	-
Contractual services	-	-	65,120	-
Supplies	-	-	147,521	-
Fixed charges	-	-	7,439	-
Capital outlay	-	-	352,948	-
TOTAL EXPENDITURES	<u>1,019,239</u>	<u>1,019,239</u>	<u>750,528</u>	<u>268,711</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(40,200)</u>	<u>(40,200)</u>	<u>(43,365)</u>	<u>(3,165)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
Transfers out	(8,400)	(8,400)	(7,762)	638
TOTAL OTHER FINANCING SOURCES (USES)	<u>41,600</u>	<u>41,600</u>	<u>42,238</u>	<u>638</u>
NET CHANGE IN FUND BALANCE	1,400	1,400	(1,127)	(2,527)
FUND BALANCE				
Balance at July 1, 2018	<u>34,649</u>	<u>34,649</u>	<u>34,649</u>	-
Balance at June 30, 2019	<u>\$ 36,049</u>	<u>\$ 36,049</u>	<u>\$ 33,522</u>	<u>\$ (2,527)</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - COMMUNITY DEVELOPMENT FUND
YEAR ENDED JUNE 30, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues				
Federal grants	\$ 75,900	\$ 75,900	\$ 51,656	\$ (24,244)
TOTAL REVENUES	<u>75,900</u>	<u>75,900</u>	<u>51,656</u>	<u>(24,244)</u>
EXPENDITURES				
Health, welfare, recreation, and education				
Contractual services	-	-	18,061	-
Capital outlay	<u>-</u>	<u>-</u>	<u>33,595</u>	<u>-</u>
TOTAL EXPENDITURES ..	<u>75,900</u>	<u>75,900</u>	<u>51,656</u>	<u>24,244</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
FUND BALANCE				
Balance at July 1, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Charges for services	\$ 1,555,000	\$ 1,555,000	\$ 1,509,819	\$ (45,181)
Other revenues	<u>21,000</u>	<u>21,000</u>	<u>32,110</u>	<u>11,110</u>
TOTAL REVENUES	<u>1,576,000</u>	<u>1,576,000</u>	<u>1,541,929</u>	<u>(34,071)</u>
EXPENDITURES				
Public works				
Personal services	-	-	323,034	-
Contractual services	-	-	955,975	-
Supplies	-	-	23,249	-
Building materials	-	-	11,042	-
Fixed charges	-	-	5,535	-
Capital outlay	-	-	<u>185,014</u>	-
Total public works	<u>1,652,700</u>	<u>1,652,700</u>	<u>1,503,849</u>	<u>148,851</u>
Debt Service				
Principal retirement	-	-	4,773	-
Interest and fees	-	-	<u>1,026</u>	-
Total debt service	<u>540</u>	<u>540</u>	<u>5,799</u>	<u>(5,259)</u>
TOTAL EXPENDITURES	<u>1,653,240</u>	<u>1,653,240</u>	<u>1,509,648</u>	<u>143,592</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(77,240)</u>	<u>(77,240)</u>	<u>32,281</u>	<u>109,521</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(8,128)	(8,128)	(8,126)	2
Proceeds from capital asset sales and insurance	-	-	<u>27,990</u>	<u>27,990</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,128)</u>	<u>(8,128)</u>	<u>19,864</u>	<u>27,992</u>
NET CHANGE IN FUND BALANCE	(85,368)	(85,368)	52,145	137,513
FUND BALANCE				
Balance at July 1, 2018	<u>864,340</u>	<u>864,340</u>	<u>864,340</u>	-
Balance at June 30, 2019	<u>\$ 778,972</u>	<u>\$ 778,972</u>	<u>\$ 916,485</u>	<u>\$ 137,513</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Intergovernmental revenues				
Tipton County grant	\$ 68,000	\$ 68,000	\$ 71,500	\$ 3,500
Charges for services	11,800	11,800	13,368	1,568
Other revenues	<u>3,500</u>	<u>3,500</u>	<u>14,188</u>	<u>10,688</u>
TOTAL REVENUES	<u>83,300</u>	<u>83,300</u>	<u>99,056</u>	<u>15,756</u>
EXPENDITURES				
Health, welfare, recreation and education				
Museum/Nature Center				
Personal services	-	-	109,262	-
Contractual services	-	-	27,202	-
Supplies	-	-	12,490	-
Fixed charges	-	-	4,382	-
Capital outlay	<u>-</u>	<u>-</u>	<u>3,469</u>	<u>-</u>
TOTAL EXPENDITURES	<u>148,150</u>	<u>148,150</u>	<u>156,805</u>	<u>(8,655)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(64,850)	(64,850)	(57,749)	7,101
OTHER FINANCING SOURCES				
Transfers in	<u>68,000</u>	<u>68,000</u>	<u>68,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	3,150	3,150	10,251	7,101
FUND BALANCE				
Balance at July 1, 2018	<u>95,385</u>	<u>95,385</u>	<u>95,385</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 98,535</u>	<u>\$ 98,535</u>	<u>\$ 105,636</u>	<u>\$ 7,101</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - DRUG FUND
YEAR ENDED JUNE 30, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Fines, forfeits, and penalties	\$ 24,000	\$ 24,000	\$ 12,014	\$ (11,986)
Other revenues	<u>300</u>	<u>300</u>	<u>584</u>	<u>284</u>
TOTAL REVENUES	<u>24,300</u>	<u>24,300</u>	<u>12,598</u>	<u>(11,702)</u>
EXPENDITURES				
Public safety				
Drug investigation and control				
Supplies	<u>-</u>	<u>-</u>	<u>1,171</u>	<u>-</u>
	<u>23,600</u>	<u>23,600</u>	<u>1,171</u>	<u>22,429</u>
Debt service				
Principal	-	-	19,185	-
Interest	<u>-</u>	<u>-</u>	<u>2,331</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>21,516</u>	<u>(21,516)</u>
TOTAL EXPENDITURES	<u>23,600</u>	<u>23,600</u>	<u>22,687</u>	<u>913</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	700	700	(10,089)	(10,789)
FUND BALANCE				
Balance at July 1, 2018	<u>40,386</u>	<u>40,386</u>	<u>40,386</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 41,086</u>	<u>\$ 41,086</u>	<u>\$ 30,297</u>	<u>\$ (10,789)</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Other revenues	\$ -	\$ -	\$ 21	\$ 21
EXPENDITURES				
Principal retirement	-	-	7,696	-
Interest and fees	-	-	66	-
TOTAL EXPENDITURES	<u>8,400</u>	<u>8,400</u>	<u>7,762</u>	<u>638</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,400)	(8,400)	(7,741)	659
OTHER FINANCING SOURCES				
Transfers in	<u>8,400</u>	<u>8,400</u>	<u>7,762</u>	<u>(638)</u>
NET CHANGE IN FUND BALANCE	-	-	21	21
FUND BALANCE				
Balance at July 1, 2018	<u>1,033</u>	<u>1,033</u>	<u>1,033</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 1,033</u>	<u>\$ 1,033</u>	<u>\$ 1,054</u>	<u>\$ 21</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - PBACCT BOND FUND
YEAR ENDED JUNE 30, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ -	\$ -	\$ 1,343	\$ 1,343
EXPENDITURES				
Principal retirement	-	-	189,600	-
Interest and fees	-	-	22,155	-
TOTAL EXPENDITURES	<u>218,784</u>	<u>218,784</u>	<u>211,755</u>	<u>7,029</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(218,784)	(218,784)	(210,412)	8,372
OTHER FINANCING SOURCES				
Transfers in	<u>218,784</u>	<u>218,784</u>	<u>212,388</u>	<u>(6,396)</u>
NET CHANGE IN FUND BALANCE	-	-	1,976	1,976
FUND BALANCE				
Balance at July 1, 2018	<u>12,321</u>	<u>12,321</u>	<u>12,321</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 12,321</u>	<u>\$ 12,321</u>	<u>\$ 14,297</u>	<u>\$ 1,976</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, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Other revenues	\$ -	\$ -	\$ 94	\$ 94
EXPENDITURES				
Interest and fees	1,100	1,100	-	1,100
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,100)</u>	<u>(1,100)</u>	<u>94</u>	<u>1,194</u>
OTHER FINANCING SOURCES				
Transfers in	1,100	1,100	-	(1,100)
NET CHANGE IN FUND BALANCE	-	-	94	94
FUND BALANCE				
Balance at July 1, 2018	4,777	4,777	4,777	-
Balance at June 30, 2019	<u>\$ 4,777</u>	<u>\$ 4,777</u>	<u>\$ 4,871</u>	<u>\$ 94</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - ACTUAL AND BUDGET - MUNFORD CEMETERY FUND
YEAR ENDED JUNE 30, 2019

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Charges for services	\$ 3,000	\$ 3,000	\$ 8,140	\$ 5,140
Other revenues	<u>1,600</u>	<u>1,600</u>	<u>11,515</u>	<u>9,915</u>
TOTAL REVENUES	<u>4,600</u>	<u>4,600</u>	<u>19,655</u>	<u>15,055</u>
EXPENDITURES				
Health, welfare, recreation, and education Cemetery maintenance Contractual services	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,600	1,600	19,655	18,055
OTHER FINANCING (USES)				
Transfers out	<u>(1,000)</u>	<u>(1,000)</u>	<u>(9,115)</u>	<u>(8,115)</u>
NET CHANGE IN FUND BALANCE				
	600	600	10,540	9,940
FUND BALANCE				
Balance at July 1, 2018	<u>323,038</u>	<u>323,038</u>	<u>323,038</u>	<u>-</u>
Balance at June 30, 2019	<u>\$ 323,638</u>	<u>\$ 323,638</u>	<u>\$ 333,578</u>	<u>\$ 9,940</u>

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	RECEIVABLE/ (UNEARNED) BALANCE AT JULY 1, 2018	RECEIPTS	DISBURSE- MENTS	RECEIVABLE (UNEARNED) BALANCE AT JUNE 30, 2019
CASH FEDERAL AWARDS						
Department of Housing and Urban Development						
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	N/A	\$ (391,749)	\$ (7,435)	\$ 51,657	\$ (347,527)
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	12778	-	(194,220)	194,220	-
Total Department of Housing and Urban Development			<u>(391,749)</u>	<u>(201,655)</u>	<u>245,877</u>	<u>(347,527)</u>
Department of Transportation						
Passed through State of Tennessee Department of Transportation						
Highway Planning and Construction Cluster	20.205	84LPLM-F1-051	40,933	(61,692)	20,759	-
Highway Planning and Construction Cluster	20.205	84LPLM-F3-047	2,730	(243,449)	330,567	89,848
Highway Planning and Construction Cluster	20.205	84LPLM-F3-037	1,224	(1,224)	-	-
			<u>44,887</u>	<u>(306,365)</u>	<u>351,326</u>	<u>89,848</u>
Airport Improvement Program	20.106	AERO-18-210-00	46,185	(62,621)	270,566	254,130
Airport Improvement Program	20.106	AERO-19-272-00	-	-	2,951	2,951
			<u>46,185</u>	<u>(62,621)</u>	<u>273,517</u>	<u>257,081</u>
Total Department of Transportation			<u>91,072</u>	<u>(368,986)</u>	<u>624,843</u>	<u>346,929</u>
TOTAL CASH FEDERAL AWARDS			<u>\$ (300,677)</u>	<u>\$ (570,641)</u>	<u>\$ 870,720</u>	<u>\$ (598)</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Covington, Tennessee under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Covington, Tennessee, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Covington, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

City of Covington, Tennessee has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF COVINGTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2019

<u>PROGRAM TITLE</u>	<u>GRANTOR'S NUMBER</u>	<u>RECEIVABLE (UNEARNED)/ BALANCE AT JULY 1, 2018</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>RECEIVABLE (UNEARNED)/ BALANCE AT JUNE 30, 2019</u>
<u>CASH STATE AWARDS</u>					
Department of Economic & Community Development					
Water improvements	33007-74218	\$ -	\$ (189,074)	\$ 208,601	\$ 19,527
Department of Transportation					
Maintenance Grant (FY 18)	AERM-18-111-00	10,004	(10,004)	-	-
Maintenance Grant (FY 19)	AERM-19-111-00	-	(9,352)	11,476	2,124
Airport Improvements	AERO-18-210-00	2,431	(3,296)	14,240	13,375
Airfield maintenance equipment	AERO-19-204-00	-	(30,669)	32,413	1,744
Airport Improvements	AERO-19-272-00	-	-	155	155
Industrial access road	84696M-SO-018, 84LPM-S1-019, 84LPM-S3-020	<u>37,675</u>	<u>(37,675)</u>	<u>-</u>	<u>-</u>
Total Department of Transportation		<u>50,110</u>	<u>(90,996)</u>	<u>58,284</u>	<u>17,398</u>
TOTAL CASH STATE AWARDS		<u>\$ 50,110</u>	<u>\$ (280,070)</u>	<u>\$ 266,885</u>	<u>\$ 36,925</u>

Note: Significant Accounting Policies

All of the state awards are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned. Expenditures are recognized when the related liability is incurred or economic asset is used.

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR
JUNE 30, 2019

ENDING	WATER REVENUE AND TAX BOND SERIES 2008		SEWER REVENUE AND TAX BONDS - SERIES 2008		BIO MASS GASIFICATION BONDS	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2020	\$ 18,804	\$ 37,680	\$ 25,733	\$ 47,887	\$ 75,000	\$ 48,233
2021	19,595	36,889	26,716	46,904	78,000	46,275
2022	20,418	36,066	27,737	45,883	81,000	44,240
2023	21,277	35,207	28,796	44,824	84,000	42,125
2024	22,171	34,313	29,896	43,724	87,000	39,933
2025	23,103	33,381	31,038	42,582	90,000	37,662
2026	24,074	32,410	32,224	41,396	93,000	35,313
2027	25,087	31,397	33,455	40,165	96,000	32,886
2028	26,141	30,343	34,733	38,887	99,000	30,380
2029	27,240	29,244	36,059	37,561	103,000	27,797
2030	28,385	28,099	37,437	36,183	106,000	25,108
2031	29,579	26,905	38,867	34,753	110,000	22,342
2032	30,822	25,662	40,351	33,269	114,000	19,471
2033	32,118	24,366	41,893	31,727	118,000	16,495
2034	33,468	23,016	43,493	30,217	122,000	13,415
2035	34,875	21,609	45,154	28,466	126,000	10,231
2036	36,341	20,143	46,879	26,741	131,000	6,943
2037	37,869	18,615	48,670	24,950	135,000	3,524
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	9,533	49	70,805	2,815	-	-
2048	-	-	36,412	400	-	-
	<u>\$ 922,006</u>	<u>\$ 612,644</u>	<u>\$ 1,287,155</u>	<u>\$ 811,107</u>	<u>\$ 1,848,000</u>	<u>\$ 502,373</u>

**CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2019**

ENDING	COVINGTON ELECTRIC SYSTEM REVENUE BONDS - SERIES 2003		POOLED REFINANCING REVENUE BONDS - SERIES 1994		NOTE PAYABLE LAWSUIT SETTLEMENT	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2020	\$ 130,000	\$ 27,483	\$ 145,200	\$ 10,219	\$ 133,333	\$ 21,333
2021	135,000	22,034	153,200	7,909	133,333	18,667
2022	140,000	16,188	161,600	5,412	133,333	16,000
2023	145,000	9,954	170,400	2,778	133,333	13,333
2024	155,000	3,391	-	-	133,333	10,667
2025	-	-	-	-	133,333	8,000
2026	-	-	-	-	133,333	5,333
2027	-	-	-	-	133,336	2,667
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
	<u>\$ 705,000</u>	<u>\$ 79,050</u>	<u>\$ 630,400</u>	<u>\$ 26,318</u>	<u>\$ 1,066,667</u>	<u>\$ 96,000</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2019

<u>ENDING</u>	<u>GENERAL OBLIGATION REFUNDING BOND - SERIES 2014</u>		<u>CAPITAL LEASE OBLIGATION - TRUCK</u>		<u>CAPITAL LEASE OBLIGATION - SWEEPER</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2020	\$ 160,000	\$ 89,250	\$ 5,560	\$ 286	\$ 35,626	\$ 3,134
2021	160,000	86,050	-	-	36,641	2,118
2022	165,000	82,450	-	-	37,686	1,074
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	204,834	7,688	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
	<u>\$ 2,814,834</u>	<u>\$ 849,235</u>	<u>\$ 5,560</u>	<u>\$ 286</u>	<u>\$ 109,953</u>	<u>\$ 6,326</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2019

ENDING	CAPITAL LEASE OBLIGATION - POLICE CAR		CAPITAL LEASE OBLIGATION - TRUCK		CAPITAL LEASE OBLIGATION - TRUCK	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2020	\$ 10,249	\$ 615	\$ 5,320	\$ 1,006	\$ 6,538	\$ 1,237
2021	-	-	5,636	690	6,927	848
2022	-	-	5,972	354	7,339	436
2023	-	-	-	-	-	-
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>\$ 10,249</u>	<u>\$ 615</u>	<u>\$ 16,928</u>	<u>\$ 2,050</u>	<u>\$ 20,804</u>	<u>\$ 2,521</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2019

ENDING	CAPITAL LEASE OBLIGATION - POLICE CARS		CAPITAL LEASE OBLIGATION - SUV		CAPITAL LEASE OBLIGATION - FIELD MACHINE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2020	\$ 20,317	\$ 1,199	\$ 10,426	\$ 2,418	\$ 4,089	\$ 709
2021	-	-	11,177	1,667	4,298	500
2022	-	-	11,982	863	4,518	280
2023	-	-	-	-	3,140	59
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>\$ 20,317</u>	<u>\$ 1,199</u>	<u>\$ 33,585</u>	<u>\$ 4,948</u>	<u>\$ 16,045</u>	<u>\$ 1,548</u>

CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2019

<u>ENDING</u>	<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2009</u>		<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2012</u>		<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2014</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2020	\$ 38,533	\$ 756	\$ 176,358	\$ 3,527	\$ 30,243	\$ 2,419
2021	-	-	176,358	1,764	30,243	1,815
2022	-	-	-	-	30,243	1,210
2023	-	-	-	-	30,245	608
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>\$ 38,533</u>	<u>\$ 756</u>	<u>\$ 352,716</u>	<u>\$ 5,291</u>	<u>\$ 120,974</u>	<u>\$ 6,052</u>

**CITY OF COVINGTON, TENNESSEE
LONG-TERM DEBT PRINCIPAL AND INTEREST
REQUIREMENTS BY YEAR - CONTINUED
JUNE 30, 2019**

<u>ENDING</u>	<u>GRAND TOTAL</u>
2020	\$ 1,330,720
2021	1,251,254
2022	1,077,284
2023	1,013,404
2024	808,503
2025	637,924
2026	625,808
2027	623,356
2028	487,322
2029	487,614
2030	471,625
2031	471,909
2032	477,131
2033	476,912
2034	480,797
2035	478,857
2036	268,047
2037	268,628
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	83,202
2048	<u>36,812</u>
	\$ 13,028,045

Less interfund
capital outlay
notes (524,322)

Outside long-
term debt \$ 12,503,723

CITY OF COVINGTON, TENNESSEE
CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
YEAR ENDED JUNE 30, 2019

DESCRIPTION OF DEBT	AMOUNT ISSUED	INTEREST RATE	ISSUE DATE	MATURITY DATE	BALANCE AT JULY 1, 2018	ISSUED	PAID	REFUNDED	BALANCE AT JUNE 30, 2019
GOVERNMENTAL ACTIVITIES									
General Obligation Refunding Bonds (1) ..	\$ 215,000	2.00-3.50%	3/28/14	6/1/29	\$ 164,890	\$ -	\$ (15,056)	\$ -	\$ 149,834
Public Works Airport Bonds	136,000	5.00%	9/14/78	1/1/19	8,000	-	(8,000)	-	-
Pooled Financing Revenue Bonds	2,500,000	1.63%	12/22/95	5/25/23	768,000	-	(137,600)	-	630,400
General Obligation Capital Outlay Note ...	500,000	4.20%	2/22/07	2/1/19	52,000	-	(52,000)	-	-
Note Payable - Lawsuit Settlement	1,200,000	2.00%	5/1/17	8/1/26	1,200,000	-	(133,333)	-	1,066,667
Capital Lease Obligation - Truck	20,334	5.39%	5/26/16	9/23/19	10,333	-	(4,773)	-	5,560
Capital Lease Obligation - Sweeper	217,030	2.85%	12/16/16	12/1/21	144,591	-	(34,638)	-	109,953
Capital Lease Obligation - Police Car	30,781	6.00%	8/14/17	10/2/19	19,917	-	(9,668)	-	10,249
Capital Lease Obligation - Police Cars	70,139	6.00%	11/2/16	11/2/18	23,353	-	(23,353)	-	-
Capital Lease Obligation - Truck	23,254	6.00%	5/4/18	6/1/22	23,254	-	(6,326)	-	16,928
Capital Lease Obligation - Truck	28,579	6.00%	5/4/18	6/1/22	28,579	-	(7,775)	-	20,804
Capital Lease Obligation - Police Cars	61,017	6.00%	8/14/17	10/2/19	39,502	-	(19,185)	-	20,317
Capital Lease Obligation - SUV	46,430	7.20%	12/21/18	1/4/22	-	46,430	(12,845)	-	33,585
Capital Lease Obligation - Field Machine ..	17,320	5.00%	1/28/19	2/15/23	-	17,320	(1,275)	-	16,045
					<u>2,482,419</u>	<u>63,750</u>	<u>(465,827)</u>	<u>-</u>	<u>2,080,342</u>
BUSINESS-TYPE ACTIVITIES									
General Obligation Refunding Bonds (1) ..	3,180,000	2.00-3.75%	3/28/14	6/1/35	2,765,000	-	(100,000)	-	2,665,000
Bio Mass Gasification Bonds	2,250,000	2.61%	8/9/12	6/1/37	1,921,000	-	(73,000)	-	1,848,000
Electric System Revenue Bonds	2,280,000	2.50-4.375%	11/22/13	10/1/23	830,000	-	(125,000)	-	705,000
Water Revenue and Tax Bond	1,082,000	4.125%	9/10/08	8/10/46	937,874	-	(15,868)	-	922,006
Sewer Revenue and Tax Bond	1,489,000	3.755%	12/9/09	12/9/47	<u>1,309,340</u>	<u>-</u>	<u>(22,185)</u>	<u>-</u>	<u>1,287,155</u>
					<u>7,763,214</u>	<u>-</u>	<u>(336,053)</u>	<u>-</u>	<u>7,427,161</u>
TOTALS					<u>\$10,245,633</u>	<u>\$ 63,750</u>	<u>\$(801,880)</u>	<u>\$ -</u>	<u>\$ 9,507,503</u>

NOTE TO SCHEDULE

(1) Total bond proceeds of \$3,395,000 was split between Governmental Activities and Business-Type Activities.

**CITY OF COVINGTON, TENNESSEE
WATER FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2019**

PURIFICATION

Personal services	\$ 99,678
Contractual services	377,943
Supplies	<u>31,084</u>
	<u>508,705</u>

TRANSMISSION AND DISTRIBUTION

Personal services	241,859
Contractual services	294,849
Supplies	<u>13,067</u>
	<u>549,775</u>

GENERAL AND ADMINISTRATIVE

Personal services	70,900
Contractual services	19,374
Supplies	4,217
Fixed charges	27,975
Joint costs to General Fund	<u>122,183</u>
	<u>244,649</u>

DEPRECIATION 230,295

TOTAL OPERATING EXPENSES \$ 1,533,424

**CITY OF COVINGTON, TENNESSEE
SEWER FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2019**

COLLECTION

Personal services	\$ 107,258
Contractual services	89,643
Supplies	<u>13,064</u>
	<u>209,965</u>

TREATMENT AND DISPOSAL

Personal services	215,240
Contractual services	398,036
Supplies	<u>100,573</u>
	<u>713,849</u>

GENERAL AND ADMINISTRATIVE

Personal services	119,744
Contractual services	9,142
Supplies	1,602
Fixed charges	75,968
Joint costs to General Fund	<u>122,183</u>
	<u>328,639</u>

DEPRECIATION 628,789

TOTAL OPERATING EXPENSES \$ 1,881,242

**CITY OF COVINGTON, TENNESSEE
GAS UTILITY FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2019**

PURCHASED GAS	<u>\$ 1,673,543</u>
TRANSMISSION AND DISTRIBUTION	
Personal services	396,925
Contractual services	117,534
Supplies	<u>26,173</u>
	<u>540,632</u>
GENERAL AND ADMINISTRATIVE	
Personal services	289,428
Contractual services	31,607
Supplies	8,363
Fixed charges - insurance	13,851
Joint costs to General Fund	<u>122,183</u>
	<u>465,432</u>
DEPRECIATION	<u>98,717</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,778,324</u>

**CITY OF COVINGTON, TENNESSEE
BIO MASS GASIFICATION FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2019**

OPERATIONS	
Fixed charges	\$ 21,009
DEPRECIATION	<u>97,565</u>
TOTAL OPERATING EXPENSES	<u>\$ 118,574</u>

CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM ELECTRIC FUND - OPERATING EXPENSES
YEAR ENDED JUNE 30, 2019

COST OF POWER	<u>\$ 16,952,319</u>
OPERATIONS EXPENSE	
Distribution expense	535,009
Customer accounts expense	362,943
Customer service and information expense	14,838
General and administrative	<u>1,202,468</u>
	<u>2,115,258</u>
MAINTENANCE EXPENSE	
Distribution	763,387
General and administrative	<u>168,916</u>
	<u>932,303</u>
DEPRECIATION AND AMORTIZATION	<u>732,448</u>
TAXES	<u>92,271</u>
TOTAL OPERATING EXPENSES	<u>\$ 20,824,599</u>

**CITY OF COVINGTON, TENNESSEE
PROPERTY TAXES
YEAR ENDED JUNE 30, 2019**

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>
2019	\$1.33	\$184,901,118
2018	1.33	182,774,459
2017	1.33	179,604,989
2016	1.33	179,377,484
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

Following is a schedule of changes in property taxes receivable:

<u>YEAR OF LEVY</u>	<u>BALANCE JULY 1, 2018</u>	<u>ASSESSMENT</u>	<u>ADJUSTMENTS/ ABATEMENTS</u>	<u>COLLECTIONS</u>	<u>BALANCE JUNE 30, 2019</u>
2019	\$ -	\$ 2,459,226	\$ -	\$ -	\$ 2,459,226
2018	2,431,058	-	8,008	(2,230,107)	208,959
2017	158,458	-	4,713	(103,093)	60,078
2016	80,863	-	-	(61,410)	19,453
2015	32,053	-	(49)	(23,556)	8,448
2014	9,723	-	(44)	(4,103)	5,576
2013	10,537	-	(34)	(3,538)	6,965
2012	4,543	-	(297)	(894)	3,352
2011	62,929	-	(297)	(334)	62,298
2010	7,424	-	(321)	(126)	6,977
2009	<u>10,691</u>	<u>-</u>	<u>(10,691)</u>	<u>-</u>	<u>-</u>
Totals		<u>\$ 2,459,226</u>	<u>\$ 988</u>	<u>\$ (2,427,161)</u>	2,841,332
Allowance for uncollectible property taxes	<u>(107,787)</u>				<u>(109,747)</u>
Net receivables	<u>\$2,700,492</u>				<u>\$ 2,731,585</u>

Uncollected taxes for years prior to 2010 have been charged off for financial reporting purposes. Such amounts are not significant. Uncollected taxes for tax years prior to 2017 have been turned over to Chancery Court for collection.

**CITY OF COVINGTON, TENNESSEE
 WATER FUND - WATER RATES AND NUMBER OF CUSTOMERS
 JUNE 30, 2019**

<u>MINIMUM CHARGE - BY METER SIZE</u>	<u>INSIDE CITY LIMITS</u>	<u>OUTSIDE CITY LIMITS</u>
5/8"	\$ 8.96	\$ 13.50
3/4"	12.31	22.91
1"	25.23	34.28
1½"	48.04	68.58
2"	77.75	114.24
3"	127.92	182.75
4"	159.91	228.40
6"	228.40	342.61
8"	456.77	685.16

INSIDE CITY LIMITS

<u>NUMBER OF GALLONS USED</u>	<u>RATE PER 1,000 GALLONS USED</u>
First 2,000	\$ 4.50
Next 8,000	3.06
Next 40,000	2.89
Next 50,000	2.40
Over 100,000	2.30

OUTSIDE CITY LIMITS

<u>NUMBER OF GALLONS USED</u>	<u>RATE PER 1,000 GALLONS USED</u>
First 3,000	\$ 4.50
Next 7,000	3.89
Next 10,000	3.58
Over 20,000	2.55

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 4,000 water customers at June 30, 2019.

**CITY OF COVINGTON, TENNESSEE
SEWER FUND - SEWER RATES AND NUMBER OF CUSTOMERS
JUNE 30, 2019**

	<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"	\$ 7.52	\$ 10.82	\$ 8.49	\$ 12.21
1"	8.92	13.16	10.06	14.84
1½"	17.39	26.33	19.62	29.68
2"	23.03	34.78	25.96	39.21
3"	37.58	56.36	42.38	63.54
4"	77.99	117.45	87.94	132.43
6"	104.23	156.92	117.51	176.93
8"	147.54	221.75	166.33	250.01
 Unit Charge				
Per 1,000 gallons of metered water	\$ 4.34	\$ 5.82	\$ 4.90	\$ 6.58

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 3,200 sewer customers at June 30, 2019.

**CITY OF COVINGTON, TENNESSEE
GAS UTILITY FUND - GAS RATES AND NUMBER OF CUSTOMERS
JUNE 30, 2019**

	<u>PER 1,000 CUBIC FEET</u>
<u>RESIDENTIAL CUSTOMERS</u>	
Inside City Limits	\$ 5.23
Outside City Limits	5.30
<u>COMMERCIAL CUSTOMERS</u>	
Inside City Limits	\$ 4.30
Outside City Limits	4.33
<u>INDUSTRIAL CUSTOMERS</u>	
Firm - Schedule 24	\$ 4.6510
Interruptible - Schedule 93	3.5300
Interruptible - Schedule 93 (Unilever)	3.5300
Firm - Transportation	4.1710

NUMBER OF CUSTOMERS

There were approximately 3,100 gas customers at June 30, 2019.

**CITY OF COVINGTON, TENNESSEE
COVINGTON ELECTRIC SYSTEM ELECTRIC FUND -
ELECTRIC RATES
JUNE 30, 2019**

RESIDENTIAL RATE SCHEDULE

Customer charge - per delivery point per month	\$ 18.40
Energy charge - cent per kWh - all kWh	0.08632

GENERAL POWER SCHEDULE

GSA1 (Under 50 kW demand and less than 15,000 kWh)	
Customer charge - per delivery point per month	\$ 34.00
Energy charge - cents per kWh	0.10160
GSA2 (51-1,000 kW demand or more than 15,000 kWh)	
Customer charge - per delivery point per month	\$ 145.00
Demand charges - per kW per month	
First 50 kW	\$ 2.50
Excess over 50 kW	\$ 14.20
Energy charge - cents per kWh	
First 15,000 kWh per month	0.09705
Additional kWh per month	0.06000
GSA3 (1,000 - 5,000 kW demand)	
Customer charge - per delivery point per month	\$ 450.00
Demand charges - per kW per month	
First 1,000 kW	13.43
Excess over 1,000 kW	13.43
Excess over 2,500 kW	13.43
Energy charge - cents per kWh	0.06559
SMSB (Seasonal Demand and Energy - Manufacturing Service)	
Customer charge - per delivery point per month	\$1,500.00
Administrative charge	350.00
OnPeak kW	10.24
Max kW	2.15
OffPeak Excess of Contract kW	10.24
Outdoor Lighting LS	\$ 0.06549

NONACCOUNTING INFORMATION

**AWWA Free Water Audit Software:
Reporting Worksheet**

WAS v5.0

American Water Works Association

Water Audit Report for: **City of Covington (TN0000144)**
Reporting Year: **2018** / **7/2018 - 6/2019**

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

WATER SUPPLIED

Volume from own sources:	<input type="button" value="+"/> <input type="button" value="9"/>	634.478	MG/Yr
Water imported:	<input type="button" value="n/a"/>	0.000	MG/Yr
Water exported:	<input type="button" value="n/a"/>	0.000	MG/Yr

WATER SUPPLIED: MG/Yr

Master Meter and Supply Error Adjustments

Pcnt:	<input type="text" value="7"/>	-1.00%	<input type="radio"/>	<input type="radio"/>	MG/Yr
Value:	<input type="text"/>		<input type="radio"/>	<input type="radio"/>	MG/Yr
	<input type="text"/>		<input type="radio"/>	<input type="radio"/>	MG/Yr

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

AUTHORIZED CONSUMPTION

Billed metered:	<input type="button" value="+"/> <input type="button" value="9"/>	520.950	MG/Yr
Billed unmetered:	<input type="button" value="n/a"/>	0.000	MG/Yr
Unbilled metered:	<input type="button" value="+"/> <input type="button" value="9"/>	64.830	MG/Yr
Unbilled unmetered:	<input type="button" value="+"/> <input type="button" value="7"/>	4.304	MG/Yr

AUTHORIZED CONSUMPTION: MG/Yr

Click here: for help using option buttons below

Pcnt:	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	4.304	MG/Yr
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Use buttons to select percentage of water supplied OR value

Pcnt:	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	0.25%	MG/Yr
-------	-----------------------	----------------------------------	-----------------------	-------	-------

Value:	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	2.00%	MG/Yr
	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	0.25%	MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

MG/Yr

Apparent Losses

Unauthorized consumption: MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	<input type="button" value="+"/> <input type="button" value="7"/>	11.955	MG/Yr
Systematic data handling errors:	<input type="button" value="+"/> <input type="button" value="5"/>	1.302	MG/Yr

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

Apparent Losses: MG/Yr

Real Losses (Current Annual Real Losses or CARL)

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

WATER LOSSES: MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="button" value="+"/> <input type="button" value="7"/>	97.0	miles
Number of active AND inactive service connections:	<input type="button" value="+"/> <input type="button" value="7"/>	5,181	
Service connection density:	<input type="button" value="53"/>	53	conn./mile main

Are customer meters typically located at the curbside or property line?

Average length of customer service line: (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: psi

COST DATA

Total annual cost of operating water system:	<input type="button" value="+"/> <input type="button" value="9"/>	\$1,737,363	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="+"/> <input type="button" value="7"/>	\$8.60	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="+"/> <input type="button" value="10"/>	\$476.30	\$/Million gallons

Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 83 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

American Water Works Association

Water Audit Report for: City of Covington (TN0000144)
 Reporting Year: 2018 | 7/2018 - 6/2019

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***

System Attributes:

	Apparent Losses:	14.859	MG/Yr
+	Real Losses:	35.944	MG/Yr
=	Water Losses:	50.803	MG/Yr

Unavoidable Annual Real Losses (UARL): 25.19 MG/Yr

Annual cost of Apparent Losses: \$127,790

Annual cost of Real Losses: \$17,120 Valued at **Variable Production Cost**
 Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	18.7%	
	Non-revenue water as percent by cost of operating system:	10.2%	Real Losses valued at Variable Production Cost

Operational Efficiency:	Apparent Losses per service connection per day:	7.86	gallons/connection/day
	Real Losses per service connection per day:	19.01	gallons/connection/day
	Real Losses per length of main per day*:	N/A	
	Real Losses per service connection per day per psi pressure:	0.36	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 35.94 million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]: 1.43

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

**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 the City of Covington, Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Covington, Tennessee's basic financial statements and have issued our report thereon dated February 10, 2020. Our report includes a reference to other auditors who audited the financial statements of Covington Electric System Electric Fund, Covington Electric System Defined Benefit Plan, and Covington Electric System 457 Plan, as described in our report on the 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 the 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 the City of Covington, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been 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 a significant deficiency.

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. 2019-001 and 2019-002).

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 deficiency in the accompanying schedule of findings and questioned costs to be a significant deficiency (Item No. 2019-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs (Item No. 2019-004).

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.

Whitchorn Jamieson & Davis, PLLC

Covington, Tennessee
February 10, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

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 the Uniform Guidance, 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 a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Whitcomb Jamrusky & Davis, PLLC

Covington, Tennessee

February 10, 2020

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Covington, Tennessee were prepared in accordance with GAAP.
2. Two material weaknesses and one significant deficiency disclosed during the audit of the financial statements are reported in the 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*.
3. One instance of noncompliance material to the financial statements of the City of Covington, Tennessee which would be required to be reported in accordance with *Government Auditing Standards* was disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the City of Covington, Tennessee expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The program tested as a major program was: Highway Planning and Construction Cluster - CFDA No. 20.205.
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. City of Covington, Tennessee was determined to not be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weaknesses

Item No. 2019-001: Preparation of Financial Statements

Condition: The City does not have sufficient internal controls over the drafting of the annual audited financial statements done by the auditor.

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, 2019**

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Material Weaknesses - Continued

Item No. 2019-001: Preparation of Financial Statements - Continued

Cause: There is either lack of time available by current financial personnel and/or a lack of the necessary skills and knowledge of current financial personnel.

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 concur with this finding.

Item No. 2019-002: Material Audit Adjustments

Condition: The following material audit adjustments were proposed:

Water Fund

- (1) The pension actuarial valuation report is not received until several months after the fiscal year end. Therefore, adjustment of the year end pension related accounts must be made as audit adjustments. An adjustment was made to increase net position and decrease pension expense by approximately \$136,000.

Sewer Fund

- (1) The pension actuarial valuation report is not received until several months after the fiscal year end. Therefore, adjustment of the year end pension related accounts must be made as audit adjustments. An adjustment was made to increase net position and decrease pension expense by approximately \$149,000.

Bio Mass Gasification Fund

- (1) Depreciation expense was overstated. An adjustment was made to increase assets and decrease expenses by approximately \$23,000.

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

Cause: The pension actuarial report is not received until after year end closing and the books and records had been submitted to the auditor. The remaining adjustment was due to an overlooked accounting error.

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Material Weaknesses - Continued

Item No. 2019-002: Material Audit Adjustments - Continued

Effect: The account balances of the above funds 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: We concur with this finding.

Significant Deficiency

Item No. 2019-003: Differences in Wages Reported on TCRS Census Data

Condition: Four employees were selected for testing TCRS-provided census wages to wages reflected on the City's payroll records for the year ended June 30, 2018 (the date corresponding with the actuarial valuation). Three of the employee's wages were lower on the TCRS-provided census report than were reflected on the City's payroll records. The other employee's wages were higher on the TCRS-provided census report than those reflected on the City's payroll records. The net underreporting error rate was 4.85%.

Criteria: The correct amount of wages should be reported to TCRS in order that each employee's retirement benefit is calculated correctly.

Cause: Incorrect wage amounts were reported to TCRS.

Effect: Employee's retirement benefits may not be calculated correctly.

Recommendation: Procedures should be implemented to ensure correct wage amounts are reported to TCRS. The City should periodically compare employee wages to wages reflected on TCRS records, perhaps on a sample basis, until there is assurance that the reporting process is working properly.

Management response: We concur with this finding.

**CITY OF COVINGTON, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED JUNE 30, 2019**

FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

Compliance and Other Matters

Item No. 2019-004: Expenditures in Excess of Budget

Condition: In the General Fund, even though total expenditures were within final budgeted amounts, there were four departmental budget overruns aggregating approximately \$185,000.

In the Munford Cemetery Fund, total expenditures and transfers out exceeded the budgeted amount by approximately \$5,100.

In the Tipton County Museum Fund, total expenditures and transfers out exceeded the budgeted amount by approximately \$8,700.

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

Cause: In the General Fund, approximately \$103,000 of the total overrun was due to not budgeting for debt service payments on two capital leases. The remaining amount of approximately \$82,000 was caused by audit adjustments that increased expenditures. In the Munford Cemetery Fund and Tipton County Museum Fund, expenditures were higher than expected due to expenditures near year end.

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 departmental amounts.

Management response: We concur with this finding.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

None

**CITY OF COVINGTON, TENNESSEE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2019**

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2018-001	Preparation of Financial Statements (Original finding #2007-001)	Repeated (2019-001)
2018-002	Material Audit Adjustments (Original finding #2007-003)	Repeated (2019-002)
2018-003	Reconciliation and Adjustment of Utility Accounts Receivable Balances (Original finding #2017-003)	Corrected
2018-004	Lack of Purchase Approval in Minutes (Original finding #2018-004)	Corrected
2018-005	Allocation of Pension Contributions (Original finding #2018-005)	Corrected
2018-006	Cash Shortage and Other Theft (Original finding #2018-006)	Corrected
2018-007	Overstatement of Pension Compensation (Original finding #2018-007)	Corrected
2018-008	Expenditures in Excess of Budget (Original finding #2013-002)	Repeated (2019-004)
2018-009	Airport Improvements Program-CFDA No. 20.106; Grant No. AERO-16-249-00 Year Ended June 30-2018 - Certified Payroll Listings	Corrected



JUSTIN HANSON
Mayor

TINA DUNN
Recorder-Treasurer

City of Covington

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MANAGEMENT'S CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2019

Department of Transportation

City of Covington, Tennessee respectfully submits the following corrective action plan for the year ended June 30, 2019.

Name and address of independent accounting firm:

Whitehorn Tankersley & Davis, PLLC
110 East Pleasant Avenue
Covington, TN 38019

Audit period:

Year ended June 30, 2019

The findings from the June 30, 2019 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

Item 2019-001: Preparation of Financial Statements

Response and corrective action plan prepared by: Tina Dunn, Recorder-Treasurer

Person responsible for implementing corrective action plan: Same as above

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

Anticipated completion date of correction action: N/A

Repeat finding: Yes

Reason why corrective action was not taken - prior year: 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 skill, knowledge, and experience enables us to review the financial statements and understand them fully.

Planned corrective action: None. See above comment.

Item 2019-002: Material Audit Adjustments

Response and corrective action plan prepared by: Tina Dunn, Recorder-Treasurer

Person responsible for implementing corrective action plan: Same as above

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

Anticipated completion date of correction action: June 30, 2020

Repeat finding: Yes

Reason why corrective action was not taken - prior year: Adjustments of pension related account balances were a result of the delay in receiving the pension actuary report after year end closing. The remaining adjustment was due to an overlooked accounting error.

Planned corrective action: We will take care to ensure all material transactions are recorded properly in the general ledger accounts. However, audit adjustments of pension related accounts may continue to be necessary due to late receipt of the pension actuary report.

Significant Deficiency

Item 2019-003: Differences in Wages Reported on TCRS Census Data

Response and corrective action plan prepared by: Tiny Rose, Director of Human Resources

Person responsible for implementing corrective action plan: Same as above

Recommendation: Procedures should be implemented to ensure correct wage amounts are reported to TCRS. The City should periodically compare employee wages to wages reflected on TCRS records, perhaps on a sample basis, until there is assurance that the reporting process is working properly.

Anticipated completion date of correction action: June 30, 2020

Repeat finding: No

Planned corrective action: I will continue to work with TCRS and Local Government Corporation to troubleshoot the reasons for the incorrect amounts being reported. I will implement procedures once the system is corrected, to verify the wages in the system and those automatically reported to TCRS by the Local Government system.

Compliance and Other Matters

Item No. 2019-004: Expenditures in Excess of Budget

Response and corrective action plan prepared by: Tina Dunn, Recorder-Treasurer

Person responsible for implementing corrective action plan: Same as above

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.

Anticipated completion date of correction action: June 30, 2020

Repeat finding: Yes

Reason why corrective action was not taken - prior year: In the General Fund, approximately \$103,000 of the total overrun was due to not budgeting for debt service payments on two capital leases. The remaining amount of approximately \$82,000 was caused by audit adjustments that increased expenditures. In the Munford Cemetery Fund and Tipton County Museum Fund, expenditures were higher than expected due to expenditures near year end.

Planned corrective action: We will take care to amend budgets in sufficient amounts to avoid overruns.

FINDINGS - FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF TRANSPORTATION

NONE

If the Department of Transportation has questions regarding this plan, please call Tina Dunn, Recorder - Treasurer, at (901) 476-9613.

Sincerely,



Tina Dunn

Recorder - Treasurer

