

**CITY OF COVINGTON, TENNESSEE**

---

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

**TABLE OF CONTENTS**

**Page**

**INTRODUCTORY SECTION**

City Officials - Unaudited ..... 1

**FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT** ..... 2-4

**MANAGEMENT'S DISCUSSION AND ANALYSIS** ..... 5-13

**BASIC FINANCIAL STATEMENTS**

Government-wide Financial Statements

Statement of Net Position ..... 14-15

Statement of Activities ..... 16

Fund Financial Statements

Balance Sheet - Governmental Funds ..... 17-18

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position ..... 19

Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Governmental Funds ..... 20

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities ..... 21

Statement of Net Position – Proprietary Funds ..... 22-24

Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Proprietary Funds ..... 25

Statement of Cash Flows - Proprietary Funds ..... 26-28

Statement of Fiduciary Net Position - Fiduciary Funds ..... 29

Statement of Changes in Fiduciary Net Position - Fiduciary Funds ..... 30

**TABLE OF CONTENTS - CONTINUED**

	<b>Page</b>
<b>BASIC FINANCIAL STATEMENTS - CONTINUED</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - General Fund .....	31-37
Notes to Financial Statements .....	38-80
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
City of Covington Pension Plan - Schedule of Changes in Net Pension Liability and Related Ratios .....	81-82
City of Covington Pension Plan - Schedule of Contributions .....	83
City of Covington Pension Plan - Schedule of Investment Returns .....	84
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS .....	85
Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS .....	86
Covington Electric System's Defined Benefit Plan - Schedule of Changes in Net Pension Liability and Related Ratios .....	87-88
Covington Electric System's Defined Benefit Plan - Schedule of Contributions .....	89
Covington Electric System's Defined Benefit Plan - Schedule of Investment Returns .....	90
<b>COMBINING FUND FINANCIAL STATEMENTS</b>	
Combining Balance Sheet - Nonmajor Governmental Funds .....	91-93
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds .....	94-96
<b>SCHEDULES</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - State Street Aid Fund .....	97

**TABLE OF CONTENTS - CONTINUED**

	<b>Page</b>
 <b>SCHEDULES - CONTINUED</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Airport Fund .....	98
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Community Development Fund .....	99
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Solid Waste/Sanitation Fund .....	100
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Tipton County Museum Fund .....	101
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Drug Fund .....	102
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - TIIP Fund .....	103
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Airport Improvements Construction Bond Fund .....	104
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - PBACCT Bond Fund .....	105
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - General Obligation Refunding Bond Fund .....	106
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget - Munford Cemetery Fund .....	107
Schedule of Expenditures of Federal Awards .....	108
Schedule of Expenditures of State Awards .....	109
Long-Term Debt Principal and Interest Requirements by Year .....	110-116
Water Fund - Operating Expenses .....	117
Sewer Fund - Operating Expenses .....	118
Gas Utility Fund - Operating Expenses .....	119

**TABLE OF CONTENTS - CONTINUED**

	<b>Page</b>
<b>SCHEDULES - CONTINUED</b>	
Bio Mass Gasification Fund - Operating Expenses .....	120
Covington Electric System Electric Fund - Operating Expenses .....	121
Property Taxes .....	122
Water Fund - Water Rates and Number of Customers .....	123
Sewer Fund - Sewer Rates and Number of Customers .....	124
Gas Utility Fund - Gas Rates and Number of Customers .....	125
Covington Electric System Electric Fund - Electric Rates .....	126
<b>NONACCOUNTING INFORMATION</b>	
AWWA Reporting Worksheet - Unaudited .....	127
AWWA System Attributes and Performance Indicators - Unaudited .....	128
<b>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</b> .....	129-130
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b> .....	131-133
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> .....	134-141
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b> .....	142
<b>MANAGEMENT'S CORRECTIVE ACTION PLAN - Unaudited</b> .....	143-147

## **INTRODUCTORY SECTION**

**CITY OF COVINGTON  
CITY OFFICIALS  
YEAR ENDED JUNE 30, 2018**

Mayor

Justin Hanson

Aldermen

Minnie Bommer  
John E. Edwards  
Justin D. Glass  
Jere Hadley  
Wayne McGowan  
Cyburn H. Sullivan IV

Board Members, Covington Electric System

James Baddour  
Christy Hayden  
Mary Jones  
Keith McCalla  
Justin D. Glass

Department Heads

Recorder - Treasurer  
General Manager, Covington Electric System  
Comptroller, Covington Electric System

Tina Dunn (CMFO Designee)  
Tim Sallee  
Kathy McClinton

**FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Tennessee as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Covington, Tennessee's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Covington Electric System Electric Fund, which is both a major fund and 39 percent, 39 percent, and 74 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the business-type activities, nor did we audit the financial statements of the Covington Electric System Defined Benefit Plan and the financial statements of the Covington Electric System 457 plan which collectively represent 18 percent, 19 percent, and 7 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 39 percent, 39 percent, and 74 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the business-type activities, nor did we audit the financial statements of the Covington Electric System Defined Benefit Plan and the financial statements of the Covington Electric System 457 plan which collectively represent 18 percent, 19

percent, and 7 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, 2018, 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 January 28, 2019, 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.

*Whitehorn Tankusly & Davis, PLLC*

Covington, Tennessee  
January 28, 2019

**CITY OF COVINGTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

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, 2018. 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 \$63,277,230 (net position). Of this amount, \$19,943,839 (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 \$2,975,870 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 \$3,600,826, an increase of \$336,210 from the prior year. Of the total fund balances, \$1,161,610 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 \$1,161,610 or 11% of the total General Fund expenditures.
- The City of Covington's total long-term debt decreased by \$2,235,729 (12%) 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, 2018**

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, 2018**

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, 2018**

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 \$63,277,230 at the close of the most recent fiscal year.

**City of Covington's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other						
assets .....	\$ 9,818,495	\$ 10,590,414	\$ 30,408,906	\$ 28,409,099	\$ 40,227,401	\$ 38,999,513
Capital assets .....	<u>22,168,057</u>	<u>21,584,898</u>	<u>29,671,124</u>	<u>30,240,915</u>	<u>51,839,181</u>	<u>51,825,813</u>
Total assets .....	<u>31,986,552</u>	<u>32,175,312</u>	<u>60,080,030</u>	<u>58,650,014</u>	<u>92,066,582</u>	<u>90,825,326</u>
Deferred Outflows .....	<u>342,562</u>	<u>513,690</u>	<u>342,141</u>	<u>474,910</u>	<u>684,703</u>	<u>988,600</u>
Long-term liabilities						
outstanding .....	6,671,170	8,318,908	9,146,170	9,917,097	15,817,340	18,236,005
Other liabilities .....	<u>3,022,923</u>	<u>3,646,708</u>	<u>4,898,133</u>	<u>4,174,936</u>	<u>7,921,056</u>	<u>7,821,644</u>
Total liabilities .....	<u>9,694,093</u>	<u>11,965,616</u>	<u>14,044,303</u>	<u>14,092,033</u>	<u>23,738,396</u>	<u>26,057,649</u>
Deferred inflows .....	<u>5,126,163</u>	<u>4,828,325</u>	<u>609,496</u>	<u>478,009</u>	<u>5,735,659</u>	<u>5,306,334</u>
Net Position						
Net investment in						
capital assets .....	19,685,638	18,996,076	21,853,137	21,995,565	41,538,775	40,991,641
Restricted .....	1,478,392	1,200,749	316,224	311,781	1,794,616	1,512,530
Unrestricted .....	<u>(3,655,172)</u>	<u>(4,301,764)</u>	<u>23,599,011</u>	<u>22,247,536</u>	<u>19,943,839</u>	<u>17,945,772</u>
Total Net Position ...	<u>\$ 17,508,858</u>	<u>\$ 15,895,061</u>	<u>\$ 45,768,372</u>	<u>\$ 44,554,882</u>	<u>\$ 63,277,230</u>	<u>\$ 60,449,943</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 (3%), \$1,794,616 represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$19,943,839 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, 2018**

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 \$2,975,870 during the current fiscal year.

**City of Covington's Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services . . . . .	\$ 2,469,396	\$ 2,420,242	\$ 27,742,189	\$ 27,490,554	\$ 30,211,585	\$ 29,910,796
Operating grants and contributions . . . . .	525,550	463,484	-	-	525,550	463,484
Capital grants and contributions . . . . .	1,126,616	597,947	-	-	1,126,616	597,947
General revenues						
Taxes . . . . .	8,983,968	8,795,539	-	-	8,983,968	8,795,539
Investment earnings . . . . .	42,499	9,552	215,409	67,988	257,908	77,540
Gain (loss) disposal of capital assets and insurance proceeds . . . . .	81,661	66,050	765	-	82,426	66,050
Miscellaneous . . . . .	71,324	214,071	413,821	430,619	485,145	644,690
Total revenues . . . . .	<u>13,301,014</u>	<u>12,566,885</u>	<u>28,372,184</u>	<u>27,989,161</u>	<u>41,673,198</u>	<u>40,556,046</u>
Expenses						
General government . . . . .	1,599,945	3,152,166	-	-	1,599,945	3,152,166
Public works . . . . .	2,539,288	2,616,649	-	-	2,539,288	2,616,649
Public safety . . . . .	5,634,225	5,805,597	-	-	5,634,225	5,805,597
Health, welfare, recreation, & education . . . . .	2,150,850	1,765,400	-	-	2,150,850	1,765,400
Interest on long-term debt . . . . .	74,229	65,334	-	-	74,229	65,334
Water . . . . .	-	-	1,418,797	1,354,936	1,418,797	1,354,936
Sewer . . . . .	-	-	2,064,535	1,921,002	2,064,535	1,921,002
Gas . . . . .	-	-	2,671,152	2,555,336	2,671,152	2,555,336
Bio mass . . . . .	-	-	165,874	151,950	165,874	151,950
Electric . . . . .	-	-	20,378,433	20,898,015	20,378,433	20,898,015
Total expenses . . . . .	<u>11,998,537</u>	<u>13,405,146</u>	<u>26,698,791</u>	<u>26,881,239</u>	<u>38,697,328</u>	<u>40,286,385</u>
Change in net position before transfers . . . . .	1,302,477	(838,261)	1,673,393	1,107,922	2,975,870	269,661
Transfers . . . . .	459,903	561,217	(459,903)	(561,217)	-	-
Change in net position . . . . .	<u>1,762,380</u>	<u>(277,044)</u>	<u>1,213,490</u>	<u>546,705</u>	<u>2,975,870</u>	<u>269,661</u>
Net position - beginning, as restated . . . . .	<u>15,746,478</u>	<u>16,172,105</u>	<u>44,554,882</u>	<u>44,008,177</u>	<u>60,301,360</u>	<u>60,180,282</u>
Net position - ending . . . . .	<u>\$ 17,508,858</u>	<u>\$ 15,895,061</u>	<u>\$ 45,768,372</u>	<u>\$ 44,554,882</u>	<u>\$ 63,277,230</u>	<u>\$ 60,449,943</u>

**Governmental activities:** Governmental activities increased City of Covington's net position by \$1,762,380, thereby accounting for 59% 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 \$1,213,490, accounting for 41% of the increase in the total government's net position.



**CITY OF COVINGTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**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 \$3,600,826 an increase of \$336,210 from the prior year. Of the total fund balances, \$1,161,610 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 \$2,093,486 of which \$1,161,610 is unassigned. Unassigned fund balance represents 12% of total General Fund expenditures.

The fund balance of the City of Covington's General Fund increased by \$190,027 during the current fiscal year. Revenues were below projected revenues in the amount of \$595,358.

**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 \$3,395,964. The system's net position increased by \$495,488. Significant contributing factors were (1) revenues increased from last year by \$27,678 due to a water rate increase and new customers, and (2) there was a significant decrease in expenses from last year.

**Sewer Fund:**

The unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$3,184,572. The system's net position increased by \$290,303. Significant contributing factors were (1) revenues were \$107,373 above the prior year due to a rate increase, and (2) expenses decreased from last year by \$246,912.

**CITY OF COVINGTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

Gas Utility Fund:

The unrestricted net position of the Gas Utility Fund at the end of the fiscal year amounted to \$10,033,299. The system's net position increased by \$153,695. Significant contributing factors were (1) revenues increased due to correction of billing error, and (2) expenses decreased due to better management of gas purchases.

Electric System's Electric Fund:

The unrestricted net position of the Electric Fund at the end of the fiscal year amounted to \$6,978,463. The system's net position increased by \$242,982.

Bio Mass Gasification Fund:

The unrestricted net position of the Bio Mass Gasification Fund at the end of the fiscal year amounted to \$6,713. The system's net position increased by \$31,022. 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 decrease expenditures by \$2,488,000. The actual total revenues versus the final budgeted total revenues was negative by \$595,358 and the actual total expenditures versus the total final budgeted expenditures was positive by \$1,440,173. The actual change in fund balance versus the final budgeted change in fund balance was positive by \$1,055,677.

**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, 2018, amounts to \$51,839,181 (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 \$22,168,057, (43%) and for Business-Type Activities is \$29,671,124, (57%).

**CITY OF COVINGTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land .....	\$ 3,246,197	\$ 3,246,197	\$ 400,096	\$ 400,096	\$ 3,646,293	\$ 3,646,293
Buildings .....	3,674,829	2,460,526	5,649,149	5,962,788	9,323,978	8,423,314
Improvements .....	7,649,156	7,291,886	-	-	7,649,156	7,291,886
Equipment .....	2,939,029	2,817,743	874,296	501,221	3,813,325	3,318,964
Infrastructure .....	4,658,846	4,786,351	-	-	4,658,846	4,786,351
Unamortized acquisition adjustment .....	-	-	100,684	124,848	100,684	124,848
Biomass plant .....	-	-	1,888,016	1,977,744	1,888,016	1,977,744
Distribution and collection systems .....	-	-	20,639,002	21,267,160	20,639,002	21,267,160
Construction in progress .....	-	982,195	119,881	7,058	119,881	989,253
Total .....	<u>\$ 22,168,057</u>	<u>\$ 21,584,898</u>	<u>\$ 29,671,124</u>	<u>\$ 30,240,915</u>	<u>\$ 51,839,181</u>	<u>\$ 51,825,813</u>

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

- In the Governmental Activities, Covington Civic Center improvements and airport improvements were completed.

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 \$16,991,880. Of this amount, \$7,168,419 comprises debt backed by the full faith and credit of the government, \$3,077,214 represents bonds and notes secured by specified revenue sources (i.e., revenue bonds), and \$6,746,247 represents estimated liabilities for employee pension plan and compensated absences.

**City of Covington's Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds, Notes and Leases .....	\$ 2,482,419	\$ 2,588,822	\$ 4,686,000	\$ 4,856,000	\$ 7,168,419	\$ 7,444,822
Pension/Compensated Absences .....	4,734,459	5,998,341	1,758,365	2,149,826	6,492,824	8,148,167
Notes Payable .....	-	-	-	3,813	-	3,813
Revenue Bonds .....	-	-	3,077,214	3,377,384	3,077,214	3,377,384
Total .....	<u>\$ 7,216,878</u>	<u>\$ 8,587,163</u>	<u>\$ 9,521,579</u>	<u>\$ 10,387,023</u>	<u>\$ 16,738,457</u>	<u>\$ 18,974,186</u>

The City of Covington's total long-term debt decreased by \$1,982,306, (12%) during the current fiscal year.

**CITY OF COVINGTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

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 \$1,161,610. The City of Covington has projected a \$320,991 deficit in the 2018-19 fiscal year budget.

- Local option sales tax collections are projected to remain constant.
- Water and sewer rates will increase by 2.1% in FY 2018-19 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.
- There will be a 1% COLA raise to full time employees and salary increases to various employees to bring salaries to mid-point levels according to their skill level.
- The Transportation Alternative Project for the Frazier Park Neighborhood Connector Project will be completed.
- 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 extend the water line for the Rialto Industrial Park.
- The 2018 CDBG will be used for a sewer system rehabilitation.

**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, 2018**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and cash equivalents .....	\$ 4,632,464	\$ 26,861,178	\$ 31,493,642
Receivables			
Accounts receivable .....	188,471	2,715,497	2,903,968
Property taxes .....	2,700,492	-	2,700,492
Due from Tipton County, Tennessee .....	428,945	-	428,945
Due from State of Tennessee .....	440,983	-	440,983
Grants receivable .....	141,182	-	141,182
Other .....	1,228,683	653	1,229,336
Inventories .....	50,765	277,194	327,959
Prepayments and other assets .....	-	208,678	208,678
Restricted assets			
Cash for debt service .....	-	323,785	323,785
Cash for construction .....	-	32	32
Customer deposits .....	-	20,655	20,655
Net pension asset .....	6,510	1,234	7,744
Capital assets, net .....	<u>22,168,057</u>	<u>29,671,124</u>	<u>51,839,181</u>
<b>TOTAL ASSETS</b> .....	<u>31,986,552</u>	<u>60,080,030</u>	<u>92,066,582</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions .....	<u>342,562</u>	<u>342,141</u>	<u>684,703</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> .....			
	<u>\$ 32,329,114</u>	<u>\$ 60,422,171</u>	<u>\$ 92,751,285</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF NET POSITION - CONTINUED**  
**JUNE 30, 2018**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>LIABILITIES</b>			
Accounts payable .....	\$ 243,999	\$ 3,809,551	\$ 4,053,550
Accrued expenses .....	281,549	225,906	507,455
Utility customer deposits .....	710,719	1,270,758	1,981,477
Internal balances .....	794,074	(794,074)	-
Unearned revenue			
Grants .....	391,749	-	391,749
Rents .....	55,125	-	55,125
Other .....	-	10,583	10,583
Compensated absences			
Due within one year .....	93,797	34,576	128,373
Due in more than one year .....	531,514	229,350	760,864
Net pension liability - due in more than one year .....	4,109,148	1,494,439	5,603,587
Bonds, notes, and capital lease obligations			
Due within one year .....	451,911	340,833	792,744
Due in more than one year .....	<u>2,030,508</u>	<u>7,422,381</u>	<u>9,452,889</u>
<b>TOTAL LIABILITIES</b> .....	<u>9,694,093</u>	<u>14,044,303</u>	<u>23,738,396</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues			
Property taxes .....	2,406,129	-	2,406,129
Payments in lieu of taxes .....	985,048	-	985,048
Pensions .....	<u>1,734,986</u>	<u>609,496</u>	<u>2,344,482</u>
<b>TOTAL DEFERRED INFLOWS     OF RESOURCES</b> .....	<u>5,126,163</u>	<u>609,496</u>	<u>5,735,659</u>
<b>NET POSITION</b>			
Net investment in capital assets .....	19,685,638	21,853,137	41,538,775
Restricted for			
Street expenses .....	131,411	-	131,411
Solid Waste/Sanitation expenses .....	864,340	-	864,340
Drug enforcement .....	40,386	-	40,386
Grants and donations .....	112,506	-	112,506
Debt service .....	1,033	314,998	316,031
Capital assets .....	-	32	32
Pension .....	5,678	1,194	6,872
Perpetual care (nonexpendable) .....	323,038	-	323,038
Unrestricted .....	<u>(3,655,172)</u>	<u>23,599,011</u>	<u>19,943,839</u>
<b>TOTAL NET POSITION</b> .....	<u>17,508,858</u>	<u>45,768,372</u>	<u>63,277,230</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> .....	<u>\$ 32,329,114</u>	<u>\$ 60,422,171</u>	<u>\$ 92,751,285</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>PROGRAM ACTIVITIES</b>							
Governmental activities							
General government .....	\$ 1,599,945	\$ -	\$ -	\$ -	\$ (1,599,945)	\$ -	\$ (1,599,945)
Public safety .....	5,634,225	352,485	119,802	368,599	(4,793,339)	-	(4,793,339)
Public works .....	2,539,288	1,603,724	321,295	172,618	(441,651)	-	(441,651)
Health, welfare, recreation, and education .....	2,150,850	513,187	84,453	585,399	(967,811)	-	(967,811)
Interest on long-term debt .....	74,229	-	-	-	(74,229)	-	(74,229)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b> .....	<u>11,998,537</u>	<u>2,469,396</u>	<u>525,550</u>	<u>1,126,616</u>	<u>(7,876,975)</u>	<u>-</u>	<u>(7,876,975)</u>
Business-type activities							
Water .....	1,418,797	1,830,416	-	-	-	411,619	411,619
Sewer .....	2,064,535	2,389,714	-	-	-	325,179	325,179
Gas .....	2,671,152	2,745,343	-	-	-	74,191	74,191
Bio Mass Gasification .....	165,874	121,093	-	-	-	(44,781)	(44,781)
Electric .....	20,378,433	20,655,623	-	-	-	277,190	277,190
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b> .....	<u>26,698,791</u>	<u>27,742,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,043,398</u>	<u>1,043,398</u>
<b>TOTAL GOVERNMENT</b> .....	<u>\$ 38,697,328</u>	<u>\$ 30,211,585</u>	<u>\$ 525,550</u>	<u>\$ 1,126,616</u>	<u>(7,876,975)</u>	<u>1,043,398</u>	<u>(6,833,577)</u>
<b>GENERAL REVENUES</b>							
Taxes							
Property .....					3,593,962	-	3,593,962
Sales .....					4,486,268	-	4,486,268
Privilege .....					832,200	-	832,200
Income .....					71,538	-	71,538
Investment earnings .....					42,499	215,409	257,908
Gain on capital assets and insurance proceeds .....					81,661	765	82,426
Miscellaneous .....					71,324	413,821	485,145
<b>TOTAL GENERAL REVENUES</b> .....					<u>9,179,452</u>	<u>629,995</u>	<u>9,809,447</u>
<b>TRANSFERS</b> .....					<u>459,903</u>	<u>(459,903)</u>	<u>-</u>
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b> .....					<u>9,639,355</u>	<u>170,092</u>	<u>9,809,447</u>
<b>CHANGE IN NET POSITION</b> .....					1,762,380	1,213,490	2,975,870
<b>NET POSITION</b>							
Balance at July 1, 2017, as restated .....					<u>15,746,478</u>	<u>44,554,882</u>	<u>60,301,360</u>
Balance at June 30, 2018 .....					<u>\$ 17,508,858</u>	<u>\$ 45,768,372</u>	<u>\$ 63,277,230</u>

See notes to financial statements



**CITY OF COVINGTON, TENNESSEE**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
<b>ASSETS</b>			
Cash and cash equivalents .....	\$ 2,849,855	\$ 1,782,609	\$ 4,632,464
Receivables			
Accounts receivable .....	-	188,471	188,471
Property taxes .....	2,700,492	-	2,700,492
Due from Tipton County, Tennessee .....	428,945	-	428,945
Due from State of Tennessee .....	387,750	53,233	440,983
Grants receivable .....	82,562	58,620	141,182
Other .....	1,194,992	33,691	1,228,683
Inventories .....	30,239	20,526	50,765
Due from other funds .....	<u>31,571</u>	<u>17,330</u>	<u>48,901</u>
<b>TOTAL ASSETS</b> .....	<u>\$ 7,706,406</u>	<u>\$ 2,154,480</u>	<u>\$ 9,860,886</u>
<b>LIABILITIES</b>			
Accounts payable .....	\$ 84,597	\$ 159,400	\$ 243,997
Accrued expenses .....	237,554	12,628	250,182
Utility customer deposits .....	710,719	-	710,719
Due to other funds .....	322,710	8,761	331,471
Unearned revenue			
Grants .....	-	391,749	391,749
Rents .....	-	55,125	55,125
Advances from other funds .....	<u>502,031</u>	<u>9,473</u>	<u>511,504</u>
<b>TOTAL LIABILITIES</b> .....	<u>1,857,611</u>	<u>637,136</u>	<u>2,494,747</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue			
Property taxes .....	2,660,850	-	2,660,850
Payments in lieu of taxes .....	985,048	-	985,048
State income tax .....	22,322	-	22,322
Grants .....	-	10,004	10,004
Penalties and interest on property taxes .....	<u>87,089</u>	<u>-</u>	<u>87,089</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b> .....	<u>3,755,309</u>	<u>10,004</u>	<u>3,765,313</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - CONTINUED**  
**JUNE 30, 2018**

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
<b>FUND BALANCE</b>			
Nonspendable .....	\$ 30,239	\$ 343,564	\$ 373,803
Restricted .....	95,057	1,044,615	1,139,672
Committed .....	-	102,063	102,063
Assigned .....	806,580	17,098	823,678
Unassigned .....	<u>1,161,610</u>	<u>-</u>	<u>1,161,610</u>
<b>TOTAL FUND BALANCE .....</b>	<b><u>2,093,486</u></b>	<b><u>1,507,340</u></b>	<b><u>3,600,826</u></b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE .....</b>			
	<b><u>\$ 7,706,406</u></b>	<b><u>\$ 2,154,480</u></b>	<b><u>\$ 9,860,886</u></b>

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, 2018**

	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS</b> .....	<b>\$ 3,600,826</b>
 <b>AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet. ....	22,168,057
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 .....	342,562
Net pension asset is not a financial resource and therefore is not reported in the governmental funds balance sheet .....	6,510
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 .....	374,133
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 .....	(1,734,986)
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. ....	(2,482,419)
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>(4,734,459)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b> .....	<b><u>\$ 17,508,858</u></b>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<u>GENERAL</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
<b>REVENUES</b>			
Local taxes .....	\$ 8,009,131	\$ -	\$ 8,009,131
Licenses and permits .....	102,134	-	102,134
Intergovernmental revenues .....	1,357,772	1,317,498	2,675,270
Charges for services .....	256,924	1,881,627	2,138,551
Fines, forfeits, and penalties .....	151,160	12,789	163,949
Other revenues .....	<u>75,021</u>	<u>57,952</u>	<u>132,973</u>
<b>TOTAL REVENUES</b> .....	<u>9,952,142</u>	<u>3,269,866</u>	<u>13,222,008</u>
<b>EXPENDITURES</b>			
Current			
General government .....	1,733,516	-	1,733,516
Public safety .....	6,395,717	86,060	6,481,777
Public works .....	864,219	1,689,703	2,553,922
Health, welfare, recreation and education ..	995,408	1,532,760	2,528,168
Debt service .....	<u>108,576</u>	<u>239,423</u>	<u>347,999</u>
<b>TOTAL EXPENDITURES</b> .....	<u>10,097,436</u>	<u>3,547,946</u>	<u>13,645,382</u>
<b>EXCESS OF REVENUES</b>			
<b>(UNDER) EXPENDITURES</b> .....	<u>(145,294)</u>	<u>(278,080)</u>	<u>(423,374)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in .....	541,320	330,657	871,977
Proceeds from capital leases .....	127,999	61,017	189,016
Proceeds from capital asset sales and insurance .....	56,913	53,752	110,665
Transfers out .....	<u>(390,911)</u>	<u>(21,163)</u>	<u>(412,074)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>335,321</u>	<u>424,263</u>	<u>759,584</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	190,027	146,183	336,210
<b>FUND BALANCE</b>			
Balance at July 1, 2017, as restated .....	<u>1,903,459</u>	<u>1,361,157</u>	<u>3,264,616</u>
Balance at June 30, 2018 .....	<u>\$ 2,093,486</u>	<u>\$ 1,507,340</u>	<u>\$ 3,600,826</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, 2018**

**NET CHANGE IN FUND BALANCE - TOTAL  
GOVERNMENTAL FUNDS** ..... \$ 336,210

**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 .....	1,846,605
Depreciation expense .....	(1,234,442)

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 .....

(29,004)

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 .....	(189,016)
Principal payments .....	295,419

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

(48,847)

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

809,760

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. ....

(2,658)

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. ....

(21,647)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** ..... \$ 1,762,380

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2018**

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 3,884,448	\$ 3,486,241	\$ 9,851,983	\$ 6,713	\$ 9,631,793	\$ 26,861,178
Receivables						
Trade	232,222	263,721	138,472	-	2,081,082	2,715,497
Other	-	269	-	-	384	653
Due from other funds	-	45,099	373,685	-	-	418,784
Inventories	26,457	6,836	19,223	-	224,678	277,194
Prepayments and other current assets	-	-	-	-	188,668	188,668
<b>TOTAL CURRENT ASSETS</b>	<u>4,143,127</u>	<u>3,802,166</u>	<u>10,383,363</u>	<u>6,713</u>	<u>12,126,605</u>	<u>30,461,974</u>
<b>NONCURRENT ASSETS</b>						
<b>Restricted Assets</b>						
Cash and cash equivalents on deposit						
Debt service	-	-	-	-	323,785	323,785
Construction	-	32	-	-	-	32
Customer deposits	-	-	-	-	20,655	20,655
Net pension asset	399	434	401	-	-	1,234
<b>Total Restricted Assets</b>	<u>399</u>	<u>466</u>	<u>401</u>	<u>-</u>	<u>344,440</u>	<u>345,706</u>
<b>Capital Assets</b>						
<b>Not being depreciated</b>						
Land, land rights and improvements	12,015	51,191	116,178	-	220,712	400,096
Construction in process	10,125	46,609	-	-	63,147	119,881
	<u>22,140</u>	<u>97,800</u>	<u>116,178</u>	<u>-</u>	<u>283,859</u>	<u>519,977</u>
<b>Being depreciated</b>						
Buildings	3,209,454	10,392,165	927,592	-	-	14,529,211
Distribution and collection systems	9,432,487	13,298,070	2,110,577	-	12,792,200	37,633,334
General plant	-	-	-	-	6,636,755	6,636,755
Transmission plant	-	-	-	-	2,161,810	2,161,810
Bio Mass plant	-	-	-	2,243,189	-	2,243,189
Equipment	214,787	845,269	534,077	78,374	-	1,672,507
Unamortized acquisition adjustment	-	-	-	-	241,642	241,642
Less accumulated depreciation/amortization	(8,700,774)	(13,356,834)	(2,620,372)	(390,440)	(10,898,881)	(35,967,301)
<b>Total Capital Assets, Net of Accumulated Depreciation/ Amortization</b>	<u>4,178,094</u>	<u>11,276,470</u>	<u>1,068,052</u>	<u>1,931,123</u>	<u>11,217,385</u>	<u>29,671,124</u>
<b>Other Assets</b>						
Unamortized debt expense	-	-	-	-	11,694	11,694
Advances to other funds	-	-	512,224	-	-	512,224
Other	-	-	-	-	6,165	6,165
Advances to customers - home insulation	-	-	-	-	2,151	2,151
<b>Total Other Assets</b>	<u>-</u>	<u>-</u>	<u>512,224</u>	<u>-</u>	<u>20,010</u>	<u>532,234</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>4,178,493</u>	<u>11,276,936</u>	<u>1,580,697</u>	<u>1,931,123</u>	<u>11,581,835</u>	<u>30,549,064</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CONTINUED**  
**JUNE 30, 2018**

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pensions .....	\$ 28,675	\$ 32,906	\$ 30,257	\$ -	\$ 250,303	\$ 342,141
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> .....	<u>\$ 8,350,295</u>	<u>\$ 15,112,008</u>	<u>\$ 11,994,297</u>	<u>\$ 1,937,836</u>	<u>\$ 23,958,743</u>	<u>\$ 61,353,179</u>
<b>LIABILITIES AND NET POSITION</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable .....	\$ 41,028	\$ 67,631	\$ 281,304	\$ -	\$ 3,419,588	\$ 3,809,551
Accrued expenses .....	77,896	8,182	38,756	-	77,923	202,757
Payroll and other taxes .....	9,076	10,290	(5,004)	-	-	14,362
Current maturities of long-term debt .....	18,046	124,787	-	173,000	-	315,833
Due to other funds .....	126,263	10,500	171	-	-	136,934
Customer deposits .....	-	-	-	-	1,250,103	1,250,103
Current portion of compensated absences .....	6,668	7,325	10,556	-	10,027	34,576
<b>TOTAL CURRENT LIABILITIES</b> .....	<u>278,977</u>	<u>228,715</u>	<u>325,783</u>	<u>173,000</u>	<u>4,757,641</u>	<u>5,764,116</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>						
Customer deposits .....	-	-	-	-	20,655	20,655
Accrued interest .....	-	-	-	-	8,787	8,787
Current maturities of long-term debt .....	-	-	-	-	125,000	125,000
<b>TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b> .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>154,442</u>	<u>154,442</u>
<b>NONCURRENT LIABILITIES</b>						
Bonds payable, less current maturities .....	919,828	3,949,553	-	1,748,000	705,000	7,322,381
Unamortized bond premium (discount) .....	-	15,052	-	-	(6,888)	8,164
Advances-home insulation program .....	-	-	-	-	2,419	2,419
Net pension liability .....	351,643	406,588	373,621	-	362,587	1,494,439
Compensated absences, less current portion .....	37,784	41,506	59,818	-	90,242	229,350
<b>TOTAL NONCURRENT LIABILITIES</b> .....	<u>1,309,255</u>	<u>4,412,699</u>	<u>433,439</u>	<u>1,748,000</u>	<u>1,153,360</u>	<u>9,056,753</u>
<b>TOTAL LIABILITIES</b> .....	<u>1,588,232</u>	<u>4,641,414</u>	<u>759,222</u>	<u>1,921,000</u>	<u>6,065,443</u>	<u>14,975,311</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pensions .....	125,493	145,101	133,336	-	205,566	609,496

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CONTINUED**  
**JUNE 30, 2018**

	<b>BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>TOTALS</b>
	<b>WATER FUND</b>	<b>SEWER FUND</b>	<b>GAS UTILITY FUND</b>	<b>BIO MASS GASIFICATION FUND</b>	<b>COVINGTON ELECTRIC SYSTEM ELECTRIC FUND</b>	
<b>NET POSITION</b>						
Net investment in capital assets . . .	\$ 3,240,220	\$ 7,140,469	\$ 1,068,052	\$ 10,123	\$ 10,394,273	\$ 21,853,137
Restricted for debt service . . . . .	-	-	-	-	314,998	314,998
Restricted for construction . . . . .	-	32	-	-	-	32
Restricted for pension . . . . .	386	420	388	-	-	1,194
Unrestricted . . . . .	<u>3,395,964</u>	<u>3,184,572</u>	<u>10,033,299</u>	<u>6,713</u>	<u>6,978,463</u>	<u>23,599,011</u>
<b>TOTAL NET POSITION . . .</b>	<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>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION . . . . .</b>	<u>\$ 8,350,295</u>	<u>\$15,112,008</u>	<u>\$11,994,297</u>	<u>\$ 1,937,836</u>	<u>\$ 23,958,743</u>	<u>\$ 61,353,179</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, 2018**

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
<b>OPERATING REVENUES</b>						
Charges for services .....	\$ 1,830,416	\$ 2,389,714	\$ 2,745,343	\$ 121,093	\$ 20,655,623	\$ 27,742,189
Miscellaneous .....	82,733	15,509	18,212	-	297,367	413,821
<b>TOTAL OPERATING REVENUES</b> .....	<u>1,913,149</u>	<u>2,405,223</u>	<u>2,763,555</u>	<u>121,093</u>	<u>20,952,990</u>	<u>28,156,010</u>
<b>OPERATING EXPENSES</b>						
Purification .....	402,199	-	-	-	-	402,199
Transmission and distribution .....	524,468	-	480,013	-	-	1,004,481
Operations expense .....	-	-	-	23,127	1,860,611	1,883,738
Collection .....	-	241,219	-	-	-	241,219
Treatment and disposal .....	-	702,384	-	-	-	702,384
Purchased gas and power .....	-	-	1,643,177	-	17,112,807	18,755,984
General and administrative .....	229,066	357,113	454,380	-	-	1,040,559
Maintenance expense .....	-	-	-	-	532,120	532,120
Taxes .....	-	-	-	-	97,061	97,061
Depreciation and amortization .....	223,141	625,685	93,582	97,565	729,682	1,769,655
<b>TOTAL OPERATING EXPENSES</b> .....	<u>1,378,874</u>	<u>1,926,401</u>	<u>2,671,152</u>	<u>120,692</u>	<u>20,332,281</u>	<u>26,429,400</u>
<b>OPERATING INCOME</b> .....	<u>534,275</u>	<u>478,822</u>	<u>92,403</u>	<u>401</u>	<u>620,709</u>	<u>1,726,610</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest earned and other revenue .....	37,236	33,145	110,527	15	34,486	215,409
Other expenses .....	-	-	-	-	(9,833)	(9,833)
Gain on disposal of capital assets ...	-	-	765	-	-	765
Interest expense .....	(39,923)	(138,134)	-	(45,182)	(36,319)	(259,558)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> .....	<u>(2,687)</u>	<u>(104,989)</u>	<u>111,292</u>	<u>(45,167)</u>	<u>(11,666)</u>	<u>(53,217)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b> .....	<u>531,588</u>	<u>373,833</u>	<u>203,695</u>	<u>(44,766)</u>	<u>609,043</u>	<u>1,673,393</u>
<b>TRANSFERS</b>						
Transfers in .....	-	-	-	75,788	-	75,788
Transfers out .....	(36,100)	(83,530)	(50,000)	-	(366,061)	(535,691)
<b>NET TRANSFERS</b> .....	<u>(36,100)</u>	<u>(83,530)</u>	<u>(50,000)</u>	<u>75,788</u>	<u>(366,061)</u>	<u>(459,903)</u>
<b>CHANGE IN NET POSITION</b> .....	495,488	290,303	153,695	31,022	242,982	1,213,490
<b>NET POSITION</b>						
Balance at July 1, 2017 .....	<u>6,141,082</u>	<u>10,035,190</u>	<u>10,948,044</u>	<u>(14,186)</u>	<u>17,444,752</u>	<u>44,554,882</u>
Balance at June 30, 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>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<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>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers . . . . .	\$ 2,054,450	\$ 2,384,007	\$ 2,644,314	\$ 121,093	\$20,938,782	\$ 28,142,646
Cash payments to suppliers for goods and services . . . . .	(738,113)	(826,557)	(2,053,282)	(23,127)	(19,106,083)	(22,747,162)
Cash payments to employees for services . . . . .	(290,316)	(346,742)	(454,424)	(63,287)	Included above	(1,154,769)
Cash payments to General Fund for share of joint costs . . . . .	(92,897)	(78,897)	(101,297)	-	-	(273,091)
Cash payments to General Fund for payments in lieu of taxes (transfers) . . . . .	(36,100)	(96,100)	(50,000)	-	(366,061)	(548,261)
Cash payments for other taxes . . . . .	(16,287)	(30,034)	(38,930)	(894)	(97,061)	(183,206)
Customer deposits received . . . . .	-	-	-	-	365,890	365,890
Customer deposits refunded . . . . .	-	-	-	-	(308,225)	(308,225)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES . . . . .</b>	<u>880,737</u>	<u>1,005,677</u>	<u>(53,619)</u>	<u>33,785</u>	<u>1,427,242</u>	<u>3,293,822</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfer in . . . . .	-	-	-	75,788	-	75,788
(Decrease) in advances from TVA . . . . .	-	-	-	-	(3,003)	(3,003)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES . . . . .</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,788</u>	<u>(3,003)</u>	<u>72,785</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition and construction of capital assets . . . . .	(171,814)	(444,271)	(70,773)	-	(507,880)	(1,194,738)
Disposal of capital assets . . . . .	-	-	765	-	58,422	59,187
Plant removal costs . . . . .	-	-	-	-	(34,721)	(34,721)
Materials salvaged from retirements . . . . .	-	-	-	-	20,202	20,202
Principal paid on capital debt . . . . .	(156,295)	(127,688)	-	(70,000)	(120,000)	(473,983)
Interest and fees paid on capital debt . . . . .	(41,946)	(139,548)	-	(45,182)	(37,489)	(264,165)
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES . . . . .</b>	<u>(370,055)</u>	<u>(711,507)</u>	<u>(70,008)</u>	<u>(115,182)</u>	<u>(621,466)</u>	<u>(1,888,218)</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Investment income .....	\$ 37,236	\$ 33,145	\$ 110,527	\$ 15	\$ 34,486	\$ 215,409
Decrease in advances to other funds .....	-	-	321,082	-	-	321,082
(Expenses) for other nonoperating expenses .....	-	-	-	-	(9,833)	(9,833)
(Increase) in other assets .....	-	-	-	-	(1,350)	(1,350)
Decrease in conservation loans .....	-	-	-	-	3,003	3,003
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES .....</b>	<u>37,236</u>	<u>33,145</u>	<u>431,609</u>	<u>15</u>	<u>26,306</u>	<u>528,311</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	547,918	327,315	307,982	(5,594)	829,079	2,006,700
<b>CASH AND CASH EQUIVALENTS</b>						
Beginning of year .....	<u>3,336,530</u>	<u>3,158,958</u>	<u>9,544,001</u>	<u>12,307</u>	<u>9,126,499</u>	<u>25,178,295</u>
End of year .....	<u>\$ 3,884,448</u>	<u>\$ 3,486,273</u>	<u>\$ 9,851,983</u>	<u>\$ 6,713</u>	<u>\$ 9,955,578</u>	<u>\$ 27,184,995</u>
<b>RECONCILIATION OF ENDING CASH AND CASH EQUIVALENTS TO LINE ITEMS IN STATEMENT OF NET POSITION</b>						
Unrestricted cash and cash equivalents .....	\$ 3,884,448	\$ 3,486,241	\$ 9,851,983	\$ 6,713	\$ 9,631,793	\$ 26,861,178
Restricted cash and cash equivalents .....	-	32	-	-	323,785	323,817
Cash and cash equivalents .....	<u>\$ 3,884,448</u>	<u>\$ 3,486,273</u>	<u>\$ 9,851,983</u>	<u>\$ 6,713</u>	<u>\$ 9,955,578</u>	<u>\$ 27,184,995</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS					TOTALS
	WATER FUND	SEWER FUND	GAS UTILITY FUND	BIO MASS GASIFICATION FUND	COVINGTON ELECTRIC SYSTEM ELECTRIC FUND	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income	\$ 534,275	\$ 478,822	\$ 92,403	\$ 401	\$ 620,709	\$ 1,726,610
Adjustments to reconcile net operating income to net cash provided (used) by operating activities						
Depreciation and amortization	223,141	625,685	93,582	97,565	731,107	1,771,080
Transfer (out)	(36,100)	(83,530)	(50,000)	-	(366,061)	(535,691)
Bad debts (recoveries)	(3,586)	(5,847)	887	-	-	(8,546)
Net change in pension deferred inflows/outflows	24,706	31,483	27,446	-	51,334	134,969
Changes in assets and liabilities						
Receivables	33,614	29,289	(63,968)	-	(14,208)	(15,273)
Inventory	10,833	928	6,975	-	21,554	40,290
Prepayments and other current assets	-	-	-	-	(19,240)	(19,240)
Accounts payable, accrued expenses, and payroll and other taxes	38,153	(14,857)	(39,075)	(894)	344,373	327,700
Compensated absences and pension benefits	(91,454)	(90,598)	(81,845)	-	-	(263,897)
Interfund accounts	147,155	34,302	(40,024)	(63,287)	-	78,146
Customer deposits	-	-	-	-	57,674	57,674
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 880,737</u>	<u>\$ 1,005,677</u>	<u>\$ (53,619)</u>	<u>\$ 33,785</u>	<u>\$ 1,427,242</u>	<u>\$ 3,293,822</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>						
Liabilities incurred for acquisition of capital assets	<u>\$ -</u>	<u>\$ 46,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,609</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
**JUNE 30, 2018**

	<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>	
<b>ASSETS</b>				
Cash and cash equivalents . . . . .	\$ 1,926,037	\$ 95,714	\$ -	\$ 2,021,751
Investments . . . . .	<u>13,471,544</u>	<u>3,325,493</u>	<u>473,190</u>	<u>17,270,227</u>
<b>TOTAL ASSETS . . . . .</b>	<u>\$ 15,397,581</u>	<u>\$ 3,421,207</u>	<u>\$ 473,190</u>	<u>\$ 19,291,978</u>
<b>LIABILITIES</b>				
Due to brokers . . . . .	\$ 539,188	\$ -	\$ -	\$ 539,188
<b>NET POSITION</b>				
Restricted for pension benefits . .	<u>14,858,393</u>	<u>3,421,207</u>	<u>473,190</u>	<u>18,752,790</u>
<b>TOTAL LIABILITIES</b>				
<b>NET POSITION . . . . .</b>	<u>\$ 15,397,581</u>	<u>\$ 3,421,207</u>	<u>\$ 473,190</u>	<u>\$ 19,291,978</u>

See notes to financial statements

**CITY OF COVINGTON, TENNESSEE**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -**  
**FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	TRUST FUNDS			TOTALS
	CITY OF COVINGTON PENSION FUND	COVINGTON ELECTRIC SYSTEM DEFINED BENEFIT PLAN	COVINGTON ELECTRIC SYSTEM 457 PLAN	
<b>ADDITIONS</b>				
Contributions - employer . . . . .	\$ 1,416,000	\$ 146,866	\$ 40,928	\$ 1,603,794
Investment earnings				
Net increase (decrease) in				
fair value of investments . . . . .	1,320,287	186,617	18,364	1,525,268
Dividends and interest . . . . .	214,697	60,074	-	274,771
Total investment earnings . . . . .	1,534,984	246,691	18,364	1,800,039
<b>TOTAL ADDITIONS</b> . . . . .	<u>2,950,984</u>	<u>393,557</u>	<u>59,292</u>	<u>3,403,833</u>
<b>DEDUCTIONS</b>				
Benefits paid . . . . .	860,520	119,767	11,300	991,587
Administrative expenses . . . . .	99,421	27,584	-	127,005
<b>TOTAL DEDUCTIONS</b> . . . . .	<u>959,941</u>	<u>147,351</u>	<u>11,300</u>	<u>1,118,592</u>
<b>CHANGE IN NET POSITION</b> . . . . .	<u>1,991,043</u>	<u>246,206</u>	<u>47,992</u>	<u>2,285,241</u>
<b>NET POSITION</b>				
Balance at July 1, 2017 . . . . .	12,867,350	3,175,001	425,198	16,467,549
Balance at June 30, 2018 . . . . .	<u>\$ 14,858,393</u>	<u>\$ 3,421,207</u>	<u>\$ 473,190</u>	<u>\$ 18,752,790</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Local taxes				
Property taxes .....	\$ -	\$ -	\$ 2,377,454	\$ -
Interest and penalty .....	-	-	39,869	-
Payments in lieu of taxes .....	-	-	1,089,522	-
Local sales tax .....	-	-	3,706,714	-
Wholesale beer tax .....	-	-	401,136	-
Wholesale liquor tax .....	-	-	86,498	-
Business taxes .....	-	-	247,131	-
Franchise fees .....	-	-	60,807	-
	<u>8,215,000</u>	<u>8,215,000</u>	<u>8,009,131</u>	<u>(205,869)</u>
Licenses and permits .....	33,100	33,100	102,134	69,034
Intergovernmental revenues				
TVA payment in lieu of taxes ...	-	-	102,486	-
State law enforcement and fire protection expense reimbursements .....	-	-	32,400	-
Federal grants .....	-	-	37,675	-
State grants .....	-	-	141,840	-
Tipton County grants and reimbursements .....	-	-	80,503	-
State sales tax .....	-	-	770,260	-
State telecommunications sales tax .....	-	-	9,294	-
State income tax .....	-	-	39,223	-
State beer tax .....	-	-	4,216	-
State mixed drink tax .....	-	-	32,411	-
State special petroleum tax .....	-	-	18,214	-
State highway maintenance .....	-	-	52,738	-
State excise tax .....	-	-	29,605	-
Other .....	-	-	6,907	-
	<u>1,811,600</u>	<u>1,811,600</u>	<u>1,357,772</u>	<u>(453,828)</u>
Charges for services .....	309,300	309,300	256,924	(52,376)
Fines, forfeits and penalties .....	125,000	125,000	151,160	26,160
Other revenues .....	61,500	53,500	75,021	21,521
<b>TOTAL REVENUES</b> .....	<u>10,555,500</u>	<u>10,547,500</u>	<u>9,952,142</u>	<u>(595,358)</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>EXPENDITURES</b>				
General government				
Board of Aldermen				
Personal services .....	\$ -	\$ -	\$ 190,819	\$ -
Contractual services .....	-	-	31,779	-
Fixed charges .....	-	-	164,622	-
Grants and donations .....	-	-	91,796	-
	<u>483,763</u>	<u>483,763</u>	<u>479,016</u>	<u>4,747</u>
City court				
Personal services .....	<u>12,000</u>	<u>18,064</u>	<u>17,924</u>	<u>140</u>
Recorder-treasurer				
Personal services .....	-	-	417,996	-
Contractual services .....	-	-	61,038	-
Supplies .....	-	-	12,660	-
Bad debt expense .....	-	-	(4,148)	-
Capital outlay .....	-	-	1,791	-
Reimbursements - enterprise funds .....	-	-	(141,411)	-
	<u>381,213</u>	<u>381,213</u>	<u>347,926</u>	<u>33,287</u>
City attorney				
Personal services .....	-	-	6,000	-
Contractual services .....	-	-	74,332	-
	<u>96,000</u>	<u>96,000</u>	<u>80,332</u>	<u>15,668</u>
Purchasing				
Personal services .....	-	-	227,459	-
Contractual services .....	-	-	15,871	-
Supplies .....	-	-	2,913	-
Capital outlay .....	-	-	2,357	-
Reimbursements - enterprise funds .....	-	-	(71,827)	-
	<u>196,680</u>	<u>196,680</u>	<u>176,773</u>	<u>19,907</u>
Data processing				
Contractual services .....	-	-	74,745	-
Capital outlay .....	-	-	998	-
Reimbursements - enterprise funds .....	-	-	(23,373)	-
	<u>49,689</u>	<u>55,689</u>	<u>52,370</u>	<u>3,319</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>EXPENDITURES - CONTINUED</b>				
General government - continued				
Developmental services				
Personal services .....	\$ -	\$ -	\$ 134,509	\$ -
Contractual services .....	-	-	35,144	-
Supplies .....	-	-	6,411	-
Capital outlay .....	-	-	37,908	-
Reimbursements - enterprise funds .....	-	-	(42,039)	-
	<u>151,449</u>	<u>156,449</u>	<u>171,933</u>	<u>(15,484)</u>
Grounds maintenance				
Personal services .....	-	-	333,785	-
Contractual services .....	-	-	16,281	-
Supplies .....	-	-	20,216	-
Capital outlay .....	-	-	2,666	-
	<u>329,472</u>	<u>329,472</u>	<u>372,948</u>	<u>(43,476)</u>
City Hall buildings				
Contractual services .....	-	-	43,926	-
Supplies .....	-	-	1,800	-
Reimbursements - enterprise funds .....	-	-	(11,432)	-
	<u>35,491</u>	<u>35,491</u>	<u>34,294</u>	<u>1,197</u>
Total general government .....	<u>1,735,757</u>	<u>1,752,821</u>	<u>1,733,516</u>	<u>19,305</u>
Public Safety				
Police				
Personal services .....	-	-	2,990,260	-
Contractual services .....	-	-	235,238	-
Supplies .....	-	-	165,895	-
Capital outlay .....	-	-	168,348	-
	<u>6,344,798</u>	<u>3,884,798</u>	<u>3,559,741</u>	<u>325,057</u>
Fire protection and control				
Personal services .....	-	-	2,502,375	-
Contractual services .....	-	-	124,390	-
Supplies .....	-	-	59,580	-
Capital outlay .....	-	-	34,235	-
	<u>2,615,637</u>	<u>2,715,637</u>	<u>2,720,580</u>	<u>(4,943)</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>EXPENDITURES - CONTINUED</b>				
Public Safety - Continued				
Outside fire expenditures				
Personal services .....	\$ -	\$ -	\$ 45,400	\$ -
Contractual services .....	-	-	3,867	-
Supplies .....	-	-	12,630	-
Capital outlay .....	-	-	11,898	-
	<u>281,462</u>	<u>91,462</u>	<u>73,795</u>	<u>17,667</u>
Civil defense				
Contractual services .....	-	-	738	-
Supplies .....	-	-	40,863	-
	<u>34,750</u>	<u>44,750</u>	<u>41,601</u>	<u>3,149</u>
Total public safety .....	<u>9,276,647</u>	<u>6,736,647</u>	<u>6,395,717</u>	<u>340,930</u>
Public works				
Highways, streets and roadways				
Personal services .....	-	-	260,034	-
Contractual services .....	-	-	61,632	-
Supplies .....	-	-	30,719	-
Capital outlay .....	-	-	222,590	-
	<u>1,355,427</u>	<u>1,355,427</u>	<u>574,975</u>	<u>780,452</u>
Street lighting				
Contractual services .....	-	-	10,144	-
Capital outlay .....	-	-	125	-
	<u>15,000</u>	<u>15,000</u>	<u>10,269</u>	<u>4,731</u>
City garage				
Personal services .....	-	-	190,151	-
Contractual services .....	-	-	22,527	-
Supplies .....	-	-	13,859	-
Capital outlay .....	-	-	54,999	-
Reimbursements - enterprise funds .....	-	-	(62,061)	-
	<u>224,994</u>	<u>224,994</u>	<u>219,475</u>	<u>5,519</u>
GIS Department				
Fixed charges .....	<u>9,350</u>	<u>9,350</u>	<u>5,500</u>	<u>3,850</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>EXPENDITURES - CONTINUED</b>				
Public works - Continued				
Industrial development				
Contractual services .....	\$ 54,000	\$ 54,000	\$ 54,000	\$ -
Total public works .....	<u>1,660,771</u>	<u>1,660,771</u>	<u>864,219</u>	<u>796,552</u>
Health, welfare, recreation and education				
Rabies and animal control				
Personal services .....	-	-	68,585	-
Contractual services .....	-	-	2,909	-
Supplies .....	-	-	12,421	-
	<u>79,815</u>	<u>99,815</u>	<u>83,915</u>	<u>15,900</u>
Recreation administration				
Personal services .....	-	-	97,995	-
Contractual services .....	-	-	7,019	-
Fixed charges .....	-	-	1,451	-
	<u>107,408</u>	<u>109,408</u>	<u>106,465</u>	<u>2,943</u>
Recreation centers				
Contractual services .....	<u>2,000</u>	<u>2,000</u>	<u>833</u>	<u>1,167</u>
Playgrounds				
Contractual services .....	-	-	56,149	-
Supplies .....	-	-	23	-
Capital outlay .....	-	-	19,618	-
	<u>99,270</u>	<u>97,270</u>	<u>75,790</u>	<u>21,480</u>
Swimming pools				
Personal services .....	-	-	127,854	-
Contractual services .....	-	-	48,007	-
Supplies .....	-	-	15,925	-
Capital outlay .....	-	-	19,671	-
	<u>216,778</u>	<u>216,778</u>	<u>211,457</u>	<u>5,321</u>
Sportsplex				
Personal services .....	-	-	308,146	-
Contractual services .....	-	-	71,850	-
Supplies .....	-	-	18,815	-
Capital outlay .....	-	-	31,134	-
	<u>401,528</u>	<u>432,528</u>	<u>429,945</u>	<u>2,583</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>EXPENDITURES - CONTINUED</b>				
Health, welfare, recreation and education - continued				
Park security				
Personal services .....	\$ -	\$ -	\$ 3,394	\$ -
Supplies .....	-	-	430	-
	<u>35,012</u>	<u>3,948</u>	<u>3,824</u>	<u>124</u>
Municipal Center				
Personal services .....	-	-	777	-
Contractual services .....	-	-	49,814	-
Supplies .....	-	-	19,092	-
Fixed charges .....	-	-	890	-
Capital outlay .....	-	-	2,058	-
	<u>108,700</u>	<u>108,700</u>	<u>72,631</u>	<u>36,069</u>
Library				
Contractual services .....	<u>23,512</u>	<u>23,512</u>	<u>10,548</u>	<u>12,964</u>
Total health, welfare, recreation and education .....	<u>1,074,023</u>	<u>1,093,959</u>	<u>995,408</u>	<u>98,551</u>
Debt service				
Principal .....	-	-	81,629	-
Interest .....	-	-	26,947	-
Total debt service .....	<u>278,411</u>	<u>293,411</u>	<u>108,576</u>	<u>184,835</u>
<b>TOTAL</b> <b>EXPENDITURES</b> .....	<u>14,025,609</u>	<u>11,537,609</u>	<u>10,097,436</u>	<u>1,440,173</u>
<b>EXCESS OF REVENUES</b> <b>(UNDER) EXPENDITURES</b> .....	<u>(3,470,109)</u>	<u>(990,109)</u>	<u>(145,294)</u>	<u>844,815</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>OTHER FINANCING SOURCES</b>				
<b>(USES)</b>				
Transfers in .....	\$ 592,200	\$ 592,200	\$ 541,320	\$ (50,880)
Transfers out .....	(467,741)	(467,741)	(390,911)	76,830
Proceeds from capital asset sales and insurance .....	-	-	56,913	56,913
Proceeds from note and capital lease .....	<u>3,000,000</u>	<u>-</u>	<u>127,999</u>	<u>127,999</u>
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<u>3,124,459</u>	<u>124,459</u>	<u>335,321</u>	<u>210,862</u>
<b>NET CHANGE IN FUND</b>				
<b>BALANCE .....</b>	(345,650)	(865,650)	190,027	1,055,677
<b>FUND BALANCE</b>				
Balance at July 1, 2017, as restated .....	<u>1,903,459</u>	<u>1,903,459</u>	<u>1,903,459</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 1,557,809</u>	<u>\$ 1,037,809</u>	<u>\$ 2,093,486</u>	<u>\$ 1,055,677</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, 2018**

**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, 2018**

**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, 2018**

**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.

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

*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.

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

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

***BASIS OF PRESENTATION - PROPRIETARY FUND FINANCIAL STATEMENTS -***

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



**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**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, 2018**

**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, 2018**

**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; 2018**

**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, 2018**

**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	\$ 2,400
Drug Fund	59,000
Munford Cemetery Fund	2,100

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, 2018**

**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, 2018**

**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>
<b><u>Governmental Activities/Fund</u></b>			
General Fund			
Property taxes .....	\$ 107,787	\$ 7,547	\$ -
Solid Waste/Sanitation Fund			
Garbage collection fees .....	<u>          -</u>	<u>          -</u>	<u>      4,863</u>
	<u>\$ 107,787</u>	<u>\$ 7,547</u>	<u>\$ 4,863</u>
<b><u>Business-Type Activities/Fund</u></b>			
Water Fund			
Utility billings .....	\$ -	\$ -	\$ 3,586
Sewer Fund			
Utility billings .....	-	-	5,847
Gas Utility Fund			
Utility billings .....	<u>          -</u>	<u>      887</u>	<u>          -</u>
	<u>\$ -</u>	<u>\$ 887</u>	<u>\$ 9,433</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, 2018**

**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, 2018**

**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, 2018 is approximately \$796,000.

***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, 2018**

**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 for the year ended June 30, 2018, 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, 2018**

**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, 2018 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, 2018 (March 31, 2018 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	\$ 11,275,460
Balanced Funds	902,455
Fixed Income	2,847,449
International	<u>2,244,863</u>
	<u>\$ 17,270,227</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, 2018 (March 31, 2018 for the Covington Electric System Defined Benefit Plan):

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**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 .....	\$ 317,383	\$ -	\$ 2,384,546
Advisors Invt TR Johcm Intl SI I .....	174,915	-	851,345
Baron Emerging Markets Fund .....	185,424	-	1,594,989
VOYA Growth and Income Portfolio .....	-	39,661	-
Amer Cent One Choice 2045 Portfolio .....	-	71,240	-
VOYA Intermediate Bond Portfolio 1 .....	-	43,436	-
VOYA Fixed Account .....	-	225,187	-

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, 2018 (March 31, 2018 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>
<b>INVESTMENTS BY FAIR VALUE LEVEL</b>				
Equity securities				
Mutual Funds .....	\$ 4,783,959	\$ 4,783,959	\$ -	\$ -
Common stocks .....	<u>12,486,268</u>	<u>12,486,268</u>	<u>-</u>	<u>-</u>
	<u>\$ 17,270,227</u>	<u>\$ 17,270,227</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.

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

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

Included in the accounts receivable balance of \$2,903,968 are unbilled receivables of \$353,295. The unbilled receivables represent estimated charges for usage from the last billing date through June 30, 2018.

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, 2018 is as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>	
<b>MAJOR FUNDS</b>			
General Fund			
Airport Fund .....	\$ 899	\$ -	
Solid Waste/Sanitation Fund .....	-	5,920	
Water Fund .....	14,991	-	
Sewer Fund .....	10,052	-	
Gas Utility Fund .....	-	818,821	(1)
Munford Cemetary Fund .....	<u>5,629</u>	<u>-</u>	
	<u>31,571</u>	<u>824,741</u>	
Water Fund			
General Fund .....	-	14,991	
Solid Waste/Sanitation Fund .....	-	10,962	
Sewer Fund .....	-	44,928	
Gas Utility Fund .....	<u>-</u>	<u>55,382</u>	
	<u>-</u>	<u>126,263</u>	
Sewer Fund			
General Fund .....	-	10,052	
State Street Aid Fund .....	-	448	
Water Fund .....	44,928	-	
Gas Utility Fund .....	<u>171</u>	<u>-</u>	
	<u>45,099</u>	<u>10,500</u>	
Gas Utility Fund			
General Fund .....	818,821	(1)	-
Solid Waste/Sanitation Fund .....	11,706	(2)	-
Water Fund .....	55,382		-
Sewer Fund .....	<u>-</u>		<u>171</u>
	<u>885,909</u>		<u>171</u>

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED**

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
<b>NONMAJOR GOVERNMENTAL FUNDS</b>		
State Street Aid Fund		
Sewer Fund .....	\$ 448	\$ -
Airport Fund		
General Fund .....	-	899
Solid Waste/Sanitation Fund		
General Fund .....	5,920	-
Water Fund .....	10,962	-
Gas Utility Fund .....	-	11,706 (2)
Munford Cemetery Fund		
General Fund .....	<u>-</u>	<u>5,629</u>
	<u>17,330</u>	<u>18,234</u>
 <b>TOTALS .....</b>	 <b><u>\$ 979,909</u></b>	 <b><u>\$ 979,909</u></b>

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

- (a) Note with a balance of \$76,311, payable in annual installments of \$37,778, plus interest at 2%, through 2020.
- (b) Note with a balance of \$529,075, payable in annual installments of \$176,358, plus interest at 1%, through 2021.
- (c) Note with a balance of \$139,511, payable in annual installments of \$30,243 plus interest at 2% through 2023.
- (d) Note with a balance of \$66,702, payable in annual installments of \$76,702, plus interest at 1%, through 2019.

(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 (\$512,224) are expected to be repaid within one year.

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED**

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

	<u>INTERFUND BALANCES - ASSETS</u>	<u>INTERFUND BALANCES - LIABILITIES</u>
Governmental Funds		
Due from/to other funds . . . . .	\$ 48,901	\$ 331,471
Advances to/from other funds . . . . .	-	511,504
Proprietary Funds		
Due from/to other funds . . . . .	419,504	136,934
Advances to/from other funds . . . . .	<u>511,504</u>	<u>-</u>
	<u>\$ 979,909</u>	<u>\$ 979,909</u>

The composition of interfund transfers for the year ended June 30, 2018 is as follows:

	<u>TRANSFERS FROM OTHER FUNDS</u>	<u>TRANSFERS TO OTHER FUNDS</u>	
<b>MAJOR FUNDS</b>			
General Fund			
Airport Fund . . . . .	\$ -	\$ 50,000	
Tipton County Museum Fund . . . . .	-	68,000	
PBACCT Bond Fund . . . . .	-	197,123	
Water Fund . . . . .	36,100 (1)	-	
Sewer Fund . . . . .	83,530 (1)	-	
Gas Utility Fund . . . . .	50,000 (1)	-	
Bio Mass Gasification Fund . . . . .	-	75,788	
Covington Electric System Electric Fund . . . . .	366,061 (1)	-	
Munford Cemetery Fund . . . . .	<u>5,629</u>	<u>-</u>	
	<u>541,320</u>	<u>390,911</u>	
Water Fund			
General Fund . . . . .	<u>-</u>	<u>36,100</u>	(1)
Sewer Fund			
General Fund . . . . .	<u>-</u>	<u>83,530</u>	(1)
Gas Utility Fund			
General Fund . . . . .	<u>-</u>	<u>50,000</u>	(1)
Bio Mass Gasification Fund			
General Fund . . . . .	<u>75,788</u>	<u>-</u>	
Covington Electric System Electric Fund			
General Fund . . . . .	<u>-</u>	<u>366,061</u>	(1)

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 4 - INTERFUND TRANSACTIONS - CONTINUED**

	<b>TRANSFERS FROM OTHER FUNDS</b>	<b>TRANSFERS TO OTHER FUNDS</b>
<b>NONMAJOR GOVERNMENTAL FUNDS</b>		
Airport Fund		
General Fund .....	\$ 50,000	\$ -
Airport Improvements Construction Bond Fund .....	-	7,375
Solid Waste/Sanitation Fund		
PBACCT Bond Fund .....	-	8,159
Tipton County Museum Fund		
General Fund .....	68,000	-
Airport Improvements Construction Bond Fund		
Airport Fund .....	7,375	-
PBACCT Bond Fund		
General Fund .....	197,123	-
Solid Waste/Sanitation Fund .....	8,159	-
Munford Cemetery Fund		
General Fund .....	-	5,629
	<u>330,657</u>	<u>21,163</u>
<b>TOTALS .....</b>	<b><u>\$ 947,765</u></b>	<b><u>\$ 947,765</u></b>

(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, 2018 was as follows:

	<u>BALANCE JULY 1, 2017</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>TRANSFERS</u>	<u>BALANCE JUNE 30, 2018</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets not being depreciated					
Land, land rights and improvements ..	\$ 3,246,197	\$ -	\$ -	\$ -	\$ 3,246,197
Construction in progress .....	982,195	-	-	(982,195)	-
Total capital assets not being depreciated .....	<u>4,228,392</u>	<u>-</u>	<u>-</u>	<u>(982,195)</u>	<u>3,246,197</u>
Other capital assets					
Improvements .....	11,698,033	618,352	(577,578)	-	11,738,807
Buildings .....	5,420,073	373,309	-	982,195	6,775,577
Equipment .....	4,587,518	529,910	(463,471)	-	4,653,957
Infrastructure .....	9,537,608	325,034	(153,634)	-	9,709,008
Total other capital assets at historical cost .....	<u>31,243,232</u>	<u>1,846,605</u>	<u>(1,194,683)</u>	<u>982,195</u>	<u>32,877,349</u>



**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 5 - CAPITAL ASSETS - CONTINUED**

	<u>BALANCE</u> <u>JULY 1, 2017</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>TRANSFERS</u>	<u>BALANCE</u> <u>JUNE 30, 2018</u>
Less accumulated depreciation					
Improvements .....	\$ (4,406,147)	\$ (261,082)	\$ 577,578	\$ -	\$ (4,089,651)
Buildings .....	(2,959,547)	(141,201)	-	-	(3,100,748)
Equipment .....	(1,769,775)	(379,620)	434,467	-	(1,714,928)
Infrastructure .....	<u>(4,751,257)</u>	<u>(452,539)</u>	<u>153,634</u>	<u>-</u>	<u>(5,050,162)</u>
Total accumulated depreciation .....	<u>(13,886,726)</u>	<u>(1,234,442)</u>	<u>1,165,679</u>	<u>-</u>	<u>(13,955,489)</u>
Other capital assets, net .....	<u>17,356,506</u>	<u>612,163</u>	<u>(29,004)</u>	<u>982,195</u>	<u>18,921,860</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>CAPITAL ASSETS, NET .....</b>	<u>\$ 21,584,898</u>	<u>\$ 612,163</u>	<u>\$ (29,004)</u>	<u>\$ -</u>	<u>\$ 22,168,057</u>
<b>DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES FUNCTIONS AS FOLLOWS</b>					
General government .....		\$ 22,475			
Public safety .....		314,402			
Public works .....		516,858			
Health, welfare, recreation and education .....		<u>380,707</u>			
<b>TOTAL GOVERNMENTAL ACTIVITIES DEPRECIATION EXPENSE .....</b>		<u>\$ 1,234,442</u>			
	<u>BALANCE</u> <u>JULY 1, 2017</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>TRANSFERS</u>	<u>BALANCE</u> <u>JUNE 30, 2018</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets not being depreciated					
Land, land rights and improvements ..	\$ 400,096	\$ -	\$ -	\$ -	\$ 400,096
Construction in progress .....	<u>7,058</u>	<u>112,823</u>	<u>-</u>	<u>-</u>	<u>119,881</u>
Total capital assets not being depreciated .....	<u>407,154</u>	<u>112,823</u>	<u>-</u>	<u>-</u>	<u>519,977</u>
Other capital assets					
Buildings .....	14,529,211	-	-	-	14,529,211
Distribution and collection systems ...	24,659,192	181,942	-	-	24,841,134
General plant .....	6,504,609	172,671	(40,525)	-	6,636,755
Transmission plant .....	2,161,810	-	-	-	2,161,810
Distribution plant .....	12,616,681	233,939	(58,420)	-	12,792,200
Bio Mass plant .....	2,243,189	-	-	-	2,243,189
Equipment .....	1,240,644	494,791	(62,928)	-	1,672,507
Unamortized acquisition .....	<u>241,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,642</u>
Total other capital assets at historical cost .....	<u>64,196,978</u>	<u>1,083,343</u>	<u>(161,873)</u>	<u>-</u>	<u>65,118,448</u>
Less accumulated depreciation/amortization					
Buildings .....	(8,566,423)	(313,639)	-	-	(8,880,062)
Distribution and collection systems ...	(14,520,084)	(514,890)	-	-	(15,034,974)
General plant .....	(2,506,835)	(211,629)	40,025	-	(2,678,439)
Transmission plant .....	(1,204,307)	(84,685)	-	-	(1,288,992)
Distribution plant .....	(6,443,906)	(433,368)	86,782	-	(6,790,492)
Bio Mass plant .....	(265,445)	(89,728)	-	-	(355,173)
Equipment .....	(739,423)	(121,716)	62,928	-	(798,211)
Unamortized acquisition adjustment ..	<u>(116,794)</u>	<u>(24,164)</u>	<u>-</u>	<u>-</u>	<u>(140,958)</u>

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 5 - CAPITAL ASSETS - CONTINUED**

	<u>BALANCE</u> <u>JULY 1, 2017</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>TRANSFERS</u>	<u>BALANCE</u> <u>JUNE 30, 2018</u>
Total accumulated depreciation/ amortization .....	\$ (34,363,217)	\$ (1,793,819)	\$ 189,735	\$ -	\$(35,967,301)
Other capital assets, net .....	<u>29,833,761</u>	<u>(710,476)</u>	<u>27,862</u>	<u>-</u>	<u>29,151,147</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>CAPITAL ASSETS, NET .....</b>	<u>\$ 30,240,915</u>	<u>\$ (597,653)</u>	<u>\$ 27,862</u>	<u>\$ -</u>	<u>\$ 29,671,124</u>
<b>DEPRECIATION AND AMORTIZATION EXPENSE WAS CHARGED TO BUSINESS-TYPE ACTIVITIES FUNCTIONS AS FOLLOWS</b>					
Water .....		\$ 223,141			
Sewer .....		625,685			
Gas .....		93,582			
Bio Mass .....		97,565			
Electric .....		<u>753,846</u>			
<b>TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION AND AMORTIZATION EXPENSE CHARGED TO OPERATIONS .....</b>		1,793,819			
Charged to transportation clearing .....		<u>(24,164)</u>			
<b>TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION AND AMORTIZATION EXPENSE</b>		<u>\$ 1,769,655</u>			

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, 2018 was \$24,164.

**NOTE 6 - LONG-TERM DEBT**

Debt outstanding as of June 30, 2018 consisted of the following:

	<u>INTEREST</u> <u>RATE</u>	<u>MATURITY</u> <u>DATE</u>	<u>ISSUED</u>	<u>DEBTS</u> <u>OUTSTANDING</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
General Obligation Bonds				
Public Works Airport Bonds .....	5.00%	2019	\$ 136,000	\$ 8,000
Pooled Financing Revenue Bonds ...	1.54% *	2023	2,500,000	768,000
General Obligation Refunding Bonds .....	2.00-3.50%	2029	215,000	<u>164,890</u>
				<u>\$ 940,890</u>

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 6 - LONG-TERM DEBT - CONTINUED**

	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>ISSUED</u>	<u>DEBTS OUTSTANDING</u>
<b>GOVERNMENTAL ACTIVITIES - CONTINUED</b>				
General Obligation Notes				
General Obligation Capital				
Outlay Notes . . . . .	4.20%	2019	500,000	\$ 52,000
Note Payable - Lawsuit Settlement . .	2.00%	2027	1,200,000	<u>1,200,000</u>
				<u>\$ 1,252,000</u>
Capital Lease Obligations				
Capital Lease Obligation - Truck . . .	5.39%	2020	20,334	\$ 10,333
Capital Lease Obligation - Sweeper . .	2.85%	2022	217,030	144,591
Capital Lease Obligation - Police Car	6.00%	2020	30,781	19,917
Capital Lease Obligation - Police Cars	6.00%	2019	70,139	23,353
Capital Lease Obligation - Truck . . .	6.00%	2022	23,254	23,254
Capital Lease Obligation - Truck . . .	6.00%	2022	28,579	28,579
Capital Lease Obligation - Police Cars	6.00%	2020	61,017	<u>39,502</u>
				<u>\$ 289,529</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
General Obligation Bonds				
Bio Mass Gasification Bonds . . . . .	2.22% *	2037	\$ 2,250,000	\$ 1,921,000
General Obligation Refunding Bonds	2.00-3.75%	2035	3,180,000	2,765,000
Revenue Bonds				
Electric System				
Revenue Bonds . . . . .	2.50%-4.375%	2024	2,280,000	830,000
Water Revenue and Tax Bond . . . . .	4.125%	2047	1,082,000	937,874
Sewer Revenue and Tax Bond . . . . .	3.755%	2048	1,489,000	<u>1,309,340</u>
				<u>\$ 7,763,214</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, 2018 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.

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 6 - LONG-TERM DEBT - CONTINUED**

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 \$2,247,214 at June 30, 2018 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.

A summary of long-term debt activity for the year ended June 30, 2018 is as follows:

	<u>BALANCE AT JULY 1, 2017</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE AT JUNE 30, 2018</u>	<u>DUE WITHIN ONE YEAR</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds					
Public Works Airport Bonds	\$ 15,000	\$ -	\$ (7,000)	\$ 8,000	\$ 8,000
Pooled Financing Revenue Bonds	898,500	-	(130,500)	768,000	137,600
General Obligation Refunding Bonds	179,945	-	(15,055)	164,890	15,000
General Obligation Notes					
General Obligation Capital					
Outlay Notes	102,000	-	(50,000)	52,000	52,000
Note Payable - Lawsuit Settlement	- 1,200,000	-	-	1,200,000	133,333
Capital Lease Obligations					
Capital Lease Obligation - Truck	15,107	-	(4,774)	10,333	5,031
Capital Lease Obligation - Sweeper	178,270	-	(33,679)	144,591	34,639
Capital Lease Obligation - Police Car	-	30,781	(10,864)	19,917	9,669
Capital Lease Obligation - Police Cars	-	45,385	(22,032)	23,353	23,353
Capital Lease Obligation - Truck	-	23,254	-	23,254	6,326
Capital Lease Obligation - Truck	-	28,579	-	28,579	7,775
Capital Lease Obligation - Police Cars	-	61,017	(21,515)	39,502	19,185
	<u>2,588,822</u>	<u>189,016</u>	<u>(295,419)</u>	<u>2,482,419</u>	<u>451,911</u>
Compensated absences	576,464	48,847	-	625,311	93,797
Net pension liability	5,421,877	-	(1,312,729)	4,109,148	-
	<u>8,587,163</u>	<u>237,863</u>	<u>(1,608,148)</u>	<u>7,216,878</u>	<u>545,708</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds					
Bio Mass Gasification Bonds	1,991,000	-	(70,000)	1,921,000	73,000
General Obligation Refunding Bonds	2,865,000	-	(100,000)	2,765,000	100,000
Revenue Bonds					
Water Revenue Improvement Bonds	138,978	-	(138,978)	-	-
Electric System					
Revenue Bonds	950,000	-	(120,000)	830,000	125,000
Water Revenue and Tax Bond	955,191	-	(17,317)	937,874	18,046
Sewer Revenue and Tax Bond	1,333,215	-	(23,875)	1,309,340	24,787
Notes Payable					
Sewer Notes	3,813	-	(3,813)	-	-
	<u>8,237,197</u>	<u>-</u>	<u>(473,983)</u>	<u>7,763,214</u>	<u>340,833</u>
Compensated absences	251,271	12,655	-	263,926	34,576
Net pension liability	1,898,555	-	(404,116)	1,494,439	-
	<u>10,387,023</u>	<u>12,655</u>	<u>(878,099)</u>	<u>9,521,579</u>	<u>375,409</u>
	<u>\$ 18,974,186</u>	<u>\$ 250,518</u>	<u>\$ (2,486,247)</u>	<u>\$ 16,738,457</u>	<u>\$ 921,117</u>

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**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 \$426,408 and \$55,115, 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>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
<b><u>GENERAL OBLIGATION BONDS, NOTES, AND LEASE OBLIGATIONS</u></b>			
<b><u>YEAR ENDING JUNE 30</u></b>			
2019 .....	\$ 451,911	\$ 58,798	\$ 510,709
2020 .....	376,884	42,830	419,714
2021 .....	350,737	33,808	384,545
2022 .....	360,929	26,652	387,581
2023 .....	318,733	19,257	337,990
2024-2028 .....	608,280	36,680	644,960
2029 .....	14,945	524	15,469
	<u>\$ 2,482,419</u>	<u>\$ 218,549</u>	<u>\$ 2,700,968</u>
	<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
<b><u>GENERAL OBLIGATION BONDS</u></b>			
<b><u>YEAR ENDING JUNE 30</u></b>			
2019 .....	\$ 173,000	\$ 129,584	\$ 302,584
2020 .....	220,000	125,964	345,964
2021 .....	223,000	121,398	344,398
2022 .....	231,000	116,404	347,404
2023 .....	239,000	110,856	349,856
2024-2028 .....	1,245,000	457,664	1,702,664
2029-2033 .....	1,436,000	266,524	1,702,524
2034-2037 .....	919,000	51,894	970,894
	<u>\$ 4,686,000</u>	<u>\$ 1,380,288</u>	<u>\$ 6,066,288</u>

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 6 - LONG-TERM DEBT - CONTINUED**

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
<u>REVENUE BONDS</u>			
<u>YEAR ENDING JUNE 30</u>			
2019 .....	\$ 167,833	\$ 119,919	\$ 287,752
2020 .....	174,537	113,050	287,587
2021 .....	181,311	105,827	287,138
2022 .....	188,155	98,137	286,292
2023 .....	195,073	96,219	291,292
2024-2028 .....	436,922	381,943	818,865
2029-2033 .....	342,751	307,769	650,520
2034-2038 .....	416,739	233,871	650,610
2039-2043 .....	506,738	143,782	650,520
2044-2048 .....	467,155	38,391	505,546
	<u>\$ 3,077,214</u>	<u>\$ 1,638,908</u>	<u>\$ 4,716,122</u>

The total interest incurred in the business-type activities for the year ended June 30, 2018 was \$259,558, all of which was charged to expense.

**NOTE 7 - GOVERNMENTAL FUND BALANCES**

Governmental fund balances as of June 30, 2018 consisted of the following:

	<u>GENERAL FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
<b>NONSPENDABLE</b>			
Not in spendable form-inventories .....	\$ 30,239	\$ 20,526	\$ 50,765
Legally or contractually required to be maintained intact - cemetery perpetual care funds .....	-	323,038	323,038
	<u>30,239</u>	<u>343,564</u>	<u>373,803</u>
<b>RESTRICTED</b>			
Street expenditures .....	-	131,411	131,411
Solid waste/sanitation expenditures .....	-	864,340	864,340
Drug enforcement .....	-	40,386	40,386
Grants and donations .....	95,057	7,445	102,502
Debt service .....	-	1,033	1,033
	<u>95,057</u>	<u>1,044,615</u>	<u>1,139,672</u>
<b>COMMITTED</b>			
Airport expenditures .....	-	6,678	6,678
Museum expenditures .....	-	95,385	95,385
	<u>-</u>	<u>102,063</u>	<u>102,063</u>

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 7 - GOVERNMENTAL FUND BALANCES - CONTINUED**

	<u>GENERAL FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
<b>ASSIGNED</b>			
Subsequent year's appropriations .....	\$ 320,991	\$ -	\$ 320,991
Outside fire expenditures .....	431,721	-	431,721
Citizen assistance funds .....	15,868	-	15,868
Street expenditures .....	38,000	-	38,000
Debt service .....	<u>-</u>	<u>17,098</u>	<u>17,098</u>
	<u>806,580</u>	<u>17,098</u>	<u>823,678</u>
<b>UNASSIGNED</b> .....	<u>1,161,610</u>	<u>-</u>	<u>1,161,610</u>
	<u>\$ 2,093,486</u>	<u>\$ 1,507,340</u>	<u>\$ 3,600,826</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.

**NOTE 9 - CONTINGENCIES AND COMMITMENTS**

As of June 30, 2018, the City had entered into fixed price purchase commitments for the future delivery of natural gas in the amount of approximately \$1,568,000.

The City has entered into two contracts for maintenance on water tanks through November 2021. The remaining payments due on the contracts as of June 30, 2018 were approximately \$439,000.

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.

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**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.

*Plan membership* - At December 31, 2017, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits .....	70
Terminated participants entitled to but not yet receiving benefits .....	79
Active participants .....	<u>103</u>
	<u><u>252</u></u>

*Benefits provided* - The Plan provides retirement, disability and death benefits. Retirement benefits are calculated as the sum of (a) 1.30% of Average Annual Compensation up to \$16,800 times years of Credited Service, plus (b) 1.95 % of Average Annual Compensation in excess of \$16,800 times years of Credited Service Years not in excess of 35 years. The minimum benefit for a 100% Vested Participant is \$100 per month. The normal form of benefit is a straight life annuity with other actuarially equivalent forms available. Average Compensation is defined as Compensation for the highest 5-year consecutive period in the last 10 years. Compensation is defined as total compensation for a plan year, excluding reimbursements or other expense allowances, fringe benefits, moving expenses, deferred compensation, welfare benefits, overtime, bonuses and commissions. Normal retirement is the later of age 65 and the 5<sup>th</sup> 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, 2017, the City’s contribution rate was 30.31% of annual payroll. For the plan year ending December 31, 2018, the City’s recommended contribution rate is 23.96% of covered payroll.



**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

**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, 2018:

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

*Rate of return* - For the year ended December 31, 2017 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 18.13%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the City**

The City's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018.

*Actuarial assumptions* - The total pension liability was determined by an actuarial valuation as of January 1, 2018, 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, 2018:

Inflation	1.75%
Salary increases	3.5% including inflation
Investment rate of return	6.0% 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, 2018 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.

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

**Net Pension Liability of the City - Continued**

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, 2018 (see the discussion of the pension plan's investment policy above) are summarized in the following table.

Domestic Equity	5.10 %
International Equity	6.10 %
Alternative Investments	3.00 %
Fixed Income	1.30 %
Cash	.00 %

*Discount rate* - The discount rate used to measure the total pension liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be equal to 25% 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, 2018 valuation, this period was 5.19 years, calculated as follows:

Sum of the expected remaining service period for all actives participants	=	1,308
Number of total pension plan participants (active and inactive)		252

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

**Net Pension Liability of the City - Continued**

*Changes in net pension liability:*

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (a)	PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (a) - (b)
Balances at June 30, 2017 .....	\$ 19,696,059	\$ 12,867,350	\$ 6,828,709
Changes for the year:			
Service Cost .....	451,271	-	451,271
Interest .....	1,169,500	-	1,169,500
Contributions - Employer .....	-	1,416,000	(1,416,000)
Actuarial Liability Loss (Gain) .	(320,630)	-	(320,630)
Change in Assumptions .....	(36,287)	-	(36,287)
Benefit Payments .....	(860,520)	(860,520)	-
Net Investment Income .....	-	1,502,671	(1,502,671)
Administrative Expense .....	-	(67,108)	67,108
Net Changes .....	<u>656,756</u>	<u>1,991,043</u>	<u>(1,334,287)</u>
Balances at June 30, 2018 .....	<u>\$ 20,099,393</u>	<u>\$ 14,858,393</u>	<u>\$ 5,241,000</u>

Change of Assumptions -  
None

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

	1% Decrease (5.00%)	Current Rate (6.00%)	1% Increase (7.00%)
Net pension liability .....	<u>\$ 8,141,950</u>	<u>\$ 5,241,000</u>	<u>\$ 2,507,920</u>

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

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

For the fiscal year ended June 30, 2018, the City's recognized pension expense is \$467,763. The City's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources as of June 30, 2018 are:

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Differences between expected and actual experience .....	\$ 203,373	\$ 475,827
Changes of Assumptions .....	161,894	1,106,831
Net difference between projected and actual earnings on pension plan assets .....	<u>-</u>	<u>555,386</u>
	<u>\$ 365,267</u>	<u>\$ 2,138,044</u>

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

<b>Year ended June 30,</b>	
2019	\$ (433,416)
2020	(519,496)
2021	(554,646)
2022	(252,152)
2023	(13,067)
Thereafter	-

**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 [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

**General Information about the Pension Plan - Continued**

*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 2<sup>nd</sup> 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, 2017, 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	2
Active employees	<u>22</u>
	24

*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, 2018, the employer contributions for the City were \$57,739 based on a rate of 5.9 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.

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

**Net Pension Liability (Asset)**

The City's net pension liability (asset) was measured as of June 30, 2017, 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, 2017 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 3.46 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, 2017 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.

*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.

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 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:

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**NOTE 10 - PENSION AND RETIREMENT PLANS - CONTINUED**

**Net Pension Liability (Asset) - Continued**

	<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, 2018**

**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 6/30/16 .....	\$ 1,651	\$ 1,802	\$ (151)
Changes for the year:			
Service cost .....	2,492	-	2,492
Interest .....	311	-	311
Differences between expected and actual experience .....	12,081	-	12,081
Change in assumptions .....	349	-	349
Contributions - employer .....	-	23,049	(23,049)
Net investment income .....	-	1,425	(1,425)
Benefit payments .....	-	-	-
Administrative expenses .....	-	(1,648)	1,648
Other changes .....	-	-	-
Net changes .....	<u>15,233</u>	<u>22,826</u>	<u>(7,593)</u>
Balance at 6/30/17 .....	<u>\$ 16,884</u>	<u>\$ 24,628</u>	<u>\$ (7,744)</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>\$ (2,920)</u>	<u>\$ (7,744)</u>	<u>\$ (11,401)</u>



**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**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, 2018, the City recognized pension expense of \$4,404.

*Deferred outflows of resources and deferred inflows of resource* - For the year ended June 30, 2018, 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 . . . . .	\$ 11,074	\$ 507
Net difference between projected and actual earnings on pension plan investments . . . . .	-	365
Change in assumptions . . . . .	320	-
Contributions subsequent to the measurement date of June 30, 2017 . . . . .	<u>57,739</u>	<u>-</u>
	<u>\$ 69,133</u>	<u>\$ 872</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," 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:

<b>Year ended June 30,</b>	
2019 . . . . .	\$ 891
2020 . . . . .	891
2021 . . . . .	891
2022 . . . . .	883
2023 . . . . .	980
Thereafter . . . . .	5,986

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, 2018**

**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 1<sup>st</sup> 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, 2018, the Retirement Plan membership consisted of:

Inactive plan members or beneficiaries currently receiving benefits . . . . .	21
Inactive plan members entitled to but not yet receiving benefits . . . . .	-
Active plan members . . . . .	<u>19</u>

40

**CITY OF COVINGTON, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**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, 2018, the contribution rate was 11.70%. The Electric System's required contribution for the year ended June 30, 2018 was \$132,956. Actual contributions for the year were \$146,866, or 110% of required contributions.

**Net Pension Liability**

The Electric System's net pension liability was measured as of March 31, 2018, 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, 2018 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	RP-2000
Withdrawal rates	None

The actuarial assumptions used in the April 1, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period April 1, 2017 through March 31, 2018. 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, 2018**

**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:*

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (a)	PLAN FIDUCIARY NET POSITION (b)	NET PENSION LIABILITY (a) - (b)
Balances at March 31, 2017 . . . . .	\$ 3,666,876	\$ 3,175,002	\$ 491,874
Changes for the year:			
Service cost . . . . .	103,352	-	103,352
Interest cost . . . . .	237,814	-	237,814
Difference between expected and actual experience . . . . .	(104,479)	-	(104,479)
Employer contributions . . . . .	-	146,866	(146,866)
Net investment income . . . . .	-	206,360	(206,360)
Actual versus expected income . . . . .	-	40,331	(40,331)
Benefit payments . . . . .	(119,767)	(119,767)	-
Administrative expense . . . . .	-	(27,583)	27,583
Net changes . . . . .	116,920	246,207	(129,287)
Balances at March 31, 2018 . . . . .	<u>\$ 3,783,796</u>	<u>\$ 3,421,209</u>	<u>\$ 362,587</u>

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

Net pension liability with a 1% decrease in discount rate: 5.5%	\$ 872,520
Net pension liability at current discount rate: 6.5%	362,587
Net pension liability with a 1% increase in discount rate: 7.5%	(69,263)

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

For the year ended June 30, 2018, the Electric System recognized pension expense of \$184,290. At June 30, 2018, 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, 2018**

**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 .....	\$ 96,370	\$ 205,566
Net difference between projected and actual earnings in pension investments .....	20,977	-
Pension contributions subsequent to measurement date .....	<u>132,956</u>	<u>-</u>
	<u>\$ 250,303</u>	<u>\$ 205,566</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:

<b>Year ended June 30,</b>	
2019 .....	\$ 21,902
2020 .....	18,091
2021 .....	(35,838)
2022 .....	(16,362)
2023 .....	(8,296)
Thereafter .....	(67,716)

**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. 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, 2018**

**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, 2018.

**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, 2018, which is taken from its separately issued audited financial statements.

Cash .....	\$ 872,365
Other assets .....	<u>19,954</u>
Total assets .....	<u>\$ 892,319</u>
Liabilities .....	\$ 2,108
Net position .....	<u>890,211</u>
Total liabilities and net position .	<u>\$ 892,319</u>

**CITY OF COVINGTON, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**NOTE 13 - JOINT VENTURE - CONTINUED**

Total revenues .....	\$ 353,904
Total expenses .....	<u>334,373</u>
Change in net position .....	<u>\$ 19,531</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 (previously named the Tennessee Municipal League 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, 2018**

**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 . . . . .	\$ 19,141	\$ 19,141	\$ -
HTL Advantage . . . . .	-	-	50,000

**NOTE 17 - PRIOR PERIOD ADJUSTMENTS**

During the current year, it was determined the liability for accrued overtime (comp time) had not been reflected in the City's prior financial statements. To correct this error, the beginning balances of net position and fund balance were decreased as follows:

	<u>NET POSITION/ FUND BALANCE, AS PREVIOUSLY REPORTED</u>	<u>ACCRUED EXPENSE RESTATEMENT</u>	<u>NET POSITION/ FUND BALANCE, AS RESTATED</u>
Governmental Activities . . . . .	<u>\$ 15,895,061</u>	<u>\$ (148,583)</u>	<u>\$ 15,746,478</u>
General Fund . . . . .	<u>\$ 2,052,042</u>	<u>\$ (148,583)</u>	<u>\$ 1,903,459</u>

The effect of this restatement is not material to the change in net position/change in fund balance for the preceding year of June 30, 2017.

**NOTE 18 - SUBSEQUENT EVENTS**

Due to market fluctuations, the fair value of the City of Covington Pension Plan's investments had decreased by approximately 5% (\$743,000) as of January 28, 2019.



**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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY</b>					
Service Cost .....	\$ 451,271	\$ 489,410	\$ 415,308	\$ 556,576	\$ 555,479
Interest .....	1,169,500	1,146,100	1,101,200	962,300	857,122
Actuarial liability loss/(gain) .....	(320,630)	(139,075)	(240,798)	521,145	581,220
Changes in assumptions .....	(36,287)	(285,326)	305,165	(2,292,102)	(1,914,894)
Benefit payments, including return of participant contribution .....	<u>(860,520)</u>	<u>(818,631)</u>	<u>(705,650)</u>	<u>(573,124)</u>	<u>(437,457)</u>
<b>Net change in pension liability</b> .....	403,334	392,478	875,225	(825,205)	(358,530)
<b>TOTAL PENSION LIABILITY, BEGINNING OF YEAR</b> .....	<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>
<b>TOTAL PENSION LIABILITY, END OF YEAR</b> .....	<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>
<b>PLAN FIDUCIARY POSITION</b>					
Contributions from employer .....	\$ 1,416,000	\$ 1,416,000	\$ 1,320,000	1,142,940	\$ 1,046,280
Net investment income (loss) .....	1,502,671	1,305,195	(16,071)	267,400	360,301
Benefit payments, including return of participant contributions .....	(860,520)	(818,631)	(705,650)	(573,124)	(434,561)
Administrative expenses .....	<u>(67,108)</u>	<u>(62,274)</u>	<u>(57,705)</u>	<u>(70,406)</u>	<u>(28,104)</u>
<b>Net change in plan fiduciary position</b> .....	1,991,043	1,840,290	540,574	766,810	943,916
<b>PLAN FIDUCIARY POSITION, BEGINNING OF YEAR</b> .....	<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>
<b>PLAN FIDUCIARY POSITION, END OF YEAR</b> .....	<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>
<b>NET PENSION LIABILITY</b> .....	<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>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b> .....	<u>73.92%</u>	<u>65.33%</u>	<u>57.12%</u>	<u>56.90%</u>	<u>50.48%</u>
<b>COVERED EMPLOYEE PAYROLL</b> .....	<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>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL</b> .....	<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, 2018**

**NOTES TO SCHEDULE**

Valuation date: Actuarially determined contribution rates are calculated as of January 1<sup>st</sup> 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, 2018 valuation

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	Market value including contributions receivable
Inflation	1.75%
Salary increases	3.50% 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 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
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, 2018**

<u>PLAN YEAR ENDED</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>	<u>2008</u>
Actuarially determined contributions .....	\$ 1,117,376	\$ 1,167,346	\$ 1,079,633	\$ 1,173,543	\$ 1,446,948	\$ 1,357,490	\$ 866,614	\$ 615,201	\$ 631,021	\$ 566,947
Actual contributions .....	<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>	<u>700,000</u>
Contribution excess (deficiency) .....	<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>	<u>\$ 133,053</u>
Covered employee payroll .....	<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>	<u>\$ 4,258,046</u>
Contribution as a percentage of covered employee payroll .....	<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>	<u>16.44%</u>
Discount rate/assumed investment return	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%	6.50%/7.50%

**NOTES TO SCHEDULES**

Valuation date

Actuarially determined contribution rates are calculated as of January 1<sup>st</sup> 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	15 years
Asset valuation method	Market value including contributions receivable
Inflation	1.75%
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
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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return	<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, 2018**

	<u>2017</u>	<u>2016</u>
<b>TOTAL PENSION LIABILITY</b>		
Service cost .....	\$ 2,492	\$ 2,112
Interest .....	311	158
Changes in benefit terms .....	-	-
Difference between actual and expected experience .....	12,081	(619)
Change in assumptions .....	349	-
Benefit payments, including refunds of employee contributions .....	-	-
<b>Net change in pension liability .....</b>	<u>15,233</u>	<u>1,651</u>
<b>TOTAL PENSION LIABILITY, BEGINNING OF YEAR .....</b>	<u>1,651</u>	<u>-</u>
<b>TOTAL PENSION LIABILITY, END OF YEAR .....</b>	<u>\$ 16,884</u>	<u>\$ 1,651</u>
<b>PLAN FIDUCIARY POSITION</b>		
Contributions from employer .....	\$ 23,049	\$ 2,112
Contributions from employees .....	-	-
Net investment income .....	1,425	26
Benefit payments, including return of participant contributions .....	-	-
Administrative expenses .....	(1,648)	(336)
<b>Net change in plan fiduciary position .....</b>	<u>22,826</u>	<u>1,802</u>
<b>PLAN FIDUCIARY POSITION BEGINNING OF YEAR .....</b>	<u>1,802</u>	<u>-</u>
<b>PLAN FIDUCIARY POSITION END OF YEAR .....</b>	<u>\$ 24,628</u>	<u>\$ 1,802</u>
<b>NET PENSION LIABILITY (ASSET) .....</b>	<u>\$ (7,744)</u>	<u>\$ (151)</u>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY .....</b>	<u>145.87%</u>	<u>109.15%</u>
<b>COVERED EMPLOYEE PAYROLL .....</b>	<u>\$ 390,656</u>	<u>\$ 35,804</u>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL .....</b>	<u>(1.98%)</u>	<u>(.042%)</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>2017</u>	<u>2016</u>
Actuarially determined contributions .....	\$ 23,049	\$ 2,112
Actual contributions .....	<u>23,049</u>	<u>2,112</u>
Contribution excess (deficiency) .....	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll .....	<u>\$ 390,656</u>	<u>\$ 35,804</u>
Contribution as a percentage of covered employee payroll .....	<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 2018 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	3.0%
Salary increases	Graded salary ranges from 8.72 to 3.46 percent based on age, including inflation
Investment rate of return	7.5%, 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	2.50%

**CITY OF COVINGTON, TENNESSEE**  
**COVINGTON ELECTRIC SYSTEM'S DEFINED BENEFIT PLAN**  
**SCHEDULE OF CHANGES IN NET PENSION**  
**LIABILITY AND RELATED RATIOS**  
**YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>TOTAL PENSION LIABILITY</b>				
Service cost .....	\$ 103,352	\$ 91,976	\$ 95,438	\$ 92,286
Interest .....	237,814	217,905	207,893	201,831
Changes of benefit terms .....	-	-	-	-
Difference between actual and expected experience .....	(104,479)	109,220	(36,904)	(102,458)
Changes in assumptions .....	-	-	-	-
Benefit payments, including refunds of employee contributions .....	(119,767)	(117,249)	(104,077)	(95,873)
<b>Net change in pension liability</b> .....	<u>116,920</u>	<u>301,852</u>	<u>162,350</u>	<u>95,786</u>
<b>TOTAL PENSION LIABILITY, BEGINNING OF YEAR</b> .....	<u>3,666,876</u>	<u>3,365,024</u>	<u>3,202,674</u>	<u>3,106,888</u>
<b>TOTAL PENSION LIABILITY, END OF YEAR</b> .....	<u>\$ 3,783,796</u>	<u>\$ 3,666,876</u>	<u>\$ 3,365,024</u>	<u>\$3,202,674</u>
<b>PLAN FIDUCIARY POSITION</b>				
Contributions from employer .....	\$ 146,866	\$ 135,141	\$ 120,292	\$ 127,307
Contributions from employees .....	-	-	-	-
Net investment income (loss) .....	246,691	285,550	(75,956)	164,946
Benefit payments, including refunds of employee contributions .....	(119,767)	(117,249)	(104,077)	(95,873)
Administrative expenses .....	(27,583)	(28,884)	(23,130)	(28,073)
<b>Net change in plan fiduciary position</b> .....	<u>246,207</u>	<u>274,558</u>	<u>(82,871)</u>	<u>168,307</u>
<b>PLAN FIDUCIARY POSITION, BEGINNING OF YEAR</b> .....	<u>3,175,002</u>	<u>2,900,444</u>	<u>2,983,315</u>	<u>2,815,008</u>
<b>PLAN FIDUCIARY POSITION, END OF YEAR</b> .....	<u>\$ 3,421,209</u>	<u>\$ 3,175,002</u>	<u>\$ 2,900,444</u>	<u>\$2,983,315</u>
<b>NET PENSION LIABILITY</b> .....	<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 AND RELATED RATIOS - CONTINUED  
 YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	<u>90.42%</u>	<u>86.59%</u>	<u>86.19%</u>	<u>93.15%</u>
<b>COVERED EMPLOYEE PAYROLL</b>	<u>\$ 1,255,270</u>	<u>\$ 1,105,403</u>	<u>\$ 1,150,884</u>	<u>\$ 1,198,494</u>
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL</b>	<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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution ..	\$ 146,866	\$ 135,141	\$ 120,292	\$ 127,307
Actual contributions .....	<u>146,866</u>	<u>135,141</u>	<u>120,292</u>	<u>127,307</u>
Contribution excess (deficiency) .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll .....	<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>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	RP-2000 Mortality Table

**CITY OF COVINGTON, TENNESSEE  
 COVINGTON ELECTRIC SYSTEM'S DEFINED BENEFIT PLAN  
 SCHEDULE OF INVESTMENT RETURNS  
 YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return	<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, 2018**

	SPECIAL REVENUE FUNDS					
	STATE STREET AID FUND	AIRPORT FUND	COMMUNITY DEVELOPMENT FUND	SOLID WASTE/ SANITATION FUND	TIPTON COUNTY MUSEUM FUND	DRUG FUND
<b>ASSETS</b>						
Cash .....	\$ 90,536	\$ 54,017	\$ 396,458	\$ 752,612	\$ 98,874	\$ 40,415
Accounts receivable ...	-	110	-	188,361	-	-
Grants receivable .....	-	58,620	-	-	-	-
Due from other funds ..	448	-	-	16,882	-	-
Due from						
State of Tennessee ....	53,233	-	-	-	-	-
Other receivables .....	-	33,691	-	-	-	-
Fuel inventory .....	-	20,526	-	-	-	-
<b>TOTAL ASSETS</b> .....	<b>\$ 144,217</b>	<b>\$ 166,964</b>	<b>\$ 396,458</b>	<b>\$ 957,855</b>	<b>\$ 98,874</b>	<b>\$ 40,415</b>
<b>LIABILITIES</b>						
Accounts payable .....	\$ 12,806	\$ 64,725	\$ 4,709	\$ 75,258	\$ 1,873	\$ 29
Accrued expenses .....	-	1,562	-	6,551	1,616	-
Due to other funds .....	-	899	-	2,233	-	-
Advances from						
other funds .....	-	-	-	9,473	-	-
Unearned revenue -						
grant revenue .....	-	-	391,749	-	-	-
Unearned revenue -						
rent income .....	-	55,125	-	-	-	-
<b>TOTAL</b>						
<b>LIABILITIES</b> .....	<b>12,806</b>	<b>122,311</b>	<b>396,458</b>	<b>93,515</b>	<b>3,489</b>	<b>29</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue -						
grant revenue .....	-	10,004	-	-	-	-
<b>FUND BALANCE</b>						
Nonspendable .....	-	20,526	-	-	-	-
Restricted .....	131,411	7,445	-	864,340	-	40,386
Committed .....	-	6,678	-	-	95,385	-
Assigned .....	-	-	-	-	-	-
<b>TOTAL FUND</b>						
<b>BALANCE</b> .....	<b>131,411</b>	<b>34,649</b>	<b>-</b>	<b>864,340</b>	<b>95,385</b>	<b>40,386</b>
<b>TOTAL</b>						
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND</b>						
<b>BALANCE</b> .....	<b>\$ 144,217</b>	<b>\$ 166,964</b>	<b>\$ 396,458</b>	<b>\$ 957,855</b>	<b>\$ 98,874</b>	<b>\$ 40,415</b>

**CITY OF COVINGTON, TENNESSEE  
COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED  
JUNE 30, 2018**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS			TOTALS
	TOTALS	AIRPORT IMPROVEMENTS CONSTRUCTION BOND FUND	PBACCT BOND FUND	GENERAL OBLIGATION REFUNDING BOND FUND	
<b>ASSETS</b>					
Cash .....	\$ 1,432,912	\$ 1,033	\$ 12,321	\$ 4,777	\$ 18,131
Accounts receivable .....	188,471	-	-	-	-
Grants receivable .....	58,620	-	-	-	-
Due from other funds .....	17,330	-	-	-	-
Due from State of Tennessee ..	53,233	-	-	-	-
Other receivables .....	33,691	-	-	-	-
Fuel inventory .....	20,526	-	-	-	-
<b>TOTAL ASSETS</b> .....	<u>\$ 1,804,783</u>	<u>\$ 1,033</u>	<u>\$ 12,321</u>	<u>\$ 4,777</u>	<u>\$ 18,131</u>
<b>LIABILITIES</b>					
Accounts payable .....	\$ 159,400	\$ -	\$ -	\$ -	\$ -
Accrued expenses .....	9,729	-	-	-	-
Due to other funds .....	3,132	-	-	-	-
Advances from other funds ..	9,473	-	-	-	-
Unearned revenue - grant revenue .....	391,749	-	-	-	-
Unearned revenue - rent revenue .....	55,125	-	-	-	-
<b>TOTAL LIABILITIES</b> ..	<u>628,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - grant revenue .....	10,004	-	-	-	-
<b>FUND BALANCE</b>					
Nonspendable .....	20,526	-	-	-	-
Restricted .....	1,043,582	1,033	-	-	1,033
Committed .....	102,063	-	-	-	-
Assigned .....	-	-	12,321	4,777	17,098
<b>TOTAL FUND BALANCE</b> .....	<u>1,166,171</u>	<u>1,033</u>	<u>12,321</u>	<u>4,777</u>	<u>18,131</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b> .....	<u>\$ 1,804,783</u>	<u>\$ 1,033</u>	<u>\$ 12,321</u>	<u>\$ 4,777</u>	<u>\$ 18,131</u>

**CITY OF COVINGTON, TENNESSEE  
COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED  
JUNE 30, 2018**

	PERMANENT FUND MUNFORD CEMETERY FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS
<b>ASSETS</b>		
Cash .....	\$ 331,566	\$ 1,782,609
Accounts receivable .....	-	188,471
Grants receivable .....	-	58,620
Due from other funds .....	-	17,330
Due from State of Tennessee .....	-	53,233
Other receivables .....	-	33,691
Fuel inventory .....	-	20,526
<b>TOTAL ASSETS</b> .....	<u>\$ 331,566</u>	<u>\$ 2,154,480</u>
<b>LIABILITIES</b>		
Accounts payable .....	\$ -	\$ 159,400
Accrued expenses .....	2,899	12,628
Due to other funds .....	5,629	8,761
Advances from other funds .....	-	9,473
Unearned revenue - grant revenue .....	-	391,749
Unearned revenue rent revenue .....	-	55,125
<b>TOTAL LIABILITIES</b> .....	<u>8,528</u>	<u>637,136</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - grant revenue .....	-	10,004
<b>FUND BALANCE</b>		
Nonspendable .....	323,038	343,564
Restricted .....	-	1,044,615
Committed .....	-	102,063
Assigned .....	-	17,098
<b>TOTAL FUND BALANCE</b> .....	<u>323,038</u>	<u>1,507,340</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b> . . . .	<u>\$ 331,566</u>	<u>\$ 2,154,480</u>

**CITY OF COVINGTON, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	SPECIAL REVENUE FUNDS					
	STATE STREET AID FUND	AIRPORT FUND	COMMUNITY DEVELOP- MENT FUND	SOLID WASTE SANITATION FUND	TIPTON COUNTY MUSEUM FUND	DRUG FUND
<b>REVENUES</b>						
Intergovernmental revenues .....	\$ 303,081	\$ 572,064	\$ 374,353	\$ -	\$ 68,000	\$ -
Charges for services .....	-	340,367	-	1,518,022	13,458	-
Fines, forfeits, and penalties .....	-	-	-	-	-	12,789
Other revenues .....	6,083	797	-	28,785	11,236	564
<b>TOTAL REVENUES</b> ...	<u>309,164</u>	<u>913,228</u>	<u>374,353</u>	<u>1,546,807</u>	<u>92,694</u>	<u>13,353</u>
<b>EXPENDITURES</b>						
Public safety .....	-	-	-	-	-	86,060
Public works .....	342,151	-	-	1,347,552	-	-
Health, welfare, recreation and education ...	-	1,007,885	374,353	-	150,357	-
Debt service .....	-	-	-	5,842	-	21,516
<b>TOTAL EXPENDITURES</b> .....	<u>342,151</u>	<u>1,007,885</u>	<u>374,533</u>	<u>1,353,394</u>	<u>150,357</u>	<u>107,576</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<u>(32,987)</u>	<u>(94,657)</u>	<u>-</u>	<u>193,413</u>	<u>(57,663)</u>	<u>(94,223)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in .....	-	50,000	-	-	68,000	-
Insurance proceeds .....	-	20,532	-	33,220	-	-
Proceeds from capital lease .	-	-	-	-	-	61,017
Transfers out .....	-	(7,375)	-	(8,159)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>-</u>	<u>63,157</u>	<u>-</u>	<u>25,061</u>	<u>68,000</u>	<u>61,017</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	<u>(32,987)</u>	<u>(31,500)</u>	<u>-</u>	<u>218,474</u>	<u>10,337</u>	<u>(33,206)</u>
<b>FUND BALANCE</b>						
Balance at July 1, 2017 .....	<u>164,398</u>	<u>66,149</u>	<u>-</u>	<u>645,866</u>	<u>85,048</u>	<u>73,592</u>
Balance at June 30, 2018 ...	<u>\$ 131,411</u>	<u>\$ 34,649</u>	<u>\$ -</u>	<u>\$ 864,340</u>	<u>\$ 95,385</u>	<u>\$ 40,386</u>



**CITY OF COVINGTON, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE -**  
**NONMAJOR GOVERNMENTAL FUNDS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS			TOTALS
	TOTALS	AIRPORT IMPROVEMENTS CONSTRUCTION BOND FUND	PBACCT BOND FUND	GENERAL OBLIGATION REFUNDING BOND FUND	
<b>REVENUES</b>					
Intergovernmental revenues .....	\$ 1,317,498	\$ -	\$ -	\$ -	\$ -
Charges for services .....	1,871,847	-	-	-	-
Fines, forfeits, and penalties .....	12,789	-	-	-	-
Other revenues .....	47,465	11	678	48	737
<b>TOTAL REVENUES ..</b>	<u>3,249,599</u>	<u>11</u>	<u>678</u>	<u>48</u>	<u>737</u>
<b>EXPENDITURES</b>					
Public safety .....	86,060	-	-	-	-
Public works .....	1,689,703	-	-	-	-
Health, welfare,- recreation and education ..	1,532,595	-	-	-	-
Debt service .....	27,358	7,375	204,690	-	212,065
<b>TOTAL EXPENDITURES .....</b>	<u>3,335,716</u>	<u>7,375</u>	<u>204,690</u>	<u>-</u>	<u>212,065</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES .....</b>	<u>(86,117)</u>	<u>(7,364)</u>	<u>(204,012)</u>	<u>48</u>	<u>(211,328)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in .....	118,000	7,375	205,282	-	212,657
Insurance proceeds .....	53,752	-	-	-	-
Proceeds from capital lease	61,017	-	-	-	-
Transfers out .....	(15,534)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES) .....</b>	<u>217,235</u>	<u>7,375</u>	<u>205,282</u>	<u>-</u>	<u>212,657</u>
<b>NET CHANGE IN FUND BALANCE .....</b>	131,118	11	1,270	48	1,329
<b>FUND BALANCE</b>					
Balance at July 1, 2017 ...	1,035,053	1,022	11,051	4,729	16,802
Balance at June 30, 2018 ...	<u>\$ 1,166,171</u>	<u>\$ 1,033</u>	<u>\$ 12,321</u>	<u>\$ 4,777</u>	<u>\$ 18,131</u>

**CITY OF COVINGTON, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE -**  
**NONMAJOR GOVERNMENTAL FUNDS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

	<u>PERMANENT FUND MUNFORD CEMETERY FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>		
Intergovernmental revenues .....	\$ -	\$ 1,317,498
Charges for services .....	9,780	1,881,627
Fines, forfeits, and penalties .....	-	12,789
Other revenues .....	<u>9,750</u>	<u>57,952</u>
<b>TOTAL REVENUES ..</b>	<u>19,530</u>	<u>3,269,866</u>
<b>EXPENDITURES</b>		
Public safety .....	-	86,060
Public works .....	-	1,689,703
Health, welfare, recreation and education ..	165	1,532,760
Debt service .....	<u>-</u>	<u>239,423</u>
<b>TOTAL EXPENDITURES ....</b>	<u>165</u>	<u>3,547,946</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES .....</b>	<u>19,365</u>	<u>(278,080)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers in .....	-	330,657
Insurance proceeds .....	-	53,752
Proceeds from capital lease .....	-	61,017
Transfers out .....	<u>(5,629)</u>	<u>(21,163)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES) ...</b>	<u>(5,629)</u>	<u>424,263</u>
<b>NET CHANGE IN FUND BALANCE .....</b>	13,736	146,183
<b>FUND BALANCE</b>		
Balance at July 1, 2017 ...	<u>309,302</u>	<u>1,361,157</u>
Balance at June 30, 2018 ..	<u>\$ 323,038</u>	<u>\$ 1,507,340</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Intergovernmental revenues				
State gasoline and motor fuel tax . . . . .	\$ -	\$ -	\$ 173,395	\$ -
State gas 3 cent tax . . . . .	-	-	51,240	-
State gas 1989 tax . . . . .	-	-	27,611	-
State gas 2017 tax . . . . .	-	-	50,835	-
	<u>255,400</u>	<u>255,400</u>	<u>303,081</u>	<u>47,681</u>
Other revenues . . . . .	<u>-</u>	<u>-</u>	<u>6,083</u>	<u>6,083</u>
<b>TOTAL REVENUES</b> . . . . .	<u>255,400</u>	<u>255,400</u>	<u>309,164</u>	<u>53,764</u>
<b>EXPENDITURES</b>				
Public works				
Building materials . . . . .	-	-	61,711	-
Street lighting . . . . .	-	-	148,398	-
Capital outlay . . . . .	<u>-</u>	<u>-</u>	<u>132,042</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b> . . . . .	<u>255,400</u>	<u>355,400</u>	<u>342,151</u>	<u>13,249</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b> . . . . .	-	(100,000)	(32,987)	67,013
<b>FUND BALANCE</b>				
Balance at July 1, 2017 . . . . .	<u>164,398</u>	<u>164,398</u>	<u>164,398</u>	<u>-</u>
Balance at June 30, 2018 . . . . .	<u>\$ 164,398</u>	<u>\$ 64,398</u>	<u>\$ 131,411</u>	<u>\$ 67,013</u>

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - ACTUAL AND BUDGET - AIRPORT FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Intergovernmental revenues				
Federal grants .....	\$ -	\$ -	\$ 539,277	\$ -
State grants .....	-	-	32,787	-
	<u>614,000</u>	<u>614,000</u>	<u>572,064</u>	<u>(41,936)</u>
Charges for services .....	346,500	346,500	340,367	(6,133)
Other revenues .....	-	-	797	797
<b>TOTAL REVENUES</b> .....	<u>960,500</u>	<u>960,500</u>	<u>913,228</u>	<u>(47,272)</u>
<b>EXPENDITURES</b>				
Health, welfare, recreation, and education				
Personal services .....	-	-	182,244	-
Contractual services .....	-	-	89,338	-
Supplies .....	-	-	127,270	-
Fixed charges .....	-	-	10,353	-
Capital outlay .....	-	-	598,680	-
<b>TOTAL EXPENDITURES</b> .....	<u>991,500</u>	<u>1,011,500</u>	<u>1,007,885</u>	<u>3,615</u>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b> .....	<u>(31,000)</u>	<u>(51,000)</u>	<u>(94,657)</u>	<u>(43,657)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in .....	50,000	50,000	50,000	-
Transfers out .....	(7,750)	(7,750)	(7,375)	375
Insurance proceeds .....	-	20,000	20,532	532
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>42,250</u>	<u>62,250</u>	<u>63,157</u>	<u>907</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	11,250	11,250	(31,500)	(42,750)
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>66,149</u>	<u>66,149</u>	<u>66,149</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 77,399</u>	<u>\$ 77,399</u>	<u>\$ 34,649</u>	<u>\$ (42,750)</u>

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - ACTUAL AND BUDGET - COMMUNITY DEVELOPMENT FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<b>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</b>
<b>REVENUES</b>				
Intergovernmental revenues				
Federal grants .....	\$ 479,400	\$ 604,400	\$ 374,353	\$ (230,047)
<b>TOTAL REVENUES</b> .....	<u>479,400</u>	<u>604,400</u>	<u>374,353</u>	<u>(230,047)</u>
<b>EXPENDITURES</b>				
Health, welfare, recreation, and education				
Community development program .....	-	-	1,045	-
Capital outlay .....	<u>-</u>	<u>-</u>	<u>373,308</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b> ..	<u>475,900</u>	<u>600,900</u>	<u>374,353</u>	<u>226,547</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	3,500	3,500	-	(3,500)
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>\$ -</u>	<u>\$ (3,500)</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Charges for services .....	\$ 1,555,000	\$ 1,555,000	\$ 1,518,022	\$ (36,978)
Other revenues .....	<u>20,000</u>	<u>20,000</u>	<u>28,785</u>	<u>8,785</u>
<b>TOTAL REVENUES</b> .....	<u>1,575,000</u>	<u>1,575,000</u>	<u>1,546,807</u>	<u>(28,193)</u>
<b>EXPENDITURES</b>				
Public works				
Personal services .....	-	-	314,179	-
Contractual services .....	-	-	939,517	-
Supplies .....	-	-	28,718	-
Building materials .....	-	-	15,285	-
Fixed charges .....	-	-	4,767	-
Capital outlay .....	<u>-</u>	<u>-</u>	<u>45,086</u>	<u>-</u>
Total public works .....	<u>1,513,675</u>	<u>1,525,532</u>	<u>1,347,552</u>	<u>177,980</u>
Debt Service				
Principal retirement .....	-	-	4,773	-
Interest and fees .....	<u>-</u>	<u>-</u>	<u>1,069</u>	<u>-</u>
Total debt service .....	<u>300</u>	<u>8,443</u>	<u>5,842</u>	<u>2,601</u>
<b>TOTAL EXPENDITURES</b> .....	<u>1,513,975</u>	<u>1,533,975</u>	<u>1,353,394</u>	<u>180,581</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b> .....	<u>61,025</u>	<u>41,025</u>	<u>193,413</u>	<u>152,388</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out .....	(8,143)	(8,143)	(8,159)	(16)
Insurance proceeds .....	<u>-</u>	<u>33,000</u>	<u>33,220</u>	<u>220</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>(8,143)</u>	<u>24,857</u>	<u>25,061</u>	<u>204</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	52,882	65,882	218,474	152,592
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>645,866</u>	<u>645,866</u>	<u>645,866</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 698,748</u>	<u>\$ 711,748</u>	<u>\$ 864,340</u>	<u>\$ 152,592</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Intergovernmental revenues				
Tipton County grant . . . . .	\$ 68,000	\$ 68,000	\$ 68,000	\$ -
Charges for services . . . . .	9,800	9,800	13,458	3,658
Other revenues . . . . .	<u>3,500</u>	<u>3,500</u>	<u>11,236</u>	<u>7,736</u>
<b>TOTAL REVENUES . . . . .</b>	<u>81,300</u>	<u>81,300</u>	<u>92,694</u>	<u>11,394</u>
<b>EXPENDITURES</b>				
Health, welfare, recreation and education				
Museum/Nature Center				
Personal services . . . . .	-	-	101,264	-
Contractual services . . . . .	-	-	31,595	-
Supplies . . . . .	-	-	12,429	-
Fixed charges . . . . .	-	-	2,678	-
Capital outlay . . . . .	<u>-</u>	<u>-</u>	<u>2,391</u>	<u>-</u>
<b>TOTAL         EXPENDITURES . . . . .</b>	<u>147,775</u>	<u>147,775</u>	<u>150,357</u>	<u>(2,582)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES . . . . .</b>	<u>(66,475)</u>	<u>(66,475)</u>	<u>(57,663)</u>	<u>8,812</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in . . . . .	<u>68,000</u>	<u>68,000</u>	<u>68,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE . . . . .</b>	1,525	1,525	10,337	8,812
<b>FUND BALANCE</b>				
Balance at July 1, 2017 . . . . .	<u>85,048</u>	<u>85,048</u>	<u>85,048</u>	<u>-</u>
Balance at June 30, 2018 . . . . .	<u>\$ 86,573</u>	<u>\$ 86,573</u>	<u>\$ 95,385</u>	<u>\$ 8,812</u>



**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - ACTUAL AND BUDGET - DRUG FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Fines, forfeits, and penalties .....	\$ 30,000	\$ 30,000	\$ 12,789	\$ (17,211)
Other revenues .....	<u>-</u>	<u>-</u>	<u>564</u>	<u>564</u>
<b>TOTAL REVENUES .....</b>	<u>30,000</u>	<u>30,000</u>	<u>13,353</u>	<u>(16,647)</u>
<b>EXPENDITURES</b>				
Public safety				
Drug investigation and control				
Supplies .....	-	-	1,358	-
Capital outlay .....	<u>-</u>	<u>-</u>	<u>84,702</u>	<u>-</u>
	<u>41,300</u>	<u>48,300</u>	<u>86,060</u>	<u>(37,760)</u>
Debt service				
Principal .....	<u>-</u>	<u>-</u>	<u>21,516</u>	<u>(21,516)</u>
<b>TOTAL EXPENDITURES .....</b>	<u>41,300</u>	<u>48,300</u>	<u>107,576</u>	<u>(59,726)</u>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES .....</b>	(11,300)	(18,300)	(94,223)	(75,923)
<b>OTHER FINANCING SOURCES</b>				
Proceeds from capital lease .....	<u>-</u>	<u>-</u>	<u>61,017</u>	<u>61,017</u>
<b>NET CHANGE IN FUND BALANCE .....</b>	(11,300)	(18,300)	(33,206)	(14,906)
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>73,592</u>	<u>73,592</u>	<u>73,592</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 62,292</u>	<u>\$ 55,292</u>	<u>\$ 40,386</u>	<u>\$ (14,906)</u>

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - ACTUAL AND BUDGET - TIIP FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Intergovernmental revenues .....	\$ 609,555	\$ 609,555	\$ -	\$ (609,555)
<b>EXPENDITURES</b>				
Public works				
Construction costs .....	-	-	-	-
<b>TOTAL</b>				
<b>EXPENDITURES</b> .....	<u>609,555</u>	<u>609,555</u>	<u>-</u>	<u>609,555</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b> .....				
	-	-	-	-
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	-	-	-	-
Balance at June 30, 2018 .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Other revenues .....	\$ -	\$ -	\$ 11	\$ 11
<b>EXPENDITURES</b>				
Principal retirement .....	-	-	7,000	-
Interest and fees .....	-	-	375	-
<b>TOTAL EXPENDITURES</b> .....	<u>7,750</u>	<u>7,750</u>	<u>7,375</u>	<u>375</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	(7,750)	(7,750)	(7,364)	386
<b>OTHER FINANCING SOURCES</b>				
Transfers in .....	<u>7,750</u>	<u>7,750</u>	<u>7,375</u>	<u>(375)</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	-	-	11	11
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>1,022</u>	<u>1,022</u>	<u>1,022</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 1,022</u>	<u>\$ 1,022</u>	<u>\$ 1,033</u>	<u>\$ 11</u>

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - ACTUAL AND BUDGET - PBACCT BOND FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Other revenues .....	\$ -	\$ -	\$ 678	\$ 678
<b>EXPENDITURES</b>				
Principal retirement .....	-	-	180,500	-
Interest and fees .....	-	-	24,190	-
<b>TOTAL EXPENDITURES .....</b>	<u>211,784</u>	<u>211,784</u>	<u>204,690</u>	<u>7,094</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES .....</b>	(211,784)	(211,784)	(204,012)	7,772
<b>OTHER FINANCING SOURCES</b>				
Transfers in .....	<u>211,784</u>	<u>211,784</u>	<u>205,282</u>	<u>(6,502)</u>
<b>NET CHANGE IN FUND BALANCE .....</b>				
	-	-	1,270	1,270
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>11,051</u>	<u>11,051</u>	<u>11,051</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 11,051</u>	<u>\$ 11,051</u>	<u>\$ 12,321</u>	<u>\$ 1,270</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, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Other revenues .....	\$ -	\$ -	\$ 48	\$ 48
<b>EXPENDITURES</b>				
Interest and fees .....	1,100	1,100	-	1,100
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES .....</b>	<u>(1,100)</u>	<u>(1,100)</u>	<u>48</u>	<u>1,148</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in .....	1,100	1,100	-	1,100
<b>NET CHANGE IN FUND BALANCE .....</b>	-	-	48	48
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	4,729	4,729	4,729	-
Balance at June 30, 2018 .....	<u>\$ 4,729</u>	<u>\$ 4,729</u>	<u>\$ 4,777</u>	<u>\$ 48</u>

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE - ACTUAL AND BUDGET - MUNFORD CEMETERY FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES</b>				
Charges for services .....	\$ 3,000	\$ 3,000	\$ 9,780	\$ 6,780
Other revenues .....	<u>700</u>	<u>700</u>	<u>9,750</u>	<u>9,050</u>
<b>TOTAL REVENUES</b> .....	<u>3,700</u>	<u>3,700</u>	<u>19,530</u>	<u>15,830</u>
<b>EXPENDITURES</b>				
Health, welfare, recreation, and education				
Cemetery maintenance				
Contractual services .....	<u>3,000</u>	<u>3,000</u>	<u>165</u>	<u>2,835</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b> .....	700	700	19,365	18,665
<b>OTHER FINANCING (USES)</b>				
Transfers out .....	<u>(700)</u>	<u>(700)</u>	<u>(5,629)</u>	<u>(4,929)</u>
<b>NET CHANGE IN FUND BALANCE</b> .....	-	-	13,736	13,736
<b>FUND BALANCE</b>				
Balance at July 1, 2017 .....	<u>309,302</u>	<u>309,302</u>	<u>309,302</u>	<u>-</u>
Balance at June 30, 2018 .....	<u>\$ 309,302</u>	<u>\$ 30,9302</u>	<u>\$ 323,038</u>	<u>\$ 13,736</u>

**CITY OF COVINGTON, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	RECEIVABLE/ (UNEARNED) BALANCE AT JULY 1, 2017	RECEIPTS	DISBURSE- MENTS	ADJUSTMENTS	RECEIVABLE (UNEARNED) BALANCE AT JUNE 30, 2018
<b>CASH FEDERAL AWARDS</b>							
Department of Housing and Urban Development							
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii .....	14.228	N/A	\$ (760,360)	\$ (6,079)	\$ 374,353	\$ 337	\$ (391,749)
Total Department of Housing and Urban Development .....			<u>(760,360)</u>	<u>(6,079)</u>	<u>374,353</u>	<u>337</u>	<u>(391,749)</u>
Department of Transportation							
Passed through State of Tennessee Department of Transportation							
Highway Planning and Construction .....	20.205	84LPLM-F3-022, 84LPLM-F0-021 84LPLM-F3-047	-	(57,325)	98,258	-	40,933
Highway Planning and Construction .....	20.205	84LPLM-F3-037	-	(13,150)	15,880	-	2,730
Alcohol Open Container Requirements .....	20.607	Z17THS137	-	(19,580)	20,804	-	1,224
Alcohol Open Container Requirement .....	20.607	Z18THS075	-	(90,055)	134,942	-	44,887
Airport Improvement Program .....	20.106	AERO-18-210-00	1,939	(3,837)	1,898	-	-
Airport Improvement Program .....	20.106	AERO-16-249-00	-	(5,000)	5,000	-	-
Total Department of Transportation .....			<u>1,939</u>	<u>(8,837)</u>	<u>6,898</u>	<u>-</u>	<u>-</u>
Total Department of Transportation .....			-	-	46,185	-	46,185
Total Department of Transportation .....			<u>153,474</u>	<u>(646,566)</u>	<u>493,092</u>	<u>-</u>	<u>-</u>
Total Department of Transportation .....			<u>153,474</u>	<u>(646,566)</u>	<u>539,277</u>	<u>-</u>	<u>46,185</u>
Total Department of Transportation .....			<u>155,413</u>	<u>(745,458)</u>	<u>681,117</u>	<u>-</u>	<u>91,072</u>
Total Department of Transportation .....			<u>155,413</u>	<u>(745,458)</u>	<u>681,117</u>	<u>-</u>	<u>91,072</u>
<b>TOTAL CASH FEDERAL AWARDS .....</b>			<u>\$ (604,947)</u>	<u>\$ (751,537)</u>	<u>\$ 1,055,470</u>	<u>\$ 337</u>	<u>\$ (300,677)</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, 2018. 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, 2018**

<u>PROGRAM TITLE</u>	<u>GRANTOR'S NUMBER</u>	<u>RECEIVABLE (UNEARNED)/ BALANCE AT JULY 1, 2017</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>ADJUST MENT</u>	<u>RECEIVABLE (UNEARNED)/ BALANCE AT JUNE 30, 2018</u>
<b><u>CASH STATE AWARDS</u></b>						
Department of Transportation						
Maintenance Grant (FY 18) .....	AERM-18-111-00	\$ -	\$ (4,403)	\$ 14,407	\$ -	\$ 10,004
Maintenance Grant (FY 17) .....	AERM-17-111-00	4,630	(4,630)	-	-	-
Airport Improvements .....	AERO-18-210-00	-	-	2,431	-	2,431
Airport Improvements .....	AERO-16-249-00	8,076	(34,030)	25,954	-	-
Industrial access road .....	84696M-SO-018, 84LPM-S1-019, 84LPM-S3-020	-	-	37,675	-	37,675
<b>TOTAL CASH STATE AWARDS .....</b>		<b><u>\$ 12,706</u></b>	<b><u>\$ (43,063)</u></b>	<b><u>\$ 80,467</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 50,110</u></b>

**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. Expenses 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, 2018**

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
2019	\$ 18,046	\$ 38,438	\$ 24,787	\$ 48,833	\$ 73,000	\$ 42,646
2020	18,804	37,680	25,733	47,887	75,000	41,026
2021	19,595	36,889	26,716	46,904	78,000	39,361
2022	20,418	36,066	27,737	45,883	81,000	37,629
2023	21,277	35,207	28,796	44,824	84,000	35,831
2024	22,171	34,313	29,896	43,724	87,000	33,966
2025	23,103	33,381	31,038	42,582	90,000	32,035
2026	24,074	32,410	32,224	41,396	93,000	30,037
2027	25,087	31,397	33,455	40,165	96,000	27,972
2028	26,141	30,343	34,733	38,887	99,000	25,841
2029	27,240	29,244	36,059	37,561	103,000	23,643
2030	28,385	28,099	37,437	36,183	106,000	21,356
2031	29,579	26,905	38,867	34,753	110,000	19,003
2032	30,822	25,662	40,351	33,269	114,000	16,561
2033	32,118	24,366	41,893	31,727	118,000	14,030
2034	33,468	23,016	43,493	30,217	122,000	11,411
2035	34,875	21,609	45,154	28,466	126,000	8,702
2036	36,341	20,143	46,879	26,741	131,000	5,905
2037	37,869	18,615	48,670	24,950	135,000	2,997
2038	39,461	17,023	50,529	23,091	-	-
2039	41,119	15,365	52,459	21,161	-	-
2040	42,848	13,636	54,463	19,157	-	-
2041	44,649	11,835	56,543	17,077	-	-
2042	46,526	9,958	58,703	14,917	-	-
2043	48,482	8,002	60,946	12,674	-	-
2044	50,520	5,964	63,274	10,346	-	-
2045	52,644	3,840	65,690	7,930	-	-
2046	54,857	1,627	68,200	5,420	-	-
2047	7,355	49	70,805	2,815	-	-
2048	-	-	33,810	400	-	-
	<u>\$ 937,874</u>	<u>\$ 651,082</u>	<u>\$ 1,309,340</u>	<u>\$ 859,940</u>	<u>\$ 1,921,000</u>	<u>\$ 469,952</u>

**CITY OF COVINGTON, TENNESSEE  
LONG-TERM DEBT PRINCIPAL AND INTEREST  
REQUIREMENTS BY YEAR - CONTINUED  
JUNE 30, 2018**

<u>ENDING</u>	<u>COVINGTON ELECTRIC SYSTEM REVENUE BONDS - SERIES 2003</u>		<u>PUBLIC WORKS AIRPORT BONDS</u>		<u>POOLED REFINANCING REVENUE BONDS - SERIES 1994</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2019	\$ 125,000	\$ 32,648	\$ 8,000	\$ 400	\$ 137,600	\$ 11,827
2020	130,000	27,483	-	-	145,200	9,708
2021	135,000	22,034	-	-	153,200	7,472
2022	140,000	16,188	-	-	161,600	5,113
2023	145,000	16,188	-	-	170,400	2,624
2024	155,000	13,345	-	-	-	-
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>\$ 830,000</u>	<u>\$ 127,886</u>	<u>\$ 8,000</u>	<u>\$ 400</u>	<u>\$ 768,000</u>	<u>\$ 36,744</u>

**CITY OF COVINGTON, TENNESSEE**  
**LONG-TERM DEBT PRINCIPAL AND INTEREST**  
**REQUIREMENTS BY YEAR - CONTINUED**  
**JUNE 30, 2018**

<u>ENDING</u>	<u>NOTE PAYABLE - LAWSUIT SETTLEMENT</u>		<u>GENERAL OBLIGATION CAPITAL OUTLAY NOTE SERIES 2007</u>		<u>GENERAL OBLIGATION REFUNDING BOND - SERIES 2014</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2019	\$ 133,333	\$ 30,170	\$ 52,000	\$ 2,184	\$ 115,000	\$ 91,550
2020	133,333	21,333	-	-	160,000	89,250
2021	133,333	18,667	-	-	160,000	86,050
2022	133,333	16,000	-	-	165,000	82,450
2023	133,333	13,333	-	-	170,000	78,325
2024	133,333	10,667	-	-	175,000	74,075
2025	133,333	8,000	-	-	170,000	68,825
2026	133,333	5,333	-	-	165,000	63,725
2027	133,336	2,667	-	-	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	-	-	-	-	204,890	7,688
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
	<u>\$ 1,200,000</u>	<u>\$ 126,170</u>	<u>\$ 52,000</u>	<u>\$ 2,184</u>	<u>\$ 2,929,890</u>	<u>\$ 940,785</u>

**CITY OF COVINGTON, TENNESSEE  
LONG-TERM DEBT PRINCIPAL AND INTEREST  
REQUIREMENTS BY YEAR - CONTINUED  
JUNE 30, 2018**

ENDING	CAPITAL LEASE OBLIGATION - TRUCK		CAPITAL LEASE OBLIGATION - SWEEPER		CAPITAL LEASE OBLIGATION - POLICE CAR	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2019	\$ 5,031	\$ 557	\$ 34,639	\$ 4,121	\$ 9,669	\$ 1,195
2020	5,302	286	35,626	3,134	10,248	615
2021	-	-	36,641	2,118	-	-
2022	-	-	37,685	1,074	-	-
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>\$ 10,333</u>	<u>\$ 843</u>	<u>\$ 144,591</u>	<u>\$ 10,447</u>	<u>\$ 19,917</u>	<u>\$ 1,810</u>

**CITY OF COVINGTON, TENNESSEE  
LONG-TERM DEBT PRINCIPAL AND INTEREST  
REQUIREMENTS BY YEAR - CONTINUED  
JUNE 30, 2018**

<u>ENDING</u>	<u>CAPITAL LEASE OBLIGATION - POLICE CARS</u>		<u>CAPITAL LEASE OBLIGATION - TRUCK</u>		<u>CAPITAL LEASE OBLIGATION - TRUCK</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2019	\$ 23,353	\$ 1,401	\$ 6,326	\$ -	\$ 7,775	\$ -
2020	-	-	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>\$ 23,353</u>	<u>\$ 1,401</u>	<u>\$ 23,254</u>	<u>\$ 2,050</u>	<u>\$ 28,579</u>	<u>\$ 2,521</u>

**CITY OF COVINGTON, TENNESSEE  
LONG-TERM DEBT PRINCIPAL AND INTEREST  
REQUIREMENTS BY YEAR - CONTINUED  
JUNE 30, 2018**

<u>ENDING</u>	<u>CAPITAL LEASE OBLIGATION - POLICE CARS</u>		<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2009</u>		<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2012</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2019	\$ 19,185	\$ 2,331	\$ 37,778	\$ 1,511	\$ 176,358	\$ 5,291
2020	20,317	1,199	38,533	756	176,358	3,527
2021	-	-	-	-	176,359	1,764
2022	-	-	-	-	-	-
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>\$ 39,502</u>	<u>\$ 3,530</u>	<u>\$ 76,311</u>	<u>\$ 2,267</u>	<u>\$ 529,075</u>	<u>\$ 10,582</u>

**CITY OF COVINGTON, TENNESSEE  
LONG-TERM DEBT PRINCIPAL AND INTEREST  
REQUIREMENTS BY YEAR - CONTINUED  
JUNE 30, 2018**

<u>ENDING</u>	<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2014</u>		<u>GENERAL OBLIGATION INTERFUND LOAN CAPITAL OUTLAY NOTE SERIES 2015</u>		<u>GRAND TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2019	\$ 30,243	3,024	\$ 66,702	\$ 767	\$ 1,422,719
2020	30,243	2,419	-	-	1,305,101
2021	30,243	1,815	-	-	1,226,262
2022	30,243	1,210	-	-	1,052,730
2023	30,245	608	-	-	1,009,991
2024	-	-	-	-	812,490
2025	-	-	-	-	632,297
2026	-	-	-	-	620,532
2027	-	-	-	-	618,442
2028	-	-	-	-	482,783
2029	-	-	-	-	483,460
2030	-	-	-	-	467,873
2031	-	-	-	-	468,570
2032	-	-	-	-	474,221
2033	-	-	-	-	474,447
2034	-	-	-	-	478,793
2035	-	-	-	-	477,384
2036	-	-	-	-	267,009
2037	-	-	-	-	268,101
2038	-	-	-	-	130,104
2039	-	-	-	-	130,104
2040	-	-	-	-	130,104
2041	-	-	-	-	130,104
2042	-	-	-	-	130,104
2043	-	-	-	-	130,104
2044	-	-	-	-	130,104
2045	-	-	-	-	130,104
2046	-	-	-	-	130,104
2047	-	-	-	-	81,024
2048	-	-	-	-	34,210
	<u>\$ 151,217</u>	<u>\$ 9,076</u>	<u>\$ 66,702</u>	<u>\$ 767</u>	\$ 14,329,375
Less interfund capital outlay notes					<u>(845,997)</u>
Outside long-term debt					<u>\$ 13,483,378</u>

**CITY OF COVINGTON, TENNESSEE  
WATER FUND - OPERATING EXPENSES  
YEAR ENDED JUNE 30, 2018**

**PURIFICATION**

Personal services .....	\$ 106,950
Contractual services .....	268,302
Supplies .....	<u>26,947</u>
	<u>402,199</u>

**TRANSMISSION AND DISTRIBUTION**

Personal services .....	281,089
Contractual services .....	229,407
Supplies .....	<u>13,972</u>
	<u>524,468</u>

**GENERAL AND ADMINISTRATIVE**

Personal services .....	57,683
Contractual services .....	22,630
Supplies .....	3,969
Fixed charges .....	27,403
Joint costs to General Fund .....	<u>117,381</u>
	<u>229,066</u>

**DEPRECIATION** ..... 223,141

**TOTAL OPERATING EXPENSES** ..... \$ 1,378,874



**CITY OF COVINGTON, TENNESSEE  
SEWER FUND - OPERATING EXPENSES  
YEAR ENDED JUNE 30, 2018**

**COLLECTION**

Personal services .....	\$ 163,167
Contractual services .....	64,002
Supplies .....	<u>14,050</u>
	<u>241,219</u>

**TREATMENT AND DISPOSAL**

Personal services .....	242,279
Contractual services .....	364,428
Supplies .....	<u>95,677</u>
	<u>702,384</u>

**GENERAL AND ADMINISTRATIVE**

Personal services .....	153,299
Contractual services .....	8,599
Supplies .....	1,350
Fixed charges .....	76,484
Joint costs to General Fund .....	<u>117,381</u>
	<u>357,113</u>

**DEPRECIATION** ..... 625,685

**TOTAL OPERATING EXPENSES** ..... \$ 1,926,401

**CITY OF COVINGTON, TENNESSEE  
GAS UTILITY FUND - OPERATING EXPENSES  
YEAR ENDED JUNE 30, 2018**

<b>PURCHASED GAS</b> .....	<u>\$ 1,643,177</u>
 <b>TRANSMISSION AND DISTRIBUTION</b>	
Personal services .....	372,469
Contractual services .....	85,037
Supplies .....	<u>22,507</u>
	<u>480,013</u>
 <b>GENERAL AND ADMINISTRATIVE</b>	
Personal services .....	278,893
Contractual services .....	38,564
Supplies .....	5,719
Fixed charges - insurance .....	13,823
Joint costs to General Fund .....	<u>117,381</u>
	<u>454,380</u>
 <b>DEPRECIATION</b> .....	 <u>93,582</u>
 <b>TOTAL OPERATING EXPENSES</b> .....	 <u><u>\$ 2,671,152</u></u>

**CITY OF COVINGTON, TENNESSEE**  
**BIO MASS GASIFICATION FUND - OPERATING EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

<b>OPERATIONS</b>	
Fixed charges .....	\$ 23,127
<b>DEPRECIATION</b> .....	<u>97,565</u>
<b>TOTAL OPERATING EXPENSES</b> .....	<u>\$ 120,692</u>

**CITY OF COVINGTON, TENNESSEE**  
**COVINGTON ELECTRIC SYSTEM ELECTRIC FUND - OPERATING EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

<b>COST OF POWER</b> .....	<u>\$ 17,112,807</u>
<b>OPERATIONS EXPENSE</b>	
Distribution expense .....	493,221
Customer accounts expense .....	377,533
Customer service and information expense .....	21,765
General and administrative .....	<u>968,092</u>
	<u>1,860,611</u>
<b>MAINTENANCE EXPENSE</b>	
Distribution .....	389,673
General and administrative .....	<u>142,447</u>
	<u>532,120</u>
<b>DEPRECIATION AND AMORTIZATION</b> .....	<u>729,682</u>
<b>TAXES</b> .....	<u>97,061</u>
<b>TOTAL OPERATING EXPENSES</b> .....	<u>\$ 20,332,281</u>

**CITY OF COVINGTON, TENNESSEE  
PROPERTY TAXES  
YEAR ENDED JUNE 30, 2018**

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>
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
2009	1.19	179,843,130

Following is a schedule of changes in property taxes receivable:

<u>YEAR OF LEVY</u>	<u>BALANCE JULY 1, 2017</u>	<u>ASSESSMENT</u>	<u>ADJUSTMENTS/ ABATEMENTS</u>	<u>COLLECTIONS</u>	<u>BALANCE JUNE 30, 2018</u>
2018	\$ -	\$ 2,431,058	\$ -	\$ -	\$ 2,431,058
2017	2,385,784	-	(14,396)	(2,212,930)	158,458
2016	164,318	-	(1,031)	(82,424)	80,863
2015	58,361	-	(802)	(25,506)	32,053
2014	30,650	-	(802)	(20,125)	9,723
2013	18,114	-	-	(7,577)	10,537
2012	5,619	-	-	(1,076)	4,543
2011	63,577	-	-	(648)	62,929
2010	7,658	-	-	(234)	7,424
2009	10,701	-	-	(10)	10,691
2008	<u>7,547</u>	<u>-</u>	<u>(7,547)</u>	<u>-</u>	<u>-</u>
Totals	2,752,329	<u>\$ 2,431,058</u>	<u>\$ (24,578)</u>	<u>\$ (2,350,530)</u>	2,808,279
Allowance for uncollectible property taxes	<u>(108,889)</u>				<u>(107,787)</u>
Net receivables	<u>\$2,643,440</u>				<u>\$ 2,700,492</u>

Uncollected taxes for years prior to 2009 have been charged off for financial reporting purposes. Such amounts are not significant. Uncollected taxes for tax years prior to 2016 have been turned over to Chancery Court for collection.

**CITY OF COVINGTON, TENNESSEE  
WATER FUND - WATER RATES AND NUMBER OF CUSTOMERS  
JUNE 30, 2018**

<u>MINIMUM CHARGE - BY METER SIZE</u>	<u>INSIDE CITY LIMITS</u>	<u>OUTSIDE CITY LIMITS</u>
5/8" .....	\$ 8.78	\$ 13.22
3/4" .....	12.05	22.44
1" .....	24.71	33.58
1½" .....	47.05	67.17
2" .....	76.15	111.89
3" .....	125.29	178.99
4" .....	156.62	223.70
6" .....	223.70	335.57
8" .....	447.37	671.07

**INSIDE CITY LIMITS**

<u>NUMBER OF GALLONS USED</u>	<u>RATE PER 1,000 GALLONS USED</u>
First 2,000 .....	\$ 4.40
Next 8,000 .....	3.00
Next 40,000 .....	2.83
Next 50,000 .....	2.35
Over 100,000 .....	2.25

**OUTSIDE CITY LIMITS**

<u>NUMBER OF GALLONS USED</u>	<u>RATE PER 1,000 GALLONS USED</u>
First 3,000 .....	\$ 4.40
Next 7,000 .....	3.81
Next 10,000 .....	3.50
Over 20,000 .....	2.50

**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, 2018.

**CITY OF COVINGTON, TENNESSEE  
SEWER FUND - SEWER RATES AND NUMBER OF CUSTOMERS  
JUNE 30, 2018**

	<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" .....	\$ 7.36	\$ 10.60	\$ 8.31	\$ 11.96
1" .....	8.74	12.89	9.86	14.54
1½" .....	17.03	25.79	19.22	29.07
2" .....	22.56	34.06	25.43	38.40
3" .....	36.81	55.21	41.51	62.24
4" .....	76.39	115.04	86.13	129.71
6" .....	102.09	153.69	115.09	173.29
8" .....	144.50	217.19	162.91	244.87
Unit Charge				
Per 1,000 gallons of metered water .....	\$ 4.26	\$ 5.70	\$ 4.80	\$ 6.44

**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, 2018.

**CITY OF COVINGTON, TENNESSEE  
GAS UTILITY FUND - GAS RATES AND NUMBER OF CUSTOMERS  
JUNE 30, 2018**

	<b><u>PER 1,000 CUBIC FEET</u></b>
<b><u>RESIDENTIAL CUSTOMERS</u></b>	
Inside City Limits .....	\$ 5.39
Outside City Limits .....	5.46
<b><u>COMMERCIAL CUSTOMERS</u></b>	
Inside City Limits .....	\$ 4.48
Outside City Limits .....	4.51
<b><u>INDUSTRIAL CUSTOMERS</u></b>	
Firm - Schedule 24 .....	\$ 4.8420
Interruptible - Schedule 93 .....	4.4840
Interruptible - Schedule 93 (Unilever) .....	3.7300
Firm - Transportation .....	4.1510

**NUMBER OF CUSTOMERS**

There were approximately 3,100 gas customers at June 30, 2018.



**CITY OF COVINGTON, TENNESSEE  
COVINGTON ELECTRIC SYSTEM ELECTRIC FUND -  
ELECTRIC RATES  
JUNE 30, 2018**

**RESIDENTIAL RATE SCHEDULE**

Customer charge - per delivery point per month .....	\$ 14.40
Energy charge - cent per kWh - all kWh .....	0.08963

**GENERAL POWER SCHEDULE**

<b>GSA1 (Under 50 kW demand and less than 15,000 kWh)</b>	
Customer charge - per delivery point per month .....	\$ 32.00
Energy charge - cents per kWh .....	0.10298
<b>GSA2 (51-1,000 kW demand or more than 15,000 kWh)</b>	
Customer charge - per delivery point per month .....	\$ 125.00
Demand charges - per kW per month	
First 50 kW .....	\$ 1.00
Excess over 50 kW .....	\$ 13.90
Energy charge - cents per kWh	
First 15,000 kWh per month .....	0.10147
Additional kWh per month .....	0.06076
<b>GSA3 (1,000 - 5,000 kW demand)</b>	
Customer charge - per delivery point per month .....	\$ 400.00
Demand charges - per kW per month	
First 1,000 kW .....	13.13
Excess over 1,000 kW .....	13.13
Excess over 2,500 kW .....	13.13
Energy charge - cents per kWh .....	0.06551
<b>SMSB (Seasonal Demand and Energy - Manufacturing Service)</b>	
Customer charge - per delivery point per month .....	\$1,500.00
Administrative charge .....	350.00
OnPeak kW .....	9.97
Max kW .....	2.07
OffPeak Excess of Contract kW .....	9.97
 Outdoor Lighting LS .....	 \$ 0.06560

**NONACCOUNTING INFORMATION**

AWWA Free Water Audit Software:  
Reporting Worksheet

WAS v5.9

© American Water Works Association

Water Audit Report for: **City of Govington (0000144)**  
Reporting Year: **2017** **7/2017 - 6/2018**

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

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

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

Master Meter and Supply Error Adjustments

**WATER SUPPLIED**

Volume from own sources:	<input type="button" value="9"/>	630.493	MG/Yr	<input type="button" value="7"/>	-1.00%	<input type="radio"/>	<input type="radio"/>	MG/Yr
Water imported:	<input type="button" value="n/a"/>	0.000	MG/Yr	<input type="button" value="7"/>		<input type="radio"/>	<input type="radio"/>	MG/Yr
Water exported:	<input type="button" value="n/a"/>	0.000	MG/Yr	<input type="button" value="7"/>		<input type="radio"/>	<input type="radio"/>	MG/Yr

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

**WATER SUPPLIED:** **636.862** MG/Yr

**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="button" value="9"/>	531.822	MG/Yr
Billed unmetered:	<input type="button" value="n/a"/>	0.000	MG/Yr
Unbilled metered:	<input type="button" value="9"/>	58.988	MG/Yr
Unbilled unmetered:	<input type="button" value="7"/>	4.304	MG/Yr

Click here  for help using option buttons below

Pcnt:  Value:  4.304 MG/Yr

Use buttons to select percentage of water supplied OR value

**AUTHORIZED CONSUMPTION:** **595.114** MG/Yr

**WATER LOSSES (Water Supplied - Authorized Consumption)**

**41.748** MG/Yr

**Apparent Losses**

Unauthorized consumption:  1.592 MG/Yr  
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	<input type="button" value="7"/>	12.057	MG/Yr
Systematic data handling errors:	<input type="button" value="7"/>	1.330	MG/Yr

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

**Apparent Losses:** **14.979** MG/Yr

Pcnt:  Value:  0.25% MG/Yr

2.00%   0.25% MG/Yr

**Real Losses (Current Annual Real Losses or CARL)**

Real Losses = Water Losses - Apparent Losses: **26.769** MG/Yr

**WATER LOSSES:** **41.748** MG/Yr

**NON-REVENUE WATER**

**NON-REVENUE WATER:** **105.040** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

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

Are customer meters typically located at the curbside or property 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:  53.0 psi

**COST DATA**

Total annual cost of operating water system:	<input type="button" value="9"/>	\$1,490,795	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="7"/>	\$8.60	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="10"/>	\$476.30	\$/Million gallons <input type="checkbox"/> 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 Govington (0000144)**  
 Reporting Year: **2017** | **7/2017 - 6/2018**

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

**System Attributes:**

Apparent Losses:	14.979	MG/Yr
+	Real Losses:	26.769
=	<b>Water Losses:</b>	<b>41.748</b>
		MG/Yr

Unavoidable Annual Real Losses (UARL):  MG/Yr

Annual cost of Apparent Losses:

Annual cost of Real Losses:

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:	<input style="width: 100px;" type="text" value="16.5%"/>	
		Non-revenue water as percent by cost of operating system:	<input style="width: 100px;" type="text" value="11.5%"/>	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	<input style="width: 100px;" type="text" value="7.92"/>	gallons/connection/day
		Real Losses per service connection per day:	<input style="width: 100px;" type="text" value="14.16"/>	gallons/connection/day
		Real Losses per length of main per day*:	<input style="width: 100px;" type="text" value="N/A"/>	
		Real Losses per service connection per day per psi pressure:	<input style="width: 100px;" type="text" value="0.27"/>	gallons/connection/day/psi

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

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

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

**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, 2018, 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 January 28, 2019. 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 significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (Item Nos. 2018-001, 2018-002, and 2018-003).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the accompanying schedule of findings and questioned costs to be significant deficiencies (Item Nos. 2018-004, 2018-005, 2018-006, and 2018-007).

### **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. 2018-008).

### **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 Jenkensley & Davis, PLLC*

Covington, Tennessee  
January 28, 2019

**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, 2018. 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, 2018.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Item No. 2018-009. Our opinion on each major federal program is not modified with respect to this matter.

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

### **Report on Internal Control over Compliance**

Management of the City of Covington, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Covington, Tennessee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

*Whitchorn Funkusly & Davis, PLLC*

**CITY OF COVINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

**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. Three material weaknesses and four significant deficiencies 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. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance. No material weaknesses are reported.
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: Airport Improvement Program - CFDA No. 20.106.
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. 2018-001: 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, 2018**

**FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED**

**Material Weaknesses - Continued**

**Item No. 2018-001: 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. 2018-002: Material Audit Adjustments**

*Condition:* The following material audit adjustments were proposed:

General Fund

- (1) The prior year liability to the settlement of the Flat Iron lawsuit had not been reversed in the general ledger accounts. An adjustment was made to decrease liabilities and expenditures by approximately \$244,000.
- (2) The general ledger account balance for utility reconnect fees receivable did not agree with the detail subsidiary ledger. An adjustment was made to decrease assets and revenues by approximately \$74,000.
- (3) The joint cost allocation charges to the utility funds were understated. An adjustment was made to increase assets and decrease expenditures by approximately \$64,000.

Water Fund

- (1) Revenue (charges for services) was overstated. An adjustment was made to increase liabilities and decrease revenues by approximately \$111,000.

Gas Utility 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 decrease net pension liability and pension expense by approximately \$64,000.

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED**

**Material Weaknesses - Continued**

**Item No. 2018-002: Material Audit Adjustments - Continued**

*Condition: - Continued*

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 adjustments were due to overlooked accounting errors.

*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.

**Item No. 2018-003: Reconciliation and Adjustment of Utility Accounts Receivable Balances**

*Condition:* The utility funds' general ledger accounts receivable balances were not reconciled and adjusted to the detail customer balances each month. As a result, misstatements of the utility fund's general ledger accounts receivable balances in the cumulative amount of approximately \$102,000 were not corrected until the reconciliation was performed as of June 30, 2018 year end. Furthermore, the causes for these misstatements had not been determined as of June 30, 2018.

*Criteria:* Sufficient internal controls should be in place that allows management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

*Cause:* Although the utility funds' general ledger accounts receivable balances were compared to the detail balances each month through the year, the differences were not investigated and corrected until year end and the reasons for the differences had not been determined.

*Effect:* The utility funds' general ledger accounts receivable balances were misstated throughout the year.

**CITY OF COVINGTON, TENNESSEE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2018**

**FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED**

**Material Weaknesses - Continued**

**Item No. 2018-003: Reconciliation and Adjustment of Utility Accounts Receivable Balances - Continued**

*Recommendation:* As part of the normal monthly closing procedures, the utility funds' general ledger accounts receivable balances should be reconciled to detail balances. Any significant differences noted should be investigated and corrected.

*Management response:* We concur with this finding

**Significant Deficiencies**

**Item No. 2018-004: Lack of Purchase Approval in Minutes**

*Condition:* Although the purchase was included in the current year budget, there was no evidence in the minutes of the Board, or the appropriate committee, of the approval for the purchase of an Aqua-tech truck by the Sewer Fund in the approximate amount of \$275,000.

*Criteria:* Requiring Board approval for major capital asset purchases is an effective internal control procedure.

*Cause:* There was an inadvertent oversight in not including the item on the Board agenda.

*Effect:* Internal controls over the purchase of this capital asset were not as effective as they should have been.

*Recommendation:* All major capital asset purchases should be approved by the Board, or the appropriate committee.

*Management response:* We concur with this finding.

**Item No. 2018-005: Allocation of Pension Contributions**

*Condition:* Testing of the fund allocation of contributions to the City's private pension plan indicated the Water Fund and Sewer Fund may have overpaid in the approximate amounts of \$19,000 and \$17,000, respectively, while the General Fund may have underpaid in the approximate amount of \$37,000.

*Criteria:* Pension contributions should be allocated to the funds on a systematic and reasonable basis.

*Cause:* The method of allocation of contributions has not been reviewed in recent years.

**CITY OF COVINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED**

**Significant Deficiencies- Continued**

**Item No. 2018-005: Allocation of Pension Contributions - Continued**

*Effect:* Expenses of the Water Fund and Sewer Fund may be overstated, while expenditures of the General Fund may be understated.

*Recommendation:* The method of allocation of pension contributions to the various funds should be reviewed and updated, if necessary. Normally, the pension contributions should be allocated based on the ratio of salaries paid, or some other reasonable and verifiable basis.

*Management response:* We concur with this finding.

**Item No. 2018-006: Cash Shortage and Other Theft**

*Condition:* A department head used a City-issued credit card to make personal purchases in the amount of \$603. The City's cash disbursement internal control procedures discovered the discrepancies during the review for supporting documentation of the credit card statement. The department head promptly reimbursed the City upon discovery of the personal purchases.

*Criteria:* The policy of the City is that City-issued credit cards only be used by department heads for approved travel.

*Cause:* The department head contended the City-issued card was unintentionally used for the personal purchases.

*Effect:* City-issued credit card was used for personal purchases.

*Recommendation:* City-issued credit cards should be kept in the locked safe except when released to the department head immediately prior to commencement of approved travel. The City - issued credit card should be returned to the locked safe immediately upon the return of the department head.

*Management response:* We concur with this finding.

**Item No. 2018-007: Overstatement of Pension Compensation**

*Condition:* The amount of compensation reported to the actuary for the City Pension Plan for certain public safety employees was overstated. This necessitated that a corrected actuarial valuation be prepared to calculate correct balances for pension related accounts.

**CITY OF COVINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED**

**Significant Deficiencies- Continued**

**Item No. 2018-007: Overstatement of Pension Compensation - Continued**

*Criteria:* Adequate internal controls should be designed and implemented to ensure account balances are properly stated.

*Cause:* An additional overtime compensation code for public safety employees had been added recently. The amount of compensation related to this overtime code had not been deducted from total compensation of the employees in reporting pension compensation.

*Effect:* Pension related account balances were misstated.

*Recommendation:* Internal controls should be implemented to ensure the correct amount of pension compensation is reported to the actuary. After the pension compensation calculations are performed, another employee should review and recheck the calculations before the information is submitted to the actuary. The preparer and the reviewer should initial and date the payroll register on which the manual calculations are performed to document the preparation and review process.

*Management response:* We concur with this finding.

**Compliance and Other Matters**

**Item No. 2018-008: Expenditures in Excess of Budget**

*Condition:* In the General Fund, there were three line item budget overruns aggregating approximately \$64,000.

In the Munford Cemetery Fund, total expenditures and transfers out exceeded the budgeted amount by approximately \$2,100.

In the Tipton County Museum Fund, total expenditures and transfers out exceeded the budgeted amount by approximately \$2,400.

In the Drug Fund, total expenditures and transfers out exceeded the budgeted amount by approximately \$59,000.

**CITY OF COVINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED**

**Compliance and Other Matters - Continued**

**Item No. 2018-008: Expenditures in Excess of Budget - Continued**

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

*Cause:* In the Drug Fund, the capital outlay expenditure in connection with a new capital lease had not been recorded. In the other funds, expenditures were higher than expected due to year end closing entries for accounts payable and accrued expenses.

*Effect:* Expenditures were in excess of approved amounts.

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

*Management response:* We concur with this finding.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM**

**Finding:**

DEPARTMENT OF TRANSPORTATION

**Item No. 2018-009: Airport Improvement Program-CFDA No. 20.106; Grant No. AERO-16-249-00-Year ended June 30, 2018 - Certified Payroll Listings**

*Condition:* The payroll listings from one contractor for payroll periods in July 2017 and September 2017 were not certified until December 2018. Therefore, certified payroll listings from this contractor were not obtained on a timely basis.

*Criteria:* OMB Compliance supplement, Special tests and Provisions, includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which the contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) in order to determine that wages were paid in amounts not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.



**CITY OF COVINGTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
YEAR ENDED JUNE 30, 2018**

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM -  
CONTINUED**

**Item No. 2018-009: Airport Improvement Program-CFDA No. 20.106; Grant No. AERO-16-249-00-Year ended June 30, 2018 - Certified Payroll Listings - Continued**

*Cause:* The City relied on the project engineer to obtain, review, and verify the required certified payroll listings.

*Effect:* Wages may not have been paid at the required prevailing wage rate.

*Recommendation:* City personnel should monitor the project engineer's activities to the extent necessary to determine certified payrolls are being obtained, reviewed, and verified on a timely basis.

*Management response:* We concur with this finding.

**Questioned Costs:** None

**CITY OF COVINGTON, TENNESSEE  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2018**

**Financial Statement Findings**

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2017-001	Preparation of Financial Statements (Original finding #2007-001)	Repeated (2018-001)
2017-002	Material Audit Adjustments (Original finding #2007-003)	Repeated (2018-002)
2017-003	Reconciliation and Adjustment of Utility Accounts Receivable Balances (Original Finding #2017-003)	Repeated (2018-003)
2017-004	Old Utility Customer Deposits (Original finding #2015-003)	Corrected
2017-005	Expenditures in Excess of Budget (Original finding #2013-002)	Repeated (2018-007)



JUSTIN HANSON  
Mayor

TINA DUNN  
Recorder-Treasurer

# *City of Covington*

POST OFFICE BOX 768  
200 West Washington Avenue, Covington, Tennessee 38019  
Telephone (901) 476-9613 Fax (901) 476-6699

## **MANAGEMENT'S CORRECTIVE ACTION PLAN**

**For the Year Ended June 30, 2018**

Department of Transportation

City of Covington, Tennessee respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent accounting firm:

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

Audit period:

Year ended June 30, 2018

The findings from the June 30, 2018 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 2018-001: 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 2018-002: 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, 2019

Repeat finding: Yes

Reason why corrective action was not taken - prior year: Some of the audit adjustments were necessary to correct recording errors. However, adjustments of pension related account balances were a result of the delay in receiving the pension actuary report after year end closing.

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.

**Item 2018-003: Reconciliation and Adjustment of Utility Accounts Receivable Balances**

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

Person responsible for implementing corrective action plan: Same as above

Recommendation: As part of the normal monthly closing procedures, the Utility Fund's general ledger account balances should be reconciled to detail balances. Any significant differences noted should be investigated and corrected.

Anticipated completion date of correction action: June 30, 2019

Repeat finding: Yes

Reason why corrective action was not taken - prior year: We did compare the general ledger account balances to the detail customer balances each month and were aware of the differences. However, we continued to encounter difficulties in determining the causes for such differences.

Planned corrective action: We will reconcile the general ledger account receivable balances to the detail customer balances monthly and investigate, and correct, significant differences. We have requested assistance from our accounting software vendor in determining the causes for such differences so that appropriate corrections can be made.

### **Significant Deficiencies**

#### **Item 2018-004: Lack of Purchase Approval in Minutes**

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

Person responsible for implementing corrective action plan: Same as above

Recommendation: All major capital asset purchases should be approved by the Board, or the appropriate committee.

Anticipated completion date of correction action: June 30, 2019

Repeat finding: No

Planned corrective action: We will take care to ensure for all major capital asset purchases is documented in the minutes of the Board, or the appropriate committee.

#### **Item No. 2018-005: Allocation of Pension Contributions**

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

Person responsible for implementing corrective action plan: Same as above

Recommendation: The method of allocation of pension contributions to the various funds should be reviewed and updated, if necessary. Normally, the pension contributions should be allocated based on the ratio of salaries paid, or some other reasonable and verifiable basis.

Anticipated completion date of correction action: June 30, 2019

Repeat finding: No

Planned corrective action: We will update our allocation ratios based on current salary expenditures.

#### **Item No. 2018-006: Cash Shortage and Other Theft**

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

Person responsible for implementing corrective action plan: Same as above

Recommendation: City-issued credit cards should be kept in the locked safe except when released to the department head immediately prior to commencement of approved travel. The City-issued credit card should be returned to the locked safe immediately upon the return of the department head.

Anticipated completion date of correction action: June 30, 2019

Repeat finding: No

Planned corrective action: We have already implemented the recommendation.

**Item No. 2018-007: Overstatement of Pension Compensation**

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

Person responsible for implementing corrective action plan: Tiny Rose, Director of Human Resources

Recommendation: Internal controls should be implemented to ensure the correct amount of pension compensation is reported to the actuary. After the pension compensation calculations are performed, another employee should review and recheck the calculations before the information is submitted to the actuary. The preparer and the reviewer should initial and date the payroll register on which the manual calculations are performed to document the preparation and review process.

Anticipated completion date of correction action: June 30, 2019

Repeat finding: No

Planned corrective action: We will implement the recommended procedures.

**Compliance and Other Matters**

**Item No. 2018-008: 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, 2019

Repeat finding: Yes

Reason why corrective action was not taken - prior year: In one fund, the capital outlay expenditure in connection with a new capital lease had not been recorded. In the other funds, expenditures were higher than expected due to year end closing entries for accounts payable and accrued expenses.

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

### **FINDINGS - FEDERAL AWARD PROGRAMS AUDITS**

#### DEPARTMENT OF TRANSPORTATION

#### **Item No. 2018-009: Airport Improvement Program-CFDA No. 20.106: Grant No. AERO-16-249-00 - Year ended June 30, 2018 - Certified Payroll Listings**

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

Person responsible for implementing corrective action plan: Same as above

Recommendation: City personnel should monitor the project engineer's activities to the extent necessary to determine certified payrolls are being obtained, reviewed, and verified on a timely basis.

Anticipated completion date of correction action: June 30, 2019

Repeat finding: No

Planned corrective action: We have discussed this instance of noncompliance with the project engineer. He has confirmed to us that they will ensure compliance with this requirement in the future. In the future, we will coordinate monitoring efforts with the project engineer to ensure compliance with this grant requirement.

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