

CITY OF DULUTH, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

June 30, 2016

CITY OF DULUTH, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members
of the City Council
City of Duluth, Georgia**

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 Duluth, Georgia** (the "City") as of and for the year ended June 30, 2016, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Duluth, Georgia as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of City Contributions, and the budgetary comparison of the General Fund on pages 4-12, 51, 52, and 53-55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duluth, Georgia's basic financial statements. The combining and individual fund statements and schedules, including the Schedules of Expenditures of Special Purpose Local Option Sales Tax Proceeds (as required by the Official Code of Georgia Annotated 48-8-121), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules, including the Schedules of Expenditures of Special Purpose Local Option Sales Tax Proceeds, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, including the Schedules of Expenditures of Special Purpose Local Option Sales Tax Proceeds, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2017 on our consideration of the City of Duluth, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Duluth, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
January 24, 2017

CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

As management of the City of Duluth, Georgia (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. This narrative is intended to assist the reader in understanding significant issues, material deviations from the original budget and provide an overview of financial activities and identify changes in financial position. We encourage readers to consider this information presented herein, in conjunction with the additional information furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at June 30, 2016 by \$71,376,578 (net position), of this amount, \$10,450,270 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position decreased by \$2,632,707 during the fiscal year ended June 30, 2016 with a decrease in governmental activities of \$3,694,042 and an increase of \$1,061,335 in business-type activities.
- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$15,929,579 a decrease of \$5,078,957 in comparison with the prior year. This decrease is primarily due to capital expenditures on the SR 120 Realignment Project and transportation & parking facilities expenditures in the 2014 SPLOST program.
- The unassigned fund balance for the General Fund at June 30, 2016 was \$5,139,099 which was 26% of total General Fund expenditures and transfers-out for the year.
- The City's total long term liabilities, including the debt of the City's blended component units (Urban Redevelopment Authority and Downtown Development Authority), experienced a net decrease of \$1,120,555 during the fiscal year ended June 30, 2016. This decrease was due to principal payments on the outstanding bonds payable in the City's blended component units.

Overview of the Financial Statements

The Annual Financial Report consists of a series of financial statements. This narrative is intended to serve as an introduction to the basic financial statements. The City's basic financial statements comprise three components:

- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

This report also contains 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's finances. They are prepared using the accrual basis of accounting, which is the accounting method used in most private-sector companies. There are two government-wide statements: the statement of net position and the statement of activities, which are described below.

- 1) The "statement of net position" presents information on all of the City's assets, liabilities, and deferred inflows and outflows of resources with the difference between these reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the City is improving or deteriorating.
- 2) The "statement of activities" presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and

CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 between functions that are principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, police services, public works, planning and zoning, economic and community development, parks, and code enforcement. Business-type activities include stormwater services and the financing and development activities of the City's blended component units, the Downtown Development Authority and the Urban Redevelopment Authority.

The government-wide financial statements can be found on pages 13 and 14 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. Fund financial statements focus on the most significant funds, reporting on the City's operations in greater detail than the government-wide statements. All of the City's funds can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental Funds: Most of the basic services provided by the City are financed through governmental funds and are 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 the near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. These statements assist the reader in determining whether there are adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is short-term and the focus of the government-wide financial statements is both short-term and long-term, 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 32 individual governmental funds. Information is presented separately in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balance for the four funds which are considered to be major funds.

The City adopts an annual appropriated budget for the General Fund and all special revenue funds. Project length budgets are adopted for all capital project funds. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Funds: The City maintains two different types of proprietary funds, three enterprise funds, and three internal service funds. Enterprise funds charge a fee for services to outside customers. The City uses enterprise funds to account for its stormwater fees as well as the financing and development activities of the City's blended component units, the Downtown Development Authority and the Urban Redevelopment Authority ("URA"). The City's enterprise fund statements are the same as the business-type activities reported in the government-wide financial statements, but provide more detail. Internal service funds are used to report activities that provide supplies and services for the City's other programs and activities. The City uses internal service funds to account

CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

for the activities of the Duluth Governmental Finance Corporation, a Health Reimbursement Fund, and a risk management fund (the Worker's Compensation Fund). Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The three internal service funds are combined into a single, aggregated column in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The City uses an Agency Fund for the collection and remittance of activity for the municipal court.

The fiduciary fund financial statements can be found on page 22 of this report.

Notes to the Financial Statements: The notes to the financial statements provide additional information that is essential for the reader in order to obtain 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 23-50 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees and a budgetary comparison for the General Fund.

The required supplementary information can be found on pages 51-55 of this report.

The "combining statements" referred to earlier in connection with non-major governmental (special revenue and capital projects) and internal service funds are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 56-66 of this report.

**CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$71,376,578 and \$74,009,285 at June 30, 2016 and 2015, respectively. The following is a condensed version of the government-wide statement of net position.

City of Duluth – Net Position (\$000)

	Governmental Activities		Business-Type		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 19,732	\$ 23,927	\$ 8,181	\$ 8,134	\$ 27,913	\$ 32,061
Capital assets	66,013	64,667	7,629	8,218	73,642	72,885
Total assets	<u>85,745</u>	<u>88,594</u>	<u>15,810</u>	<u>16,352</u>	<u>101,555</u>	<u>104,946</u>
Deferred Outflows	<u>908</u>	<u>507</u>	<u>158</u>	<u>179</u>	<u>1,066</u>	<u>686</u>
Liabilities:						
Long-term liabilities outstanding	1,596	1,202	24,105	25,674	25,702	26,876
Other liabilities	3,199	2,141	2,039	2,090	5,238	4,231
Total liabilities	<u>4,796</u>	<u>3,343</u>	<u>26,144</u>	<u>27,764</u>	<u>30,940</u>	<u>31,107</u>
Deferred Inflows	<u>298</u>	<u>505</u>	<u>6</u>	<u>11</u>	<u>305</u>	<u>516</u>
Net Position (deficit):						
Net Investment in capital assets	65,941	64,561	(11,025)	(11,660)	54,916	52,901
Restricted	6,011	8,848	-	-	6,011	8,848
Unrestricted	9,607	11,844	843	416	10,450	12,260
Total net position (deficit)	<u>\$ 81,559</u>	<u>\$ 85,253</u>	<u>\$ (10,182)</u>	<u>\$ (11,244)</u>	<u>\$ 71,377</u>	<u>\$ 74,009</u>

The largest portion of the City's net position (77%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. These capital assets are used by the City to provide services to citizens. Although the City'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.

The City does have \$72,015 restricted for debt service. The City also has net position of \$5,792,267 and \$146,297 which are restricted by enabling legislation or outside grants or agreements for disbursement on capital projects and law enforcement, respectively. The remaining balance of unrestricted net position \$10,450,270 may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Governmental activities decreased the City's net position by \$3,694,042 and business-type activities increased the City's net position by \$1,061,335. Decrease in governmental activities was primarily due to transfers out to business type activities and public works expenses.

The following condensed financial information was derived from the government-wide statement of activities and summarizes changes in net position for the years ended June 30, 2016 and 2015.

	City of Duluth – Changes in Net Position (\$000)					
	Governmental Activities		Business-Type		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 3,243	\$ 3,574	\$ 814	\$ 778	\$ 4,058	\$ 4,352
Operating grants and contributions	1,754	1,683	100	-	1,854	1,683
Capital grants and contributions	4,340	4,246	-	-	4,340	4,246
General revenues:						
Property taxes	6,242	6,051	-	-	6,242	6,051
Insurance premium tax	1,533	1,435	-	-	1,533	1,435
Other taxes	5,406	5,341	-	-	5,406	5,341
Other	909	627	106	103	1,014	730
Total revenues	<u>23,427</u>	<u>22,957</u>	<u>1,020</u>	<u>881</u>	<u>24,447</u>	<u>23,838</u>
Expenses						
General government	8,021	5,600	-	-	8,021	5,600
Public safety	9,335	8,813	-	-	9,335	8,813
Public works	4,501	4,221	-	-	4,501	4,221
Culture & recreation	2,577	2,382	-	-	2,577	2,382
Housing & development	4	4	-	-	4	4
Interest on long term debt	3	5	-	-	3	5
Stormwater	-	-	1,180	1,348	1,180	1,348
Development financing	-	-	1,460	1,330	1,460	1,330
Total expenses	<u>24,440</u>	<u>21,025</u>	<u>2,640</u>	<u>2,678</u>	<u>27,080</u>	<u>23,703</u>
Transfers	<u>(2,681)</u>	<u>(1,843)</u>	<u>2,681</u>	<u>1,843</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(3,694)</u>	<u>89</u>	<u>1,061</u>	<u>46</u>	<u>(2,633)</u>	<u>135</u>
Net position-July 1	85,253	85,164	(11,244)	(11,290)	74,009	73,874
Restatement	-	-	-	-	-	-
Net position-June 30	<u>\$ 81,559</u>	<u>\$ 85,253</u>	<u>\$ (10,182)</u>	<u>\$ (11,244)</u>	<u>\$ 71,377</u>	<u>\$ 74,009</u>

Governmental activities: Governmental activities revenues totaled \$23,427,149 for fiscal year 2016. Property taxes are the largest revenue source for governmental activities, accounting for 27% of total revenues. Other taxes (which include motor vehicle and franchise taxes), capital grants (which include sales taxes from the County) and charges for services are the second, third, and fourth largest revenue sources accounting for 23%, 19%, and 14%, respectively, of governmental revenues for the year.

Governmental activities expenses totaled \$24,439,850 for fiscal year 2016. Of the expenses, 38% is related to public safety. In addition, general government and public works accounted for 33% and 18% of total governmental expenses for the year, respectively. Overall, expenses increased as compared to the prior year.

CITY OF DULUTH, GEORGIA
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Business-type activities: Business-type activities increased the City's net position by \$1,061,335 primarily due to transfers from governmental activities.

Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 year, the City's governmental funds reported combined ending fund balances of \$15,929,579 a decrease of \$5,078,957 or 24% in comparison with the prior year. Approximately 25% of the fund balance or \$4,061,442 is classified as unassigned. This unassigned fund balance is net of \$1,077,657 in fund balance deficits to be funded by future revenues or transfers. The remaining fund balance is classified as follows: non-spendable form (\$277,397), restricted (\$6,010,579), committed (\$710,714) and assigned (\$4,869,447).

The General Fund is the chief operating fund of the City, at the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,139,099. As a measure of the General Fund's liquidity, it would be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 26% of total General Fund expenditures plus transfers-out.

The fund balance of the City's General Fund decreased by \$1,370,062 during the current fiscal year. Key factors in this activity are as follows:

- Overall General Fund revenue increased by \$164,912 or .9%.
- Revenue from taxes increased by \$519,705 over the prior year. This increase was mainly due to the increased tax digest as property values increase.
- Revenue from Fines and Forfeitures decreased by \$306,126. This was due to the City ending its red light camera program and fewer citations issued by the police department.
- In addition, overall expenditures increased by \$214,376 from the prior year while net transfers out decreased \$757,830. Increase resulted from salary increases and equipment purchases in the public safety functional area. Decreased transfers out resulted from large transfers to the park improvement and detention facility funds for capital purposes in the prior year.

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The SPLOST 2009 Fund continues to spend sales tax proceeds primarily, during the year ended June 30, 2016, as transfers to reimburse other funds for past allowable SPLOST projects for transportation.

The SPLOST 2014 Fund continues to spend sales tax proceeds primarily, during the year ended June 30, 2016, as transfers to reimburse other funds for past allowable SPLOST projects for transportation and parking facilities.

The Block Fund activity for the year are expenditures for capital improvements to City owned properties that occupy a significant block area of downtown Duluth.

Proprietary funds: The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about the funds. The activity of the Downtown Development Authority and the Urban Redevelopment Authority presented revenue from the development of properties within the City and the debt service of bonds which were issued to fund the development. For fiscal year 2016, the majority of the debt service of these funds was funded by transfers in from other funds primarily the General Fund.

The Stormwater Fund activity resulted in expenses exceeding revenue by \$288,794 for the year ended June 30, 2016.

At the fiscal year end, the Worker's Compensation Fund has unrestricted net position of \$269,717. Because the City self insures for worker's compensation, this balance is planned to be used for paying claims and purchasing an excess workers' compensation policy. The Duluth Governmental Finance Corporation has no liabilities and only capital assets consisting of land and a building with a balance (net of accumulated depreciation) of \$2,432,995. The Health Reimbursement Fund has unrestricted net position of \$171,940.

General Fund Budgetary Highlights

During the year, several budget amendments were adopted by the City Council and are included in the final budget column totals. The net impact of these amendments increased revenues by \$46,950 or .27%, increased expenditures by \$42,043 or .23% and increased net transfers out by \$389,368 or 14.71%.

During the year, General Fund revenues were more than budgetary projections and expenditures were less than budgetary estimates. Actual revenues were \$626,603 more than estimates mainly due to higher than anticipated insurance premium taxes, occupational taxes, and sponsorship revenues. These higher than anticipated revenues were offset by lower than anticipated revenues from fines & forfeitures as discussed above. Expenditures were \$1,813,883 less than budgetary appropriations due to staff vacancies in various departments, mainly the Police Works and Public Works departments and a much lower than expected increase in employee benefit cost.

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2016, amounted to \$66,013,204, net of accumulated depreciation. The investment in capital assets includes: land, plant and buildings, machinery, equipment and fixtures, streets and drainage, and construction in progress. The additions to governmental capital assets are attributable to ongoing construction projects: The Block, Downtown Parking, Abbots Bridge Road Sidewalks and Scott Hudgens Park Parking. In addition, the City purchased land on Buford Highway and Abbots Bridge Road and received a donation of streets at Ashby Pond Lane. Capital assets had a net overall increase of \$1,346,038 as additions exceeded depreciation.

**CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

**City of Duluth – Capital Assets
Governmental Activities (\$000)**

	2016	2015
Land and improvements	\$ 14,944	\$ 15,024
Buildings	34,948	35,465
Improvement other than buildings	49,946	49,529
Land Improvements	1,895	2,016
Furniture, machinery, and equipment	8,136	7,752
Construction in progress	8,025	3,887
Less accumulated depreciation	(51,881)	(49,006)
Total	\$ 66,013	\$ 64,667

Additional information on the City's capital assets can be found in Note 6 Capital Assets on pages 37 and 38 of this report.

Long-term debt: At June 30, 2016, the City had no general obligation bonded debt outstanding. The City has one outstanding capital lease totaling \$72,015, of which \$35,333 is due and payable within one year. The blended component units of the City, the Downtown Development Authority and the Urban Redevelopment Authority have outstanding revenue bonds of \$18,624,296 and \$7,400,323, respectively. This represents a net decrease of \$1,518,281 during the fiscal year 2016 due to repayment of bonds at scheduled maturity during the year.

Additional information on the City's long-term debt can be found in Note 7 on pages 38 through 40 of this report.

Economic Factors and Next Year's Budget and Rates

Many of the City of Duluth past initiatives, such as updating the Unified Development Code, creation of a Tax Allocation District, and strong economic development efforts that were designed to create a strong, diverse long term revenue stream for the City are starting to be realized. For instance, fiscal year 2016 current year property tax revenue totaled \$6,277,060 compared to fiscal year 2015 current year property tax revenue of \$5,916,845. This represents an increase of \$360,215 or 6%. Franchise taxes increased by \$37,577. Alcohol beverage taxes increased by \$21,730. The insurance premium tax increased by \$98,100. These are all recurring revenue streams that will support the City's efforts to create a vibrant, diverse, safe and financially stable city. It is also important to realize that the full financial impact of recent development in the City has yet to be realized, because of the time lag in property tax assessments, the opening of new business and people relocating to the area. For instance, Sugarloaf Marketplace, a \$90 million private mixed use development of apartments and retail space was only about 65% complete at the time of tax assessment and the last phase of the development, 330 apartments are just becoming available for occupancy. Exterior construction is just about complete on The Block, a 42,000 square foot restaurant district development in our downtown. Tenant leases are now being signed for business to open in the space after interior finishes are complete. Construction is also underway on a \$70 million mixed use development featuring residential units over some retail live/work unit within walking distance of the downtown. These developments, when complete, should create new long term recurring revenue streams for the City to support needed services as well as provide additional activities.

Over the past several years the City's General Fund expenditures have exceed its revenues and reserves have been used to balance the budget. Various cost cutting measures have been employed to reduce the reliance on these reserves. However, after a thorough review of City services and available cost cutting measures, it was

**CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

determined that further meaningful cost cutting could not be achieved without a reduction in service to the residents.

In addition, the private development revenue stream needed to repay the City's \$7.5 million bond for The Block development will not occur until after tenant space is leased. However, in the short term the City is required to pay the \$525,000 annual bond payments.

Faced with the option of cutting the services currently offered to resident in order to achieve a balance budget and the need to repay the bond offering in the short term, the City opted to form a Citizens Budget Review Advisory. This committee made up of residents, met on several occasions to discuss the City's overall General Fund budget status and was presented with the various options for balancing the budget. At a formal meeting of the Mayor and Council, the committee recommended council raise the millage rate to balance the budget and support the short term bond repayment. Council subsequently approved raising the millage rate from 5.991 mills to 6.551, for the 2016 property tax billing, a .56 mill increase, which will impact fiscal year 2017. Staff has estimated this will increase the property tax revenue by approximately \$600,000 annually.

Going forward, staff will need to monitor the overall General Fund revenues closely and in particular the recurring revenues to ensure that the anticipated increases are on target with budgeted projections. Staff will also need to balance the anticipated need for additional services with these revenue increases to ensure that a balanced budget can be achieved and maintained in the future.

Request for Information

This financial report is designed to provide a general overview of the City of Duluth's finances for our citizens, taxpayers, customers, investors, creditors, and other interested parties. Questions concerning any of the information should be addressed to the City of Duluth, Office of the City Clerk, Attn: Kenneth Sakmar, Budget and Accounting Manager, 3167 Main Street, Duluth, Georgia 30096.

BASIC FINANCIAL STATEMENTS

City of Duluth, Georgia
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 17,434,547	\$ 6,790,420	\$ 24,224,967
Accounts receivable	1,002,807	16,820	1,019,627
Taxes receivable	108,064	-	108,064
Intergovernmental	903,059	100,000	1,003,059
Notes receivable, current	-	41,949	41,949
Notes receivable, long term	-	1,237,703	1,237,703
Internal balances	5,946	(5,946)	-
Prepaid items	277,397	-	277,397
Nondepreciable capital assets	22,968,977	1,664,627	24,633,604
Depreciable capital assets, net	43,044,227	5,964,265	49,008,492
TOTAL ASSETS	85,745,024	15,809,838	101,554,862
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	-	135,267	135,267
Pension related items	907,884	22,794	930,678
TOTAL DEFERRED OUTFLOWS OF RESOURCES	907,884	158,061	1,065,945
LIABILITIES			
Accounts payable	1,642,010	35,306	1,677,316
Accrued expenses	968,947	-	968,947
Accrued interest payable	2,517	47,738	50,255
Noncurrent liabilities:			
Net pension liability, due in more than one year	1,559,563	36,472	1,596,035
Bonds payable due within one year	-	1,955,647	1,955,647
Bonds payable due in more than one year	-	24,068,972	24,068,972
Capital lease payable due within one year	35,333	-	35,333
Capital lease payable due in more than one year	36,682	-	36,682
Compensated absences payable due within one year	550,522	-	550,522
TOTAL LIABILITIES	4,795,574	26,144,135	30,939,709
DEFERRED INFLOWS OF RESOURCES			
Pension related items	298,402	6,118	304,520
TOTAL DEFERRED INFLOWS OF RESOURCES	298,402	6,118	304,520
NET POSITION (DEFICIT)			
Net investment in capital assets	65,941,189	(11,025,460)	54,915,729
Restricted for debt service	72,015	-	72,015
Restricted for capital construction	5,792,267	-	5,792,267
Restricted for law enforcement	146,297	-	146,297
Unrestricted	9,607,164	843,106	10,450,270
TOTAL NET POSITION (DEFICIT)	\$ 81,558,932	\$ (10,182,354)	\$ 71,376,578

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	SPLOST 2009 Fund	SPLOST 2014 Fund	The Block Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 11,094,806	\$ 2,612,112	\$ 2,231,807	\$ 186,187	\$ 481,699	\$ 16,606,611
Receivables:						
Taxes	102,856	-	-	-	5,208	108,064
Accounts	1,002,807	-	-	-	-	1,002,807
Intergovernmental	-	-	735,499	-	167,560	903,059
Due from other funds	96,829	-	-	-	4,238	101,067
Prepaid items	277,397	-	-	-	-	277,397
TOTAL ASSETS	\$ 12,574,695	\$ 2,612,112	\$ 2,967,306	\$ 186,187	\$ 658,705	\$ 18,999,005
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 272,933	\$ -	\$ -	\$ 488,289	\$ 879,758	\$ 1,640,980
Accrued salaries payable	326,800	-	-	-	-	326,800
Accrued expenditures	186,407	-	-	-	64,103	250,510
Due to other funds	4,680	-	-	-	96,829	101,509
TOTAL LIABILITIES	790,820	-	-	488,289	1,040,690	2,319,799
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	749,627	-	-	-	-	749,627
TOTAL DEFERRED INFLOWS OF RESOURCES	749,627	-	-	-	-	749,627
FUND BALANCES (DEFICIT)						
Nonspendable:						
Prepays	277,397	-	-	-	-	277,397
Restricted:						
Debt service	72,015	-	-	-	-	72,015
Capital construction	-	2,612,112	2,967,306	-	212,849	5,792,267
Law enforcement	-	-	-	-	146,297	146,297
Committed:						
Capital construction	681,790	-	-	-	-	681,790
Public works	-	-	-	-	8,000	8,000
Equipment purchases	-	-	-	-	20,924	20,924
Assigned:						
Fiscal year 2017 operations	3,636,504	-	-	-	-	3,636,504
SDS Settlement	1,227,443	-	-	-	-	1,227,443
Gateway construction	-	-	-	-	5,500	5,500
Unassigned	5,139,099	-	-	(302,102)	(775,555)	4,061,442
TOTAL FUND BALANCES (DEFICIT)	11,034,248	2,612,112	2,967,306	(302,102)	(381,985)	15,929,579
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 12,574,695	\$ 2,612,112	\$ 2,967,306	\$ 186,187	\$ 658,705	\$ 18,999,005

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2016*

TOTAL GOVERNMENTAL FUND BALANCES	\$	15,929,579
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost	\$ 114,999,630	
Less accumulated depreciation	<u>(51,419,421)</u>	63,580,209
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes and franchise taxes		749,627
An internal service fund is used by management to charge the costs of financing and workers' compensation to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.		
		2,874,652
The deferred outflows of resources, deferred inflows of resources, and the net pension liability related to the City's pension plan are not expected to be liquidated with expendable available financial resources and, therefore, are not reported in the funds.		
Deferred outflows of resources-pension items	\$ 907,884	
Net pension liability	(1,559,563)	
Deferred inflows of resources-pension items	<u>(298,402)</u>	(950,081)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Capital leases	\$ (72,015)	
Accrued interest	(2,517)	
Compensated absences	<u>(550,522)</u>	<u>(625,054)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>81,558,932</u>

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	SPLOST 2009 Fund	SPLOST 2014 Fund	The Block Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 13,165,954	\$ -	\$ -	\$ -	\$ 51,535	\$ 13,217,489
Licenses and permits	644,171	-	-	-	-	644,171
Intergovernmental	1,172,682	-	4,322,591	-	571,577	6,066,850
Charges for services	457,114	-	-	-	-	457,114
Interest income	61,362	2,767	14,564	-	770	79,463
Fines and forfeitures	2,048,776	-	-	-	93,337	2,142,113
Miscellaneous	476,144	-	-	250,000	125,531	851,675
TOTAL REVENUES	18,026,203	2,767	4,337,155	250,000	842,750	23,458,875
EXPENDITURES						
Current:						
General government	3,882,986	-	660	-	-	3,883,646
Public safety	8,352,224	-	-	-	104,122	8,456,346
Public works	2,457,081	-	-	-	148,552	2,605,633
Culture and recreation	1,722,497	-	-	-	68,467	1,790,964
Capital outlay	-	-	-	2,778,796	5,983,022	8,761,818
Debt service:						
Principal retirement	34,033	-	-	-	-	34,033
Interest and fiscal charges	4,051	-	-	-	-	4,051
TOTAL EXPENDITURES	16,452,872	-	660	2,778,796	6,304,163	25,536,491
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,573,331	2,767	4,336,495	(2,528,796)	(5,461,413)	(2,077,616)
OTHER FINANCING SOURCES (USES)						
Transfers in	118,082	31,000	-	2,350,664	3,653,338	6,153,084
Transfers out	(3,061,475)	(285,483)	(5,485,362)	-	(322,105)	(9,154,425)
TOTAL OTHER FINANCING SOURCES (USES)	(2,943,393)	(254,483)	(5,485,362)	2,350,664	3,331,233	(3,001,341)
NET CHANGE IN FUND BALANCES	(1,370,062)	(251,716)	(1,148,867)	(178,132)	(2,130,180)	(5,078,957)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	12,404,310	2,863,828	4,116,173	(123,970)	1,748,195	21,008,536
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 11,034,248	\$ 2,612,112	\$ 2,967,306	\$ (302,102)	\$ (381,985)	\$ 15,929,579

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
*Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016*

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ (5,078,957)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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. This is the amount by which capital outlay exceeded depreciation expense in the current period.</p>		
Depreciation expense	\$ (3,600,952)	
Capital outlay/donations	5,592,058	1,991,106
<p>Disposals of capital assets are not reflected on the governmental funds but the loss on the disposal of these assets at their net book value is reflected on the statement of activities</p>		
	(596,443)	(596,443)
<p>Revenues in the statement of activities that do not provide current financial resources are deferred in the funds.</p>		
		(36,749)
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
		34,033
<p>Some expenses reported in the Statement of Activities, such as compensated absences and accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		10,839
<p>Some expenses reported in the Statement of Activities, related to the change in the net pension liability and the related deferred inflows and outflows of resources, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		178,035
<p>The internal service funds used by management to charge the costs of certain financing and workers' compensation to individual funds are included in the government-wide Statement of Activities. Governmental fund expenditures and related internal service fund revenues are eliminated.</p>		
		(195,906)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ (3,694,042)

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Net Position
Proprietary Funds
June 30, 2016

	Downtown Development Authority	Urban Redevelopment Authority	Stormwater Fund	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash	\$ 6,505,865	\$ -	\$ 284,555	\$ 6,790,420	\$ 827,936
Accounts receivable	-	-	16,820	16,820	-
Intergovernmental receivable	-	-	100,000	100,000	-
Notes receivable, current portion	41,949	-	-	41,949	-
Prepays	-	-	-	-	-
Due from other funds	440	-	2	442	6,388
Total Current Assets	6,548,254	-	401,377	6,949,631	834,324
Noncurrent Assets:					
Notes receivable	1,237,703	-	-	1,237,703	-
Capital assets:					
Nondepreciable capital assets	5,525	1,659,102	-	1,664,627	1,654,856
Depreciable capital assets, net	4,732,678	-	1,231,587	5,964,265	778,139
Total Noncurrent Assets	5,975,906	1,659,102	1,231,587	8,866,595	2,432,995
TOTAL ASSETS	12,524,160	1,659,102	1,632,964	15,816,226	3,267,319
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges on refunding	-	135,267	-	135,267	-
Pension related items	-	-	22,794	22,794	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	135,267	22,794	158,061	-
LIABILITIES					
Current Liabilities:					
Accounts payable	1,745	-	33,561	35,306	1,030
Due to other funds	-	-	6,388	6,388	-
Claims payable	-	-	-	-	391,637
Accrued interest payable	33,461	14,277	-	47,738	-
Revenue bonds payable, current portion	1,105,647	850,000	-	1,955,647	-
Total Current Liabilities	1,140,853	864,277	39,949	2,045,079	392,667
Noncurrent Liabilities:					
Revenue bonds payable	17,518,649	6,550,323	-	24,068,972	-
Net pension liability	-	-	36,472	36,472	-
Total Noncurrent Liabilities	17,518,649	6,550,323	36,472	24,105,444	-
TOTAL LIABILITIES	18,659,502	7,414,600	76,421	26,150,523	392,667
DEFERRED INFLOWS OF RESOURCES					
Pension related items	-	-	6,118	6,118	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	6,118	6,118	-
NET POSITION (DEFICIT)					
Net investment in capital assets	(6,651,093)	(5,605,954)	1,231,587	(11,025,460)	2,432,995
Unrestricted	515,751	(14,277)	341,632	843,106	441,657
TOTAL NET POSITION (DEFICIT)	\$ (6,135,342)	\$ (5,620,231)	\$ 1,573,219	\$ (10,182,354)	\$ 2,874,652

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Downtown Development Authority	Urban Redevelopment Authority	Stormwater Fund	Total	Internal Service Funds
OPERATING REVENUES					
Stormwater fees	\$ -	\$ -	\$ 791,029	\$ 791,029	\$ -
Income from development	23,275	-	-	23,275	-
TOTAL OPERATING REVENUES	23,275	-	791,029	814,304	-
OPERATING EXPENSES					
Administration	-	-	329,822	329,822	-
Costs of sales and services	-	-	672,808	672,808	-
Depreciation	411,537	-	177,193	588,730	48,625
Claims	-	-	-	-	472,304
Other	223,646	-	-	223,646	-
TOTAL OPERATING EXPENSES	635,183	-	1,179,823	1,815,006	520,929
OPERATING INCOME (LOSS)	(611,908)	-	(388,794)	(1,000,702)	(520,929)
NON-OPERATING INCOME (LOSS)					
Interest and fiscal charges	(600,908)	(224,124)	-	(825,032)	-
Intergovernmental	-	-	100,000	100,000	-
Miscellaneous	101,822	-	-	101,822	-
Interest income	3,906	-	-	3,906	5,023
TOTAL NON-OPERATING INCOME (LOSS)	(495,180)	(224,124)	100,000	(619,304)	5,023
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS					
	(1,107,088)	(224,124)	(288,794)	(1,620,006)	(515,906)
Transfers in	1,658,529	1,022,812	-	2,681,341	320,000
	1,658,529	1,022,812	-	2,681,341	320,000
CHANGE IN NET POSITION	551,441	798,688	(288,794)	1,061,335	(195,906)
NET POSITION (DEFICIT):					
BEGINNING OF YEAR	(6,686,783)	(6,418,919)	1,862,013	(11,243,689)	3,070,558
END OF YEAR	\$ (6,135,342)	\$ (5,620,231)	\$ 1,573,219	\$ (10,182,354)	\$ 2,874,652

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Downtown Development Authority	Urban Redevelopment Authority	Stormwater Fund	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received for operations	\$ 23,275	\$ -	\$ 819,167	\$ 842,442	\$ -
Cash paid for goods and services	(219,316)	-	(1,052,012)	(1,271,328)	-
Cash paid for claims	-	-	-	-	(359,133)
NET CASH USED BY OPERATING ACTIVITIES	<u>(196,041)</u>	<u>-</u>	<u>(232,845)</u>	<u>(428,886)</u>	<u>(359,133)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	1,658,529	1,022,812	-	2,681,341	320,000
Issuance of notes receivable	(1,279,652)	-	-	(1,279,652)	-
Miscellaneous receipts	101,822	-	-	101,822	-
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>480,699</u>	<u>1,022,812</u>	<u>-</u>	<u>1,503,511</u>	<u>320,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on long-term debt	(688,206)	(830,398)	-	(1,518,604)	-
Interest paid on long-term debt	(606,705)	(192,414)	-	(799,119)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,294,911)</u>	<u>(1,022,812)</u>	<u>-</u>	<u>(2,317,723)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	3,906	-	-	3,906	5,023
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,906</u>	<u>-</u>	<u>-</u>	<u>3,906</u>	<u>5,023</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,006,347)</u>	<u>-</u>	<u>(232,845)</u>	<u>(1,239,192)</u>	<u>(34,110)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,512,212</u>	<u>-</u>	<u>517,400</u>	<u>8,029,612</u>	<u>862,046</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,505,865</u>	<u>\$ -</u>	<u>\$ 284,555</u>	<u>\$ 6,790,420</u>	<u>\$ 827,936</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES					
Operating loss	\$ (611,908)	\$ -	\$ (388,794)	\$ (1,000,702)	\$ (520,929)
Adjustments:					
Depreciation	411,537	-	177,193	588,730	48,625
Changes in assets and liabilities:					
Accounts receivable	61,636	-	28,138	89,774	-
Prepays	-	-	-	-	500
Deferred outflows pension items	-	-	(11,717)	(11,717)	-
Due from other funds	-	-	4,266	4,266	(4,267)
Accounts payable and claims payable	(57,306)	-	(48,775)	(106,081)	117,938
Due to other funds	-	-	-	-	(1,000)
Net pension liability	-	-	11,763	11,763	-
Deferred inflows pension items	-	-	(4,919)	(4,919)	-
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (196,041)</u>	<u>\$ -</u>	<u>\$ (232,845)</u>	<u>\$ (428,886)</u>	<u>\$ (359,133)</u>

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2016

ASSETS	Agency Fund
Cash	\$ 45,601
Total assets	<u>\$ 45,601</u>
LIABILITIES	
Due to other agencies	\$ 45,601
Total liabilities	<u>\$ 45,601</u>

See accompanying notes to the basic financial statements.

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Duluth, Georgia (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (the “GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Duluth, Georgia was incorporated in 1876. The City operates under the Mayor-Council form of government and provides the following services to its citizens as authorized by its charter: public safety, public works, culture and recreation, and general and administrative services. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Duluth, Georgia (the “primary government”) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. In conformity with generally accepted accounting principles, all of the component units are reported as blended component units.

Component units of the City do not issue separately audited financial statements.

Due to restrictions of the state constitution relating to the issuance of municipal debt, the City created separate organizations to finance City services with revenue bonds or other non-general obligation financing and provide for multi-year contracting. Financing services provided by these organizations are solely for the benefit of the City. Organizations are blended into the City's primary government as an integral part of City operations although retaining separate legal identity.

The Duluth Governmental Finance Corporation (DGFC) is a blended component unit. It oversees funding for a public works facility. The Board consists of the Mayor and Council who have the ability to make all decisions for the Corporation. The DGFC serves only as a financing vehicle for property used by the City. The Corporation is presented as an internal service fund.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The Downtown Development Authority (DDA) is a blended component unit. The City Council appoints all members of the board of directors of the DDA and the DDA's budget must be approved by the City Council. The DDA serves only as a financing vehicle for redevelopment property on behalf of the City.

The Urban Redevelopment Authority (URA) is a blended component unit. The City Council appoints all members of the board of directors of the URA and those board members may be removed by the City Council. The URA serves only as a financing vehicle for redevelopment property on behalf of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

Program revenues include: 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental activities and business-type activities in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Agency funds (the City's only fiduciary funds) have no measurement focus; however, they use the accrual basis of accounting to recognize assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to long-term financing, compensated absences and claims, are recorded only when payment is due. Property taxes, sales taxes, franchise taxes, intergovernmental revenue, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, if available. All other revenue items are considered to be measurable and available only when cash is received by the City.

In accordance with GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*", the corresponding assets (receivables) in nonexchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *SPLOST 2009 Fund* accounts for the financial resources provided from the 2009 voter approved one percent Special Purpose Local Option Sales Tax. Such resources are to be used for improvements to parks and recreation facilities, public safety building, road improvements, library facilities, and sewer improvements.

The *SPLOST 2014 Fund* accounts for the financial resources provided from the 2014 voter approved one percent Special Purpose Local Option Sales Tax. Such resources are to be used for improvements to parking facilities, parks and recreation facilities, public safety building, road improvements, and administrative facilities.

The *Block Fund* accounts for capital improvements to City owned properties that occupy a significant block area of downtown Duluth.

The City reports the following major enterprise funds:

The *Downtown Development Authority* (Blended Component Unit) provides financing for the City related to the development of downtown Duluth.

The *Urban Redevelopment Authority* (Blended Component Unit) provides financing for the City related to the redevelopment of certain areas within the City.

The *Stormwater Fund* accounts for the stormwater activities of the City, funded with a charge to citizens for this service.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City also reports the following fund types within the non-major governmental funds:

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted or are committed by City Council to expenditures for specified purposes.

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

The City also reports the following:

Internal service funds are used to finance and account for services and commodities provided by designated departments or agencies to other departments and agencies of the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise function and various other functions of the City. Elimination of these charges would distort the direct costs reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for goods or services provided. Operating expenses of the enterprise funds include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

For purposes of the statement of cash flows, cash and cash equivalents include all short-term highly liquid investments with original maturities of three months or less. Instruments considered cash equivalents include: certificates of deposit, money market funds, and cash management pools.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and recorded as expense or expenditure in the benefiting period.

G. Management Estimates

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

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide financial statements and the proprietary fund statements of net position. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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 is included as part of the capitalized value of the assets constructed.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (continued)

Property, plant and equipment of the primary government are depreciated using the straight line method over the following useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and land improvements	10-40
Improvements other than buildings (infrastructure)	10-30
Furniture, machinery and equipment	3-7

I. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund 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. Bond issuance costs are expensed in the year of issuance.

In the governmental fund statements, proceeds from the issuance of long-term debt and the related bond premiums and discounts are reported as other financing sources and uses. Bond issuance costs are reported as debt services expenditures.

J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when the employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position and Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balance – Generally, fund balance represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Nonspendable** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. Only the City Council may modify or rescind the commitment, also through adoption of a resolution.
- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City’s finance committee to assign fund balances.
- **Unassigned** – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position and Fund Equity (continued)

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in reporting which utilizes the economic resources measurement focus. The net investment in capital assets represents the book value of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

L. Deferred Outflows of Resources/Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has one item that qualifies for reporting in this category in addition to pension related amounts disclosed below. This item is the deferred charge on refunding reported in the business type activities on the statement of net position as well as statement of net position for proprietary funds. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunding or refunded debt.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Deferred Outflows of Resources/Deferred Inflows of Resources (continued)

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of deferred inflows of resources, which arises only under the modified accrual basis of accounting and is found in the governmental funds. Under the modified accrual basis of accounting, the City reports unavailable revenues from property taxes as a deferred inflow of resources as these amounts will not be recognized as an inflow of resources until the period that the amounts become available. The City has other deferred inflows of resources related to pensions as disclosed below.

The City also has deferred outflows and inflows of resources related to the recording of changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the City's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period. Additionally, any contributions made by the City to the pension plan before year end but subsequent to the measurement date of the City's net pension liability are reported as deferred outflows of resources. See Note 9 for further detail.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Pensions

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 of Duluth Retirement Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Deficit Fund Equity

At June 30, 2016, the Block Fund had a deficit of \$302,102; the 1997 SPLOST Fund had a deficit of \$351,460; the S. Hudgens Park Restroom Fund had a deficit of \$120,776; the Rodgers Bridge Dog Park Fund had deficit of \$25,801; the Buford Highway Medians Fund had a deficit of \$4,940; the 2009 SPLOST Vehicles Fund had a deficit of \$11,480; and the Buford Highway Interchange Fund had a deficit of \$2,177; the City Master Park Plan Fund had a deficit of \$4,932; and the Downtown Parking Fund had a deficit of \$253,989. The deficits in these funds will be funded with budgeted financing through grants or other funding or with transfers from other funds, if necessary. The Downtown Development Authority had a deficit net position of \$6,135,342 and the Urban Redevelopment Authority had a deficit net position of \$5,620,231. The deficits in these funds will be funded with the sale or development of assets, transfers from other funds, or with budgeted financing through other funding.

NOTE 2. LEGAL COMPLIANCE - BUDGETS

The City adopted annual budgets for the general, special revenue funds, and the capital projects funds (on a project-length basis) on an accounting basis which approximates generally accepted accounting principles in the United States of America (GAAP).

Generally, in January of each year, departmental budget meetings are held. After discussions, a proposed budget is presented before the Mayor and City Council during March. Public hearings are then held during the last of May and the first of June to allow citizens to voice their concerns and opinions. After further revision if any, the budget is adopted by the Mayor and Council prior to the start of the new fiscal year (i.e. July 1).

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2. LEGAL COMPLIANCE – BUDGETS (Continued)

The budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department/fund level by class. The legal level of control is at the fund/department level as specified by the Georgia State Code. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval subject to dollar amount limitations.

NOTE 3. DEPOSITS

Custodial Credit Risk – Deposits:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities.

The State of Georgia requires financial institutions to pledge securities at 110% of a local government's deposits. At June 30, 2016, the City's bank balances were fully collateralized as defined by State statutes.

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**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4. RECEIVABLES

Receivables at June 30, 2016, for the City’s individual funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>2014 SPLOST</u>	<u>Nonmajor Governmental</u>	<u>Stormwater</u>
Receivables:				
Taxes	\$ 102,856	\$ -	\$ 5,208	\$ -
Accounts	1,002,807	-	-	16,280
Intergovernmental	-	735,499	167,560	100,000
Less allowance for uncollectible	-	-	-	-
Net total receivable	<u>\$ 1,105,663</u>	<u>\$ 735,499</u>	<u>\$ 172,768</u>	<u>\$ 116,280</u>

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on January 1st. Tax bills are mailed on September 1st and are due by November 30th. All unpaid taxes levied become delinquent on December 1st. A tax lien is filed with the Gwinnett County Superior Court for all delinquent bills as of February 10th. The City bills and collects its own property taxes. Property taxes levied for the year ended June 30, 2016 and not collected are recorded as receivables, net of estimated uncollectibles.

NOTE 5. NOTES RECEIVABLE

The Downtown Development Authority issued two loans, from the 2015 bond proceeds, to finance construction and development of two different properties within the redevelopment area known as The Block. The Downtown Development Authority has signed repayment schedules with the two property owners at The Block (Dreamland Barbeque and Fabric Inc.) for repayment of the funds. The primary purpose of the notes is to promote development within the Block and the notes are not structured to be profit generating for the Authority. Both loans are still in the draw phase and have not gone into repayment as of June 30, 2016 and the Authority is not charging any interest during this period. The Dreamland Barbeque note carries an interest rate of 3.0% and the Fabric Inc. note carries an interest rate of 3.5%.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5. NOTES RECEIVABLE (CONTINUED)

Activity on the notes for the fiscal year ended June 30, 2016 is shown on the flowing page.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Receivable:					
Dreamland Barbeque	\$ -	\$ 1,212,081	\$ -	\$ 1,212,081	41,949
Fabric Inc.	-	67,571	-	67,571	-
Total	<u>\$ -</u>	<u>\$ 1,279,652</u>	<u>\$ -</u>	<u>\$ 1,279,652</u>	<u>\$ 41,949</u>

Future repayments to be received by the Downtown Development Authority are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 41,949	\$ 23,311	\$ 65,260
2018	185,155	149,424	334,579
2019	304,842	252,441	557,283
2020	315,294	241,990	557,284
2021	326,105	231,179	557,284
2022-2026	1,806,183	980,234	2,786,417
2027-2028	4,770,454	442,127	5,212,581
Total	<u>\$ 7,749,982</u>	<u>\$ 2,320,706</u>	<u>\$ 10,070,688</u>

The above repayment schedule is based on the signed agreements with Dreamland Barbeque and Fabric Inc. and do not agree with the outstanding balance at June 30, 2016. The scheduled represents the full payment to be received from Dreamland Barbeque and Fabric Inc. once the loans are fully drawn.

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CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 14,907,181	\$ 384,449	\$ (465,000)	\$ -	\$ 14,826,630
Land improvements	116,985	-	-	-	116,985
Construction in progress	3,886,949	4,300,236	-	(161,823)	8,025,362
Total	<u>18,911,115</u>	<u>4,684,685</u>	<u>(465,000)</u>	<u>(161,823)</u>	<u>22,968,977</u>
Capital assets, being depreciated:					
Buildings	35,465,437	24,700	(704,023)	161,823	34,947,937
Improvements other than buildings	49,528,612	417,171	-	-	49,945,783
Land improvements	2,015,532	24,375	(145,037)	-	1,894,870
Furniture, machinery and equipment	7,752,505	441,127	(57,370)	-	8,136,262
Total	<u>94,762,086</u>	<u>907,373</u>	<u>(906,430)</u>	<u>161,823</u>	<u>94,924,852</u>
Less accumulated depreciation for:					
Building	(10,099,429)	(958,120)	578,075	-	(10,479,474)
Improvements other than buildings	(30,939,802)	(1,436,344)	-	-	(32,376,146)
Land improvements	(1,013,126)	(429,204)	145,037	-	(1,297,293)
Furniture, machinery and equipment	(6,953,678)	(825,909)	51,875	-	(7,727,712)
Total	<u>(49,006,035)</u>	<u>(3,649,577)</u>	<u>774,987</u>	<u>-</u>	<u>(51,880,625)</u>
Total assets being depreciated, net	<u>45,756,051</u>	<u>(2,742,204)</u>	<u>(131,443)</u>	<u>161,823</u>	<u>43,044,227</u>
Governmental activities capital assets, net	<u>\$ 64,667,166</u>	<u>\$ 1,942,481</u>	<u>\$ (596,443)</u>	<u>\$ -</u>	<u>\$ 66,013,204</u>
Business Type Activities:					
Capital assets, not being depreciated:					
Land	\$ 1,664,627	\$ -	\$ -	\$ -	\$ 1,664,627
Total	<u>1,664,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,664,627</u>
Capital assets, being depreciated:					
Buildings	6,996,132	-	-	-	6,996,132
Infrastructure	1,664,995	-	-	-	1,664,995
Furniture, machinery and equipment	98,172	-	-	-	98,172
Total	<u>8,759,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,759,299</u>
Less accumulated depreciation:					
Buildings	(1,851,917)	(411,536)	-	-	(2,263,453)
Infrastructure	(311,459)	(155,730)	-	-	(467,189)
Furniture, machinery and equipment	(42,928)	(21,464)	-	-	(64,392)
Total	<u>(2,206,304)</u>	<u>(588,730)</u>	<u>-</u>	<u>-</u>	<u>(2,795,034)</u>
Business Type Activities capital assets, net	<u>\$ 8,217,622</u>	<u>\$ (588,730)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,628,892</u>

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 962,630
Public safety	724,990
Public works	1,493,548
Housing & development	4,004
Culture and recreation	464,405
	<u>3,649,577</u>
Total depreciation expense - governmental activities	<u>\$ 3,649,577</u>

NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Due Within One Year
Governmental activities:					
Compensated absences	\$ 560,171	\$ 706,522	\$ 716,171	\$ 550,522	\$ 550,522
Net pension liability	1,129,918	1,047,326	617,681	1,559,563	-
Leases payable	106,048	-	34,033	72,015	35,333
Governmental activities long-term liabilities	<u>\$ 1,796,137</u>	<u>\$ 1,753,848</u>	<u>\$ 1,367,885</u>	<u>\$ 2,182,100</u>	<u>\$ 585,855</u>
Business Activities:					
Bonds payable	\$ 27,542,502	\$ 413,596	\$ 1,931,802	\$ 26,024,296	\$ 1,955,647
Premium on bonds	398	-	75	323	-
Net pension liability	24,709	28,674	16,911	36,472	-
Business-type activities long-term liabilities	<u>\$ 27,567,609</u>	<u>\$ 442,270</u>	<u>\$ 1,948,788</u>	<u>\$ 26,061,091</u>	<u>\$ 1,955,647</u>

The compensated absences and net pension liability for the governmental activities are funded by the General Fund.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7. LONG-TERM DEBT (Continued)

Bonds Payable. Revenue bonds outstanding consist of debt issued by the blended component units. In general, revenues derived from the component units are pledged for the payments of revenue bond debt service. The debt was issued for the purposes of development of downtown areas and to fund a new public safety facility.

During fiscal year 2009, the Downtown Development Authority issued the Series 2008 bonds in two series, 2008 Series A and 2008 Series B, in order to purchase a building still under construction in downtown Duluth for purposes of controlling the use of the building. At the same time, the Downtown Development Authority also entered into a bond agreement, the 2008 Series C Bonds, with the seller of the building. The purpose of the 2008 Series C bonds is for the seller to pay the principal and interest on the 2008 Series B bonds until maturity or the bonds are redeemed. Each time the seller makes a payment on the 2008 Series B Bonds (principal or interest), the payment is a reduction in the 2008 Series B Bonds or related interest expense, and is treated as increase in the 2008 Series C Bonds. The 2008 Series C Bond will be fully retired from the selling price of the building no matter when, or for what price, the building is sold.

During fiscal year 2013, the Urban Redevelopment Authority refunded most of its outstanding Series 2003 bonds with Series 2012 Refunding Bonds issued in the amount of \$7,095,000. Interest rates on the Series 2012 Bonds are 1.63% with annual maturities through fiscal year 2024. The net proceeds from the Series 2012 Bonds were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. The result of this transaction is a decrease in future debt service payments of \$725,942 and a present value savings, or economic gain, of \$654,799. The refunded bonds are considered defeased and thus the assets in the trust fund along with the \$5,150,000 in outstanding refunded bonds at June 30, 2016 are not reported in the City's financial statements.

During fiscal year 2015, the Downtown Development Authority issued the Series 2015 bonds for \$7,500,000, in order to finance the construction and development of The Block. Interest rates on the Series 2015 Bonds are 3.50% with annual maturities through fiscal year 2026.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 7. LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

Future debt service requirements on the bonds payable of the blended component units is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,955,647	\$ 738,390	\$ 2,694,037
2018	2,023,682	674,396	2,698,078
2019	2,106,116	601,757	2,707,873
2020	2,173,672	526,285	2,699,957
2021	4,967,722	416,058	5,383,780
2022-2026	8,936,586	893,045	9,829,631
2027-2029	3,860,871	10,739	3,871,610
Total	<u>\$ 26,024,296</u>	<u>\$ 3,860,670</u>	<u>\$ 29,884,966</u>

Capital Lease Payable. The City entered into a capital lease to purchase police radios on August 1, 2013. The lease calls for annual payments of \$38,084 bearing interest of 3.82% annum maturing August 1, 2017. The assets under capital lease have a historical cost of \$138,080 and accumulated depreciation of \$99,375 for a net book value of \$39,455. Annual depreciation of these assets under capital leases is included in depreciation expense.

The following is a schedule of future minimum lease payments under lease as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 35,333	\$ 2,751	\$ 38,084
2018	36,682	1,401	38,083
Total	<u>\$ 72,015</u>	<u>\$ 4,152</u>	<u>\$ 76,167</u>

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2016, is as follows:

Receivable From	Payable To					Total
	General Fund	Other Governmental Funds	Internal Service Funds	Stormwater Fund	Downtown Development Authority	
General Fund	\$ -	\$ 4,238	\$ -	\$ 2	\$ 440	\$ 4,680
Other Governmental Funds	96,829	-	-	-	-	96,829
Stormwater Fund	-	-	6,388	-	-	6,388
Internal service funds	-	-	-	-	-	-
Total	\$ 96,829	\$ 4,238	\$ 6,388	\$ 2	\$ 440	\$ 107,897

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds are made.

Interfund transfers for the year ended June 30, 2016 were:

Transfers To	Transfers From				Total
	General Fund	SPLOST 2009 Fund	Other Governmental Funds	SPLOST 2014 Fund	
General Fund	\$ -	\$ -	\$ 118,082	\$ -	\$ 118,082
The Block Fund	-	30,564	-	2,320,100	2,350,664
Other Governmental Funds	110,134	254,919	123,023	3,165,262	3,653,338
Urban Redevelopment Authority	1,022,812	-	-	-	1,022,812
Downtown Development Authority	1,608,529	-	50,000	-	1,658,529
Internal Service Funds	320,000	-	-	-	320,000
2009 SPLOST	-	-	31,000	-	31,000
Total	\$ 3,061,475	\$ 285,483	\$ 322,105	\$ 5,485,362	\$ 9,154,425

These transfers were used to assist other funds in meeting operating requirements for the year ended June 30, 2016 or for moving revenue to the fund in which expenditures were funded. Transfers from the 2005 SPLOST Fund (other governmental fund) were to pay debt service on an allowable project under the SPLOST intergovernmental agreement and to refund other capital projects funds for allowable costs incurred in prior years on projects. Transfers from the 2009 and 2014 SPLOST Funds were to refund other capital projects funds for allowable costs incurred in prior years on projects.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9. DEFINED BENEFIT PENSION PLAN

Plan Description

The City, as authorized by the City Council, has established a non-contributory defined benefit pension plan (The City of Duluth Retirement Plan), covering substantially all of the City's employees. The City's pension plan is administered through the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are provided by the Plan whereby retirees receive 1.5% multiplied by the average of the five highest years of regular earnings multiplied by the total credited years of service. The City Council has the governing authority to establish and amend from time to time, the benefits provided and the contribution rates of the employer and its plan members. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained at www.gmanet.com or by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, NW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

Plan Membership As of January 1, 2016, the date of the most recent actuarial valuation, there were 203 participants consisting of the following:

Inactive plan members or beneficiaries currently receiving benefits	19
Inactive plan members entitled to but not receiving benefits	43
Active plan members	141
	<u>203</u>

Contributions. The Plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the Plan, as adopted by the City Council, is to contribute an amount equal to or greater than the actuarially recommended contribution rate. This rate is based on the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members, as determined by the City Council. For the fiscal year ended June 30, 2016, the City's contribution rate was 6.05% of annual payroll. City contributions to the Plan were \$618,973 for the fiscal year ended June 30, 2016. Employees of the City of Duluth do not contribute to the Plan.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9. **DEFINED BENEFIT PENSION PLAN (Continued)**

Net Pension Liability of the City

The City's net pension liability was measured as of September 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as January 1, 2015 with update procedures performed by the actuary to roll forward to the total pension liability measured as of September 30, 2015.

Actuarial assumptions. The total pension liability in the January 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.75% - 8.25%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010–June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 are summarized in the table on the following page.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9. DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability of the City (Continued)

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic equity	50%	5.95%
International equity	15%	6.45
Fixed income	25%	1.55
Real estate	10%	3.75
Cash	—%	
Total	<u>100%</u>	

* Rates shown are net of the 3.25% assumed rate of inflation

Discount rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, which is zero, and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9. DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability of the City (Continued)

Changes in the Net Pension Liability of the City. The changes in the components of the net pension liability of the City for the fiscal year ended June 30, 2016 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 6,728,501	\$ 5,573,874	\$ 1,154,627
Changes for the year:			
Service cost	291,136	-	291,136
Interest	517,807	-	517,807
Differences between expected and actual experience	250,924	-	250,924
Contributions—employer	-	591,584	(591,584)
Net investment income	-	43,008	(43,008)
Benefit payments, including refunds of employee contributions	(94,236)	(94,236)	-
Administrative expense	-	(16,133)	16,133
Net changes	<u>965,631</u>	<u>524,223</u>	<u>441,408</u>
Balances at 6/30/16	<u>\$ 7,694,132</u>	<u>\$ 6,098,097</u>	<u>\$ 1,596,035</u>

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

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 7.75 percent, as well as what the City’s net pension liability would be if it were calculated using a discount rate that 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	\$ 2,751,882	\$ 1,596,035	\$ 646,087

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9. DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability of the City (Continued)

Changes in the Net Pension Liability of the City (continued). Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of September 30, 2015 and the current sharing pattern of costs between employer and employee.

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

For the fiscal year ended June 30, 2016, the City recognized pension expense of \$387,887. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 209,105	\$ 44,024
Changes in assumptions	-	260,496
Net difference between projected and actual earnings on pension plan investments	224,758	-
City contributions subsequent to the measurement date	<u>496,815</u>	<u>-</u>
Total	<u><u>\$ 930,678</u></u>	<u><u>\$ 304,520</u></u>

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9. DEFINED BENEFIT PENSION PLAN (Continued)

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

City contributions subsequent to the measurement date of \$496,815 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2017	\$ 13,436
2018	13,436
2019	13,436
2020	47,214
2021	41,821
Total	<u>\$ 129,343</u>

NOTE 10. DEFINED CONTRIBUTION PLAN

The City also has established under authority of the City Council, the City of Duluth Deferred Contribution and Deferred Compensation Program (a defined contribution plan). This Program is administered through Georgia Wealth Partners by OneAmerica. This program covers substantially all employees and the City makes contribution after an employee's first year of service. Employees may contribute a maximum of \$18,000 for calendar year 2015 and \$18,000 for calendar year 2016. Individuals who are 50 or older can defer an additional \$6,000. The City's contribution is limited to a maximum of 2% of gross wages or 50% of employee's contributions, whichever is less.

This Program may be amended by vote of the City Council. Contributions by the City for the current year were \$113,819, with employee contributions amounting to \$380,958.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11. JOINT VENTURE

Under Georgia law, the City in conjunction with other cities and counties in the Metro Atlanta area is a member of the Atlanta Regional Commission (ARC). Membership in an ARC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the ARC. The ARC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an ARC. Dues are paid on behalf of the City by Gwinnett County, Georgia. Separate financial statements may be obtained from the Atlanta Regional Commission, 40 Courtland Street, NE, Atlanta, Georgia 30303.

NOTE 12. RISK MANAGEMENT

The City is exposed to various risks of losses related to: torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, public entity risk pools currently operating as common risk management and insurance programs for member local governments.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claims of loss. The City is also to allow the pool's agent and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City carries commercial insurance for other risks of losses, such as general property and liability insurance, and self insurance for workers compensation. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12. RISK MANAGEMENT (Continued)

Effective April 1, 1994, the City established a self-insurance program for workers compensation. The City's third-party administrator processes claims and assists the City in determining its premium on an annual basis. Instead of paying the premium to an insurance company, the City deposits the premium into its own workers compensation loss account. At June 30, 2016, the City had accumulated \$657,553 in the account after the payment of claims and administrative fees.

Claim payable liability and related activity for the last two years was as follows:

	Beginning Balance	Additions	Payments	Ending Balance
2016	\$ 272,777	\$ 408,195	\$ (289,335)	\$ 391,637
2015	\$ 183,743	\$ 351,872	\$ (262,838)	\$ 272,777

NOTE 13. COMMITMENTS AND CONTINGENCIES

Litigation:

The City is involved in various claims and matters of litigation which, in the opinion of the City Attorneys, the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

Grant Contingencies:

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to disallowance of certain expenditures previously reimbursed by those agencies.

**CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 14. RENTAL MOTOR VEHICLE EXCISE TAX

The City has levied an excise tax on the rental of motor vehicles. The Official Code of Georgia Annotated 48-13-93 requires that all motor vehicle excise taxes be expended or obligated contractually, in accordance with state law, for the promotion of tourism or the acquisition, construction, renovating, improving, maintenance and equipping of pedestrian walkways, installation of traffic lights, and street lights associated with public safety facilities or public improvements for sports and recreational facilities. During the fiscal year ended June 30, 2016, the City received \$49,547 in motor vehicle excise taxes. Of this amount, \$13,362 was expended on public safety, 19,975 was expended for recreational capital outlay, and the remaining \$16,210 was obligated through restrictions for similar purposes.

REQUIRED SUPPLEMENTARY INFORMATION

City of Duluth, Georgia
Schedule of Changes in the City's Net Pension Liability
And Related Ratios

	2016	2015
Total pension liability		
Service cost	\$ 291,136	\$ 281,147
Interest on total pension liability	517,807	498,803
Changes of benefit terms	-	-
Differences between expected and actual experience	250,924	(66,033)
Changes of assumptions	-	(390,741)
Benefit payments, including refunds of employee contributions	(94,236)	(61,694)
Net change in total pension liability	965,631	261,482
Total pension liability - beginning	6,728,501	6,467,019
Total pension liability - ending (a)	\$ 7,694,132	\$ 6,728,501
 Plan fiduciary net position		
Contributions - employer	591,584	414,749
Net investment income	43,008	545,407
Benefit payments, including refunds of employee contributions	(94,236)	(61,694)
Administrative expenses	(16,133)	(12,633)
Net change in plan fiduciary net position	524,223	885,829
Plan fiduciary net position - beginning	5,573,874	4,688,045
Plan fiduciary net position - ending (b)	\$ 6,098,097	\$ 5,573,874
 City's net pension liability - ending (a) - (b)	\$ 1,596,035	\$ 1,154,627
 Plan fiduciary net position as a percentage of the total pension liability	79.3%	82.8%
 Covered-employee payroll	\$ 7,630,679	6,915,892
 City's net pension liability as a percentage of covered - employee payroll	20.9%	16.7%

Notes to the Schedule

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

City of Duluth, Georgia
Schedule of City Contributions – Retirement Plan

	2016	2015
Actuarially determined contribution	\$ 445,633	\$ 450,318
Contributions in relation to the actuarially determined contribution	618,973	583,486
Contribution deficiency (excess)	\$ (173,340)	\$ (133,168)
Covered-employee payroll	7,828,117	6,681,276
Contributions as a percentage of Covered-employee payroll	7.9%	8.7%

Notes to the Schedule

Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amounts that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
Assumed Rate of Return	
On Investments	7.75%
Projected Salary Increases	3.75% - 8.75% (including 3.25% for inflation)
Cost-of-living Adjustment	3.25%
Amortization Method	Closed level dollar for unfunded liability
Remaining Amortization Period	10 years

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

City of Duluth, Georgia

General Fund

Schedule of Revenues, Expenditures, and Changes in

Fund Balances - Budget and Actual (GAAP Basis)

For the Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 12,687,600	\$ 12,687,600	\$ 13,165,954	\$ 478,354
Licenses and permits	492,000	492,000	644,171	152,171
Charges for services	397,618	397,618	457,114	59,496
Fines and forfeitures	2,300,100	2,300,100	2,048,776	(251,324)
Intergovernmental	1,110,357	1,110,357	1,172,682	62,325
Interest income	49,500	49,500	61,362	11,862
Miscellaneous	315,475	362,425	476,144	113,719
TOTAL REVENUES	17,352,650	17,399,600	18,026,203	626,603
EXPENDITURES				
Current:				
General government:				
Mayor and Council				
Personal services	50,907	51,362	44,093	7,269
Other services and charges	184,632	181,646	158,716	22,930
City Administrator				
Personal services	205,197	205,197	203,323	1,874
Other services and charges	190,306	190,306	98,465	91,841
City Clerk/Business Office				
Personal services	1,247,520	1,253,320	1,185,191	68,129
Other services and charges	1,290,737	1,288,937	1,213,466	75,471
City Clerk/Human resources	239,530	245,230	227,725	17,505
Other				
Public information & marketing	682,841	687,341	617,414	69,927
Consolidated services:				
Custodial services	69,872	69,892	67,557	2,335
Landscape maintenance	63,956	68,593	67,036	1,557
Contingency	100,000	100,000	-	100,000
Total general government	4,325,498	4,341,824	3,882,986	458,838

City of Duluth, Georgia
General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Public safety:				
Municipal Court				
Personal services	\$ 610,187	\$ 598,217	\$ 547,431	\$ 50,786
Other services and charges	35,408	35,575	20,840	14,735
Police / Admin				
Personal services	564,342	571,117	565,205	5,912
Other services and charges	527,100	547,942	535,710	12,232
Police / CID				
Personal services	893,106	886,331	865,962	20,369
Other services and charges	222,486	222,486	205,359	17,127
Police / Uniform Division				
Personal services	3,909,089	3,909,089	3,584,158	324,931
Other services and charges	119,482	104,270	84,341	19,929
Police / Other				
Police vehicles	479,509	477,207	362,851	114,356
Police Support Services	1,805,540	1,809,810	1,580,367	229,443
Total public safety	<u>9,166,249</u>	<u>9,162,044</u>	<u>8,352,224</u>	<u>809,820</u>
Public works:				
Planning & Development				
Personal services	748,810	739,130	667,651	71,479
Other services and charges	477,291	476,623	445,894	30,729
Administration				
Personal services	1,280,790	1,280,790	1,009,556	271,234
Other services and charges	147,221	185,066	131,472	53,594
Supplies	75,350	68,745	35,979	32,766
Streets				
Building / grounds maintenance	183,297	181,529	166,529	15,000
Total public works	<u>2,912,759</u>	<u>2,931,883</u>	<u>2,457,081</u>	<u>474,802</u>

City of Duluth, Georgia

General Fund

Schedule of Revenues, Expenditures, and Changes in

Fund Balances - Budget and Actual (GAAP Basis)

For the Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Culture and recreation:				
Parks/Recreation Admin				
Personal services	\$ 1,283,639	\$ 1,320,531	\$ 1,258,749	\$ 61,782
Other services and charges	285,306	297,874	296,245	1,629
Recreation operations	213,207	174,545	167,503	7,042
Total culture and recreation	1,782,152	1,792,950	1,722,497	70,453
Debt service:				
Principal retirement	34,003	34,003	34,033	(30)
Interest and fiscal charges	4,051	4,051	4,051	-
Total debt service	38,054	38,054	38,084	(30)
TOTAL EXPENDITURES	18,224,712	18,266,755	16,452,872	1,813,883
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(872,062)	(867,155)	1,573,331	2,440,486
OTHER FINANCING SOURCES (USES)				
Transfers in	107,811	107,811	118,082	10,271
Transfers out	(2,753,891)	(3,143,259)	(3,061,475)	81,784
TOTAL OTHER FINANCING SOURCES (USES)	(2,646,080)	(3,035,448)	(2,943,393)	92,055
NET CHANGE IN FUND BALANCES	(3,518,142)	(3,902,603)	(1,370,062)	2,532,541
FUND BALANCES - BEGINNING OF YEAR	12,404,310	12,404,310	12,404,310	-
FUND BALANCES - END OF YEAR	\$ 8,886,168	\$ 8,501,707	\$ 11,034,248	\$ 2,532,541

COMBINING FUND STATEMENTS AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Greenspace Program Fund – This fund accounts for the funds, donated to the City and committed to be used to increase greenspace in the City.

Landscaping Tree Fund – This fund accounts for the financial resources donated to the City and committed to be used for landscaping and tree maintenance.

Sidewalk Fund – This fund accounts for the financial resources donated to the City and committed to be used to maintain City sidewalks.

Police Federal Drug Fund – This fund is established to receive the proceeds of forfeitures under state, local and federal law, and the investment of those funds. The monies deposited into the fund are restricted to cover expenditures in support of the asset forfeiture program that are allowable under state statute.

Police State Drug & Escrow Fund – This fund is established to receive the proceeds of the state share of drug related forfeitures under state, local and federal law, and the investment of those funds. The monies deposited into the fund are restricted to cover expenditures in support of the drug related forfeiture program that are allowable under state statute.

Operation Drive Smart Fund – This fund accounts for the financial resources related to the Operation Drive Smart Grant, the Special Operations Unit Mounted Patrol, and fundraisers & donations restricted for various community policing programs.

Public Art Fund – This fund accounts for financial resources of both grants and donated funds that will be used for the acquisition, commissioning, performance, exhibition and conservation of public art in the City and is restricted by the revenue source.

Rental Motor Vehicle Tax Fund – This fund accounts for the financial resources from excise tax on motor vehicle rentals, restricted for use under state law.

Police Technology Fund – This fund accounts for the financial resources committed for use for police technology.

Gateway Grant Buford Highway Fund – This fund accounts for activities carried out by the City under the terms and restrictions of the Gateway grant, restricted for specific activity.

Grants Fund – This fund accounts for activities carried out by the City under the terms and restrictions of various intergovernmental grants, restricted for specific activity.

Capital Projects Funds

SPLOST 1997 Fund – This fund is used to account for the realignment of SR120 project using the SPLOST 1997 program and other intergovernmental funds.

Taylor Park Improvements Fund – This fund accounts for the construction improvement project at Taylor Park.

SPLOST 2005 Fund – This fund is used to account for the financial resources related to the SPLOST 2005 program.

S. Hudgens Park Restrooms – This fund is used to account for the construction of restrooms at the S. Hudgens Park.

Rodgers Bridge Dog Park Fund – This fund is used to account for the construction of a public dog park recreational area.

NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds (Continued)

Abbots Bridge Road Improvements Fund – This fund is used to account for the construction improvements at Abbots Bridge Road.

Park Improvements Fund – This fund accounts for improvements to various City parks.

Downtown Detention Facility Fund – This fund accounts for the construction of a detention facility.

Buford Highway Medians Fund – This fund is used to account for the construction of medians for Buford Highway.

2009 SPLOST Vehicles Fund – This fund is used to account for the purchase of vehicles from the 2009 SPLOST referendum as transferred from the 2009 SPLOST Fund.

Transportation and Infrastructure Improvements Fund – This fund is used to account for infrastructure repairs and upgrades to McClure Bridge Road.

Gateway Entrance Fund – This fund is used to account for the construction of a gateway entrance sign.

Buford Highway Interchange Fund – This fund is used to account for safety improvements and landscaping at the Pleasant Hill Road and Buford Highway Interchange.

Other Capital Projects Fund – This fund is used to account for the construction of various capital projects.

City Park Master Plan Fund – This fund is used to account for the creation of a master park for all City parks to guide future park development.

Downtown Parking Fund – This fund is used to account for the demolition of a downtown building and the construction of a parking lot.

TAD Fund – This fund is used to account for the capital investment using tax increment funding to revitalize the City's commercial/downtown organized as a Tax Allocation District.

City of Duluth, Georgia
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2016

	Non-major Special Revenue Funds	Non-major Capital Projects Funds	Total Non-major Governmental Funds
ASSETS			
Cash	\$ 302,982	\$ 178,717	\$ 481,699
Taxes receivable	5,208	-	5,208
Intergovernmental receivable	-	167,560	167,560
Due from other funds	-	4,238	4,238
TOTAL ASSETS	\$ 308,190	\$ 350,515	\$ 658,705
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 63,288	\$ 816,470	\$ 879,758
Accrued expenditures	64,103	-	64,103
Due to other funds	5,578	91,251	96,829
TOTAL LIABILITIES	132,969	907,721	1,040,690
FUND BALANCES (DEFICIT)			
Restricted:			
Capital construction	-	212,849	212,849
Law enforcement	146,297	-	146,297
Committed:			
Public works	8,000	-	8,000
Equipment purchases	20,924	-	20,924
Assigned:			
Gateway construction	-	5,500	5,500
Block signs	-	-	-
Unassigned	-	(775,555)	(775,555)
TOTAL FUND BALANCES (DEFICIT)	175,221	(557,206)	(381,985)
TOTAL LIABILITIES AND FUND BALANCES	\$ 308,190	\$ 350,515	\$ 658,705

City of Duluth, Georgia
*Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances*
Non-major Governmental Funds
For the Year Ended June 30, 2016

	Non-major Special Revenue Funds	Non-major Capital Projects Funds	Total Non-major Governmental Funds
REVENUES			
Taxes	\$ 49,547	\$ 1,988	\$ 51,535
Intergovernmental	35,003	536,574	571,577
Fines and forfeitures	93,337	-	93,337
Interest income	-	770	770
Miscellaneous	125,531	-	125,531
TOTAL REVENUES	303,418	539,332	842,750
EXPENDITURES			
Current:			
Public safety	104,122	-	104,122
Public works	148,552	-	148,552
Culture and recreation	68,467	-	68,467
Capital outlay	-	5,983,022	5,983,022
TOTAL EXPENDITURES	321,141	5,983,022	6,304,163
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,723)	(5,443,690)	(5,461,413)
OTHER FINANCING SOURCES (USES)			
Transfers in	118,770	3,534,568	3,653,338
Transfers out	(167,577)	(154,528)	(322,105)
TOTAL OTHER FINANCING SOURCES (USES)	(48,807)	3,380,040	3,331,233
NET CHANGE IN FUND BALANCES	(66,530)	(2,063,650)	(2,130,180)
FUND BALANCES - BEGINNING OF YEAR	241,751	1,506,444	1,748,195
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 175,221	\$ (557,206)	\$ (381,985)

City of Duluth, Georgia
Combining Balance Sheet
Non-major Special Revenue Funds
June 30, 2016

	Greenspace Program Fund	Landscaping Tree Fund	Sidewalk Fund	Police Federal Drug Fund	Police State Drug & Escrow Fund	Operation Drive Smart Fund	Public Art Fund	Rental Motor Vehicle Tax Fund	Police Technology Fund	Gateway Grant Buford Highway Fund	Grants Fund	Total Non-major Special Revenue Funds
ASSETS												
Cash	\$ 59,467	\$ 3,779	\$ 8,000	\$ 727	\$ 127,454	\$ 53,203	\$ -	\$ 29,428	\$ 20,924	\$ -	\$ -	\$ 302,982
Taxes receivable	-	-	-	-	-	-	-	5,208	-	-	-	5,208
TOTAL ASSETS	\$ 59,467	\$ 3,779	\$ 8,000	\$ 727	\$ 127,454	\$ 53,203	\$ -	\$ 34,636	\$ 20,924	\$ -	\$ -	\$ 308,190
LIABILITIES AND FUND BALANCES												
LIABILITIES												
Accounts payable	\$ 59,467	\$ 3,779	\$ -	\$ -	42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,288
Accrued expenditures	-	-	-	-	64,103	-	-	-	-	-	-	64,103
Due to other funds	-	-	-	-	5,578	-	-	-	-	-	-	5,578
TOTAL LIABILITIES	59,467	3,779	-	-	69,723	-	-	-	-	-	-	132,969
FUND BALANCES												
Restricted:												
Law enforcement	-	-	-	727	57,731	53,203	-	34,636	-	-	-	146,297
Committed:												
Public works	-	-	8,000	-	-	-	-	-	-	-	-	8,000
Equipment purchases	-	-	-	-	-	-	-	-	20,924	-	-	20,924
TOTAL FUND BALANCES	-	-	8,000	727	57,731	53,203	-	34,636	20,924	-	-	175,221
TOTAL LIABILITIES AND FUND BALANCES	\$ 59,467	\$ 3,779	\$ 8,000	\$ 727	\$ 127,454	\$ 53,203	\$ -	\$ 34,636	\$ 20,924	\$ -	\$ -	\$ 308,190

City of Duluth, Georgia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Special Revenue Funds
For the Year Ended June 30, 2016

	Greenspace Program Fund	Landscaping Tree Fund	Sidewalk Fund	Police Federal Drug Fund	Police State Drug & Escrow Fund	Operation Drive Smart Fund	Public Art Fund	Rental Motor Vehicle Tax Fund	Police Technology Fund	Gateway Grant Buford Highway Fund	Grants Fund	Total Non-major Special Revenue Funds
REVENUES												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,547	\$ -	\$ -	\$ -	\$ 49,547
Intergovernmental	-	-	-	-	-	-	-	-	-	35,003	-	35,003
Fines and forfeitures	-	-	-	-	-	-	-	-	93,337	-	-	93,337
Other	-	-	-	-	59,956	2,551	-	63,024	-	-	-	125,531
TOTAL REVENUES	-	-	-	-	59,956	2,551	-	112,571	93,337	35,003	-	303,418
EXPENDITURES												
Current:												
Public safety	-	-	-	-	4,094	2,126	-	97,902	-	-	-	104,122
Public works	-	3,779	-	-	-	-	-	-	-	37,773	107,000	148,552
Culture and recreation	59,467	-	-	-	-	-	9,000	-	-	-	-	68,467
TOTAL EXPENDITURES	59,467	3,779	-	-	4,094	2,126	9,000	97,902	-	37,773	107,000	321,141
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(59,467)	(3,779)	-	-	55,862	425	(9,000)	14,669	93,337	(2,770)	(107,000)	(17,723)
OTHER FINANCING SOURCES (USES)												
Transfers in	-	-	-	-	-	-	9,000	-	-	2,770	107,000	118,770
Transfers out	-	-	-	-	(5,577)	-	-	(50,000)	(112,000)	-	-	(167,577)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	(5,577)	-	9,000	(50,000)	(112,000)	2,770	107,000	(48,807)
NET CHANGE IN FUND BALANCES	(59,467)	(3,779)	-	-	50,285	425	-	(35,331)	(18,663)	-	-	(66,530)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	59,467	3,779	8,000	727	7,446	52,778	-	69,967	39,587	-	-	241,751
FUND BALANCES - END OF YEAR	\$ -	\$ -	\$ 8,000	\$ 727	\$ 57,731	\$ 53,203	\$ -	\$ 34,636	\$ 20,924	\$ -	\$ -	\$ 175,221

City of Duluth, Georgia
Combining Balance Sheet
Non-major Capital Projects Funds
June 30, 2016

	SPLOST 1997	Taylor Park Improvements	SPLOST 2005	S. Hudgens Park Restrooms	Rodgers Bridge Dog Park	Abbots Bridge Road Improvements	Park Improvements	Downtown Detention Facility	Buford Hwy Medians
ASSETS									
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental receivable	-	-	-	-	-	104,667	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 351,460	\$ -	\$ -	120,776	\$ 25,801	\$ 12,333	\$ -	\$ -	\$ 4,940
Due to other funds	-	-	-	-	-	32,266	-	-	-
TOTAL LIABILITIES	<u>351,460</u>	<u>-</u>	<u>-</u>	<u>120,776</u>	<u>25,801</u>	<u>44,599</u>	<u>-</u>	<u>-</u>	<u>4,940</u>
FUND BALANCES (DEFICIT)									
Nonspendable:									
Restricted:									
Capital construction	-	-	-	-	-	60,068	-	-	-
Assigned:									
Gateway construction	-	-	-	-	-	-	-	-	-
Block Signs	-	-	-	-	-	-	-	-	-
Unassigned	(351,460)	-	-	(120,776)	(25,801)	-	-	-	(4,940)
TOTAL FUND BALANCES (DEFICIT)	<u>(351,460)</u>	<u>-</u>	<u>-</u>	<u>(120,776)</u>	<u>(25,801)</u>	<u>60,068</u>	<u>-</u>	<u>-</u>	<u>(4,940)</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Duluth, Georgia
Combining Balance Sheet
Non-major Capital Projects Funds
June 30, 2016

	2009 SPLOST Vehicles	Transportation Infrastructure Improvements	Gateway Entrance	Buford Highway Interchange	Other Capital Projects	City Master Park Plan	Downtown Parking	TAD	Total Non-major Capital Projects Funds
ASSETS									
Cash	\$ -	\$ 166,712	\$ 5,500	\$ -	\$ -	\$ -	\$ -	6,505	\$ 178,717
Intergovernmental receivable	-	-	-	62,893	-	-	-	-	167,560
Due from other funds	-	-	-	-	4,238	-	-	-	4,238
TOTAL ASSETS	\$ -	\$ 166,712	\$ 5,500	\$ 62,893	\$ 4,238	\$ -	\$ -	\$ 6,505	\$ 350,515
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 11,480	\$ 22,534	\$ -	6,085	\$ 2,140	4,932	\$ 253,989	\$ -	\$ 816,470
Due to other funds	-	-	-	58,985	-	-	-	-	91,251
LIABILITIES	11,480	22,534	-	65,070	2,140	4,932	253,989	-	907,721
FUND BALANCES (DEFICIT)									
Nonspendable:									
Restricted:									
Capital construction	-	144,178	-	-	2,098	-	-	6,505	212,849
Assigned:									
Gateway construction	-	-	5,500	-	-	-	-	-	5,500
Block signs	-	-	-	-	-	-	-	-	-
Unassigned	(11,480)	-	-	(2,177)	-	(4,932)	(253,989)	-	(775,555)
TOTAL FUND BALANCES (DEFICIT)	(11,480)	144,178	5,500	(2,177)	2,098	(4,932)	(253,989)	6,505	(557,206)
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ -	\$ 166,712	\$ 5,500	\$ 62,893	\$ 4,238	\$ -	\$ -	\$ 6,505	\$ 350,515

City of Duluth, Georgia

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Capital Projects Funds
For the Year Ended June 30, 2016*

	SPLOST 1997	Taylor Park Improvements	SPLOST 2005	S. Hudgens Park Restrooms	Rodgers Bridge Dog Park	Abbots Bridge Road Improvements	Park Improvements	Downtown Detention Facility	Buford Hwy Medians
REVENUES									
Intergovernmental	\$ -	\$ -	\$ -	\$ -	31,000	\$ 104,667	\$ -	\$ -	\$ -
Interest income	682	-	88	-	-	-	-	-	-
Property taxes	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	682	-	88	-	31,000	104,667	-	-	-
EXPENDITURES									
Capital outlay:									
General government	-	-	25	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-
Public works	2,086,887	-	-	-	-	121,437	-	-	138,131
Culture and recreation	-	12,275	-	147,978	27,521	-	25,959	-	-
TOTAL EXPENDITURES	2,086,887	12,275	25	147,978	27,521	121,437	25,959	-	138,131
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,086,205)	(12,275)	63	(147,978)	3,479	(16,770)	(25,959)	-	(138,131)
OTHER FINANCING SOURCES (USES)									
Transfers in	428,372	16,744	-	27,202	1,720	84,619	25,959	1,380	147,371
Transfers out	-	-	(123,528)	-	(31,000)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	428,372	16,744	(123,528)	27,202	(29,280)	84,619	25,959	1,380	147,371
NET CHANGE IN FUND BALANCES	(1,657,833)	4,469	(123,465)	(120,776)	(25,801)	67,849	-	1,380	9,240
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	1,306,373	(4,469)	123,465	-	-	(7,781)	-	(1,380)	(14,180)
FUND BALANCES (DEFICIT) - END OF YEAR	\$ (351,460)	\$ -	\$ -	\$ (120,776)	\$ (25,801)	\$ 60,068	\$ -	\$ -	\$ (4,940)

City of Duluth, Georgia

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Capital Projects Funds
For the Year Ended June 30, 2016*

	2009 SPLOST Vehicles	Transportation Infrastructure Improvements	Gateway Entrance	Buford Highway Interchange	Other Capital Projects	City Master Park Plan	Downtown Parking	TAD	Total Non-major Capital Projects Funds
REVENUES									
Intergovernmental	\$ -	166,712	\$ -	62,893	\$ 171,302	\$ -	\$ -	\$ -	\$ 536,574
Interest income	-	-	-	-	-	-	-	-	770
Property taxes	-	-	-	-	-	-	-	1,988	1,988
TOTAL REVENUES	<u>-</u>	<u>166,712</u>	<u>-</u>	<u>62,893</u>	<u>171,302</u>	<u>-</u>	<u>-</u>	<u>1,988</u>	<u>539,332</u>
EXPENDITURES									
Capital outlay:									
General government	-	-	-	-	-	-	-	-	25
Public safety	306,832	-	-	-	-	-	-	-	306,832
Public works	-	1,762,881	-	80,176	411,943	-	844,527	-	5,445,982
Culture and recreation	-	-	-	-	-	16,450	-	-	230,183
TOTAL EXPENDITURES	<u>306,832</u>	<u>1,762,881</u>	<u>-</u>	<u>80,176</u>	<u>411,943</u>	<u>16,450</u>	<u>844,527</u>	<u>-</u>	<u>5,983,022</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(306,832)</u>	<u>(1,596,169)</u>	<u>-</u>	<u>(17,283)</u>	<u>(240,641)</u>	<u>(16,450)</u>	<u>(844,527)</u>	<u>1,988</u>	<u>(5,443,690)</u>
OTHER FINANCING SOURCES (USES)									
Transfers in	305,610	1,582,673	-	15,106	203,581	11,518	682,713	-	3,534,568
Transfers out	-	-	-	-	-	-	-	-	(154,528)
TOTAL OTHER FINANCING SOURCES (USES)	<u>305,610</u>	<u>1,582,673</u>	<u>-</u>	<u>15,106</u>	<u>203,581</u>	<u>11,518</u>	<u>682,713</u>	<u>-</u>	<u>3,380,040</u>
NET CHANGE IN FUND BALANCES	<u>(1,222)</u>	<u>(13,496)</u>	<u>-</u>	<u>(2,177)</u>	<u>(37,060)</u>	<u>(4,932)</u>	<u>(161,814)</u>	<u>1,988</u>	<u>(2,063,650)</u>
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>(10,258)</u>	<u>157,674</u>	<u>5,500</u>	<u>-</u>	<u>39,158</u>	<u>-</u>	<u>(92,175)</u>	<u>4,517</u>	<u>1,506,444</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (11,480)</u>	<u>\$ 144,178</u>	<u>\$ 5,500</u>	<u>\$ (2,177)</u>	<u>\$ 2,098</u>	<u>\$ (4,932)</u>	<u>\$ (253,989)</u>	<u>\$ 6,505</u>	<u>\$ (557,206)</u>

City of Duluth, Georgia
Combining Statement of Net Position
Internal Service Funds
June 30, 2016

	Duluth Governmental Finance Corporation	Workers' Compensation Fund	Health Reimbursement Fund	Total Internal Service Funds
ASSETS				
Current Assets:				
Cash	\$ -	\$ 657,553	170,383	\$ 827,936
Due from other funds	-	4,566	1,822	6,388
Total Current Assets	-	662,119	172,205	834,324
Noncurrent Assets:				
Capital assets:				
Nondepreciable capital assets	1,654,856	-	-	1,654,856
Depreciable capital assets, net	778,139	-	-	778,139
Total Noncurrent Assets	2,432,995	-	-	2,432,995
TOTAL ASSETS	2,432,995	662,119	172,205	3,267,319
LIABILITIES				
Current Liabilities:				
Accounts payable	-	765	265	1,030
Claims payable	-	391,637	-	391,637
Total Current Liabilities	-	392,402	265	392,667
TOTAL LIABILITIES	-	392,402	265	392,667
NET POSITION				
Investment in capital assets	2,432,995	-	-	2,432,995
Unrestricted	-	269,717	171,940	441,657
TOTAL NET POSITION	\$ 2,432,995	\$ 269,717	\$ 171,940	\$ 2,874,652

City of Duluth, Georgia
*Combining Statement of Revenues, Expenses, and
 Changes in Net Position
 Internal Service Funds
 For the Year Ended June 30, 2016*

	Duluth Governmental Finance Corporation	Workers' Compensation Fund	Health Reimbursement Fund	Total Internal Service Funds
OPERATING EXPENSES				
Claims	\$ -	\$ 408,194	\$ 64,110	\$ 472,304
Depreciation	48,625	-	-	48,625
TOTAL OPERATING EXPENSES	<u>48,625</u>	<u>408,194</u>	<u>64,110</u>	<u>520,929</u>
OPERATING (LOSS)	<u>(48,625)</u>	<u>(408,194)</u>	<u>(64,110)</u>	<u>(520,929)</u>
NON-OPERATING INCOME				
Interest income	-	5,023	-	5,023
TOTAL NON-OPERATING INCOME	<u>-</u>	<u>5,023</u>	<u>-</u>	<u>5,023</u>
(LOSS) BEFORE TRANSFERS	<u>(48,625)</u>	<u>(403,171)</u>	<u>(64,110)</u>	<u>(515,906)</u>
Transfers in	-	250,000	70,000	320,000
CHANGE IN NET POSITION	<u>(48,625)</u>	<u>(153,171)</u>	<u>5,890</u>	<u>(195,906)</u>
NET POSITION:				
BEGINNING OF YEAR	<u>2,481,620</u>	<u>422,888</u>	<u>166,050</u>	<u>3,070,558</u>
END OF YEAR	<u>\$ 2,432,995</u>	<u>\$ 269,717</u>	<u>\$ 171,940</u>	<u>\$ 2,874,652</u>

City of Duluth, Georgia
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2016

	Duluth Governmental Finance Corporation	Workers' Compensation Fund	Health Reimbursement Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash payments for claims	\$ -	\$ (292,210)	\$ (66,923)	\$ (359,133)
NET CASH (USED IN) OPERATING ACTIVITIES	-	(292,210)	(66,923)	(359,133)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from Other Funds	-	250,000	70,000	320,000
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	-	250,000	70,000	320,000
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	-	5,023	-	5,023
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	5,023	-	5,023
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	(37,187)	3,077	(34,110)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	-	694,740	167,306	862,046
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ -	\$ 657,553	\$ 170,383	\$ 827,936
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES				
Operating (loss)	\$ (48,625)	\$ (408,194)	\$ (64,110)	\$ (520,929)
Adjustments:				
Depreciation	48,625	-	-	48,625
Change in assets and liabilities:				
Increase in due from other funds	-	(2,444)	(1,823)	(4,267)
Increase in prepaids	-	500	-	500
Decrease in due to other funds	-	-	(1,000)	(1,000)
Increase (decrease) Accounts and claims payable	-	117,928	10	117,938
NET CASH (USED IN) OPERATING ACTIVITIES	\$ -	\$ (292,210)	\$ (66,923)	\$ (359,133)

SCHEDULES

City of Duluth, Georgia
Schedule of Expenditures of
Special Purpose Local Option Sales Tax Proceeds
1997 Issue
For the Year Ended June 30, 2016

Project Description	Original Estimated Cost	Revised Estimated Cost	Expenditures		
			Prior Years	Current Year	Total
SR 120 Realignment & Hill St.	\$ 1,646,184	\$ 1,834,424	\$ 527,370	\$ 1,307,055	\$ 1,834,425
	<u>\$ 1,646,184</u>	<u>\$ 1,834,424</u>	<u>\$ 527,370</u>	1,307,055	<u>\$ 1,834,425</u>
		Expenditures funded with transfers from other funds		<u>779,832</u>	
				<u>\$ 2,086,887</u>	

Note: This project comes from a reallocation of 1997 SPLOST proceeds by Gwinnett County during fiscal year 2007, in which the City received an allocation of \$1,646,184.

City of Duluth, Georgia
Schedule of Expenditures of
Special Purpose Local Option Sales Tax Proceeds
2005 Issue
For the Year Ended June 30, 2016

Project Description	Original Estimated Cost	Revised Estimated Cost*	Expenditures		Total
			Prior Years	Current Year	
Administrative Building (City Hall)	\$ 7,000,000	\$ 8,026,545	\$ 8,026,015	\$ 530	\$ 8,026,545
Public Safety Building	5,962,836	6,296,229	6,296,228	-	6,296,228
Recreational Facilities	550,000	585,094	585,094	-	585,094
Transportation	<u>2,100,000</u>	<u>2,214,057</u>	<u>2,091,034</u>	<u>123,023</u>	<u>2,214,057</u>
	<u>\$ 15,612,836</u>	<u>\$ 17,121,925</u>	<u>\$ 16,998,371</u>	<u>\$ 123,553</u>	<u>\$ 17,121,924</u>

(1) Net transfers out were to pay debt service on an allowable project under the SPLOST intergovernmental agreement and to refund other capital projects fund for allowable costs incurred in prior years on projects.

* Revised Estimated Cost includes interest net of service charges through June 30, 2016 (\$631,650).

City of Duluth, Georgia
*Schedule of Expenditures of
Special Purpose Local Option Sales Tax Proceeds
2009 Issue
For the Year Ended June 30, 2016*

Project Description	Original Estimated Cost	Revised Estimated Cost*	Expenditures		Total
			Prior Years	Current Year	
Library	\$ 1,340,000	\$ 1,195,363	\$ 1,173,689	\$ -	\$ 1,173,689
Public Safety Building	1,240,000	1,117,547	1,117,547	-	1,117,547
Recreational Facilities	7,800,000	7,055,000	5,647,183	50,343	5,697,526
Transportation	8,200,000	7,404,453	6,921,218	170,077	7,091,295
Sewer	1,340,000	999,348	45,480	34,063	79,543
	<u>\$ 19,920,000</u>	<u>\$ 17,771,711</u>	<u>\$ 14,905,117</u>	254,483 (1)	<u>\$ 15,159,600</u>
				<u>31,000</u>	
				<u>\$ 285,483</u>	

(1) Reported as a transfer as amount was transferred to another fund to reimburse previous allowable expenditures.

* Revised Estimated Cost was adjusted for shortage in actual SPLOST collections (\$2,197,034) plus interest net of bank and audit fees (\$48,745).

City of Duluth, Georgia
*Schedule of Expenditures of
Special Purpose Local Option Sales Tax Proceeds
2014 Issue
For the Year Ended June 30, 2016*

Project Description	Original Estimated Cost	Revised Estimated Cost	Expenditures		Total
			Prior Years	Current Year	
Parking Facilities	\$ 3,048,184	\$ 3,048,184	\$ 218,489	\$ 1,555,256	\$ 1,773,745
Public Safety Facilities & Equipment	725,757	725,757	325,223	251,908	577,131
Recreational Facilities & Equipment	725,757	725,757	-	1,800	1,800
Transportation	9,870,305	9,870,305	606,800	3,677,058	4,283,858
Administrative Facilities & Equipment	145,152	145,152	-	-	-
	<u>\$ 14,515,155</u>	<u>\$ 14,515,155</u>	<u>\$ 1,150,512</u>	<u>\$ 5,486,022</u> (1)	<u>\$ 6,636,534</u>

(1) Reported as a transfer as amount was transferred to another fund to reimburse previous allowable expenditures.

COMPLIANCE SECTION



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Honorable Mayor and Members
of the City Council
City of Duluth, Georgia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Duluth, Georgia** (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 24, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Atlanta, Georgia
January 24, 2017

CITY OF DULUTH, GEORGIA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:
Material weaknesses identified?

___ yes X no

Significant deficiencies identified?

___ yes X none reported

Noncompliance material to financial statements noted?

___ yes X no

Federal Awards

There was not an audit of major federal award programs as of June 30, 2016 due to the total amount of federal awards expended being less than \$750,000.