

CITY OF DULUTH, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

June 30, 2014

CITY OF DULUTH, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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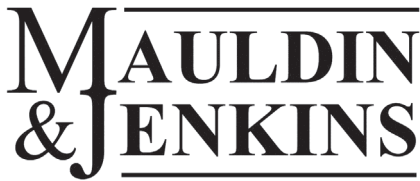
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FINANCIAL SECTION



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, 2014, 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, 2014, 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 Funding Progress, and the budgetary comparison information on pages 4-12, 43, and 44-46, 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 and 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 and 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 December 31, 2014 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
December 31, 2014

CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. 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 at June 30, 2014 by \$75,303,995 (net position), of this amount, \$15,360,355 (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 \$446,345 during the fiscal year ended June 30, 2014 with a decrease in governmental activities of \$2,895,497 and an increase of \$2,449,152 in business-type activities.
- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$22,619,150 an increase of \$261,450 in comparison with the prior year. This increase is primarily due to collections of the 2009 SPLOST and the new 2014 SPLOST with fewer capital expenditures as the 2009 program comes to a close and the 2014 program had no expenditures in the current fiscal year.
- The unassigned fund balance for the General Fund at June 30, 2014 was \$6,648,217 which was 37% of total General Fund expenditures and transfers-out for the year.
- The City's total long term debt, including the debt of the City's blended component units (Urban Redevelopment Authority and Downtown Development Authority), experienced a net decrease of \$1,405,728 during the fiscal year ended June 30, 2014. This decrease was due to principal payments at scheduled maturity during the year.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 and solid waste services and the financing 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 30 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 three 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, four 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 solid waste activities and stormwater fees as well as the financing 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

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funds to account 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 23-42 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 43-46 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 47-60 of this report.

**CITY OF DULUTH, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 by \$75,303,995 and \$75,750,340 at June 30, 2014 and 2013, 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	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 25,729	\$ 24,838	\$ 1,076	\$ 847	\$ 26,805	\$ 25,685
Capital assets	63,283	66,479	8,806	7,632	72,089	74,111
Total assets	<u>89,012</u>	<u>91,317</u>	<u>9,882</u>	<u>8,479</u>	<u>98,893</u>	<u>99,796</u>
Deferred Outflows	<u>-</u>	<u>-</u>	<u>204</u>	<u>244</u>	<u>204</u>	<u>244</u>
Liabilities:						
Long-term liabilities						
outstanding	661	894	21,237	22,384	21,898	23,278
Other liabilities	<u>1,788</u>	<u>695</u>	<u>110</u>	<u>47</u>	<u>1,898</u>	<u>742</u>
Total liabilities	<u>2,449</u>	<u>1,589</u>	<u>21,347</u>	<u>22,431</u>	<u>23,796</u>	<u>24,020</u>
Net Position (deficit):						
Net Investment in						
capital assets	63,144	66,082	(12,226)	(14,508)	50,918	51,574
Restricted	9,026	7,131	-	-	9,026	7,131
Unrestricted	<u>14,393</u>	<u>16,246</u>	<u>967</u>	<u>800</u>	<u>15,360</u>	<u>17,045</u>
Total net position (deficit)	<u>\$ 86,563</u>	<u>\$ 89,459</u>	<u>\$ (11,259)</u>	<u>\$ (13,708)</u>	<u>\$ 75,304</u>	<u>\$ 75,750</u>

The largest portion of the City's net position (68%) 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 \$148,536 restricted for debt service. The City also has net position of \$8,718,437 and \$158,684 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 \$15,360,355 may be used to meet the City's ongoing obligations to citizens and creditors.

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Governmental activities decreased the City's net position by \$2,895,497 and business-type activities increased the City's net position by \$2,449,152. Much of the decrease in governmental activities net position and increase in business type activities net position is due to the transfer of stormwater infrastructure from governmental activities to business type activities during the fiscal year. The infrastructure was transferred at a net book value of \$1,763,167. The remaining difference is due to the transfers into the Urban Redevelopment Authority exceeding the debt service requirements for the year.

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, 2014 and 2013.

	City of Duluth – Changes in Net Position (\$000)					
	Governmental Activities		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 2,906	\$ 4,210	\$ 790	\$ 765	\$ 3,697	\$ 4,975
Operating grants and contributions	1,397	2,177	-	-	1,397	2,177
Capital grants and contributions	3,763	3,702	-	-	3,763	3,702
General revenues:						
Property taxes	5,495	5,583	-	-	5,495	5,583
Insurance premium tax	1,372	1,325	-	-	1,372	1,325
Other taxes	5,278	4,914	-	-	5,278	4,914
Other	396	618	112	120	507	738
Total revenues	<u>20,608</u>	<u>22,529</u>	<u>902</u>	<u>885</u>	<u>21,510</u>	<u>23,415</u>
Expenses						
General government	5,022	4,866	-	-	5,022	4,866
Public safety	8,905	9,002	-	-	8,905	9,002
Public works	3,967	4,570	-	-	3,967	4,570
Culture & recreation	2,216	1,952	-	-	2,216	1,952
Housing & development	7	-	-	-	7	-
Interest on long term debt	15	29	-	-	15	29
Stormwater	-	-	620	711	620	711
Development financing	-	-	1,204	1,573	1,204	1,573
Total expenses	<u>20,132</u>	<u>20,418</u>	<u>1,824</u>	<u>2,284</u>	<u>21,956</u>	<u>22,703</u>
Transfers	(3,372)	1,691	3,372	(1,691)	-	-
Change in net position	(2,896)	420	2,450	292	(446)	712
Net position-July 1	<u>89,459</u>	<u>89,039</u>	<u>(13,709)</u>	<u>(14,001)</u>	<u>75,750</u>	<u>75,038</u>
Net position-June 30	<u>\$ 86,563</u>	<u>\$ 89,459</u>	<u>\$(11,259)</u>	<u>\$ (13,709)</u>	<u>\$ 75,304</u>	<u>\$ 75,750</u>

Governmental activities: Governmental activities revenues totaled \$20,607,954 for fiscal year 2014. 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

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County) and charges for services are the second, third, and fourth largest revenue sources accounting for 26%, 18%, and 14%, respectively, of governmental revenues for the year.

Governmental activities expenses totaled \$20,131,627 for fiscal year 2014. Of the expenses, 44% is related to public safety. In addition, general government and public works accounted for 25% and 20% of total governmental expenses for the year, respectively. Overall, expenses decreased as compared to the prior year.

Business-type activities: Business-type activities increased the City's net position by \$2,449,152 due to the governmental activities transferring the stormwater infrastructure to the fund during the fiscal year. Transfers from other funds also exceeded debt service requirements.

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 \$22,619,150 an increase of \$261,450 or 1.2% in comparison with the prior year. Approximately 25% of the fund balance or \$5,741,541 is classified as unassigned. This unassigned fund balance is net of \$906,676 in fund balance deficits to be funded by future revenues or transfers. The remaining fund balance is classified as follows: non-spendable form (\$301,446), restricted (\$9,025,657), committed (\$2,167,887) and assigned (\$5,377,119).

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 \$6,648,217. 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 37% of total General Fund expenditures plus transfers-out.

The fund balance of the City's General Fund decreased by \$971,223 during the current fiscal year. Key factors in this activity are as follows:

- Overall General Fund revenue decreased by \$1,369,392 or 7.6%.
- Revenue from taxes increased by \$532,385 over the prior year. This increase was mainly due to the newly enacted Title Ad Valorem Tax.
- Intergovernmental revenue decreased by \$274,740 over the prior year. This decrease was due a change in how the County reimburses the City for E-911 expenditures. Previously, the reimbursement was split over two fiscal years, now the City receives a single annual payment.
- Revenue from Fines and Forfeitures decreased by \$1,358,505 when compared to the prior year. This decrease was due to the City set up a Municipal Court – Agency Fund which receipts the gross fines, makes payouts to third party organizations required by State statute and transfers the net fine amount to the General Fund. In prior years, the fines were receipted for the gross revenue amount and the payouts recorded as expenditures in the General Fund. The effect of this change was an approximately \$496,498 decrease in revenue that was offset by a decrease in expenditures. Other factors impacting this revenue source was a 12% decrease in the number of citations issued.
- In addition, overall expenditures decreased by \$363,207 from the prior year.

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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.

At the fiscal year end, the Worker's Compensation Fund has unrestricted net position of \$520,006. 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 \$2,530,245. The Health Reimbursement Fund has unrestricted net position of \$150,685.

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 expenditures by \$224,791 or 1.2% and net transfers in/out by \$51,239 or 2.6%.

During the year, General Fund revenues were more than budgetary projections and expenditures were less than budgetary estimates. Actual revenues were \$439,944 more than estimates mainly due to the recently enacted motor vehicle Title Ad Valorem Tax or TVAT. Expenditures were \$2,375,325 less than budgetary appropriations due to a reduction in the use of outside consultants and city wide efforts to limit salary and benefit costs where possible.

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Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2014, amounted to \$63,283,133, net of accumulated depreciation. The investment in capital assets includes land, plant and buildings, machinery, equipment and fixtures, streets and drainage, construction in progress. The additions to governmental capital assets are attributable to completed or ongoing construction projects: Park Signage (ongoing), Bunten Road Park/Trail (ongoing), Bunten Playground (complete), WP Jones Park (complete). Capital assets had a net overall decrease of \$3,195,945 as \$1,763,167 of stormwater infrastructure (net of accumulated depreciation) was transferred to business type activities. Also, depreciation for the year exceeded the additions.

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

	2014	2013
Land and improvements	\$ 13,119	\$ 12,882
Buildings	35,437	35,494
Improvement other than buildings	49,410	58,486
Land Improvements	1,932	1,509
Furniture, machinery, and equipment	7,257	6,657
Construction in progress	1,803	1,278
Less accumulated depreciation	(45,675)	(49,827)
Total	\$ 63,283	\$ 66,479

Additional information on the City's capital assets can be found in Note 5 Capital Assets on pages 34 and 35 of this report.

Long-term debt: At June 30, 2014, the City had no general obligation bonded debt outstanding. The City has one outstanding capital lease totaling \$138,830, of which \$32,781 is due and payable within one year. This is a net decrease of \$258,558 during fiscal year 2014 due to principal payments at scheduled maturity during the year. The blended component units of the City, the Downtown Development Authority and the Urban Redevelopment Authority have outstanding revenue bonds of \$12,196,647 and \$9,040,000, respectively. This represents a net decrease of \$1,147,170 during the fiscal year 2014 also 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 6 on pages 35 through 37 of this report.

Economic Factors and Next Year's Budget and Rates

The City of Duluth like many other cities has had to deal with the effects of the economic downturn. However, due to actions taken over the past several years, the City is poised to become a more vibrant City and benefit from the current economy. The City's General Fund Tax revenues grew from \$11,766,154 in Fiscal Year 2013 to 12,298,539 in the current year, an increase of \$532,385. Several other General Fund revenues remained about the same, with some slight increase or decrease. A notable exception to this was the Fines and Forfeitures revenue which decrease \$1,358,505 from fiscal year 2013 to 2014. It should be noted that most of this decrease was due to a change in how this revenue is recognized. Rather than recording the revenue in the General Fund at the gross amount and an expenditure for the pay-outs as was the case in fiscal year 2013, in fiscal year 2014, a separate fund was established to record the gross revenue and pay-outs with only the net revenue being recorded in the General Fund. The City has also worked to control its General

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JUNE 30, 2014

Fund expenditures, which were \$15,816,435 in fiscal year 2013 and increased to \$16,179,642 in Fiscal Year 2014, which is a 2.3% increase.

The City continues to actively promote its downtown through the efforts of the Economic Development Manager, updating its Unified Development Code and the formation of a Tax Allocation District or TAD. Much of these resources and tools are aimed at attracting more business and visitors to the City. Currently, there are six active developments in Duluth that include both single family and mixed use developments. These projects include a total of 107 single family homes, 97 townhomes, and a 331 unit mixed use development with 4,400 square feet of commercial space. The City believes that a strong tax base of residential homes, retail, and commercial development will provide the funding need to support the needed City services.

To address the long term financial stability of the City, Council asked staff to prepare a 10 year financial forecast for the City General Fund. The forecast took into accounts several factors that will influence both the revenues and expenditures of the City. The analysis also looked at the City expected growth in population, based on census estimates, and projected future staff needs. The forecast will be updated as needed and will most likely serve to guide future City budgets.

Many of the actions above are long term efforts that will take considerable time and effort to implement, but these efforts will lead to the City of Duluth being a strong, growing, financially stable and vibrant City for many years to come

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, 2014

	Governmental Activities	Primary Government Business-Type Activities		Total
ASSETS				
Cash	\$ 23,510,116	\$ 1,033,119	\$	24,543,235
Accounts receivable	1,718,978	38,088		1,757,066
Taxes receivable	203,394	-		203,394
Internal balances	(5,231)	5,231		-
Prepaid items	301,446	-		301,446
Nondepreciable capital assets	14,921,519	1,664,627		16,586,146
Depreciable capital assets, net	48,361,614	7,141,726		55,503,340
TOTAL ASSETS	89,011,836	9,882,791		98,894,627
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on refunding	-	204,453		204,453
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	204,453		204,453
LIABILITIES				
Accounts payable	1,167,843	75,341		1,243,184
Accrued expenses	619,508	-		619,508
Accrued interest payable	-	34,181		34,181
Noncurrent liabilities:				
Bonds payable due within one year	-	1,569,191		1,569,191
Bonds payable due in more than one year	-	19,667,935		19,667,935
Capital lease payable due within one year	32,781	-		32,781
Capital lease payable due in more than one year	106,049	-		106,049
Compensated absences payable due within one year	522,256	-		522,256
TOTAL LIABILITIES	2,448,437	21,346,648		23,795,085
NET POSITION (DEFICIT)				
Net investment in capital assets	63,144,303	(12,226,320)		50,917,983
Restricted for debt service	148,536	-		148,536
Restricted for capital construction	8,718,437	-		8,718,437
Restricted for law enforcement	158,684	-		158,684
Unrestricted	14,393,439	966,916		15,360,355
TOTAL NET POSITION (DEFICIT)	\$ 86,563,399	\$ (11,259,404)	\$	75,303,995

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Activities
For the Year Ended June 30, 2014

		Net (Expense) Revenue and Changes in Net Position				
		Program Revenues			Primary Government	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:						
Governmental Activities:						
General government	\$ 5,022,323	\$ -	\$ 10,265	\$ (4,673,385)	\$ -	\$ (4,673,385)
Public safety	8,904,621	1,140,598	221,668	(5,286,572)	-	(5,286,572)
Public works	3,966,782	247,387	2,408,200	(1,308,002)	-	(1,308,002)
Culture and recreation	2,216,095	9,495	1,122,839	(775,073)	-	(775,073)
Housing and development	7,104	-	-	(7,104)	-	(7,104)
Interest on long-term obligations	14,702	-	-	(14,702)	-	(14,702)
Total Governmental Activities	20,131,627	1,397,480	3,762,972	(12,064,838)	-	(12,064,838)
Business-Type Activities:						
Downtown Development Authority	937,842	-	-	-	(937,842)	(937,842)
Urban Redevelopment Authority	266,275	-	-	-	(266,275)	(266,275)
Solid Waste	-	-	-	-	-	-
Stormwater	619,725	789,355	-	-	169,630	169,630
Total Business-Type Activities	1,823,842	789,355	-	-	(1,034,487)	(1,034,487)
Total - Primary Government	\$ 21,955,469	\$ 1,397,480	\$ 3,762,972	(12,064,838)	(1,034,487)	(13,099,325)
GENERAL REVENUES:						
Taxes:						
	Property			5,495,386	-	5,495,386
	Insurance premium			1,372,134	-	1,372,134
	Other			5,278,085	-	5,278,085
	Interest earned			80,213	463	80,676
	Miscellaneous			315,347	111,352	426,699
	Total General Revenues			12,541,165	111,815	12,652,980
	Transfer of capital assets			(1,763,167)	1,763,167	-
	Transfers			(1,608,657)	1,608,657	-
	Total General Revenues and Transfers			9,169,341	3,483,639	12,652,980
	Change in Net Position			(2,895,497)	2,449,152	(446,345)
NET POSITION (DEFICIT) BEGINNING OF YEAR						
				89,458,896	(13,708,556)	75,750,340
NET POSITION (DEFICIT) END OF YEAR						
				\$ 86,563,399	\$ (11,259,404)	\$ 75,303,995

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	SPLOST 2009 Fund	SPLOST 2014 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 14,270,496	\$ 5,674,846	\$ 329,054	\$ 2,379,336	\$ 22,653,732
Receivables:					
Taxes	199,836	-	-	3,558	203,394
Accounts	948,832	-	697,516	72,630	1,718,978
Due from other funds	78,349	-	-	18,222	96,571
Prepaid items	240,230	-	-	61,216	301,446
TOTAL ASSETS	\$ 15,737,743	\$ 5,674,846	\$ 1,026,570	\$ 2,534,962	\$ 24,974,121
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 252,044	\$ -	\$ -	\$ 912,492	\$ 1,164,536
Accrued salaries payable	197,632	-	-	-	197,632
Accrued expenditures	138,139	-	-	95,141	233,280
Due to other funds	10,826	-	-	92,333	103,159
TOTAL LIABILITIES	598,641	-	-	1,099,966	1,698,607
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	656,364	-	-	-	656,364
TOTAL DEFERRED INFLOWS OF RESOURCES	656,364	-	-	-	656,364
FUND BALANCES (DEFICIT)					
Nonspendable:					
Prepays	240,230	-	-	61,216	301,446
Restricted:					
Debt service	148,536	-	-	-	148,536
Capital construction	-	5,674,846	1,026,570	2,017,021	8,718,437
Law enforcement	-	-	-	158,684	158,684
Committed:					
Capital construction	2,068,636	-	-	-	2,068,636
Greenspace preservation	-	-	-	59,467	59,467
Tree preservation	-	-	-	3,779	3,779
Public works	-	-	-	8,000	8,000
Equipment purchases	-	-	-	28,005	28,005
Assigned:					
Fiscal year 2015 operations	4,079,343	-	-	-	4,079,343
SDS Settlement	1,297,776	-	-	-	1,297,776
Capital construction	-	-	-	-	-
Railway museum	-	-	-	-	-
Gateway construction	-	-	-	5,500	5,500
Unassigned	6,648,217	-	-	(906,676)	5,741,541
TOTAL FUND BALANCES	14,482,738	5,674,846	1,026,570	1,434,996	22,619,150
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 15,737,743	\$ 5,674,846	\$ 1,026,570	\$ 2,534,962	\$ 24,974,121

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, 2014*

TOTAL GOVERNMENTAL FUND BALANCES	\$	22,619,150
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Cost	\$ 105,805,740	
Less accumulated depreciation	<u>(45,052,852)</u>	60,752,888
<p>Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds.</p>		
Property taxes and franchise taxes		656,364
<p>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.</p>		
		3,200,936
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Capital leases	\$ (138,830)	
Accrued interest	(4,853)	
Compensated absences	<u>(522,256)</u>	<u>(665,939)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>86,563,399</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, 2014

	General Fund	SPLOST 2009 Fund	SPLOST 2014 Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 12,298,539	\$ -	\$ -	\$ 35,969	\$ 12,334,508
Licenses and permits	316,687	-	-	-	316,687
Intergovernmental	1,135,828	2,736,483	1,026,488	247,387	5,146,186
Charges for services	400,165	-	-	-	400,165
Interest income	67,891	5,026	82	2,854	75,853
Fines and forfeitures	2,094,554	-	-	94,931	2,189,485
Miscellaneous	321,549	-	-	8,063	329,612
TOTAL REVENUES	16,635,213	2,741,509	1,026,570	389,204	20,792,496
EXPENDITURES					
Current:					
General government	3,692,969	1,900	-	-	3,694,869
Public safety	7,992,347	-	-	74,028	8,066,375
Public works	2,486,301	-	-	1,500	2,487,801
Culture and recreation	1,595,935	-	-	-	1,595,935
Capital outlay	-	-	-	2,471,401	2,471,401
Debt service:					
Principal retirement	397,388	-	-	-	397,388
Interest and fiscal charges	14,702	-	-	-	14,702
TOTAL EXPENDITURES	16,179,642	1,900	-	2,546,929	18,728,471
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	455,571	2,739,609	1,026,570	(2,157,725)	2,064,025
OTHER FINANCING SOURCES (USES)					
Capital leases	138,830	-	-	-	138,830
Transfers in	248,863	-	-	1,551,767	1,800,630
Transfers out	(1,814,487)	(1,429,227)	-	(498,321)	(3,742,035)
TOTAL OTHER FINANCING SOURCES (USES)	(1,426,794)	(1,429,227)	-	1,053,446	(1,802,575)
NET CHANGE IN FUND BALANCES	(971,223)	1,310,382	1,026,570	(1,104,279)	261,450
FUND BALANCES - BEGINNING OF YEAR	15,453,961	4,364,464	-	2,539,275	22,357,700
FUND BALANCES - END OF YEAR	\$ 14,482,738	\$ 5,674,846	\$ 1,026,570	\$ 1,434,996	\$ 22,619,150

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, 2014*

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	261,450
<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 depreciation expense exceeded capital outlay in the current period.</p>		
Depreciation expense	\$ (3,412,009)	
Capital outlay/donations	<u>2,076,220</u>	(1,335,789)
Disposals of capital assets	(48,364)	
Transfer of capital assets to business type activities	<u>(1,763,167)</u>	(1,811,531)
Revenues in the statement of activities that do not provide current financial resources are deferred in the funds.		(188,903)
The issuance of long-term debt provides current financial resources to governmental funds. This does not have any effect on net position.		(138,830)
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.		397,388
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.		(30,953)
The internal service funds used by management to charge the costs of certain financing and workers' compensation to individual funds are not reported in the government-wide Statement of Activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		<u>(48,329)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>(2,895,497)</u>

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Net Position
Proprietary Funds
June 30, 2014

	Downtown Development Authority	Urban Redevelopment Authority	Stormwater Fund	Non-Major Proprietary Fund Solid Waste	Total	Internal Service Funds
ASSETS						
Current Assets:						
Cash	\$ 144,310	\$ -	\$ 888,809	\$ -	\$ 1,033,119	\$ 856,384
Accounts receivable	-	-	38,088	-	38,088	-
Due from other funds	-	6,588	-	-	6,588	1,357
Total Current Assets	144,310	6,588	926,897	-	1,077,795	857,741
Noncurrent Assets:						
Capital assets:						
Nondepreciable capital assets	5,525	1,659,102	-	-	1,664,627	1,654,856
Depreciable capital assets, net	5,555,752	-	1,585,974	-	7,141,726	875,389
Total Noncurrent Assets	5,561,277	1,659,102	1,585,974	-	8,806,353	2,530,245
TOTAL ASSETS	5,705,587	1,665,690	2,512,871	-	9,884,148	3,387,986
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charges on refunding	-	204,453	-	-	204,453	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	204,453	-	-	204,453	-
LIABILITIES						
Current Liabilities:						
Accounts payable	25,794	-	49,547	-	75,341	3,307
Due to other funds	-	-	1,357	-	1,357	-
Claims payable	-	-	-	-	-	183,743
Accrued interest payable	16,904	17,277	-	-	34,181	-
Revenue bonds payable, current portion	759,191	810,000	-	-	1,569,191	-
Total Current Liabilities	801,889	827,277	50,904	-	1,680,070	187,050
Noncurrent Liabilities:						
Revenue bonds payable	11,437,456	8,230,000	-	-	19,667,456	-
Unamortized premium on revenue bonds	-	479	-	-	479	-
Total Noncurrent Liabilities	11,437,456	8,230,479	-	-	19,667,935	-
TOTAL LIABILITIES	12,239,345	9,057,756	50,904	-	21,348,005	187,050
NET POSITION (DEFICIT)						
Net investment in capital assets	(6,635,370)	(7,176,924)	1,585,974	-	(12,226,320)	2,530,245
Unrestricted	101,612	(10,689)	875,993	-	966,916	670,691
TOTAL NET POSITION (DEFICIT)	\$ (6,533,758)	\$ (7,187,613)	\$ 2,461,967	\$ -	\$ (11,259,404)	\$ 3,200,936

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, 2014

	Downtown Development Authority	Urban Redevelopment Authority	Stormwater Fund	Non-Major Proprietary Fund Solid Waste	Total	Internal Service Funds
OPERATING REVENUES						
Stormwater fees	\$ -	\$ -	\$ 789,355	\$ -	\$ 789,355	\$ -
TOTAL OPERATING REVENUES	<u>-</u>	<u>-</u>	<u>789,355</u>	<u>-</u>	<u>789,355</u>	<u>-</u>
OPERATING EXPENSES						
Administration	-	-	203,467	-	203,467	-
Costs of sales and services	-	-	239,064	-	239,064	-
Depreciation	411,537	-	177,194	-	588,731	48,625
Claims	-	-	-	-	-	336,812
Other	111,853	-	-	-	111,853	-
TOTAL OPERATING EXPENSES	<u>523,390</u>	<u>-</u>	<u>619,725</u>	<u>-</u>	<u>1,143,115</u>	<u>385,437</u>
OPERATING INCOME (LOSS)	<u>(523,390)</u>	<u>-</u>	<u>169,630</u>	<u>-</u>	<u>(353,760)</u>	<u>(385,437)</u>
NON-OPERATING INCOME (LOSS)						
Interest and fiscal charges	(414,452)	(266,275)	-	-	(680,727)	-
Miscellaneous	111,352	-	-	-	111,352	-
Interest income	463	-	-	-	463	4,360
TOTAL NON-OPERATING INCOME (LOSS)	<u>(302,637)</u>	<u>(266,275)</u>	<u>-</u>	<u>-</u>	<u>(568,912)</u>	<u>4,360</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(826,027)</u>	<u>(266,275)</u>	<u>169,630</u>	<u>-</u>	<u>(922,672)</u>	<u>(381,077)</u>
Capital contributions	-	-	1,763,167	-	1,763,167	-
Transfers in	667,141	1,023,185	-	-	1,690,326	332,748
Transfers out	-	-	-	(81,669)	(81,669)	-
	<u>667,141</u>	<u>1,023,185</u>	<u>1,763,167</u>	<u>(81,669)</u>	<u>3,371,824</u>	<u>332,748</u>
CHANGE IN NET POSITION	<u>(158,886)</u>	<u>756,910</u>	<u>1,932,797</u>	<u>(81,669)</u>	<u>2,449,152</u>	<u>(48,329)</u>
NET POSITION (DEFICIT):						
BEGINNING OF YEAR	<u>(6,374,872)</u>	<u>(7,944,523)</u>	<u>529,170</u>	<u>81,669</u>	<u>(13,708,556)</u>	<u>3,249,265</u>
END OF YEAR	<u>\$ (6,533,758)</u>	<u>\$ (7,187,613)</u>	<u>\$ 2,461,967</u>	<u>\$ -</u>	<u>\$ (11,259,404)</u>	<u>\$ 3,200,936</u>

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Downtown Development Authority	Urban Redevelopment Authority	Stormwater Fund	Non-Major Proprietary Fund Solid Waste	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received for operations	\$ -	\$ -	\$ 784,306	\$ -	\$ 784,306	\$ -
Cash paid for goods and services	(86,059)	-	(400,805)	-	(486,864)	-
Cash paid for claims	-	-	-	-	-	(247,103)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(86,059)	-	383,501	-	297,442	(247,103)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Transfers from other funds	667,141	1,023,185	-	-	1,690,326	332,748
Transfers to other funds	-	-	-	(81,669)	(81,669)	-
Miscellaneous receipts	111,352	-	-	-	111,352	-
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	778,493	1,023,185	-	(81,669)	1,720,009	332,748
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on long-term debt	(352,083)	(795,000)	-	-	(1,147,083)	-
Interest paid on long-term debt	(416,410)	(228,185)	-	-	(644,595)	-
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(768,493)	(1,023,185)	-	-	(1,791,678)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	463	-	-	-	463	4,360
NET CASH PROVIDED BY INVESTING ACTIVITIES	463	-	-	-	463	4,360
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	(75,596)	-	383,501	(81,669)	226,236	90,005
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	219,906	-	505,308	81,669	806,883	766,379
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 144,310	\$ -	\$ 888,809	\$ -	\$ 1,033,119	\$ 856,384
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (523,390)	\$ -	\$ 169,630	\$ -	\$ (353,760)	\$ (385,437)
Adjustments:						
Depreciation	411,537	-	177,194	-	588,731	48,625
Changes in assets and liabilities:						
Accounts receivable	-	-	(5,049)	-	(5,049)	-
Due to other funds	-	-	1,357	-	1,357	(1,357)
Accounts payable and claims payable	25,794	-	40,369	-	66,163	91,066
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (86,059)	\$ -	\$ 383,501	\$ -	\$ 297,442	\$ (247,103)
NON-CASH FINANCING ACTIVITIES						
Contribution of capital assets from the governmental activities of the City	-	-	1,763,167	-	1,763,167	-

See accompanying notes to the basic financial statements.

City of Duluth, Georgia
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2014

ASSETS	Agency Fund
Cash	<u>\$ 47,465</u>
Total assets	<u><u>\$ 47,465</u></u>
LIABILITIES	
Due to other agencies	<u>\$ 47,465</u>
Total liabilities	<u><u>\$ 47,465</u></u>

See accompanying notes to the basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014

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, 2014

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, 2014

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 parks and recreation facilities, public safety building, road improvements, and administrative facilities.

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.

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.

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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:

Non-major *enterprise funds* report the activity of the City's Solid Waste Management facilities.

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.

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."

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 estimated fair market 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.

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position and Fund Equity (Continued)

- **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.

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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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/ expenditure) until then. The City has one item that qualifies for reporting in this category. It 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.

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 and other sources 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.

M. Deficit Fund Equity

At June 30, 2014, the Police Federal Drug Fund had a deficit of \$1,837; the Grants Fund had a deficit of \$13,984; the Park Improvements Fund had deficit of \$182,455; the Buford Highway Medians Fund had a deficit of \$2,685; the Transportation Infrastructure Improvements Fund had a deficit of \$367,768; the Other Capital Projects Fund had a deficit of \$11,223; and the Downtown Parking Fund had a deficit of \$2,887. 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 \$6,533,758 and the Urban Redevelopment Authority had a deficit net position of \$7,187,613. 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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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).

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, 2014, all of the deposits of the City were fully collateralized in accordance with the State statutes.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4. RECEIVABLES

Receivables at June 30, 2014, for the City's individual funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>2014 SPLOST Fund</u>	<u>Other Governmental Funds</u>	<u>Stormwater</u>
Receivables:				
Taxes	\$ 199,836	\$ -	\$ 3,558	\$ -
Accounts	948,832	697,516	72,630	38,088
Gross receivables	<u>1,148,668</u>	<u>697,516</u>	<u>76,188</u>	<u>38,088</u>
Less allowance for uncollectibles	-	-	-	-
Net total receivables	<u><u>\$ 1,148,668</u></u>	<u><u>\$ 697,516</u></u>	<u><u>\$ 76,188</u></u>	<u><u>\$ 38,088</u></u>

Property taxes attach as an enforceable lien on property as of January 1. 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 1. 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, 2014 and not collected are recorded as receivables, net of estimated uncollectibles.

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,765,073	\$ 236,626	\$ -	\$ 13,001,699
Land improvements	116,985	-	-	116,985
Construction in progress	1,277,943	554,683	(29,791)	1,802,835
Total	<u>14,160,001</u>	<u>791,309</u>	<u>(29,791)</u>	<u>14,921,519</u>
Capital assets, being depreciated:				
Buildings	35,494,214	85,193	(141,970)	35,437,437
Improvements other than buildings	58,486,380	57,915	(9,134,196)	49,410,099
Land improvements	1,509,009	433,555	(10,550)	1,932,014
Furniture, machinery and equipment	6,656,490	708,247	(107,321)	7,257,416
Total	<u>102,146,093</u>	<u>1,284,910</u>	<u>(9,394,037)</u>	<u>94,036,966</u>
Less accumulated depreciation for:				
Building	(8,342,807)	(962,317)	123,398	(9,181,726)
Improvements other than buildings	(35,561,788)	(1,423,608)	7,469,201	(29,516,195)
Land improvements	(227,566)	(374,379)	10,550	(591,395)
Furniture, machinery and equipment	(5,694,855)	(700,330)	9,149	(6,386,036)
Total	<u>(49,827,016)</u>	<u>(3,460,634)</u>	<u>7,612,298</u>	<u>(45,675,352)</u>
Total assets being depreciated, net	<u>52,319,077</u>	<u>(2,175,723)</u>	<u>(1,781,739)</u>	<u>48,361,614</u>
Governmental activities capital assets, net	<u>\$ 66,479,078</u>	<u>\$ (1,384,414)</u>	<u>\$ (1,811,530)</u>	<u>\$ 63,283,133</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>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>6,996,132</u>	<u>1,763,167</u>	<u>-</u>	<u>8,759,299</u>
Less accumulated depreciation:				
Buildings	(1,028,843)	(411,537)	-	(1,440,380)
Infrastructure	-	(155,729)	-	(155,729)
Furniture, machinery and equipment	-	(21,464)	-	(21,464)
Total	<u>(1,028,843)</u>	<u>(588,730)</u>	<u>-</u>	<u>(1,617,573)</u>
Business Type Activities capital assets, net	<u>\$ 7,631,916</u>	<u>\$ 1,174,437</u>	<u>\$ -</u>	<u>\$ 8,806,353</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5. CAPITAL ASSETS (Continued)

The stormwater infrastructure as well as machinery and equipment was transferred from governmental activities to business type activities on 7/1/2013 at a net book value of \$1,763,167. This amount is shown as a capital contribution on the stormwater statement of revenues, expenses, and changes in net position.

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

Governmental activities:	
General government	\$ 920,035
Judicial	2,319
Public safety	712,809
Public works	1,452,245
Culture and recreation	366,122
Housing and development	<u>7,104</u>
 Total depreciation expense - governmental activities	 <u>\$ 3,460,634</u>

NOTE 6. LONG-TERM DEBT

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Due Within One Year
Governmental activities:					
Compensated absences	\$ 496,156	\$ 623,319	\$ 597,219	\$ 522,256	\$ 522,256
Leases payable	<u>397,388</u>	<u>138,830</u>	<u>397,388</u>	<u>138,830</u>	<u>32,781</u>
Governmental activities long-term liabilities	<u>\$ 893,544</u>	<u>\$ 762,149</u>	<u>\$ 994,607</u>	<u>\$ 661,086</u>	<u>\$ 555,037</u>
Business Activities:					
Bonds payable	\$ 22,383,729	\$ 413,574	\$ 1,560,656	\$ 21,236,647	\$ 1,569,191
Premium on bonds	<u>567</u>	<u>-</u>	<u>88</u>	<u>479</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 22,384,296</u>	<u>\$ 413,574</u>	<u>\$ 1,560,744</u>	<u>\$ 21,237,126</u>	<u>\$ 1,569,191</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6. 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. 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 \$6,695,000 in outstanding refunded bonds at June 30, 2014 are not reported in the City's financial statements and were called and paid in full on December 1, 2013.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,569,191	\$ 596,345	\$ 2,165,536
2016	1,629,326	542,585	2,171,911
2017	5,535,660	412,889	5,948,549
2018	1,475,075	284,314	1,759,389
2019	1,531,411	232,836	1,764,247
2020-2024	6,328,311	473,908	6,802,219
2025-2029	3,167,673	17,501	3,185,174
	<u>\$ 21,236,647</u>	<u>\$ 2,560,378</u>	<u>\$ 23,797,025</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6. LONG-TERM DEBT (Continued)

Capital Lease Payable. The City had a capital lease involving a lease-to-purchase of software. This lease called for annual payments of \$412,091 bearing interest of 3.7% annum maturing April 14, 2014. This includes the purchase of software only in the amount of \$1,990,122. The lease was paid in full during fiscal year 2014.

The City entered into a capital lease to purchase police radios on August 1, 2013. The lease calls for annual payments of \$38,084.17 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 \$31,737 for a net book value of \$107,093. 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, 2014:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 32,781	\$ 5,303	\$ 38,084
2015	34,033	4,051	38,084
2016	35,333	2,751	38,084
2017	36,683	1,401	38,084
	<u>\$ 138,830</u>	<u>\$ 13,506</u>	<u>\$ 152,336</u>

NOTE 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2014, is as follows:

<u>Receivable From</u>	<u>Payable To</u>				<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Urban Redevelopment Authority</u>	<u>Workers Compensation Fund</u>	
General Fund	\$ -	\$ 4,238	\$ 6,588	\$ -	\$ 10,826
Other Governmental Funds	78,349	13,984	-	-	92,333
Stormwater	-	-	-	1,357	1,357
Total	<u>\$ 78,349</u>	<u>\$ 18,222</u>	<u>\$ 6,588</u>	<u>\$ 1,357</u>	<u>\$ 104,516</u>

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.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers for the year ended June 30, 2014 were:

Transfers To	Transfers From				Total
	General Fund	SPLOST 2009 Fund	Other Governmental Funds	Non Major Proprietary Funds	
General Fund	\$ -	\$ -	\$ 167,194	\$ 81,669	\$ 248,863
Other Governmental Funds	104,270	1,429,227	18,270	-	1,551,767
Urban Redevelopment Authority	710,328		312,857	-	1,023,185
Downtown Development Authority	667,141		-	-	667,141
Internal Service Funds	332,748	-	-	-	332,748
Total	<u>\$ 1,814,487</u>	<u>\$ 1,429,227</u>	<u>\$ 498,321</u>	<u>\$ 81,669</u>	<u>\$ 3,823,704</u>

These transfers were used to assist other funds in meeting operating requirements for the year ended June 30, 2014 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 SPLOST Fund were to refund other capital projects funds for allowable costs incurred in prior years on projects.

NOTE 8. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City's defined benefit pension plan, City of Duluth Retirement Plan (the "Plan"), provides retirement, disability, and death benefits to plan members and beneficiaries. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association (GMA). The benefit provisions and all other requirements are established by City ordinance. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information to the Plan. That report may be obtained by writing to Georgia Municipal Association, Employee Benefit Section, 201 Pryor Street, SW, Atlanta, Georgia 30303.

At January 1, 2014, the time of the last actuarial valuation, the Plan membership consisted of:

Disabled employees, retirees, and beneficiaries currently receiving benefits	13
Terminated employees entitled to benefits not yet receiving them	38
Active employees	<u>129</u>
Total Participants	<u>180</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

B. Funding Policy

The funding policy of the Plan, as established by the City Council, is to contribute an actuarially determined amount equal to the recommended contribution each year. The City makes all contributions to the Plan. The City is required to contribute at an actuarially determined rate; the current rate is 6.74% of annual covered payroll.

C. Annual Pension Cost

The funding policy for the Plan is to contribute an amount equal to the recommended contribution as determined by the Plan's actuary. The recommended contribution for fiscal year 2014 was determined as part of the January 1, 2013 actuarial valuation. The chart below shows the annual pension cost for the current year and prior two years along with the percentage actually contributed by the City.

<u>Year Ended June 30,</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Asset</u>
2012	433,093	100%	\$ -
2013	436,945	100%	-
2014	465,156	100%	-

As of the most recent valuation date, January 1, 2014, the funded status of the Plan was as follows:

<u>Actuarial Valuation Date</u>	(1) <u>Actuarial Value of Assets</u>	(2) <u>Actuarial Accrued Liability (AAL)</u>	(3) <u>Funded Ratio (1)/(2)</u>	(4) <u>Unfunded (1)-(2)</u>	(5) <u>Annual Covered Payroll</u>	(6) <u>UAAL as a Percentage of Covered Payroll</u>
1/1/2014	\$ 4,533,046	5,248,874	86.36%	\$ (715,828)	6,571,054	10.89%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2014 and the current sharing pattern of costs between employer and employee.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8. DEFINED BENEFIT PENSION PLAN (Continued)

C. Annual Pension Cost (Continued)

The assumptions used in the January 1, 2014 and 2013 actuarial valuation are as follows.

Actuarial Assumptions

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 amount 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	3.5% plus age and service based merit increases
Cost-of-living Adjustment	None
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	12 years

NOTE 9. 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 GMA by MetLife Resources. 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 \$16,500 for calendar year 2013 and \$17,500 for calendar year 2014. Individuals who are 50 or older can defer an additional \$5,500. Individuals within 3 years of retirement (62 years of age) can contribute the lesser of (1) \$34,000 for calendar year 2013 and \$35,000 for 2014, or (2) the normal annual limit, plus the total amount of underutilized contributions from the prior year. 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 \$89,461, with employee contributions amounting to \$309,405.

CITY OF DULUTH, GEORGIA
NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10. 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 11. 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, 2014

NOTE 11. 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, 2014, the City had accumulated \$702,943 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
2014	\$ 93,928	\$ 302,949	\$ (213,134)	\$ 183,743
2013	\$ 33,264	\$ 240,254	\$ (179,590)	\$ 93,928

NOTE 12. 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DULUTH, GEORGIA

Schedule of Funding Progress City of Duluth Retirement Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio (1)/(2)</u>	<u>(4) Unfunded (1)-(2)</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
1/1/2012	\$ 3,195,216	3,906,392	81.79%	\$ (711,176)	6,503,213	10.94%
1/1/2013	\$ 3,813,744	4,452,927	85.65%	\$ (639,183)	6,583,910	9.71%
1/1/2014	\$ 4,533,046	5,248,874	86.36%	\$ (715,828)	6,571,054	10.89%

Actuarial assumptions used in the calculation of above amounts are disclosed in the notes to the financial statements.

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, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 11,268,150	\$ 11,268,150	\$ 12,298,539	\$ 1,030,389
Licenses and permits	376,450	376,450	316,687	(59,763)
Charges for services	441,821	442,071	400,165	(41,906)
Fines and forfeitures	2,621,000	2,621,000	2,094,554	(526,446)
Intergovernmental	1,057,910	1,057,910	1,135,828	77,918
Interest income	59,500	59,500	67,891	8,391
Miscellaneous	353,900	370,188	321,549	(48,639)
TOTAL REVENUES	16,178,731	16,195,269	16,635,213	439,944
EXPENDITURES				
Current:				
General government:				
Mayor and Council				
Personal services	51,454	51,454	41,316	10,138
Other services and charges	186,610	184,069	145,187	38,882
City Administrator				
Personal services	227,037	197,337	178,710	18,627
Other services and charges	685,946	661,370	320,575	340,795
City Clerk/Business Office				
Personal services	1,143,041	1,143,588	1,060,721	82,867
Other services and charges	1,255,248	1,255,101	1,062,807	192,294
City Clerk/Human resources	201,397	231,024	220,029	10,995
Other				
Public information & marketing	518,181	648,201	564,526	83,675
Consolidated services:				
Custodial services	60,837	60,674	47,636	13,038
Landscape maintenance	48,922	51,463	51,462	1
Contingency	175,000	137,500	-	137,500
Total general government	4,553,673	4,621,781	3,692,969	928,812

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, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Public safety:				
Municipal Court				
Personal services	\$ 576,298	\$ 576,298	\$ 519,956	\$ 56,342
Other services and charges	35,073	35,073	18,156	16,917
Police / Admin				
Personal services	513,038	513,038	500,217	12,821
Other services and charges	381,717	381,197	343,085	38,112
Police / CID				
Personal services	1,025,045	981,981	751,313	230,668
Other services and charges	236,761	242,416	166,906	75,510
Police / Uniform Division				
Personal services	3,357,971	3,401,035	3,376,939	24,096
Other services and charges	104,969	100,809	88,179	12,630
Police / Other				
Police vehicles	441,311	600,259	600,227	32
Police Support Services	1,802,114	1,781,021	1,513,069	267,952
Red light monitoring system	345,780	345,780	114,300	231,480
Total public safety	<u>8,820,077</u>	<u>8,958,907</u>	<u>7,992,347</u>	<u>966,560</u>
Public works:				
Planning & Development				
Personal services	715,131	634,198	573,925	60,273
Other services and charges	704,905	679,211	642,427	36,784
Administration				
Personal services	1,003,722	1,093,922	904,526	189,396
Other services and charges	197,277	193,066	152,926	40,140
Supplies	58,790	59,531	54,112	5,419
Streets				
Building / grounds maintenance	204,558	242,258	158,385	83,873
Total public works	<u>2,884,383</u>	<u>2,902,186</u>	<u>2,486,301</u>	<u>415,885</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, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Culture and recreation:				
Parks / Recreation Admin				
Personal services	\$ 1,162,619	\$ 1,154,242	\$ 1,137,893	\$ 16,349
Other services and charges	277,381	290,349	288,125	2,224
Recreation operations	219,950	215,409	169,917	45,492
Total culture and recreation	<u>1,659,950</u>	<u>1,660,000</u>	<u>1,595,935</u>	<u>64,065</u>
Debt service:				
Principal retirement	397,389	397,389	397,388	1
Interest and fiscal charges	14,704	14,704	14,702	2
Total debt service	<u>412,093</u>	<u>412,093</u>	<u>412,090</u>	<u>3</u>
TOTAL EXPENDITURES	<u>18,330,176</u>	<u>18,554,967</u>	<u>16,179,642</u>	<u>2,375,325</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,151,445)</u>	<u>(2,359,698)</u>	<u>455,571</u>	<u>2,815,269</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	-	138,830	138,830	-
Transfers in	112,800	196,337	248,863	52,526
Transfers out	<u>(2,052,214)</u>	<u>(2,084,512)</u>	<u>(1,814,487)</u>	<u>270,025</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,939,414)</u>	<u>(1,749,345)</u>	<u>(1,426,794)</u>	<u>322,551</u>
NET CHANGE IN FUND BALANCES	<u>(4,090,859)</u>	<u>(4,109,043)</u>	<u>(971,223)</u>	<u>3,137,820</u>
FUND BALANCES - BEGINNING OF YEAR	<u>15,453,961</u>	<u>15,453,961</u>	<u>15,453,961</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 11,363,102</u>	<u>\$ 11,344,918</u>	<u>\$ 14,482,738</u>	<u>\$ 3,137,820</u>

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.

H.E.A.T. Grant Fund – This fund accounts for the financial resources related to the H.E.A.T. Grant restricted to be spent on public safety programs.

Byrne Recovery JAG Grant Fund – This fund accounts for the financial resources received from a justice grant restricted for public safety.

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.

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 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.

Railway Museum Access Rd. Fund – This fund is used to account for the construction of the Railway Museum Access Rd.

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)

Police Capital Projects Fund – This fund accounts for various capital projects at the police station.

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

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.

Citywide Software Fund – This fund is used to account for the new software project for the City information system.

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

WP Jones Activity Building Fund – This fund is used to account for the construction of an activity building at the WP Jones Park.

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

Block Fund – This fund is used to account for repair and upgrades to City owned properties that occupy a single block.

City of Duluth, Georgia
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2014

	Non-major Special Revenue Funds	Non-major Capital Projects Funds	Total Non-major Governmental Funds
ASSETS			
Cash	\$ 356,815	\$ 2,022,521	\$ 2,379,336
Taxes receivable	3,558	-	3,558
Accounts receivable	-	72,630	72,630
Prepaid items	-	61,216	61,216
Due from other funds	-	18,222	18,222
TOTAL ASSETS	\$ 360,373	\$ 2,174,589	\$ 2,534,962
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,695	\$ 908,797	\$ 912,492
Accrued expenditures	95,141	-	95,141
Due to other funds	19,423	72,910	92,333
TOTAL LIABILITIES	118,259	981,707	1,099,966
FUND BALANCES (DEFICIT)			
Nonspendable:			
Prepays	-	61,216	61,216
Restricted:			
Capital construction	-	2,017,021	2,017,021
Law enforcement	158,684	-	158,684
Committed:			
Greenspace preservation	59,467	-	59,467
Tree preservation	3,779	-	3,779
Public works	8,000	-	8,000
Equipment purchases	28,005	-	28,005
Assigned:			
Gateway construction	-	5,500	5,500
Unassigned	(15,821)	(890,855)	(906,676)
TOTAL FUND BALANCES	242,114	1,192,882	1,434,996
TOTAL LIABILITIES AND FUND BALANCES	\$ 360,373	\$ 2,174,589	\$ 2,534,962

City of Duluth, Georgia
*Combining Statement of Revenues, Expenditures, and
 Changes in Fund Balances*
Non-major Governmental Funds
For the Year Ended June 30, 2014

	Non-major Special Revenue Funds	Non-major Capital Projects Funds	Total Non-major Governmental Funds
REVENUES			
Taxes	\$ 35,969	\$ -	\$ 35,969
Intergovernmental	-	247,387	247,387
Fines and forfeitures	94,931	-	94,931
Interest income	-	2,854	2,854
Miscellaneous	8,063	-	8,063
TOTAL REVENUES	138,963	250,241	389,204
EXPENDITURES			
Current:			
Public safety	74,028	-	74,028
Public works	1,500	-	1,500
Capital outlay	-	2,471,401	2,471,401
TOTAL EXPENDITURES	75,528	2,471,401	2,546,929
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	63,435	(2,221,160)	(2,157,725)
OTHER FINANCING SOURCES (USES)			
Transfers in	17,831	1,533,936	1,551,767
Transfers out	(102,875)	(395,446)	(498,321)
TOTAL OTHER FINANCING SOURCES (USES)	(85,044)	1,138,490	1,053,446
NET CHANGE IN FUND BALANCES	(21,609)	(1,082,670)	(1,104,279)
FUND BALANCES - BEGINNING OF YEAR	263,723	2,275,552	2,539,275
FUND BALANCES - END OF YEAR	\$ 242,114	\$ 1,192,882	\$ 1,434,996

City of Duluth, Georgia
Combining Balance Sheet
Non-major Special Revenue Funds
June 30, 2014

	Greenspace Program Fund	Landscaping Tree Fund	Sidewalk Fund	Police Federal Drug Fund	Police State Drug & Escrow Fund	Operation Drive Smart Fund	H.E.A.T Grant Fund	Byrne Recovery JAG Grant Fund	Rental Motor Vehicle Tax Fund	Police Technology Fund	Grants Fund	Total Non-major Special Revenue Funds
ASSETS												
Cash	\$ 59,467	\$ 3,779	\$ 8,000	\$ 3,602	\$ 103,480	\$ 95,010	\$ -	\$ -	\$ 55,472	\$ 28,005	\$ -	\$ 356,815
Taxes receivable	-	-	-	-	-	-	-	-	3,558	-	-	3,558
TOTAL ASSETS	\$ 59,467	\$ 3,779	\$ 8,000	\$ 3,602	\$ 103,480	\$ 95,010	\$ -	\$ -	\$ 59,030	\$ 28,005	\$ -	\$ 360,373
LIABILITIES AND FUND BALANCES												
LIABILITIES												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 645	\$ -	\$ -	\$ 3,050	\$ -	\$ -	\$ 3,695
Accrued expenditures	-	-	-	-	95,141	-	-	-	-	-	-	95,141
Due to other funds	-	-	-	5,439	-	-	-	-	-	-	13,984	19,423
TOTAL LIABILITIES	-	-	-	5,439	95,141	645	-	-	3,050	-	13,984	118,259
FUND BALANCES (DEFICIT)												
Restricted:												
Law enforcement	-	-	-	-	8,339	94,365	-	-	55,980	-	-	158,684
Committed:												
Greenspace preservation	59,467	-	-	-	-	-	-	-	-	-	-	59,467
Tree preservation	-	3,779	-	-	-	-	-	-	-	-	-	3,779
Public works	-	-	8,000	-	-	-	-	-	-	-	-	8,000
Equipment purchases	-	-	-	-	-	-	-	-	-	28,005	-	28,005
Unassigned	-	-	-	(1,837)	-	-	-	-	-	-	(13,984)	(15,821)
TOTAL FUND BALANCES (DEFICIT)	59,467	3,779	8,000	(1,837)	8,339	94,365	-	-	55,980	28,005	(13,984)	242,114
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 59,467	\$ 3,779	\$ 8,000	\$ 3,602	\$ 103,480	\$ 95,010	\$ -	\$ -	\$ 59,030	\$ 28,005	\$ -	\$ 360,373

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, 2014

	Greenspace Program Fund	Landscaping Tree Fund	Sidewalk Fund	Police Federal Drug Fund	Police State Drug & Escrow Fund	Operation Drive Smart Fund	H.E.A.T Grant Fund	Byrne Recovery JAG Grant Fund	Rental Motor Vehicle Tax Fund	Police Technology Fund	Grants Fund	Total Non-major Special Revenue Funds
REVENUES												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,969	\$ -	\$ -	\$ 35,969
Fines and forfeitures	-	-	-	-	-	-	-	-	-	94,931	-	94,931
Other	-	-	-	-	2,628	5,435	-	-	-	-	-	8,063
TOTAL REVENUES	-	-	-	-	2,628	5,435	-	-	35,969	94,931	-	138,963
EXPENDITURES												
Current:												
Public safety	-	-	-	25,273	30,283	8,353	-	894	9,225	-	-	74,028
Public works	-	1,500	-	-	-	-	-	-	-	-	-	1,500
TOTAL EXPENDITURES	-	1,500	-	25,273	30,283	8,353	-	894	9,225	-	-	75,528
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,500)	-	(25,273)	(27,655)	(2,918)	-	(894)	26,744	94,931	-	63,435
OTHER FINANCING SOURCES (USES)												
Transfers in	-	-	-	-	-	-	17,831	-	-	-	-	17,831
Transfers out	-	-	-	(2,875)	-	-	-	-	-	(100,000)	-	(102,875)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	(2,875)	-	-	17,831	-	-	(100,000)	-	(85,044)
NET CHANGE IN FUND BALANCES	-	(1,500)	-	(28,148)	(27,655)	(2,918)	17,831	(894)	26,744	(5,069)	-	(21,609)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	59,467	5,279	8,000	26,311	35,994	97,283	(17,831)	894	29,236	33,074	(13,984)	263,723
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 59,467	\$ 3,779	\$ 8,000	\$ (1,837)	\$ 8,339	\$ 94,365	\$ -	\$ -	\$ 55,980	\$ 28,005	\$ (13,984)	\$ 242,114

City of Duluth, Georgia
Combining Balance Sheet
Non-major Capital Projects Funds
June 30, 2014

	SPLIST 1997	Taylor Park Improvements	SPLIST 2005	Railway Museum Access Rd.	Rodgers Bridge Dog Park	Police Capital Projects	Park Improvements	Buford Hwy Medians
ASSETS								
Cash	\$ 1,359,729	\$ -	\$ 333,455	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid items	-	-	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 1,359,729	\$ -	\$ 333,455	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182,175	\$ 2,685
Due to other funds	-	-	-	-	-	-	280	-
TOTAL LIABILITIES	-	-	-	-	-	-	182,455	2,685
FUND BALANCES (DEFICIT)								
Nonspendable:								
Prepays	-	-	-	-	-	-	-	-
Restricted:								
Capital construction	1,359,729	-	333,455	-	-	-	-	-
Assigned:								
Gateway construction	-	-	-	-	-	-	(182,455)	(2,685)
Unassigned	-	-	-	-	-	-	(182,455)	(2,685)
TOTAL FUND BALANCES (DEFICIT)	1,359,729	-	333,455	-	-	-	(182,455)	(2,685)
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 1,359,729	\$ -	\$ 333,455	\$ -	\$ -	\$ -	\$ -	\$ -

City of Duluth, Georgia
Combining Balance Sheet
Non-major Capital Projects Funds
June 30, 2014

	2009 SPLOST Vehicles	Transportation Infrastructure Improvements	Gateway Entrance	Citywide Software	Other Capital Projects	WP Jones Activity Building	Downtown Parking	Block	Total Non-major Capital Projects Funds
ASSETS									
Cash	\$ -	\$ 323,837	\$ 5,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,022,521
Prepaid items	-	-	-	61,216	-	-	-	-	61,216
Accounts receivable	-	-	-	-	72,630	-	-	-	72,630
Due from other funds	-	-	-	-	18,222	-	-	-	18,222
TOTAL ASSETS	\$ -	\$ 323,837	\$ 5,500	\$ 61,216	\$ 90,852	\$ -	\$ -	\$ -	\$ 2,174,589
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ -	\$ 691,605	\$ -	\$ -	\$ 29,445	\$ -	\$ 2,887	\$ -	\$ 908,797
Due to other funds	-	-	-	-	72,630	-	-	-	72,910
LIABILITIES	-	691,605	-	-	102,075	-	2,887	-	981,707
FUND BALANCES (DEFICIT)									
Nonspendable:									
Prepays	-	-	-	61,216	-	-	-	-	61,216
Restricted:									
Capital construction	-	323,837	-	-	-	-	-	-	2,017,021
Assigned:									
Gateway construction	-	(691,605)	5,500	-	-	-	-	-	5,500
Unassigned	-	(367,768)	-	-	(11,223)	-	(2,887)	-	(890,855)
TOTAL FUND BALANCES (DEFICIT)	-	(367,768)	5,500	61,216	(11,223)	-	(2,887)	-	1,192,882
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ -	\$ 323,837	\$ 5,500	\$ 61,216	\$ 90,852	\$ -	\$ -	\$ -	\$ 2,174,589

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, 2014*

	SPLST 1997	Taylor Park Improvements	SPLST 2005	Railway Museum Access Rd.	Rodgers Bridge Dog Park	Police Capital Projects	Park Improvements	Buford Hwy Medians
REVENUES								
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	1,361	-	1,493	-	-	-	-	-
TOTAL REVENUES	1,361	-	1,493	-	-	-	-	-
EXPENDITURES								
Capital outlay:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	85,193	-	-
Public works	3,333	-	-	-	-	-	-	20,955
Culture and recreation	-	19,450	-	-	7,748	-	781,947	-
TOTAL EXPENDITURES	3,333	19,450	-	-	7,748	85,193	781,947	20,955
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,972)	(19,450)	1,493	-	(7,748)	(85,193)	(781,947)	(20,955)
OTHER FINANCING SOURCES (USES)								
Transfers in	-	19,450	-	-	75,362	85,193	615,352	39,620
Transfers out	-	-	(331,128)	(1,866)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	19,450	(331,128)	(1,866)	75,362	85,193	615,352	39,620
NET CHANGE IN FUND BALANCES	(1,972)	-	(329,635)	(1,866)	67,614	-	(166,595)	18,665
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	1,361,701	-	663,090	1,866	(67,614)	-	(15,860)	(21,350)
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 1,359,729	\$ -	\$ 333,455	\$ -	\$ -	\$ -	\$ (182,455)	\$ (2,685)

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, 2014*

	2009 SPLOST Vehicles	Transportation Infrastructure Improvements	Gateway Entrance	Citywide Software	Other Capital Projects	WP Jones Activity Building	Downtown Parking	Block	Total Non-major Capital Projects Funds
REVENUES									
Intergovernmental	-	174,757	\$ -	-	\$ 72,630	\$ -	\$ -	\$ -	\$ 247,387
Interest income	-	-	-	-	-	-	-	-	2,854
TOTAL REVENUES	-	174,757	-	-	72,630	-	-	-	250,241
EXPENDITURES									
Capital outlay:									
General government	-	-	-	122,431	-	-	-	1,246	123,677
Public safety	4,504	-	-	-	-	-	-	-	89,697
Public works	-	842,835	-	-	38,470	-	258,330	-	1,163,923
Culture and recreation	-	-	-	-	-	284,959	-	-	1,094,104
TOTAL EXPENDITURES	4,504	842,835	-	122,431	38,470	284,959	258,330	1,246	2,471,401
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,504)	(668,078)	-	(122,431)	34,160	(284,959)	(258,330)	(1,246)	(2,221,160)
OTHER FINANCING SOURCES (USES)									
Transfers in	4,752	145,291	-	-	-	292,227	255,443	1,246	1,533,936
Transfers out	-	-	-	-	(62,452)	-	-	-	(395,446)
TOTAL OTHER FINANCING SOURCES (USES)	4,752	145,291	-	-	(62,452)	292,227	255,443	1,246	1,138,490
NET CHANGE IN FUND BALANCES	248	(522,787)	-	(122,431)	(28,292)	7,268	(2,887)	-	(1,082,670)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	(248)	155,019	5,500	183,647	17,069	(7,268)	-	-	2,275,552
FUND BALANCES (DEFICIT) - END OF YEAR	\$ -	\$ (367,768)	\$ 5,500	\$ 61,216	\$ (11,223)	\$ -	\$ (2,887)	\$ -	\$ 1,192,882

City of Duluth, Georgia
Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	Duluth Governmental Finance Corporation	Worker's Compensation Fund	Health Reimbursement Fund	Total Internal Service Funds
ASSETS				
Current Assets:				
Cash	\$ -	\$ 702,943	153,441	\$ 856,384
Due from other funds	-	1,357		1,357
Total Current Assets	-	704,300	153,441	857,741
Noncurrent Assets:				
Capital assets:				
Nondepreciable capital assets	1,654,856	-	-	1,654,856
Depreciable capital assets, net	875,389	-	-	875,389
Total Noncurrent Assets	2,530,245	-	-	2,530,245
TOTAL ASSETS	2,530,245	704,300	153,441	3,387,986
Current Liabilities:				
Accounts payable	-	551	2,756	3,307
Claims payable	-	183,743	-	183,743
Total Current Liabilities	-	184,294	2,756	187,050
TOTAL LIABILITIES	-	184,294	2,756	187,050
NET POSITION				
Investment in capital assets	2,530,245	-	-	2,530,245
Unrestricted	-	520,006	150,685	670,691
TOTAL NET POSITION	\$ 2,530,245	\$ 520,006	\$ 150,685	\$ 3,200,936

City of Duluth, Georgia
*Combining Statement of Revenues, Expenses, and
Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2014*

	Duluth Governmental Finance Corporation	Worker's Compensation Fund	Health Reimbursement Fund	Total Internal Service Funds
OPERATING EXPENSES				
Claims	\$ -	\$ 301,654	\$ 35,158	\$ 336,812
Depreciation	48,625	-	-	48,625
TOTAL OPERATING EXPENSES	<u>48,625</u>	<u>301,654</u>	<u>35,158</u>	<u>385,437</u>
OPERATING (LOSS)	<u>(48,625)</u>	<u>(301,654)</u>	<u>(35,158)</u>	<u>(385,437)</u>
NON-OPERATING INCOME				
Interest income	-	4,360	-	4,360
TOTAL NON-OPERATING INCOME	<u>-</u>	<u>4,360</u>	<u>-</u>	<u>4,360</u>
(LOSS) BEFORE TRANSFERS	<u>(48,625)</u>	<u>(297,294)</u>	<u>(35,158)</u>	<u>(381,077)</u>
Transfers in	-	250,000	82,748	332,748
CHANGE IN NET POSITION	<u>(48,625)</u>	<u>(47,294)</u>	<u>47,590</u>	<u>(48,329)</u>
NET POSITION:				
BEGINNING OF YEAR	<u>2,578,870</u>	<u>567,300</u>	<u>103,095</u>	<u>3,249,265</u>
END OF YEAR	<u>\$ 2,530,245</u>	<u>\$ 520,006</u>	<u>\$ 150,685</u>	<u>\$ 3,200,936</u>

City of Duluth, Georgia
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014

	Duluth Governmental Finance Corporation	Worker's Compensation Fund	Health Reimbursement Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash payments for claims	\$ -	\$ (213,134)	\$ (33,969)	\$ (247,103)
NET CASH (USED IN) OPERATING ACTIVITIES	<u>-</u>	<u>(213,134)</u>	<u>(33,969)</u>	<u>(247,103)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from Other Funds	-	250,000	82,748	332,748
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>250,000</u>	<u>82,748</u>	<u>332,748</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	-	4,360	-	4,360
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>4,360</u>	<u>-</u>	<u>4,360</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	41,226	48,779	90,005
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>-</u>	<u>661,717</u>	<u>104,662</u>	<u>766,379</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ -</u>	<u>\$ 702,943</u>	<u>\$ 153,441</u>	<u>\$ 856,384</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES				
Operating (loss)	\$ (48,625)	\$ (301,654)	\$ (35,158)	\$ (385,437)
Adjustments:				
Depreciation	48,625	-	-	48,625
Change in assets and liabilities:				
Decrease Accounts receivable	-	-	-	-
Increase in due from other funds		(1,357)		(1,357)
Increase (decrease) Accounts and claims payable	-	89,877	1,189	91,066
NET CASH (USED IN) OPERATING ACTIVITIES	<u>\$ -</u>	<u>\$ (213,134)</u>	<u>\$ (33,969)</u>	<u>\$ (247,103)</u>

SCHEDULES

City of Duluth, Georgia
Schedule of Expenditures of
Special Purpose Local Option Sales Tax Proceeds
1997 Issue
For the Year Ended June 30, 2014

Project Description	Original Estimated Cost	Revised Estimated Cost	Expenditures		
			Prior Years	Current Year	Total
SR 120 Realignment & Hill St.	\$ 1,646,184	\$ 1,832,410	\$ 469,350	\$ 3,333	\$ 472,683
	<u>\$ 1,646,184</u>	<u>\$ 1,832,410</u>	<u>\$ 469,350</u>	<u>\$ 3,333</u>	<u>\$ 472,683</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, 2014*

Project Description	Original Estimated Cost	Revised Estimated Cost	Expenditures		Total
			Prior Years	Current Year	
Administrative Building (City Hall)	\$ 7,000,000	\$ 8,025,793	\$ 7,698,728	\$ 312,858	\$ 8,011,586
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>2,214,055</u>	<u>1,876,539</u>	<u>18,270</u>	<u>1,894,809</u>
	<u>\$ 15,612,836</u>	<u>\$ 17,121,171</u>	<u>\$ 16,456,589</u>	<u>\$ 331,128</u> (1)	<u>\$ 16,787,717</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.

City of Duluth, Georgia
Schedule of Expenditures of
Special Purpose Local Option Sales Tax Proceeds
2009 Issue
For the Year Ended June 30, 2014

Project Description	Original Estimated Cost	Revised Estimated Cost	Expenditures		Total
			Prior Years	Current Year	
Library	\$ 1,340,000	\$ 1,195,363	\$ 618,286	\$ 255,443	\$ 873,729
Public Safety Building	1,240,000	1,117,547	1,112,794	6,652	1,119,446
Recreational Facilities	7,800,000	7,055,000	3,206,151	1,002,391	4,208,542
Transportation	8,200,000	7,404,453	5,709,982	166,641	5,876,623
Sewer	1,340,000	990,882	12,020	-	12,020
	<u>\$ 19,920,000</u>	<u>\$ 17,763,245</u>	<u>\$ 10,659,233</u>	<u>\$ 1,431,127</u>	<u>\$ 12,090,360</u>

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

Reconciliation to Financial Statements

Expenditures	\$ 1,900
Transfers out	<u>1,429,227</u> (1)
	<u>\$ 1,431,127</u>

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2014.

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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 31, 2014

CITY OF DULUTH, GEORGIA

**STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Status of Prior Audit Findings

2013-001 Community Development Block Grant- CFDA #14.218; Allowable Costs and Activities

Condition: The City's normal procedure related to grant expenditures is to have a program manager approve the invoice for payment and compliance with the applicable grant requirements and, prior to payment, the invoice is approved by someone other than the initial reviewer, typically someone from the financial function of the City. During our testwork of expenditures of the Community Development Block Grant, we noted two invoices which were approved only by the program manager and had no second review to ensure compliance with the applicable requirements.

Auditee Response/Status: Additional training has been done with staff on the City's disbursement policies and procedures for grant related expenditures. The City flows its internal control procedures on grant disbursements.