

CITY OF LOCUST GROVE, GEORGIA

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

With Independent Auditors' Report Thereon

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DECEMBER 31, 2016**

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whaley hammonds tomasello, p.c.

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Locust Grove, 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 Locust Grove, Georgia (the "City"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the index to the financial statements.

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.

Auditors' 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Locust Grove, Georgia as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows thereof, and the budgetary comparison of the General Fund for the year then ended in conformity 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 on pages 3-13 and the required supplementary information on pages 49-52 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 Locust Grove, Georgia's basic financial statements. The combining and individual fund financial statements and schedules, and the special purpose local option sales tax report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules, the special purpose local option sales tax report 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 and 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 financial statements and schedules, and the special purpose local option sales tax report are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the City of Locust Grove, 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 Locust Grove, Georgia's internal control over financial reporting and compliance.



W. Hale

December 7, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS
CITY OF LOCUST GROVE, GEORGIA
(Unaudited)

The management of the City of Locust Grove provides this Management’s Discussion and Analysis for readers of the City’s financial statements for the year ended December 31, 2016. The purpose of this narrative is to provide readers of these financial statements with information that will help them make timely and meaningful financial decisions or draw conclusions about the City of Locust Grove. This narrative overview of the City’s financial activities should be read in conjunction with the information presented in the letter of transmittal found at the front of this report.

Financial Highlights

- The assets of the City of Locust Grove exceeded its liabilities at December 31, 2016 by \$27,801,014 (reported as “Net Position”). Of this amount \$1,427,258 is unrestricted.
- The total net position increased by \$1,472,441.
- As of the close of the current fiscal year, the City of Locust Grove’s governmental funds reported combined ending fund balances of \$5,620,540, a decrease of \$2,317,709 in comparison with the prior year. Of this amount \$4,149,160 is unassigned and available for spending and \$1,471,380 is restricted for capital projects and other specific future uses.
- At the end of the current year, unassigned fund balance for the general fund was \$4,149,160, which is 100 percent of total General Fund expenditures for the year ending December 31, 2016.
- The City of Locust Grove’s total debt obligations (including accrued compensated absences) decreased by \$351,610 to a total of \$6,939,508 as of year-end. The City made principal payments during the year on its long-term debt of \$511,470.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the City of Locust Grove. The financial statements of the City of Locust Grove comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Comparative data is presented when available.

Government-wide financial statements

The focus of the government-wide financial statements is on the overall financial position and the activities of the City of Locust Grove. The government-wide financial statements include the statement of net position and the statement of activities, and are designed to provide readers with a broad overview of the City of Locust Grove's finances, in a manner similar to a private-sector business. These statements include all assets and liabilities using the accrual basis of accounting. Accrual of the current year's revenues and expenses is taken into account regardless of when cash is received or paid.

Statement of Net Position

The statement of net position (pages 16-17) presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. The City's net position, which is the difference between assets (what the citizens own), and liabilities (what the citizens owe), is one way to measure the City's financial position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, and utility systems) must be considered to assess the overall health of the City.

Statement of Activities

The statement of activities (page 18) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The Statement of Net Position and the Statement of Activities are divided into two types of activities:

Governmental activities – Most of the City's basic services are reported under this category. These services include police, infrastructure maintenance, parks and recreation, and general administration. Taxes, fines/forfeitures and intergovernmental revenues (governmental activities) finance most of these activities.

Business-type activities – The City charges fees to customers to offset most of the cost of certain services it provides. The City's utility and solid waste services are reported under this category.

Fund financial statements

The focus of fund financial statements is directed to specific activities of the City and its most significant funds, not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by state law. The City of Locust Grove uses two categories of funds: governmental funds and proprietary funds.

In fund financial statements, information is presented in separate columns for each of the major funds. Data from non-major funds are combined into a single, aggregated column for presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements beginning on page 54.

Governmental funds

Most of the City's basic governmental activities reported in the government-wide statements are accounted for in governmental funds, which focus on how money flows into and out of the funds, and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation beside the fund financial statements.

In addition to the General Fund, which is considered a major fund, the City of Locust Grove maintains one additional major fund, the SPLOST Capital Projects Fund.

Because the focus of the governmental funds financial statements is narrower than that of the government-wide financial statements and because of the different accounting methods used to prepare them, there are often significant differences between the totals presented in these financial statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. An analysis of the balance that reconciles the two statements is provided at the bottom of each statement.

Proprietary funds

When the City charges customers for the full or partial cost of the services it provides (whether to outside customers or to other units of the City), these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities, using the accrual basis of accounting. Enterprise funds are a type of proprietary fund used to account for functions reported as business-type activities in the government-wide statements. The City uses three enterprise funds to account for separate business-type activities are reported in the basic proprietary fund financial statements on pages 24-28 of this report. The City of Locust Grove uses enterprise funds to account for its water and sewer, storm water, and solid waste functions. The Water and Sewer Utility is considered a major fund.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government –wide and fund financial statements. The notes to the financial statements can be found on pages 29-47 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including combined financial statements for non-major funds described earlier. Individual fund statements and schedules are presented following the required supplementary information. These statements and schedules contain much more detailed financial information about individual services or divisions of the City.

This report includes two schedules on pages 20 and 22 that reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with the governmental activities reported on the government-wide financial statements (accrual basis of accounting). The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities on the government-wide statements are not reported on the fund financial statements.
- Certain revenues that are earned, but not available, are reported as revenue on the government-wide statement, but are reported as unearned revenue on the fund financial statements.
- Unless due and payable, long-term liabilities appear only in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements but is reported as expenditures on the governmental fund financial statements.
- Repayment of debt principal reduces a liability on the government-wide statements, but is an expenditure on the fund financials.
- Some expenses reported in the government-wide statements represent increases in liabilities on the government-wide statements but are not reported as expenditures in governmental funds because they do not require the use of current financial resources.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Locust Grove, assets exceeded liabilities by \$27,801,014 as of December 31, 2016. The following table provides a summary of the City's governmental and business-type net position for the year ending December 31, 2016.

CITY OF LOCUST GROVE, GEORGIA NET POSITION AS OF DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 5,784	\$ 7,996	\$ 2,596	\$ 2,712	\$ 8,380	\$ 10,708
Capital assets	12,699	9,030	18,578	19,300	31,277	28,330
Total assets	<u>18,483</u>	<u>17,026</u>	<u>21,174</u>	<u>22,012</u>	<u>39,657</u>	<u>39,038</u>
Deferred outflows of resources	223	146	68	43	291	189
Current liabilities	234	74	904	904	1,138	978
Long-term liabilities	754	622	10,242	10,621	10,996	11,243
Total liabilities	<u>988</u>	<u>696</u>	<u>11,146</u>	<u>11,525</u>	<u>12,134</u>	<u>12,221</u>
Deferred inflows of resources	11	33	2	10	13	43
Net investment in capital assets	12,699	9,030	11,722	12,082	24,421	21,112
Restricted net position	1,447	3,917	505	247	1,953	4,164
Unrestricted net position	3,561	3,496	(2,134)	(1,809)	1,427	1,687
Total net position	<u>\$ 17,707</u>	<u>\$ 16,443</u>	<u>\$ 10,094</u>	<u>\$ 10,520</u>	<u>\$ 27,801</u>	<u>\$ 26,963</u>

The largest portion of the City's net position as of December 31, 2016 (79%) reflects its net investment in capital assets (e.g. land, buildings, machinery, equipment and the street and sidewalks). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF LOCUST GROVE, GEORGIA
CHANGE IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

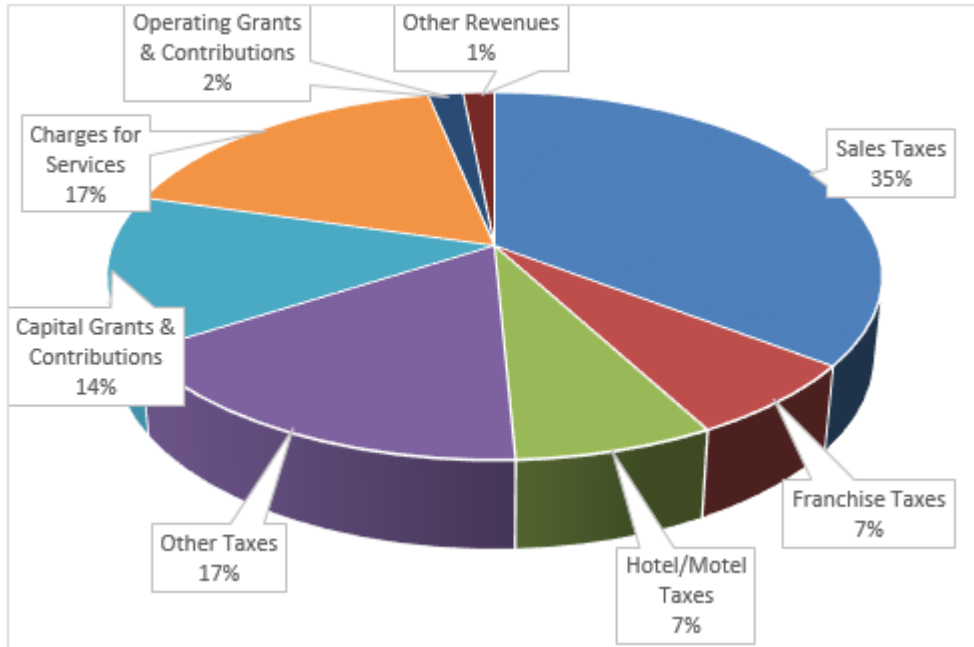
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 987	\$ 1,099	\$ 3,639	\$ 3,745	\$ 4,626	\$ 4,844
Operating grants	98	115	-	-	98	115
Capital grants	777	2,931	-	-	777	2,931
General revenues:						
Taxes	3,772	4,025	-	-	3,772	4,025
Interest and investment earnings	6	42	1	-	7	42
Other	81	155	96	-	178	155
Total revenues	5,722	8,367	3,736	3,745	9,458	12,112
Expenses						
General government	559	986	-	-	559	986
Judicial	317	489	-	-	317	489
Public safety	1,855	1,578	-	-	1,855	1,578
Public works	926	704	-	-	926	704
Parks and recreation	62	178	-	-	62	178
Community development	739	686	-	-	739	686
Water and sewer utility	-	-	3,094	2,320	3,094	2,320
Solid waste	-	-	376	308	376	308
Storm water utility	-	-	196	271	196	271
Total expenditures	4,458	4,621	3,666	2,899	8,124	7,520
Change in net position	1,264	3,746	70	846	1,334	4,592
Net position, beginning of year (restated)	16,443	12,697	10,024	9,674	26,467	22,371
Net position, end of year	\$ 17,707	\$ 16,443	\$ 10,094	\$ 10,520	\$ 27,801	\$ 26,963

Governmental Activities

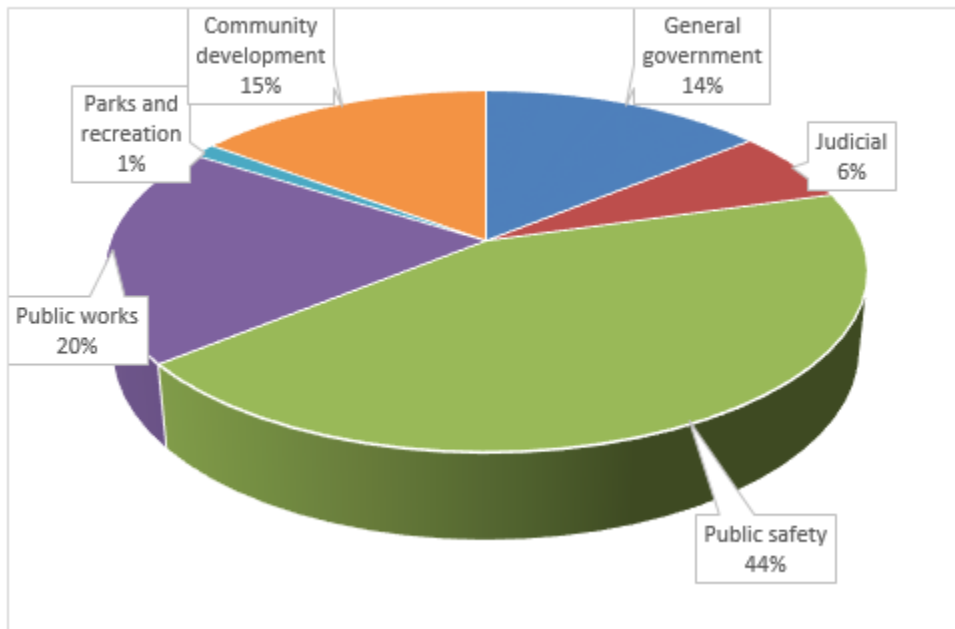
Governmental Activities increased the City's net position by \$1,334,026. Key elements of this increase were as follows:

- A decrease in intergovernmental capital funding from SPLOST of approximately \$2,154,000.
- A general decrease in tax collections totaling approximately \$253,000.
- A general decrease in governmental fund expenditures totaling approximately \$163,000. This decrease is partially a result of a change in the City's allocation method for administrative costs.

Revenue by Source, Governmental Activities



Expenditures by Program, Governmental Activities

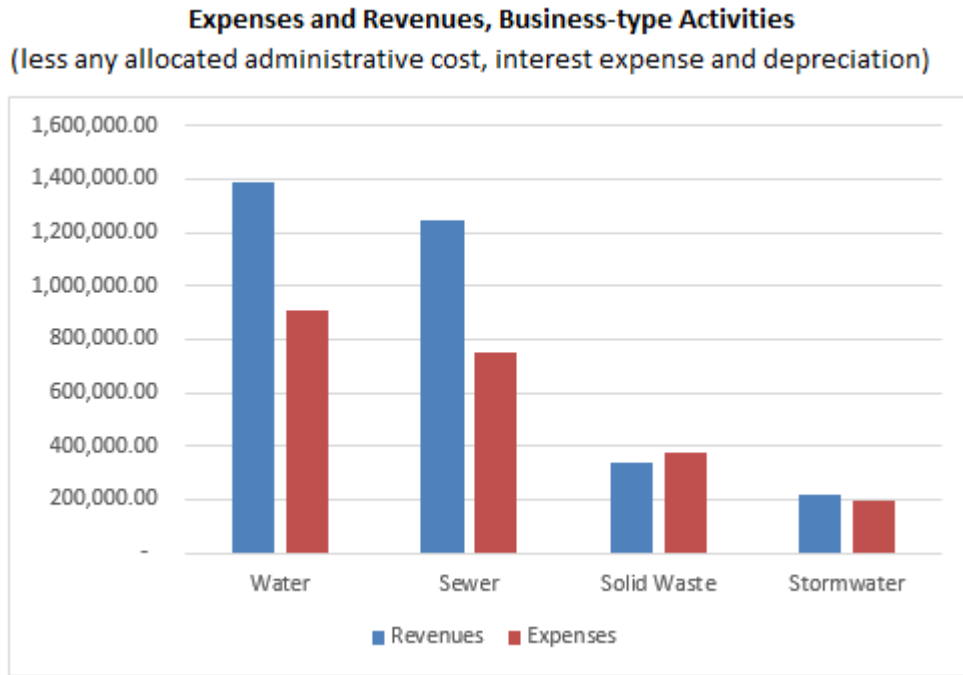


Business-type Activities

Operations of business-type activities increased the City’s net position by \$70,209. Key elements of this increase were as follows:

- Revenues from business type activities decreased approximately \$9,000.
- Expenses from business-type activities increased approximately \$767,000. The increase was a result of increases in repair & maintenance activities as well as the City’s change in allocating administrative costs of the City to its proprietary funds. Approximately \$458,000 in administrative costs were allocated to the proprietary funds.

Total revenues and expenses by funds (less interest, depreciation and allocated costs) were as follows by fund:



Financial Analysis of the Government’s Individual Funds

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

Governmental funds

The City uses governmental funds 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, an unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the year.

At the end of the current year, the City’s General Fund reported an ending fund balance of \$4,173,435 a decrease of \$152,570 or 4% in comparison with the prior year. Approximately 99% of this amount (\$4,149,160) constitutes an unassigned fund balance, which is available for spending at the City’s discretion. The remainder of the fund balance is in a nonspendable form.

Review pages 56-57 for additional information on the General Fund.

Special Revenue Funds

- Confiscated Assets Fund: The City created this fund to account for assets obtained by the City as a result of investigations into illegal drug activities. As of December 31, 2016 this fund had a fund balance of \$173, which is restricted for police activities.
- Hotel/Motel Tax Fund: The Hotel/Motel Tax Fund receives revenues from taxes on hotels and motels within the City. 43.75% of these revenues must be paid to the Henry County Chamber of Commerce for tourism and promotional purposes. The fund balance for this fund was \$372,334 and \$290,555 at December 31, 2016 and 2015, respectively. Construction of two new moderately-priced hotels in 2017 and 2018 will accelerate this fund balance for use in tourism development projects and promotions.

Review pages 58-61 for additional information on the Special Revenue funds

Capital Projects Fund

- SPLOST Fund: The City has one Special Purpose Local Option Sales Tax fund for the purpose of funding capital projects. These funds were voted on by the citizens of Henry County, Georgia and are passed to the City of Locust Grove by way of an intergovernmental agreement. The fund balance for this fund was \$826,576 and \$3,511,834 at December 31, 2016 and 2015, respectively. The City constructed the Public Safety Building at a cost over \$5 million, including all equipment and furniture, performed renovations to the City Hall building utilizing fund balances, keeping overall reserves over 100% of General Fund budget during the reporting period, excluding capital projects.
- Development Impact Fund: The Development Impact Fund collects revenues generated through a Fee Ordinance approved by the City Council. The City uses these fees to fund major capital improvements for parks, police and streets. The fund balance for this fund was \$248,022 and \$114,823 at December 31, 2016 and 2015, respectively. The recent return to near-normal construction from the recent recessionary levels means that more funds will be made available for capital projects.

Review pages 62-65 for additional information on the Capital Project Fund.

Proprietary Funds

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

2016 net position of the City's three proprietary funds are as follows:

Water and sewer:	\$9,423,551
Solid waste utility:	\$218,938
Storm water utility:	\$451,387

The decrease in net position for the funds was approximately \$300,000, which is a 3% change from 2015. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's Business-type activities.

Review pages 66-75 for additional information on the Enterprise funds.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities at December 31, 2016 amounts to \$31,277,067 (net of accumulated depreciation), which is a 10% increase from 2015. This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and distributions systems for water/sewer and storm water management.

During the year ended December 31, 2016, the City invested \$4,039,144 in new capital assets. Investment for business-type activities totaled \$74,739, while \$3,964,405 was for governmental activities. Major capital asset events during the current year included the following:

Governmental activities:

Land:	\$1,821
Construction in progress:	\$3,521,052
Building and improvement:	\$241,394
Other improvements:	\$31,998
Machinery and equipment:	\$36,000
Vehicles:	\$80,540

Business-type activities:

Other improvements:	\$50,800
Vehicles:	\$23,939

More information on capital assets may be found in the Note 6 to the Financial Statements on pages 37-38 of this report.

Debt Administration

At the end of the current fiscal year, the City had \$6,785,000 in outstanding Water and Sewerage Refunding Revenue Bonds, Series 2016, with an interest rate of 2%. The bonds refunded the previous Series 2013 bonds which financed improvements in water/sewer infrastructure. The City also had an outstanding note payable related to equipment. The total liability related to this note payable at year-end was \$70,747.

More information on long-term debt may be found in the Note 8 to the Financial Statements on pages 39-40 of this report.

Economic Factors and Next Year's Budget

- Inflationary trends in the region continue to compare favorably to national indices, with more volatility in swings either up or down due to dependency on volatile fuel costs and the considerable distance from the Atlanta Region Core, with Construction Costs markedly higher due to several large capital projects pushing up wages and contract amounts related to distance from Atlanta. Primarily increased was the Public Safety Building, which was approximately \$1 million more than original estimates forcing the city to use a portion of Fund Balance for its completion.

- New large-scale commercial permits are now taking hold, with considerable interest on development of the western quadrants of the I-75 and Bill Gardner Interchange. In much of 2016, though, we continue to enjoy the fortunate redevelopment and repurposing of existing commercial tracts on the eastern side of the freeway. Industrial development will soon outpace most other nonresidential development for the next several years in overall square footage.
- Building permits for residential construction continued to accelerate in 2016 to near Pre-Recession levels. Many undeveloped lots purchased in the past several years are now under development and will continue further if interest rates and relative price advantages to other parts of the region continue to hold true throughout the rest of this decade.
- The unemployment rate for the City of Locust Grove continues to compare reasonably between the state and regional rates, with the rate declining nearly in line with the Atlanta Regional Commission area, especially in a post-recovery boom period.
- The occupancy rate of the City's downtown area is now nearly 100%, including the reconstruction of a partially-collapsed storefront.
- Tourism increased in 2016 due to the national recovery and due to new construction of the Express Lanes on I-75 north of the City, helping Hotel/Motel tax revenues increase over the prior year. The City also saw the submittal of plans for a new Hampton Inn, with future construction of at least one more hotel between 2017 and 2018.
- The city will begin work on renegotiations of the Service Delivery Strategy agreement between Henry County and the other incorporated cities as part of a required Comprehensive Plan Update which may require the use of Special Tax Districts to fund services in either the county or the city. The impact to governmental activities is yet to be determined.
- Collections for LOST and SPLOST continue to increase; however, as a decreasing rate as alternative retail chain options such as Amazon cause erosion in the overall retail industry. New construction of region-serving retail and entertainment within Henry County should benefit all jurisdictions' shares in those revenue streams.
- The City's LOST percentage increased this year and will remain the same share through 2022. Given a conservative increase in total Henry County sales, it is expected that collections will be over \$500,000 higher from the last 10-year period of collection and distribution.
- SPLOST IV collections under the new intergovernmental agreement began in April 2014. These proceeds will continue to be collected through March 2020 and provide much needed financing for improvements to the City's infrastructure. Major projects include renovations to the existing City Hall (Roofing and Soffit repair in 2017), the new Public Safety Complex (supplemented by General Fund balance), and transportation improvements citywide (supplemented by LMIG). Collections remain above the initial conservative projections, but most of the City's collections must pay off bonds for the Public Safety Building for next couple of years before additional funds collected are distributed for use.
- Collections from Utilities into the Enterprise Funds increase steadily as part of overall growth and development of the city as well as automatic 2% increases in January and July of each calendar year. Continued increases at this rate is doubtful due to keeping parity with surrounding jurisdictions and decreasing debt service.
- More funds will be needed for basic road maintenance and meeting congestion needs over the coming decades to replace pavement within the recently-developed subdivisions as they age. The City seeks to find additional funding from HB 170 to assist with some of this growing need, as well as the possibility of future funding options from fractional sales tax votes within Henry County and its cities.
- The City added several new positions to a few of the administrative departments due growth and the anticipated future positive revenues, including Administration and Community Development.

Meeting the demand is partially met with Administrative Charges to Enterprise funds: (Hotel/Motel, Water and Sewer, Sanitation, and Stormwater) in the provision of HR and Payroll, IT/Telephone, etc.

- As part of continuing staff development, we have increased training on the computerized financial system (including additional on-site training with an accounting expert a minimum of three times per year) as well as more accounting training for our City Clerk and Assistant City Clerk through off-site training with Tyler Technologies and/or online training via the Carl Vinson Institute on Financial Management.
- Additional expenditures and staffing/consultants is required for the City's Stormwater functions due to the classification of Locust Grove to MS 4 Phase II in late 2014 that requires more data collection, reporting, engineering and maintenance of stormwater infrastructure. This consists of annual reports and special reporting for any deficiencies from the previous year.
- These factors were considered in preparing the City of Locust Grove's budget for FY 2017.

Requests for Information

This financial report is designed to provide a general overview of the City of Locust Grove's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. Questions concerning this report or requests for additional information can be obtained by contacting the City at (770) 957-5043 or at the following address: City of Locust Grove Finance Department P.O. Box 900, Locust Grove, Georgia 30248-0900.

Basic Financial Statements

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary government		
	Governmental activities	Business-type activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,803,141	\$ 1,219,063	\$ 7,022,204
Restricted assets			
Cash	-	505,331	505,331
Receivables, net			
Taxes	588,723	-	588,723
Accounts	-	198,621	198,621
Fines	63,520	-	63,520
Intergovernmental	(672,941)	672,941	-
Prepaid items	1,658	-	1,658
Total current assets	5,784,101	2,595,956	8,380,057
Noncurrent assets:			
Capital assets			
Nondepreciable	7,160,288	1,423,964	8,584,252
Depreciable, net	5,538,920	17,153,895	22,692,815
Total noncurrent assets	12,699,208	18,577,859	31,277,067
Total assets	18,483,309	21,173,815	39,657,124
Deferred outflows of resources:			
Pension contributions subsequent to measurement date	30,360	9,329	39,689
Pension experience differences	118,185	36,320	154,505
Pension investment return differences	74,176	22,795	96,971
Total deferred outflows of resources	222,721	68,444	291,165

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary government		
	Governmental activities	Business-type activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 163,021	\$ 215	\$ 163,236
Accrued absences	70,760	13,001	83,761
Capital lease payable	-	22,142	22,142
Other current liabilities	540	-	540
Liabilities payable from restricted assets			
Notes payable	-	505,000	505,000
Customer deposits payable	-	329,348	329,348
Interest payable	-	34,302	34,302
Total current liabilities	234,321	904,008	1,138,329
Noncurrent liabilities:			
Notes payable	-	6,280,000	6,280,000
Capital lease payable	-	48,605	48,605
Unearned revenue	-	3,685,352	3,685,352
Net pension liability	753,923	228,231	982,154
Total noncurrent liabilities	753,923	10,242,188	10,996,111
Total liabilities	988,244	11,146,196	12,134,440
Deferred inflows of resources:			
Pension assumption changes	10,648	2,187	12,835
Total deferred inflows of resources	10,648	2,187	12,835
Net position:			
Net investment in capital assets	12,699,208	11,722,112	24,421,320
Restricted for:			
Public safety	173	-	173
Debt service	-	505,331	505,331
Capital outlay	1,074,598	-	1,074,598
Tourism	372,252	-	372,252
Unrestricted	3,560,907	(2,133,567)	1,427,340
Total net position	\$ 17,707,138	\$ 10,093,876	\$ 27,801,014

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

FUNCTIONS/PROGRAMS	Program revenues				Net revenue (expenses)
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	
Primary government					
Governmental activities					
General government	\$ 559,423	\$ 276,442	\$ 60,496	\$ -	\$ (222,485)
Judicial	316,968	-	-	-	(316,968)
Public safety	1,854,540	515,501	-	777,174	(561,865)
Public works	926,412	195,037	-	-	(731,375)
Parks and recreation	61,610	-	-	-	(61,610)
Community development	739,084	-	37,536	-	(701,548)
Total governmental activities	4,458,037	986,980	98,032	777,174	(2,595,851)
Business-type activities:					
Water and sewer utility	3,094,087	3,084,932	-	-	(9,155)
Solid waste	375,779	337,574	-	-	(38,205)
Storm water utility	196,067	216,492	-	-	20,425
Total business-type activities	3,665,933	3,638,998	-	-	(26,935)
Total primary government	\$ 8,123,970	\$ 4,625,978	\$ 98,032	\$ 777,174	\$ (2,622,786)
Primary government					
	Governmental activities	Business-type activities	Total		
Change in net position					
Net (expense) revenue	\$ (2,595,851)	\$ (26,935)	\$ (2,622,786)		
General revenues					
Taxes:					
Property	8,073	-	8,073		
Sales	2,024,832	-	2,024,832		
Insurance premium	337,973	-	337,973		
Occupational	176,487	-	176,487		
Franchise	412,750	-	412,750		
Intangible	21,167	-	21,167		
Alcohol excise	382,205	-	382,205		
Hotel/motel	408,961	-	408,961		
Interest and investment earnings	6,014	807	6,821		
Miscellaneous	81,206	96,337	177,543		
Total general revenues and transfers	3,859,668	97,144	3,956,812		
Change in net position	1,263,817	70,209	1,334,026		
Net position, beginning of year (original)	16,443,321	14,273,260	30,716,581		
Prior period adjustments	-	(4,249,593)	(4,249,593)		
Net position, beginning of year (restated)	16,443,321	10,023,667	26,466,988		
Net position, end of year	\$ 17,707,138	\$ 10,093,876	\$ 27,801,014		

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>General</u>	<u>SPLOST</u>	<u>Nonmajor governmental funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 4,389,104	\$ 826,576	\$ 587,461	\$ 5,803,141
Receivables, net				
Taxes	555,737	-	32,986	588,723
Fines	63,520	-	-	63,520
Prepaid items	1,576	-	82	1,658
Total assets	<u>\$ 5,009,937</u>	<u>\$ 826,576</u>	<u>\$ 620,529</u>	<u>\$ 6,457,042</u>
LIABILITIES				
Accounts payable	\$ 163,021	\$ -	\$ -	\$ 163,021
Due to other funds	672,941	-	-	672,941
Other liabilities	540	-	-	540
Total liabilities	<u>836,502</u>	<u>-</u>	<u>-</u>	<u>836,502</u>
Fund balances:				
Nonspendable prepaid items	1,576	-	82	1,658
Restricted for:				
Capital projects	-	826,576	248,022	1,074,598
Public Safety	-	-	173	173
Tourism	-	-	372,252	372,252
Committed for cemetery	22,699	-	-	22,699
Unassigned	4,149,160	-	-	4,149,160
Total fund balances	<u>4,173,435</u>	<u>826,576</u>	<u>620,529</u>	<u>5,620,540</u>
Total liabilities and fund balances	<u>\$ 5,009,937</u>	<u>\$ 826,576</u>	<u>\$ 620,529</u>	<u>\$ 6,457,042</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LOCUST GROVE, GEORGIA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Total fund balance, total governmental funds \$ 5,620,540

Amounts reported for governmental activities in the statement of net position are different because:

Some assets are not financial resources and, therefore, are not reported in the funds.

These are:

Capital assets	15,491,238	
Less: accumulated depreciation	<u>(3,264,395)</u>	12,699,208

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

These are:

Net pension liability		(753,923)
Compensated absences		<u>(70,760)</u>

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

These are:

Deferred outflows of resources:

Pension contributions subsequent to measurement date	30,360	
Pension experience differences	118,185	
Pension investment return differences	74,176	

Deferred inflows of resources:

Pension assumption changes	<u>(10,648)</u>	<u>212,073</u>
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Net position of governmental activities \$ 17,707,138

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General</u>	<u>SPLOST</u>	<u>Nonmajor governmental funds</u>	<u>Total</u>
REVENUES				
Taxes	\$ 3,363,492	\$ -	\$ 408,961	\$ 3,772,453
Licenses and permits	261,268	-	-	261,268
Fines, fees and forfeitures	515,501	-	-	515,501
Rental income	15,000	-	-	15,000
Charges for services	25,968	-	169,069	195,037
Intergovernmental	60,496	769,403	37,536	867,435
Interest	5,809	7,771	205	13,785
Other	81,163	43	-	81,206
Total revenues	<u>4,328,697</u>	<u>777,217</u>	<u>615,771</u>	<u>5,721,685</u>
EXPENDITURES				
Current:				
General government	424,495	-	-	424,495
Judicial	313,712	-	-	313,712
Public safety	1,616,998	-	-	1,616,998
Public works	842,628	-	-	842,628
Parks and recreation	61,610	-	-	61,610
Community development	324,833	-	364,793	689,626
Capital expenditures	591,851	3,462,473	36,000	4,090,324
Total expenditures	<u>4,176,127</u>	<u>3,462,473</u>	<u>400,793</u>	<u>8,039,393</u>
Net change in fund balance	152,570	(2,685,256)	214,978	(2,317,708)
Fund balances, beginning of year	<u>4,020,865</u>	<u>3,511,832</u>	<u>405,551</u>	<u>7,938,248</u>
Fund balances, end of year	<u>\$ 4,173,435</u>	<u>\$ 826,576</u>	<u>\$ 620,529</u>	<u>\$ 5,620,540</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF LOCUST GROVE, 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 DECEMBER 31, 2016**

Net change in fund balances - total governmental funds \$ (2,317,708)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	3,964,405	
Depreciation	<u>(294,956)</u>	3,669,449

In the statement of activities, the gain/loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale of capital assets increases financial resources.

Cost of disposed assets	213,468	
Related accumulated depreciation	<u>(213,468)</u>	-

Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Pension contributions	131,398	
Cost of benefits net of employee contributions	<u>(228,028)</u>	(96,630)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Compensated absences	<u>8,706</u>	<u>8,706</u>
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Change in net position of governmental activities		<u><u>\$ 1,263,817</u></u>
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The accompany notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,293,090	\$ 3,382,500	\$ 3,363,492	\$ 19,008
Licenses and permits	281,300	273,800	261,268	12,532
Fines, fees and forfeitures	712,500	551,000	515,501	35,499
Rental income	15,000	15,000	15,000	-
Charges for services	41,000	30,500	25,968	4,532
Intergovernmental	66,000	61,000	60,496	504
Interest	5,000	6,000	5,809	191
Other	21,200	40,200	81,163	(40,963)
Total revenues	<u>5,435,090</u>	<u>4,360,000</u>	<u>4,328,697</u>	<u>31,303</u>
EXPENDITURES				
Current:				
General government	148,150	138,146	122,649	15,497
Financial administration	628,750	349,104	291,546	57,558
Municipal court	389,550	361,100	313,712	47,388
Police	2,719,850	2,324,650	1,616,998	707,652
Highway and streets	976,350	884,750	767,721	117,029
Fleet maintenance	70,370	86,150	74,907	11,243
Parks and recreation	402,000	173,900	61,610	112,290
Community development	396,420	350,050	324,833	25,217
Maintenance and repairs	-	-	10,300	(10,300)
Capital expenditures	-	119,486	591,851	(472,365)
Total expenditures	<u>5,731,440</u>	<u>4,787,336</u>	<u>4,176,127</u>	<u>611,209</u>
Excess (deficiency) of revenues over (under) expenditures	(296,350)	(427,336)	152,570	(579,906)
Fund balances, beginning of year	<u>4,020,865</u>	<u>4,020,865</u>	<u>4,020,865</u>	<u>-</u>
Fund balances, end of year	<u>\$ 3,724,515</u>	<u>\$ 3,593,529</u>	<u>\$ 4,173,435</u>	<u>\$ 579,906</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-type activities			Total
	Water and sewer	Solid waste	Storm water management	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,125,788	\$ -	\$ 93,275	\$ 1,219,063
Restricted assets				
Cash	505,331	-	-	505,331
Accounts receivable, net	154,288	28,274	16,059	198,621
Due from other funds	152,507	206,563	313,871	672,941
Total current assets	1,937,914	234,837	423,205	2,595,956
Noncurrent assets:				
Capital assets				
Non-depreciable	1,423,964	-	-	1,423,964
Depreciable, net	17,011,910	-	141,985	17,153,895
Total noncurrent assets	18,435,874	-	141,985	18,577,859
Total assets	20,373,788	234,837	565,190	21,173,815
Deferred outflow of resources:				
Pension contributions subsequent to measurement date	6,230	861	2,238	9,329
Pension experience differences	24,254	3,352	8,714	36,320
Pension investment return differences	15,222	2,104	5,469	22,795
Total deferred outflows of resources	45,706	6,317	16,421	68,444
LIABILITIES				
Current liabilities:				
Accounts payable	215	-	-	215
Accrued absences	6,485	779	5,737	13,001
Capital lease payable	-	-	22,142	22,142
Liabilities payable from restricted assets:				
Notes payable	505,000	-	-	505,000
Customer deposits	329,348	-	-	329,348
Interest payable	34,302	-	-	34,302
Total current liabilities	875,350	779	27,879	904,008

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-type activities			Total
	Water and sewer	Solid waste	Storm water management	
Noncurrent liabilities:				
Net pension liability	153,454	21,193	53,584	228,231
Unearned revenue	3,685,352	-	-	3,685,352
Capital lease payable	-	-	48,605	48,605
Notes payable	6,280,000	-	-	6,280,000
Total noncurrent liabilities	10,118,806	21,193	102,189	10,242,188
Total liabilities	10,994,156	21,972	130,068	11,146,196
Deferred inflow of resources:				
Pension assumption changes	1,787	244	156	2,187
Total deferred inflows of resources	1,787	244	156	2,187
Net position:				
Net investment in capital assets	11,650,874	-	71,238	11,722,112
Restricted for debt service	505,331	-	-	505,331
Unrestricted	(2,732,654)	218,938	380,149	(2,133,567)
Total net position	\$ 9,423,551	\$ 218,938	\$ 451,387	\$ 10,093,876

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type activities			Total
	Water and sewer	Solid waste	Storm water management	
Operating revenues:				
Charges for sales and services	\$ 3,084,932	\$ 337,574	\$ 216,492	\$ 3,638,998
Other	95,331	1,006	-	96,337
Total operating revenues	3,180,263	338,580	216,492	3,735,335
Operating expenses:				
Cost of sales and services	1,776,461	325,361	85,535	2,187,357
Salaries and benefits	374,565	49,411	89,117	513,093
Depreciation	777,215	1,007	18,516	796,738
Total operating expenses	2,928,241	375,779	193,168	3,497,188
Operating income (loss)	252,022	(37,199)	23,324	238,147
Non-operating revenues (expenses):				
Interest revenue	807	-	-	807
Interest expense	(165,846)	-	(2,899)	(168,745)
Total non-operating revenues (expenses)	(165,039)	-	(2,899)	(167,938)
Change in net position	86,983	(37,199)	20,425	70,209
Net position, beginning of year (restated)	9,336,568	256,137	430,962	10,023,667
Net position, end of year	\$ 9,423,551	\$ 218,938	\$ 451,387	\$ 10,093,876

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type activities			Total
	Water and sewer	Solid waste	Storm water management	
Cash flows from operating activities:				
Receipts from customers	\$ 3,046,767	\$ 335,188	\$ 216,492	\$ 3,598,447
Payments to suppliers	(1,783,555)	(311,818)	(72,697)	(2,168,070)
Payments to employees	(374,565)	(49,411)	(89,117)	(513,093)
Other receipts	95,331	1,006	-	96,337
Net cash provided (used) by operating activities	983,978	(25,035)	54,678	1,013,621
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(74,739)	-	-	(74,739)
Payments for refunding of bond	(6,620,000)	-	-	(6,620,000)
Proceeds from bond issuance	6,785,000	-	-	6,785,000
Payments of bond principal	(505,000)	-	-	(505,000)
Principal payments of long-term debt	-	-	(44,334)	(44,334)
Interest paid	(185,987)	-	(2,899)	(188,886)
Net cash provided (used) by capital and related financing activities	(600,726)	-	(47,233)	(647,959)
Cash flows from investing activities				
Interest received	807	-	-	807
Net cash provided (used) by investing activities	807	-	-	807
Net increase (decrease) in cash and cash equivalents	384,059	(25,035)	7,445	366,469
Cash and cash equivalents, Beginning of year	1,247,060	25,035	63,688	1,335,783
Cash and cash equivalents, End of year	\$ 1,631,119	\$ -	\$ 71,133	\$ 1,702,252

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type activities			Total
	Water and sewer	Solid waste	Storm water management	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 252,022	\$ (37,199)	\$ 23,324	\$ 238,147
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	777,215	1,007	18,516	796,738
(Increase) decrease in Accounts receivable	(6,061)	(2,386)	-	(8,447)
(Increase) decrease in Accrued absences	1,440	(5,301)	5,736	1,875
(Increase) decrease in Due to other funds	-	16,483	-	16,483
(Increase) decrease in Pension contributions	(2,261)	(313)	(941)	(3,515)
(Increase) decrease in Pension experience	(8,801)	(1,220)	(3,665)	(13,686)
(Increase) decrease in Pension investment returns	(5,524)	(766)	(2,300)	(8,590)
Increase (decrease) Accounts payable	(25,590)	-	-	(25,590)
Increase (decrease) in Customer deposits	35,519	-	-	35,519
Increase (decrease) in Deferred impact fees	(67,623)	-	-	(67,623)
Increase (decrease) in Net pension liability	38,412	5,321	15,994	59,727
Increase (decrease) in Pension assumption	(4,770)	(661)	(1,986)	(7,417)
Total adjustments	731,956	12,164	31,354	775,474
Net cash provided (used) by operating activities	\$ 983,978	\$ (25,035)	\$ 54,678	\$ 1,013,621
Cash and cash equivalents reconciliation				
Cash and cash equivalents	\$ 1,125,788	\$ -	\$ 93,275	\$ 1,219,063
Restricted assets:				
Cash and cash equivalents	505,331	-	-	505,331
Total cash and cash equivalents	\$ 1,631,119	\$ -	\$ 93,275	\$ 1,724,394

The accompanying notes are an integral part of these financial statements.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

The City of Locust Grove, Georgia (the "City") was incorporated under the laws of the State of Georgia. The City operates under a council/mayor form of government and provides the following services: public safety, highways and streets, culture and recreation, public improvements, and general and administrative services. In addition, the City operates a public utilities (water, sewer, solid waste and stormwater management) for the incorporated and immediate surrounding areas.

The City is governed by an elected mayor and a five-member council.

Description of Government-wide 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 governmental and business-type activities of the primary government. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

Basis of Presentation, Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Basis of Presentation, Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

SPLOST Capital Projects Fund - This fund is used by the City to account for acquisition and construction of major capital facilities that were approved by the voters of Henry County, Georgia through the special purpose local option sales tax referendum.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Summary of Significant Accounting Policies (continued)

The City reports the following major proprietary fund:

Water and Sewer Fund - This fund is used to account for activities connected with the development, operation and maintenance of water and sewer services in the City.

Solid Waste Management Fund – This fund is used to account for the activities related to sanitation and recycling services provided to the residential and commercial users of the City.

Stormwater Management Fund – This fund is used to account for activities related to management the flood plains within the City by maintaining natural and artificial water drainage within the city.

Additionally, the City reports the following fund types:

Governmental Fund Types

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally or donor restricted to expenditures for specific purposes.

Capital Projects Funds – This fund type is used to account for financial resources to be use for the acquisition or construction of specifically planned projects (other than those financed by proprietary funds).

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

The 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 or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Summary of Significant Accounting Policies (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues and Expenditures/Expenses

Program revenues include: 1) charges to customers or applicants 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 Water and Sewer, Solid Waste Management, and Sanitation Funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal services funds include the cost of sales 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.

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for the General Fund, Special Revenue Funds, and Enterprise Funds. The Capital Projects Fund is budgeted by the City Council when capital projects are approved. Annual operating budgets are adopted each fiscal year through approval by the Council. Before the end of each year, the City Manager submits a proposed budget for the upcoming year to the City Council for their review. Prior to adoption, a public hearing is held to receive comment from the citizenry on the proposed budget. This hearing

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Summary of Significant Accounting Policies (continued)

is publicized in the local newspaper one week before the hearing, and the budget document is made available for public inspection during this week. After the public hearing, the budget is then revised by the City Council and the first reading of the proposed budget is made. At the next City Council meeting, the second reading of the proposed budget is made and the City Council votes to adopt the proposed budget. The annual operating budget is adopted no later than December 31st for the following year.

The annual budgets for the General Fund and Special Revenue Funds are prepared in accordance with the basis of accounting utilized by that fund. The budgets for the Enterprise Funds are adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, non-operating income and expense items are not considered. All unencumbered budget appropriations, except project budgets, lapse at the end of each year.

The legal level of budgetary control is the departmental level. Any increases in total appropriations of a department require approval and amendment of the budget by the City Council. Except as indicated on the major fund budgetary comparison statement, budget amounts included in this report are as amended as of December 31, 2016.

Cash and Investments

Cash and cash equivalents, as reported in the statement of cash flows, includes amounts in demand deposits, amounts with fiscal agents and investments with an original maturity at three months or less. Investments are reported at fair value with accrued interest shown under a separate caption on the balance sheet.

Intergovernmental Receivables

Receivables for state, federal, and local governments are recorded as revenue for the period of the allocation or as earned based on expenditures made for which reimbursement is due.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items. The cost of the prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective with the year ended December 31, 2004. Infrastructure assets include roads, bridges,

**CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies (continued)

underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Prior to January 1, 2007, neither their historical costs nor related depreciation had historically been reported in the financial statements. For entities the size of the City, retroactive reporting of infrastructure assets was not required.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated.

Land and construction-in-progress are not depreciated. Other property, plant equipment, and infrastructure of the primary government with an original cost of \$3,500 or more are depreciated using the straight-line method over the estimated useful lives of the respective assets ranging as follows:

<u>Description</u>	<u>Life</u>
Buildings and improvements	25-50 years
Improvements other than buildings	20-40 years
Furniture and fixtures	10-20 years
Vehicles	3-5 years
Machinery and equipment	40-50 years
Infrastructure	40-50 years
Water tanks	40-50 years

All land improvements will be valued and capitalized. The costs of normal maintenance and repairs that do not add value or materially extend the life of the asset are charged to operations as incurred. Costs of major additions and improvements are capitalized. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

Deferred Outflows/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 reports deferred outflow of resource for their defined benefit pension plan.

In addition to liabilities, the statement of financial position 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 reports deferred inflows of resources related to their defined pension plan.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Summary of Significant Accounting Policies (continued)

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted, net position and unrestricted, net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Restricted Assets and Restricted Net Position

Restricted assets of the Enterprise Funds represent certain resources set aside for the repayment of revenue bonds because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

Restricted net position is equal to the excess of the restricted assets funded from operations over the liabilities to be paid with restricted assets which are due in one year or less. Restricted assets exclude bond proceeds for calculation of reserve.

Fund Balances – Governmental Funds

The City has implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at December 31, 2016, by the City are nonspendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. Summary of Significant Accounting Policies (continued)

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, the City’s highest level of decision making authority, which include the language “committed for the purpose of.” Commitments may be modified or rescinded only through adoption of a subsequent resolution, which shall refer to the original resolution by its number. A resolution committing amounts must be adopted prior to the end of the fiscal year; however, the amount to be committed may be determined within 120 days of fiscal year-end.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the City’s adopted policy, amounts may be assigned by the City Manager, under the authorization of the City Council, through a written memorandum. Amounts appropriated to eliminate a projected deficit in the subsequent fiscal year’s budget shall constitute assignments and are documented by adoption of the City’s annual operating budget. Equity amounts reported in special revenue funds, capital project funds, debt service funds, or permanent funds not otherwise classified as nonspendable, restricted, or committed shall constitute assignments of fund balance.

Unassigned – includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The General Fund is the only fund that should report this category of fund balance.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation benefits which will be paid to the employees upon separation from City service. Accumulated unpaid vacation pay amounts are accrued when incurred by the City in the government-wide and proprietary fund financial statements. The liability of the proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to the employees. In governmental fund types, a liability is recorded only if the benefit has matured and is expected to be liquidated with expendable available financial resources.

Long-Term Obligations

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

Capital Contributions

Federal, state and local government assistance in the form of grants that are permanent in nature and restricted for the construction or acquisition of specific property and equipment is recorded as an asset and as non-operating revenue.

**CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned. The City has no formal policy, but follows the State of Georgia requirement that all deposits be federally insured or fully collateralized. At December 31, 2016, the City had no uninsured, uncollateralized deposits.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of the State of Georgia or other states, obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The City has no investment policy that would further limit its investment choices. Investments are reported at fair value.

Concentration of Credit Risk

The City has no formal policy on the amount the City may invest in any one issuer.

Foreign currency risk

The City has no investments denominated in a foreign currency.

3. Accounts Receivable

Net accounts receivable at December 31, 2016, consist of the following:

Major funds:

Water/sewer utility	\$	330,002
Less: allowance for uncollectible receivables		175,714
 Solid waste fund		 38,274
Less: allowance for uncollectible receivables		10,000

Other funds:

Stormwater		16,059
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Accounts receivable, net	\$	<u>198,621</u>
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4. Taxes Receivable

Taxes receivable at December 31, 2016 are as follows:

Franchisee taxes	\$	306,771
Sales taxes		200,772
Other taxes		<u>81,180</u>
 Total taxes receivable	 \$	 <u>588,723</u>

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

5. Interfund Receivables, Payables, and Transfers

A summary of interfund receivables and payables as of December 31, 2016, is as follows:

Due from the general fund to major funds:

Water and Sewer	\$	152,507
Stormwater Management		313,871
Sanitation		<u>206,563</u>
Total due from general fund to major funds	\$	<u>672,941</u>

6. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2016 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Non-depreciable assets:				
Land	\$ 2,691,243	\$ 1,821	\$ -	\$ 2,693,064
Construction in progress	<u>946,172</u>	<u>3,521,052</u>	<u>-</u>	<u>4,467,224</u>
Total non-depreciable assets	<u>3,637,415</u>	<u>3,522,873</u>	<u>-</u>	<u>7,160,288</u>
Depreciable assets:				
Buildings and improvements	2,388,709	241,394	-	2,630,103
Other improvements	1,643,598	31,998	-	1,675,596
Infrastructure	2,180,273	-	-	2,180,273
Machinery and equipment	1,208,944	87,600	-	1,296,544
Vehicles	1,074,133	80,540	(213,468)	941,205
Furniture and fixtures	<u>79,594</u>	<u>-</u>	<u>-</u>	<u>79,594</u>
Total depreciable assets	<u>8,575,251</u>	<u>441,532</u>	<u>(213,468)</u>	<u>8,803,315</u>
Accumulated depreciation:				
Buildings and improvements	482,973	64,468	-	547,441
Other improvements	343,981	55,725	-	399,706
Infrastructure	104,544	54,507	-	159,051
Machinery and equipment	1,159,147	62,397	-	1,221,544
Vehicles	1,012,668	57,859	(213,468)	857,059
Furniture and fixtures	<u>79,594</u>	<u>-</u>	<u>-</u>	<u>79,594</u>
Total accumulated depreciation	<u>3,182,907</u>	<u>294,956</u>	<u>(213,468)</u>	<u>3,264,395</u>
Total depreciable assets, net	<u>5,392,344</u>	<u>146,576</u>	<u>-</u>	<u>5,538,920</u>
Governmental activities capital assets, net	<u>\$ 9,029,759</u>	<u>\$ 3,669,449</u>	<u>\$ -</u>	<u>\$ 12,699,208</u>

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

6. Capital Assets (continued)

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Business-type activities:				
Non-depreciable assets:				
Land	\$ 1,423,964	\$ -	\$ -	\$ 1,423,964
Total non-depreciable assets	<u>1,423,964</u>	<u>-</u>	<u>-</u>	<u>1,423,964</u>
Depreciable assets:				
Buildings and improvements	226,262	-	-	226,262
Other improvements	14,304,367	50,800	-	14,355,167
Machinery and equipment	1,087,270	-	-	1,087,270
Vehicles	180,516	23,939	(16,995)	187,460
Water tank	1,698,913	-	-	1,698,913
Sewer treatment plant	<u>7,623,294</u>	<u>-</u>	<u>-</u>	<u>7,623,294</u>
Total depreciable assets	<u>25,120,622</u>	<u>74,739</u>	<u>(16,995)</u>	<u>25,178,366</u>
Accumulated depreciation:				
Buildings and improvements	87,195	5,657	-	92,852
Other improvements	3,412,775	477,204	-	3,889,979
Machinery and equipment	172,936	10,905	(16,995)	166,846
Vehicles	578,343	42,473	-	620,816
Water tank	2,010,783	190,582	-	2,201,365
Sewer treatment plant	<u>982,696</u>	<u>69,917</u>	<u>-</u>	<u>1,052,613</u>
Total accumulated depreciation	<u>7,244,728</u>	<u>796,738</u>	<u>(16,995)</u>	<u>8,024,471</u>
Total depreciable assets, net	<u>17,875,894</u>	<u>(721,999)</u>	<u>-</u>	<u>17,153,895</u>
Business-type activities capital assets, net	<u>\$ 19,299,858</u>	<u>\$ (721,999)</u>	<u>\$ -</u>	<u>\$ 18,577,859</u>

Depreciation expense for the year ended December 31, 2016 was charged to functions/programs as follows:

Primary Government

Governmental activities:

General government	\$ 116,733
Public safety	70,981
Highways and streets	64,715
Parks and recreation	23,863
Community development	<u>18,664</u>
 Total depreciation expense for governmental activities	 <u>\$ 294,956</u>

Business-type activities

Water/sewer	\$ 777,215
Stormwater	18,516
Solid waste	<u>1,007</u>
 Total business-type activities	 <u>\$ 796,738</u>

**CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

7. Capital Lease Agreement

In 2014, the City entered into a capital lease for a earth moving machine. The terms of the agreement meets the criteria of a capital lease as defined by GASB Statement No. 62, paragraph 212, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. At December 31, 2016 the balance of this lease totaled \$70,474.

Total assets leased under capital leases are \$114,359 for governmental activities, consisting of:

Cost	\$ 114,359
Less: accumulated depreciation	<u>(32,083)</u>
Total	<u>\$ 82,276</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

The following is a schedule of the future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2016:

<u>Year ending December 31,</u>	
2017	\$ 25,091
2018	25,091
2019	<u>25,091</u>
Total minimum lease payments	<u>75,273</u>
Less: amounts representing interest	<u>4,527</u>
Present value of minimum lease payments	<u>\$ 70,746</u>

The City's lease agreement are relatively minor commitments (generally for office machines) and are in compliance with state law.

8. Long-Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities, while revenue bonds are issued for the construction and expansion of proprietary activities. General obligation bonds are direct obligations and pledge the full faith, credit and taxing powers of the City while revenue bonds pledge the revenues of the proprietary activity for repayment of the bond issues.

Revenue Bonds

Revenue bonds have been issued for business-type activities and are comprised of the following individual issues at December 31, 2016:

On May 10, 2016, the City issued \$6,785,000 in Water and Sewerage Refunding Revenue Bonds, Series 2016, with an interest rate of 2%. The Series 2016 bonds were issued to partially advance

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

8. Long-Term Debt (continued)

refund \$6,620,000 of outstanding Series 2013 Bonds with an average interest rate of 2.99%. Net proceeds of \$6,641,443 (\$6,785,000 original issue less \$139,200 in underwriting fees, insurance, and other costs of issuance) refunded the outstanding bonds and paid accrued interest of \$21,443. The City completed the current refunding to reduce its total debt service payments over the next 5 years by \$273,157 and to obtain an economic gain (the difference between the present value of the old debt and new debt service payments) of \$244,617. The \$6,785,000 2016 Water and Sewerage Refunding Revenue Series Bonds due in semi-annual installments of through April 1, 2029; interest at 2.00% (\$6,785,000 outstanding), for the refunding of the 2013 Water and Sewerage Revenue Series Bonds, which were issued for the expansion of the water and sewer system in the City of Locust Grove. The Revenue Bond is being reported as 2016 Note payable in the financial statements. Annual debt service requirements to maturity for revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31, 2017	\$ 575,000	\$ 127,075	\$ 702,075
December 31, 2018	565,000	115,725	680,725
December 31, 2019	585,000	104,125	689,125
December 31, 2020	595,000	92,275	687,275
December 31, 2021	610,000	80,150	690,150
December 31, 2022-2026	2,960,000	228,050	3,188,050
December 31, 2027-2028	895,000	17,075	912,075
Total	<u>\$ 6,785,000</u>	<u>\$ 764,475</u>	<u>\$ 7,549,475</u>

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2016. The presentation of balances at January 1, 2016 has been modified from the prior period presentation to include accrued absences as a component of total business-type activities:

	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	<u>Due Within</u>
	<u>1/1/2016</u>			<u>12/31/2016</u>	<u>One Year</u>
Governmental activities:					
Accrued absences	\$ 62,054	\$ 70,760	\$ (62,054)	\$ 70,760	\$ 70,760
Total governmental Activities	<u>\$ 62,054</u>	<u>\$ 70,760</u>	<u>\$ (62,054)</u>	<u>\$ 70,760</u>	<u>\$ 70,760</u>
Business-type activities:					
Accrued absences	\$ 11,125	\$ 13,001	\$ (11,125)	\$ 13,001	\$ 13,001
Capital lease	92,939	-	(22,192)	70,747	22,142
2013 Note payable	7,125,000	-	(7,125,000)	-	-
2016 Note payable	-	6,785,000	-	6,785,000	505,000
Total business-type activities	<u>\$ 7,229,064</u>	<u>\$ 6,798,001</u>	<u>\$ (7,158,317)</u>	<u>\$ 6,868,748</u>	<u>\$540,143</u>
Total long-term debt	<u>\$ 7,291,118</u>	<u>\$ 6,868,761</u>	<u>\$ (7,220,371)</u>	<u>\$ 6,939,508</u>	<u>\$610,903</u>

Total interest expense for business-type activities was \$165,486 for the year ended December 31, 2016. There was no interest expense related to governmental activities for the year ended December 31, 2016.

**CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

9. Pension Plans

Total interest expense reported in business-type funds for the year totaled \$165,846 for the year ended December 31, 2016. There was no interest expense reported in governmental funds for the same period.

Plan Description. The City is a participating member of the Georgia Municipal Employees Benefit System (GMEBS), a state-wide agent, multiple-employer retirement system, administered by the Georgia Municipal Association. This is a defined benefit pension plan, which provides retirement, disability and death benefits to plan members and beneficiaries. The City has established provisions, which assign the authority to the City Council members to establish and amend the benefit provisions of the plan.

Control over the operation and administration of the plan is vested with GMEBS along with custody of the plan assets. The plan provides that the City has no liability with respect to payments or benefits or otherwise under the plan except to pay over to GMEBS such actuarially determined contributions as required to meet minimum funding standards of the Public Retirement Systems Standards Law and provide benefits thereunder. If terminated, the plan provides that if there are funds remaining after the satisfaction of all liabilities, such funds shall not revert to the City but shall be allocated to employees. All employees are eligible for immediate participation. Officials are covered under the plan and are eligible for immediate participation.

There are no loans to any of the City officials or other “party-in-interest,” and there are no prohibited transactions. The plan assets do not include any securities or investments in the City of Locust Grove. The funds are managed by independent money managers. The annual report and more detailed information regarding the plan can be obtained from the Plan Administrator, the Georgia Municipal Employees Benefit System.

At March 31, 2016, the date of the most recent actuarial valuation, there were 84 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	15
Terminated vested participants entitled to but not yet receiving benefits	16
Active participants	<u>53</u>
Total number of participants	<u><u>84</u></u>

Benefits Provided. The plan provides retirement and death benefits. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 65 with no reduction in benefit. Members with thirty years of total service are eligible to retire at age 62 with no reduction in benefit. Officials are eligible to retire at age 65 with no reduction of benefits. Members are eligible for early retirement with reduced benefits based on the early retirement reduction table at age 55 after 10 years of service. The benefit formula is 2.00% with a ten year vesting schedule for terminations.

Contributions. Employees make no contributions to the plan. The City is required to contribute the remaining amounts necessary to fund the plan in compliance with the minimum funding

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. Pension Plans (continued)

standards of the Public Retirement Systems Standards Law. This funding policy, as specified by ordinance, has been the same since the inception of the plan. The City's actuarially determined contribution rate for the year period ending December 31, 2016 was \$159,400 or 6.88% of covered employee payroll.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. At December 31, 2016, the City reported a net pension liability of \$982,154. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. For the fiscal year ended December 31, 2016, the City recognized pension expense of \$215,353.

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 154,505	\$ -
Changes in assumptions	-	(12,835)
Net difference between projected and actual earnings on pension plan investments	96,971	-
Pension contributions subsequent to measurement date	<u>39,689</u>	<u>-</u>
Total	<u>\$ 291,165</u>	<u>\$ (12,835)</u>

The \$39,689 of deferred outflows of resources resulting from the City's prior year contributions during the measurement period will be recognized as a reduction of the net position liability in the fiscal year ending December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

December 31, 2017	\$ 50,889
December 31, 2018	50,889
December 31, 2019	50,889
December 31, 2020	57,640
December 31, 2021	<u>28,334</u>
Total	<u>\$ 238,641</u>

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. Pension Plans (continued)

Actuarial Assumptions. The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Cost of living adjustments	0.00%
Projected salary increases	3.25% plus service based merit increases
Net investment rate of return	7.75%

Healthy mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females. Disabled mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates. The mortality and economic actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period of January 1, 2010 through June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The difference between the resulting rate and the rate on the ongoing basis is a margin for adverse deviation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of March 31, 2016 are summarized in the following table:

Asset class:	<u>Target allocation</u>	<u>Expected real rate of return</u>
Domestic equity	45%	6.75%
International equity	20%	7.45%
Global fixed income	5%	3.30%
Domestic fixed income	20%	1.75%
Real estate	10%	4.55%
Cash	<u>0%</u>	
Total	<u><u>100%</u></u>	

Discount Rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employer will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

9. Pension Plans (continued)

Changes in Net Pension Liability (Asset)

	<u>(a)</u> Total pension liability (asset)	<u>(b)</u> Plan fiduciary net position	<u>(a) – (b)</u> Net pension liability (asset)
Balance, March 31, 2015	\$ 2,708,923	\$ 1,964,915	\$ 744,008
Changes for the year:			
Service cost	104,748	-	104,748
Interest	206,702	-	206,702
Differences between expected and actual experience	41,791	-	41,791
Contributions - employer	-	114,820	(114,820)
Net investment income	-	6,713	(6,713)
Benefit payments, including refunds of employee contributions	(83,598)	(83,598)	-
Administrative expenses	-	<u>(6,438)</u>	<u>6,438</u>
Net changes	<u>269,643</u>	<u>31,497</u>	<u>238,146</u>
Balance, March 31, 2016	<u>\$ 2,978,566</u>	<u>\$ 1,996,412</u>	<u>\$ 982,154</u>

Plan's Fiduciary net position as a percentage of the total pension liability	67.03%
Covered-employee payroll	\$2,278,667
Net Pension liability as a percentage of covered-employee payroll	43.10%

Sensitivity of the Net Pension Asset/Liability to Changes in the Discount Rate. The following presents what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

	<u>Discount rate</u>	<u>Net pension asset (liability)</u>
1% decrease	6.75%	\$ 1,509,550
Current discount rate	7.75%	\$ 982,154
1% increase	8.75%	\$ 552,018

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued Georgia Municipal Employees Benefit System financial report.

Other Plans. In addition to the plan above, various City employees are covered under the Peace Officers' Annuity and Benefit Fund of Georgia and the Firefighters Pension Fund of Georgia. Further information regarding this plan can be obtained from the plan's annual report.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

10. Hotel/Motel Lodging Tax

The City has levied an 8% lodging tax, in accordance with Official Code of Georgia Annotated (OCGA) Section 48-13-51(5.2). The City is required to spend, of the total taxes collected, an amount equal to at least 33 1/3% for the purpose of promoting tourism, conventions, and trade shows, 16 2/3% for the purpose of marketing or operating a community auditorium or theater, and 33 1/3% for general recreation purposes. A summary of the transactions for the year ended December 31, 2016 follows:

Lodging tax receipts	\$408,961
Disbursements to promote tourism, conventions, and trade shows, operation of community theater, and general recreation purposes	\$364,793 89% of tax receipts

11. Unearned Revenue

In a prior period the City received water and sewer impact fees from a private developer in the amount of \$5,600,000. As a result of the payment, the developer owned credits to be applied to future water and sewer connections for subsequent development projects. The developer subsequently transferred the fee credits to a bank as a part of a settlement agreement. As of December 31, 2016, the bank held \$3,685,352 in impact credits toward future water and sewer connections in the City. During the year ending December 31, 2016, the City recognized \$118,340 in water and sewer impact fees related the fee credits claimed from the bank.

12. Joint Ventures

Under Georgia law, the City, in conjunction with other cities and counties in the Metropolitan Atlanta area, is a member of the Atlanta Regional Commission ("ARC"). Membership in this organization is required by the Official Code of Georgia Annotated ("OCGA") Section 50-8-34, which provides for the organizational structure of the commission in Georgia. The ARC Board membership includes the chief elected official of each county, one representative for all the cities in a member county and fifteen citizen representatives. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the ARC.

Separate financial statements may be obtained from:

Atlanta Regional Commission
3715 Northside Parkway
Building 200, Suite 300
Atlanta, Georgia 30327

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

13. Risk Management

Material estimates have been made by management about the life of depreciated fixed assets. Management has used a conservative approach on these estimates.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City of Locust Grove became a member of the Georgia Municipal Associated Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer, including the City, is specifically limited to such obligations as are imposed by applicable state laws against the employer for workers' compensation and/or employer's liability.

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 claim of loss. The City is also obligated to allow the pool's agents 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.

Settled claims in the past three years have not exceeded the coverages.

Management estimates liabilities for unpaid claims based on the probability of losses exceeding the occurrence limits and the reasonableness of estimating those losses. At December 31, 2016, the City has no losses that are probable or estimable and accordingly has not recognized any liability.

14. Commitments and Contingencies

Commitments

Amounts received or receivable from grant agencies are subject to audit adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any, to be immaterial.

Contingencies

The City's legal counsel has stated that there are presently no determinable lawsuits.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

15. Changes in Beginning Balances

Prior period adjustments have been made to the beginning net position of the business-type activities of the City. They are as follows:

- A prior period adjustment was made to record unearned revenue from water and sewer impact fees previously recognized as revenue in the fund. The beginning net position of the water and sewer utility fund decreased by \$3,752,975 as a result of this adjustment.
- A prior period adjustment was made to remove a duplicate deposit related to a sinking fund deposit for the City's water and sewerage revenue bond. The beginning net position of the water and sewer utility fund decreased by \$355,846 as a result of this adjustment.
- A prior period adjustment was made to remove credit card deposits from water and sewer payments which were deposited to the City's bank accounts prior to the year ending December 31, 2016 but were shown as outstanding deposits at year-end. The beginning net position of the water and sewer utility fund decreased by \$63,159 as a result of this adjustment.
- A prior period adjustment was made to record bad debt expense for uncollectible water and sewer fees. The beginning net position of the water and sewer utility fund decreased by \$77,613 as a result of this adjustment.

Required Supplemental Information

CITY OF LOCUST GROVE, GEORGIA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
DECEMBER 31, 2016
(Unaudited)

	<u>Fiscal year end</u>	<u>Fiscal year end</u>
	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 104,748	\$ 74,722
Interest	206,702	181,677
Differences between expected and actual experience	41,791	167,555
Changes of assumptions	-	(17,971)
Benefit payments	<u>(83,598)</u>	<u>(82,566)</u>
Net change in total pension liability	269,643	323,417
Total pension liability - beginning	<u>2,708,923</u>	<u>2,385,506</u>
Total pension liability - ending (a)	<u><u>\$ 2,978,566</u></u>	<u><u>\$ 2,708,923</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 114,820	\$ 124,851
Net investment income	6,713	171,322
Benefit payments, including refunds of employee contributions	(83,598)	(82,566)
Administrative expense	<u>(6,438)</u>	<u>(5,206)</u>
Net change in total pension liability	31,497	208,401
Plan fiduciary net position - beginning	<u>1,964,915</u>	<u>1,756,514</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,996,412</u></u>	<u><u>\$ 1,964,915</u></u>
 Net pension liability (asset) - ending : (a) - (b)	<u><u>\$ 982,154</u></u>	<u><u>\$ 744,008</u></u>
Plan's fiduciary net position as a percentage of the total pension liability	67.03%	72.53%
Covered-employee payroll	\$ 2,278,667	\$ 2,152,833
Net pension liability as a percentage of covered-employee payroll	43.10%	34.56%

Note: 2015 was the first year of implementation. Therefore, only two years are reported.

CITY OF LOCUST GROVE, GEORGIA
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Unaudited)

	Fiscal year end	Fiscal year end
	2016	2015
Actuarially determined contribution	-*	\$ 107,899
Contributions in relation to the actuarially determined contribution	-*	(107,899)
Contribution deficiency (excess)	-*	\$ -
Covered-employee payroll	-*	\$ 2,152,833
Contributions as a percentage of covered-employee payroll	-*	5.01%

* 2016 information will be determined after fiscal year end and will be included in the 2017 valuation report

Note: 2015 was the first year of implementation. Therefore, only two years are reported.

CITY OF LOCUST GROVE, GEORGIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

1. Valuation Date

The actuarially determined contribution rate was determined as of July 1, 2016, with an interest adjustment to the fiscal year. Contributions in relation to this actuarially determined contribution rate will be reported for the fiscal year ending December 31, 2016.

2. Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method: Projected unit credit cost method. Normal cost and actuarial accrued liability are calculated on an individual basis and are allocated by service.

Amortization method: The amortization of the unfunded actuarial accrued liability is level dollar over 30 years for the initial unfunded accrued liability, 15 years for actuarial gains and losses, 10 years for temporary retirement incentive programs, 20 years for other changes to plan provisions, and 30 years for actuarial assumptions and cost methods. The total amortization must be within a corridor of the 10-year and the 30-year amortization of the unfunded/(surplus) actuarial accrued liability. In a year when the 10-year or 30-year corridor applies, the following year, the prior year bases are combined into one 10-year or 30-year base.

Asset valuation method: Sum of the actuarial value at the beginning of year and the cash flow during year plus the assumed investment return, adjusted by 10 percent of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted if necessary, to be within 20% of market value.

Net investment rate of return: 7.75% - On-going basis, based on long-term expected rate of return on pension plan investments.

Projected salary increases:

<u>Years of service:</u>	<u>Annual Rate*</u>
0-1	8.75%
2	5.75%
3	5.50%
4	5.25%
5	5.00%
6	4.75%
7	4.50%
8	4.25%
9	4.00%
10 or more	3.75%

*Note the above rates include inflation of 3.25%.

Retirement age for inactive vested participants: 65

CITY OF LOCUST GROVE, GEORGIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

Mortality:

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

Disabled: RP-2000 Disabled Retiree Mortality Table with sex-distinct rates.

Plan termination basis (all lives): 1994 Group Annuity Reserving Unisex Table.

3. Changes in benefits

There have been no substantive changes since the last actuarial valuation.

4. Changes in methods and assumptions

There were no changes in methods or assumptions from the prior valuation.

Supplemental Information

CITY OF LOCUST GROVE, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>Special revenue</u>		<u>Capital projects</u>	<u>Total nonmajor governmental Funds</u>
	<u>Confiscated assets fund</u>	<u>Hotel motel fund</u>	<u>Development impact fund</u>	
ASSETS				
Cash and cash equivalents	\$ 173	\$ 339,266	\$ 248,022	\$ 587,461
Receivables				
Taxes	-	32,986	-	32,986
Prepaid items	-	82	-	82
Total assets	<u>173</u>	<u>372,334</u>	<u>248,022</u>	<u>620,529</u>
FUND BALANCES				
Nonspendable prepaid items	-	82	-	82
Restricted for:				
Capital projects	-	-	248,022	248,022
Public safety	173	-	-	173
Tourism	-	372,252	-	372,252
Total fund balances	<u>\$ 173</u>	<u>\$ 372,334</u>	<u>\$ 248,022</u>	<u>\$ 620,529</u>

CITY OF LOCUST GROVE, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Special revenue</u>		<u>Capital projects</u>	<u>Total nonmajor governmental funds</u>
	<u>Confiscated assets fund</u>	<u>Hotel motel fund</u>	<u>Development impact fund</u>	
Revenues:				
Taxes	\$ -	\$ 408,961	\$ -	\$ 408,961
Charges for services	-	-	169,069	169,069
Intergovernmental	-	37,536	-	37,536
Interest	-	75	130	205
Total revenues	<u>-</u>	<u>446,572</u>	<u>169,199</u>	<u>615,771</u>
Expenditures:				
Current:				
Housing and development	-	364,793	-	364,793
Capital expenditures	-	-	36,000	36,000
Total expenditures	<u>-</u>	<u>364,793</u>	<u>36,000</u>	<u>400,793</u>
Excess (deficiency) of revenues over (under) expenditures	-	81,779	133,199	214,978
Fund balances, beginning of year	<u>173</u>	<u>290,555</u>	<u>114,823</u>	<u>405,551</u>
Fund balance, end of year	<u>\$ 173</u>	<u>\$ 372,334</u>	<u>\$ 248,022</u>	<u>\$ 620,529</u>

**CITY OF LOCUST GROVE, GEORGIA
GENERAL FUND
BALANCE SHEET
DECEMBER 31, 2016**

ASSETS

Cash and cash equivalents	\$ 4,405,587
Receivables, net	
Taxes	555,737
Fines	63,520
Prepaid items	<u>1,576</u>
Total assets	<u><u>\$ 5,026,420</u></u>

LIABILITIES

Accounts payable	\$ 163,021
Due to other funds	689,424
Other liabilities	<u>540</u>
Total liabilities	<u>852,985</u>

Fund balances:

Nonspendable prepaid items	1,576
Committed for cemetery	22,699
Unassigned	<u>4,149,160</u>
Total fund balances	<u>4,173,435</u>
Total liabilities and fund balances	<u><u>\$ 5,026,420</u></u>

**CITY OF LOCUST GROVE, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016**

REVENUES

Taxes	\$ 3,363,492
Licenses and permits	261,268
Fines, fees and forfeitures	515,501
Charges for services	25,968
Intergovernmental	60,496
Interest	5,809
Other	96,163
	<hr/>
Total revenues	4,328,697

EXPENDITURES

Current:

General government	424,495
Judicial	313,712
Public safety	2,208,849
Public works	842,628
Parks and recreation	61,610
Community development	324,833
	<hr/>

Total expenditures	4,176,127
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Net change in fund balance	152,570
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Fund balances, beginning of year	4,020,865
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Fund balances, end of year	\$ 4,173,435
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**CITY OF LOCUST GROVE, GEORGIA
CONFISCATED ASSETS SPECIAL REVENUE FUND
BALANCE SHEET
DECEMBER 31, 2016**

ASSETS

Cash and cash equivalents	<u>\$ 173</u>
Total assets	<u>173</u>

FUND BALANCES

Restricted for:	
Public safety	<u>173</u>
Total fund balances	<u><u>\$ 173</u></u>

CITY OF LOCUST GROVE, GEORGIA
CONFISCATED ASSETS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

Change in fund balance	<u>\$ -</u>
Fund balances, beginning of year	<u>173</u>
Fund balances, end of year	<u><u>\$ 173</u></u>

CITY OF LOCUST GROVE, GEORGIA
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	\$	339,266
Receivables		
Taxes		32,986
Prepaid items		<u>82</u>
Total assets		<u><u>372,334</u></u>

FUND BALANCES

Nonspendable for prepaid items		82
Restricted for:		
Tourism		<u>372,254</u>
Total fund balances	\$	<u><u>372,336</u></u>

**CITY OF LOCUST GROVE, GEORGIA
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Revenues:	
Taxes	\$ 408,961
Intergovernmental	37,536
Interest	<u>73</u>
Total revenues	<u>446,570</u>
Expenditures:	
Current:	
Housing and development	<u>364,793</u>
Total expenditures	<u>364,793</u>
Excess (deficiency) of revenues over (under) expenditures	81,777
Fund balances, beginning of year	<u>290,555</u>
Fund balance, end of year	<u><u>\$ 372,332</u></u>

CITY OF LOCUST GROVE, GEORGIA
DEVELOPMENTAL IMPACT CAPITAL PROJECTS FUND
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	<u>\$ 248,022</u>
Total assets	<u>248,022</u>

FUND BALANCES

Restricted for:	
Capital projects	<u>248,021</u>
Total fund balances	<u><u>\$ 248,021</u></u>

**CITY OF LOCUST GROVE, GEORGIA
DEVELOPMENTAL IMPACT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Revenues:	
Charges for services	\$ 169,069
Interest	<u>130</u>
Total revenues	<u>169,199</u>
Expenditures:	
Capital expenditures	<u>36,000</u>
Total expenditures	<u>36,000</u>
Excess (deficiency) of revenues over (under) expenditures	133,199
Fund balances, beginning of year	<u>114,824</u>
Fund balance, end of year	<u><u>\$ 248,023</u></u>

CITY OF LOCUST GROVE, GEORGIA
SPECIAL PURPOSE LOCAL OPTION SALES TAX CAPITAL PROJECTS FUND
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Cash and cash equivalents \$ 826,576

Total assets \$ 826,576

FUND BALANCES:

Restricted for:
Capital projects \$ 826,576

Total fund balances \$ 826,576

CITY OF LOCUST GROVE, GEORGIA
SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

Revenues:	
Intergovernmental	\$ 769,403
Interest	7,771
Other	<u>43</u>
Total revenues	<u>777,217</u>
Expenditures:	
Capital outlay	<u>3,462,473</u>
Total expenditures	<u>3,462,473</u>
Excess (deficiency) of revenues over (under) expenditures	(2,685,256)
Fund balances, beginning of year	<u>3,511,832</u>
Fund balances, end of year	<u><u>\$ 826,576</u></u>

**CITY OF LOCUST GROVE, GEORGIA
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,125,788
Restricted assets	
Cash and cash equivalents	505,331
Accounts receivable, net	154,288
Due from other funds	<u>152,507</u>
Total current assets	<u>1,937,914</u>

Noncurrent assets:

Capital assets	
Non-depreciable	1,423,964
Depreciable, net	<u>17,011,910</u>
Total noncurrent assets	<u>18,435,874</u>

Total assets

20,373,788

Deferred outflow of resources:

Pension contributions subsequent to measurement date	6,230
Pension experience differences	24,254
Pension investment return differences	<u>15,222</u>
Total deferred outflows of resources	<u>45,706</u>

LIABILITIES

Current liabilities:

Accounts payable	215
Accrued absences	6,485
Liabilities payable from restricted assets:	
Notes payable	505,000
Customer deposits	329,348
Interest payable	<u>34,302</u>
Total current liabilities	<u>875,350</u>

Noncurrent liabilities:

Net pension liability	153,454
Unearned revenue	3,685,352
Notes payable	<u>6,280,000</u>
Total noncurrent liabilities	<u>10,118,806</u>

Total liabilities

10,994,156

**CITY OF LOCUST GROVE, GEORGIA
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Deferred inflow of resources:	
Pension assumption changes	1,787
	<hr/>
Total deferred inflows of resources	1,787
	<hr/>
Net position:	
Net investment in capital assets	11,650,874
Restricted for debt service	505,331
Unrestricted	(2,732,654)
	<hr/>
Total net position	\$ 9,423,551
	<hr/> <hr/>

CITY OF LOCUST GROVE, GEORGIA
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating revenues:	
Charges for sales and services	\$ 3,084,932
Other	<u>95,331</u>
Total operating revenues	<u>3,180,263</u>
Operating expenses:	
Cost of sales and services	1,776,461
Salaries and benefits	374,565
Depreciation	<u>777,215</u>
Total operating expenses	<u>2,928,241</u>
Operating income	<u>252,022</u>
Non-operating revenues (expenses):	
Interest revenue	807
Interest expense	<u>(165,846)</u>
Total non-operating revenues (expenses)	<u>(165,039)</u>
Change in net position	86,983
Net position, beginning of year (restated)	<u>9,336,568</u>
Net position, end of year	<u><u>\$ 9,423,551</u></u>

**CITY OF LOCUST GROVE, GEORGIA
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash flows from operating activities	
Receipts from customers	\$ 3,046,767
Payment to suppliers	(1,783,555)
Payments to employees	(374,565)
Other receipts	<u>95,331</u>
Net cash provided by operating activities	<u>983,978</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(74,739)
Payments for refunding of bond	(6,620,000)
Proceeds from bond issuance	6,785,000
Payments of bond principal	(505,000)
Interest paid	<u>(185,987)</u>
Net cash used by capital and related financing	<u>(600,726)</u>
Cash flows from investing activities:	
Interest received	<u>807</u>
Net cash provided by investing activities	<u>807</u>
Net increase in cash and cash equivalents	384,059
Cash and cash equivalents, beginning of year	<u>1,247,060</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,631,119</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 252,022
Adjustments to reconcile operating income to net cash	
Depreciation expense	777,215
(Increase) decrease in Accounts receivable	(6,061)
(Increase) decrease in Accrued absences	1,440
(Increase) decrease in Pension contributions	(2,261)
(Increase) decrease in Pension experience	(8,801)
(Increase) decrease in Pension investment returns	(5,524)
Increase (decrease) Accounts payable	(25,590)
Increase (decrease) in Customer deposits	35,519
Increase (decrease) in Unearned revenue	(67,623)
Increase (decrease) in Net pension liability	38,412
Increase (decrease) in Pension assumption	<u>(4,770)</u>
Net cash provided by operating activities	<u><u>\$ 983,978</u></u>

CITY OF LOCUST GROVE, GEORGIA
STATEMENT OF NET POSITION
SOLID WASTE MANAGEMENT ENTERPRISE FUND
DECEMBER 31, 2016

ASSETS

Current assets:

Accounts receivable, net	\$	28,274
Due from other funds		<u>206,563</u>
Total current assets		<u>234,837</u>
Total assets		<u><u>234,837</u></u>

Deferred outflow of resources:

Pension contributions subsequent to measurement date		861
Pension experience differences		3,352
Pension investment return differences		<u>2,104</u>
Total deferred outflows of resources		<u>6,317</u>

LIABILITIES

Current liabilities:

Accrued absences		<u>779</u>
Total current liabilities		<u>779</u>

Noncurrent liabilities:

Net pension liability		<u>21,193</u>
Total noncurrent liabilities		<u>21,193</u>
Total liabilities		<u>21,972</u>

Deferred inflow of resources:

Pension assumption changes		<u>244</u>
Total deferred inflows of resources		<u>244</u>

Net position:

Unrestricted		<u>218,938</u>
Total net position		<u><u>\$ 218,938</u></u>

**CITY OF LOCUST GROVE, GEORGIA
SOLID WASTE MANAGEMENT ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Operating revenues:	
Charges for sales and services	\$ 337,574
Other	1,006
	<hr/>
Total operating revenues	338,580
	<hr/>
Operating expenses:	
Cost of sales and services	325,361
Salaries and benefits	49,411
Depreciation	1,007
	<hr/>
Total operating expenses	375,779
	<hr/>
Change in net position	(37,199)
Net position, beginning of year (restated)	256,137
	<hr/>
Net position, end of year	\$ 218,938
	<hr/> <hr/>

**CITY OF LOCUST GROVE, GEORGIA
SOLID WASTE MANAGEMENT ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash flows from operating activities	
Receipts from customers	\$ 335,188
Payment to suppliers	(311,818)
Payments to employees	(49,411)
Other receipts	<u>1,006</u>
Net cash used in operating activities	<u>(25,035)</u>
Net increase in cash and cash equivalents	(25,035)
Cash and cash equivalents, beginning of year	<u>25,035</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (37,199)
Adjustments to reconcile operating income to net cash	
Depreciation expense	1,007
(Increase) decrease in Accounts receivable	(2,386)
(Increase) decrease in Accrued absences	(5,301)
(Increase) decrease in Due to other funds	16,483
(Increase) decrease in Pension contributions	(313)
(Increase) decrease in Pension experience	(1,220)
(Increase) decrease in Pension investment returns	(766)
Increase (decrease) in Net pension liability	5,321
Increase (decrease) in Pension assumption	<u>(661)</u>
Net cash used in operating activities	<u><u>\$ (25,035)</u></u>

CITY OF LOCUST GROVE, GEORGIA
STORMWATER MANAGEMENT ENTERPRISE FUND
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 93,275
Accounts receivable, net	16,059
Due from other funds	313,871
	313,871
Total current assets	423,205

Noncurrent assets:

Depreciable, net	141,985
	141,985
Total noncurrent assets	141,985

Total assets

565,190

Deferred outflow of resources:

Pension contributions subsequent to measurement date	2,238
Pension experience differences	8,714
Pension investment return differences	5,469
	5,469
Total deferred outflows of resources	16,421

LIABILITIES

Current liabilities:

Capital lease payable	22,142
Accrued absences	5,737
	5,737
Total current liabilities	27,879

Noncurrent liabilities:

Net pension liability	53,584
Capital lease payable	48,605
	48,605
Total noncurrent liabilities	102,189

Total liabilities

130,068

Deferred inflow of resources:

Pension assumption changes	156
	156
Total deferred inflows of resources	156

Net position:

Net investment in capital assets	71,238
Unrestricted	380,149
	380,149
Total net position	\$ 451,387

CITY OF LOCUST GROVE, GEORGIA
STORMWATER MANAGEMENT ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating revenues:	
Charges for sales and services	\$ 216,492
	<u>216,492</u>
Total operating revenues	<u>216,492</u>
Operating expenses:	
Cost of sales and services	85,535
Salaries and benefits	89,117
Depreciation expense	18,516
	<u>18,516</u>
Total operating expenses	<u>193,168</u>
Operating income	<u>23,324</u>
Non-operating expenses:	
Interest expense	<u>(2,899)</u>
Total non-operating expenses	<u>(2,899)</u>
Change in net position	20,425
Net position, beginning of year (restated)	<u>430,962</u>
Net position, end of year	<u><u>\$ 451,387</u></u>

**CITY OF LOCUST GROVE, GEORGIA
STORMWATER MANAGEMENT ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash flows from operating activities	
Receipts from customers	\$ 216,492
Payment to suppliers	(72,697)
Payments to employees	<u>(89,117)</u>
Net cash provided by operating activities	<u>54,678</u>
Cash flows from capital and related financing activities:	
Interest paid	(2,899)
Principal payments of long-term debt	<u>(44,334)</u>
Net cash used in capital and related financing activities	<u>(47,233)</u>
Net increase in cash and cash equivalents	7,445
Cash and cash equivalents, beginning of year	<u>63,688</u>
Cash and cash equivalents, end of year	<u><u>\$ 71,133</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 23,324
Adjustments to reconcile operating income to net cash	
Depreciation expense	18,516
(Increase) decrease in Accrued absences	5,736
(Increase) decrease in Pension contributions	(941)
(Increase) decrease in Pension experience	(3,665)
(Increase) decrease in Pension investment returns	(2,300)
Increase (decrease) in Net pension liability	15,994
Increase (decrease) in Pension assumption	<u>(1,986)</u>
Net cash provided by operating activities	<u><u>\$ 54,678</u></u>

Other Reporting Sections



whaley hammonds tomasello, p.c.

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

INDEPENDENT AUDITORS' 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

To the Honorable Mayor and Members of the City Council
City of Locust Grove, 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 Locust Grove, Georgia as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Locust Grove's basic financial statements and have issued our report thereon dated December 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Locust Grove, Georgia'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the following deficiencies in internal control to be material weaknesses:

Comment 2016-001

Condition: The City lacks sufficient controls and procedures regarding year-end close to ensure timely and accurate financial reporting. There were 34 journal entries posted to the general ledger after the final trial balance was received from management.



whtcpa

Criteria: Internal controls should be in place to ensure the City can perform timely and accurate year-end close procedures in order for the City to be able to produce its annual financial statements in compliance with State statutes.

Effect: Failure to properly design and implement internal controls over year-end close procedures may lead to financial statements that are materially misstated and lead to delays in financial reporting.

Recommendation: We recommend that the City's Manager and Clerk continue to develop and implement internal controls over the year-end closeout procedure. We also recommend management reconcile account balances monthly to the subsidiary ledgers to ensure proper and timely recording.

Management's response: Management concurs with this finding. The City Manager and City Clerk have communicated with the auditor regarding this recommendation and have begun to plan changes to the month and year-end closing processes to ensure that adjustments required for accurate and timely financial reporting.

Comment 2016-002

Condition: Material adjustments were needed and made to the financial statements during year end closing and the audit process.

Criteria: Internal controls should be in place to ensure the City can prevent, detect, and correct material misstatements on a timely basis and adjustments made on a monthly basis during the year.

Effect: Monthly financial statements and reporting during the fiscal year were materially misstated.

Recommendation: We recommend that the City's Manager and Clerk continue to implement and/or strengthen internal controls over reconciling the general ledger and financial statements that will ensure that the City can prevent, detect, and correct material misstatements on a timely basis and provide accurate financial reporting throughout the year.

Management Response: Management concurs with this finding. The City Manager and City Clerk have communicated with the auditor regarding this recommendation and have begun to plan changes to the month and year-end closing processes to ensure that adjustments required for accurate and timely financial reporting.

Comment 2016-003

Condition: The 2015 financial statements were restated to correct the effect of prior period misstatements. Several prior period audit adjustments which were recorded by the City resulted in material misstatements in the prior period financial statements. Additionally, certain duplicated transactions resulted in material misstatements to prior period financial statements.

Criteria: Internal controls should be in place to ensure the City can perform timely and accurate year-end close procedures in order for the City to be able to produce its annual financial statements in compliance with State statutes.



whtcpa

Effect: Failure to properly design and implement internal controls over year-end close procedures may lead to financial statements that are materially misstated and lead to delays in financial reporting.

Recommendation: We recommend that the City's Manager and Clerk continue to implement and/or strengthen internal controls over reconciling the general ledger and financial statements that will ensure that the City can prevent, detect, and correct material misstatements on a timely basis and provide accurate financial reporting throughout the year.

Management Response: Management concurs with this finding. In addition to the changes the City Manager and City Clerk have implemented to address findings 2016-001 and 2016-002, the City Manager and City Clerk began to determine appropriate steps to implement additional controls over the year-end close process. This action was taken immediately upon the replacement of the predecessor auditor.

City of Locust Grove, Georgia's Response to Findings

The City of Locust Grove, Georgia's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Locust Grove, Georgia'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

This report is intended 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 City of Locust Grove, Georgia's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Statements* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 7, 2017

CITY OF LOCUST GROVE, GEORGIA
SPECIAL PURPOSE LOCAL OPTION SALES TAX REPORT
DECEMBER 31, 2016

Project	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Years	Total
SPLOST 2014 Issue					
Roads, bridges, sidewalks and transportation facilities	\$ 1,550,000	\$ 1,550,000	\$ -	\$ -	\$ -
Public safety facilities and equipment	2,750,000	2,750,000	-	2,023,189	2,023,189
Construction and renovation of municipal buildings	525,000	525,000	221,761	303,239	525,000
Parks and recreation facilities	275,000	275,000	-	-	-
Stormwater	200,000	200,000	-	-	-
SPLOST 2008 Issue					
Roads, bridges, sidewalks and transportation facilities	2,900,000	2,900,000	1,047,623	-	1,047,623
Public safety facilities and equipment	2,000,000	2,000,000	863,955	1,136,045	2,000,000
Construction and renovation of municipal buildings	750,000	750,000	750,000	-	750,000
Parks and recreation facilities	500,000	500,000	572,955	-	572,955
Acquisition of property for public use	1,500,000	1,500,000	1,279,116	-	1,279,116
Total	\$ 12,950,000	\$ 12,950,000	\$ 4,735,410	\$ 3,462,473	\$ 8,197,883