CITY OF LINCOLNTON, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

CITY OF LINCOLNTON, GEORGIA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2013

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Activities	5
Balance Sheets – Governmental Funds	6
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Budgetary Basis) and Actual – General Fund	10
Statement of Net Position – Proprietary Funds	11
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	12
Statement of Cash Flows – Proprietary Funds	13-14
Notes to Financial Statements	16-37
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Defined Benefit Pension Plan	40
OTHER SUPPLEMENTARY INFORMATION	
General Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Budgetary Basis) and Actual – General Fund by Object	44-45

CITY OF LINCOLNTON, GEORGIA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2013

TABLE OF CONTENTS

	PAGE
Nonmajor Governmental Funds	
Combining Balance Sheet	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	49
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (Budgetary Basis) and Actual – Hotel Motel Tax Fund	50
Special Revenue Grant Funds	
Community Development Block Grant Project Cost Schedule (Cash Basis)	52
Community Development Block Grant Source and Application of Funds Schedule (Cash Basis)	53
Special Purpose Local Option Sales Tax	
Schedule of Special Purpose Local Option Sales Tax	54
COMPLIANCE AND SECTION	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	56-57
Schedule of Findings and Responses	58-62
Schedule of Prior Audit Findings	63

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of City Council
City of Lincolnton
Lincolnton, Georgia

Report on the Financial Statements

We have audited the accompanying statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincolnton, Georgia (the "City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made be 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 aggregate remaining fund information of the City as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for 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 schedule of funding progress-defined benefit pension plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedules, combining and individual fund financial statements, community development block grant schedules, and special purpose local option sales tax schedule, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, combining and individual fund financial statements, community development block grant schedules, and the special purpose local option sales tax schedule 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 underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, combining and individual fund financial statements, community development block grant schedules, and the special purpose local option sales tax schedule are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 on our consideration of the City'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 the 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's internal control over financial reporting and compliance.

Thomson, Georgia
December 5, 2014

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 793,872	$ 12,557	$ 806,429
Restricted cash and cash equivalents	-	227,556	227,556
Receivables			
Taxes-net	42,359	-	42,359
Accounts-net	-	122,329	122,329
Interest	62	27	89
Intergovernmental	42,325	13,136	55,461
Internal balances	6,968	(6,968)	-
Capital assets net of accumulated depreciation			
Land	145,507	97,579	243,086
Buildings and improvements	428,206	12,230	440,436
Machinery and equipment	35,880	7,222,809	7,258,689
Infrastructure	1,025,767	-	1,025,767
Construction in progress	633,620	-	633,620
Net pension asset	2,301	-	2,301
Total assets	$ 3,156,867	$ 7,701,255	$ 10,858,122
Liabilities			
Accounts payable	$ 37,924	$ 23,934	$ 61,858
Accrued liabilities	12,226	5,943	18,169
Customer deposits	-	34,208	34,208
Intergovernmental payables	4,733	3,238	7,971
Accrued interest payable	-	5,057	5,057
Noncurrent liabilities			
Due within one year	6,728	136,416	143,144
Due in more than one year	420	4,263,879	4,264,299
Total liabilities	62,031	4,472,675	4,534,706
Net Position			
Net investment in capital assets	2,262,252	2,932,323	5,194,575
Restricted for:			
Public works	322,372	-	322,372
Housing and development	16,211	-	16,211
Debt service	-	227,556	227,556
Unrestricted	494,001	68,701	562,702
Total net position	$ 3,094,836	$ 3,228,580	$ 6,323,416

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Position: Primary Government: Governmental Activities	Net Revenue (Expenses) and Changes in Net Position: Primary Government: Business-type Activities	Net Revenue (Expenses) and Changes in Net Position: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 297,430	$ -	$ -	$ -	$ (297,430)	$ -	$ (297,430)
Judicial	6,237	35,785	-	-	29,548	-	29,548
Public safety	304,777	2,550	-	-	(302,227)	-	(302,227)
Public works	303,580	166,632	-	246,985	110,037	-	110,037
Housing and development	25,657	4,086	-	-	(21,571)	-	(21,571)
Community services	6,677	20,225	-	-	13,548	-	13,548
Interest on long-term debt	1,417	-	-	-	(1,417)	-	(1,417)
Total governmental activities	945,775	229,278	-	246,985	(469,512)	-	(469,512)
Business-type activities:							
Water Sewer Utility Fund	924,560	831,101	-	-	-	(93,459)	(93,459)
Total business-type activities	924,560	831,101	-	-	-	(93,459)	(93,459)
Total primary government	$ 1,870,335	$ 1,060,379	$ -	$ 246,985	(469,512.00)	(93,459.00)	(562,971.00)
General revenues							
Property taxes					203,114	-	203,114
Motor vehicle taxes					11,397	-	11,397
Motor vehicle title advalorem taxes					20,638	-	20,638
Mobile home taxes					924	-	924
Payment in lieu of taxes					2,618	-	2,618
Sales taxes					254,906	-	254,906
Franchise taxes					108,119	-	108,119
Insurance premium taxes					80,781	-	80,781
Hotel Motel taxes					12,638	-	12,638
Alcoholic beverage taxes					48,998	-	48,998
Occupation taxes					16,711	-	16,711
Intangible taxes					1,619	-	1,619
Transfer taxes					191	-	191
Interest income					845	587	1,432
Other revenues					25,331	-	25,331
Transfers					(31,049)	31,049	-
Total general revenues and transfers					757,781	31,636	789,417
Change in net position					288,269	(61,823)	226,446
Net position, beginning of year (original)					2,270,381	3,438,731	5,709,112
Prior period adjustments					536,186	(148,328)	387,858
Net position, beginning of year (restated)					2,806,567	3,290,403	6,096,970
Net position, end of year					$ 3,094,836	$ 3,228,580	$ 6,323,416

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	CDBG Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 476,124	$ -	$ 317,748	$ 793,872
Receivables (net of allowance for uncollectibles)				
Taxes	42,359	-	-	42,359
Interest	62	-	-	62
Intergovernmental receivables	9,767	-	11,849	21,616
Interfund receivables	6,968	-	-	6,968
Total assets	$ 535,280	$ -	$ 329,597	$ 864,877
LIABILITIES, DEFFERED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	$ 36,507	$ -	$ 1,417	$ 37,924
Accrued liabilities	12,226	-	-	12,226
Intergovernmental payables	4,733	-	-	4,733
Total liabilities	53,466	-	1,417	54,883
Deferred Inflows of Resources				
Unavailable revenue-property taxes	60,205	-	-	60,205
Total deferred inflows of resources	60,205	-	-	60,205
Fund Balances				
Restricted for:				
Public works	-	-	311,969	311,969
Housing and development	-	-	16,211	16,211
Unassigned	421,609	-	-	421,609
Total fund balances	421,609	-	328,180	749,789
Total liabilities, deferred inflows, and fund balances	$ 535,280	$ -	$ 329,597	$ 864,877

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013

Total fund balances - governmental funds	$	749,789
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land		145,507
Building and improvements		966,030
Machinery and equipment		576,749
Infrastructure		1,749,927
Construction in progress		633,620
Accumulated depreciation		(1,802,853)
Total capital assets - governmental activities		2,268,980
Net pension asset used in governmental activities is not a financial resource and, therefore, is not reported in the funds.		2,301
Some revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavialable in the funds. These revenues consist of:		
Intergovernmental receivables		20,709
Property taxes		60,205
Total unavailable revenues		80,914
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:		
Accrued compensated absences		(420)
Long-term debt including capital leases and notes payable		(6,728)
Total long-term liabilities		(7,148)
Net position of governmental activities	$	3,094,836

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	CDBG Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 606,217	$ -	$ 144,370	$ 750,587
Licenses and permits	23,347	-	-	23,347
Intergovernmental	18,414	231,189	-	249,603
Charges for services	166,632	-	-	166,632
Fines and forfeitures	35,785	-	-	35,785
Interest income	591	-	254	845
Rents	20,225	-	-	20,225
Other	10,272	-	-	10,272
Total revenues	881,483	231,189	144,624	1,257,296
EXPENDITURES				
Current				
General government	210,616	-	-	210,616
Judicial	6,237	-	-	6,237
Public safety	284,834	-	-	284,834
Public works	294,731	-	-	294,731
Community services	6,677	-	-	6,677
Housing and development	11,663	-	13,994	25,657
Debt service				
Principal	50,734	-	-	50,734
Interest	1,417	-	-	1,417
Capital outlay				
General government	38,464	-	-	38,464
Public works	20,296	231,189	96,883	348,368
Total expenditures	925,669	231,189	110,877	1,267,735
Excess of revenues over expenditures	(44,186)	-	33,747	(10,439)
OTHER FINANCING SOURCES (USES)				
Sales of surplus property	47,559	-	-	47,559
Transfers out	(31,049)	-	-	(31,049)
Total other financing sources (uses)	16,510	-	-	16,510
NET CHANGE IN FUND BALANCES	(27,676)	-	33,747	6,071
FUND BALANCES, BEGINNING OF YEAR (ORIGINAL)	377,442	-	286,457	663,899
Prior period adjustments	71,843	-	7,976	79,819
FUND BALANCES, BEGINNING OF YEAR (RESTATED)	449,285	-	294,433	743,718
FUND BALANCES, END OF YEAR	$ 421,609	$ -	$ 328,180	$ 749,789

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, 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, 2013

Net change in fund balances - total governmental funds	$	6,071
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts were:		
Capital outlay		386,832
Remaining basis in capital asset dispositions		(32,500)
Depreciation expense		(115,096)
Excess of capital outlay over depreciation expense		239,236
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Changes in these amounts are as follows:		
Intergovernmental receivables increased by this amount in 2013.		1,054
Unearned revenues decreased by this amount in 2013 .		(8,316)
Net change in revenues not providing current financial resources		(7,262)
The issuance of long-term debt (e.g., notes payable, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Transactions related to long-term debt during the year were as follows:		
Principal payments on long-term debt		50,734
Net decrease in long-term debt		50,734
Some expense reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Accrued compensated absences increased by this in 2013.		(420)
Net pension asset decreased by this in 2013.		(90)
Net change in expenses not requiring the use of current financial resources		(510)
Change in net position of governmental activities	$	288,269

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET (BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ 604,909	$ 604,909	$ 635,828	$ 30,919
Licenses and permits	11,000	11,000	6,636	(4,364)
Intergovernmental	-	-	15,796	15,796
Charges for services	167,000	167,000	180,285	13,285
Fines and forfeitures	20,000	20,000	35,785	15,785
Use of money and property	19,600	19,600	20,754	1,154
Other	8,400	8,400	58,138	49,738
Total revenues	830,909	830,909	953,222	122,313
EXPENDITURES				
Current				
General government	186,892	186,892	215,154	28,262
Judicial	4,379	4,379	6,221	1,842
Public safety	298,240	298,240	291,822	(6,418)
Public works	343,448	343,448	350,183	6,735
Community services	4,650	4,650	6,750	2,100
Housing and development	18,300	18,300	11,664	(6,636)
Total expenditures	855,909	855,909	881,794	25,885
Excess (deficiency) of revenues over/(under) expenditures	(25,000)	(25,000)	71,428	(96,428)
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	-	-	(31,049)	31,049
Total other financing sources (uses)	25,000	25,000	(31,049)	(56,049)
CHANGE IN FUND BALANCE	$ -	$ -	40,379	$ 40,379
RECONCILIATION TO GAAP BASIS				
To record effect of changes in receivables and other assets and payables and other liabilities				
Receivables and other assets			(57,707)	
Payables and other liabilities			(10,348)	
Total reconciliation to GAAP basis			(68,055)	
FUND BALANCE, BEGINNING OF YEAR (ORIGINAL)			377,442	
Prior period adjustments			71,843	
FUND BALANCE, BEGINNING OF YEAR (RESTATED)			449,285	
FUND BALANCE, END OF YEAR			$ 421,609	

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2013

	Business-type Activities-Enterprise Funds Water Sewer Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 12,557
Restricted cash and cash equivalents	227,556
Accounts receivable-net	122,329
Interest receivable	27
Intergovernmental receivables	13,136
Total current assets	375,605
Noncurrent assets	
Capital assets	
Land	97,579
Buildings and improvements	32,217
Machinery and equipment	10,573,956
Less accumulated depreciation	(3,371,134)
Total capital assets (net of accumulated depreciation)	7,332,618
Total noncurrent assets	7,332,618
Total assets	7,708,223
LIABILITIES AND NET POSITION	
Liabilities	
Current liabilities	
Accounts payable	23,934
Accrued liabilities	5,943
Customer deposits	34,208
Intergovernmental payables	3,238
Interfund payables	6,968
Current portion of notes payable	20,500
Current liabilities payable from restricted assets	
Accrued interest payable	5,057
Current portion of revenue bonds payable	115,916
Total current liabilities	215,764
Noncurrent liabilities	
Notes payable	280,167
Revenue bonds payable	3,983,712
Total noncurrent liabilities	4,263,879
Total liabilities	4,479,643
Net Position	
Net investment in capital assets	2,932,323
Restricted for debt service	227,556
Unrestricted	68,701
Total net position	$ 3,228,580

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-type Activities- Enterprise Funds
	Water Sewer Utility Fund
OPERATING REVENUES	
Charges for services	$ 795,894
Penalties	21,795
Intergovernmental revenues	13,136
Other	276
Total operating revenues	831,101
OPERATING EXPENSES	
Personnel services and benefits	224,199
Professional and technical services	22,539
Repairs and maintenance	68,825
Other purchased services	136,588
Supplies	72,438
Depreciation	212,124
Bad debts	3,325
Total operating expenses	740,038
Operating income	91,063
NON-OPERATING REVENUES (EXPENSES)	
Interest income	587
Interest expense	(184,522)
Total non-operating revenues (expenses)	(183,935)
Loss before transfers	(92,872)
TRANSFERS IN	
Transfers in	31,049
CHANGE IN NET POSITION	(61,823)
NET POSITION, BEGINNING OF YEAR (ORIGINAL)	3,438,731
Prior period adjustments	(148,328)
NET POSITION, BEGINNING OF YEAR (RESTATED)	3,290,403
NET POSITION, END OF YEAR	$ 3,228,580

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-type Activities-Enterprise Funds Water Sewer Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 859,906
Payments to suppliers and others	(288,746)
Payments to employees	(224,075)
Net cash provided by operating activities	347,085
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	31,049
Net cash provided by noncapital financing activities	31,049
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	(138,329)
Interest paid	(184,878)
Net cash used by capital and related financiang activities	(323,207)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	560
Net cash provided by investing activities	560
Net increase in cash and cash equivalents	55,487
Cash and cash equivalents, beginning of year	184,626
Cash and cash equivalents, end of year	$ 240,113
CASH PER STATEMENT OF NET POSITION	
Cash	$ 12,557
Restricted cash-current	227,556
	$ 240,113

(Continued)

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-type Activities-Enterprise Funds Water Sewer Utility Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 91,063
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	212,124
(Increase) decrease in current assets	
Accounts receivable	(24,877)
Intergovernmental receivables	65,618
Increase (decrease) in current liabilities	
Accounts payable	8,406
Accrued liabilities	124
Customer deposits	5,349
Intergovernmental payables	3,238
Interfund payables	(13,960)
Total adjustments	256,022
Net cash provided by operating activities	$ 347,085

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of the City of Lincolnton, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

The accompanying summary of the City's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report.

B. The Financial Reporting Entity

The City was incorporated on December 19, 1817 and is governed by a mayor and five council members. The City provides the following services: judicial, public safety, public works, community services, housing and development, water and sewer utility, and general and administrative services.

As required by generally accepted accounting principles, these financial statements present the City (the primary government), its component units, and other organizations. A component unit is a legally separate organization for which the City is financially accountable. The City is deemed to be financially accountable for an organization if the City appoints a voting majority of the organization's board and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The City was not financially accountable for nor did the City exercise significant influence over any other organizations. Accordingly, there are no component units included in the financial statements for the year ended December 31, 2013.

C. Basic Financial Statements

The basic financial statements consist of the following:

Government-wide financial statements
Fund financial statements
Notes to the basic financial statements

Government-wide financial statements - The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with the program or function of the City's governmental activities. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements - The fund financial statements provide information about the City'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.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues, except property taxes, available if they are collected within 30 days after year-end. Property taxes collected within 60 days after year end are considered available. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

When restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with financial-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, fines and forfeitures, and various other taxes and charges. The primary expenditures are for general administration, judicial, public safety, public works, community services, and housing and development.

CDBG Capital Projects Fund – The CDBG Capital Projects Fund is used to account for the acquisition and construction of major capital facilities financed with proceeds from Community Development Block Grants.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise fund:

Water Sewer Utility Fund - The Water Sewer Utility Fund is used to account for the operations of the City's water sewer utility.

The City has elected to follow GAAP prescribed by GASB and all Financial Accounting Standard Board (FASB) standards issued prior to November 30, 1989 for its business-type activities and enterprise funds. Subsequent to this date, the City accounts for its proprietary funds of the primary government as prescribed by GASB.

Enterprise 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 Sewer Utility Fund are charges to customers for sales and services. Operating expenses for enterprise funds include costs 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.

Additionally, the City reports the following other fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Capital Project Funds - Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

E. Budgets and Budgetary Data

Annual appropriated budgets are adopted by the Mayor and City Council for the General Fund on a total revenues and total expenditures basis. No formal budget was adopted for the City's special revenue fund.

The 2013 annual appropriated budget for the City's General Fund was adopted on January 7, 2013. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Under Georgia law, appropriations lapse at year end.

The General Fund budget is prepared on the cash basis, rather than in accordance with generally accepted accounting principles (GAAP). Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable expenditure is to be paid. A reconciliation from the budgetary basis to GAAP basis is presented in the applicable financial statements.

The General Fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and character (personnel services, maintenance and operations, capital outlay, debt service) which constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. No revisions were made to the 2013 budget.

Project length budgets are adopted for all capital project funds. Major capital projects are under contract with independent contractors that are exclusively responsible for the progress of the construction projects. Accordingly, budgetary statements are not presented for the City's capital projects funds.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Encumbrance Accounting

The City does not utilize encumbrance accounting, under which purchase orders and contracts are recorded in order to reserve that portion of the applicable appropriation.

G. Assets, Liabilities, and Fund Equity

Cash and Investments

The City's cash and equivalents are comprised of cash on hand, demand deposits, and short-term investments purchased with maturities of three months or less.

Nonparticipating interest-earning investment contracts (investments whose value is not affected by interest rates or other market changes), including savings accounts, certificates of deposit, repurchase agreements, money market investments (short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U. S. Treasury and agency obligations) and participating interest-bearing investment contracts, that have a remaining maturity, at purchase, of one year or less are reported at cost or amortized cost assuming their fair value has not been impacted by changes in the credit worthiness of the issuer or similar factors. All other investments are reported at fair value (the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale).

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City uses the allowance method for recording bad debts. The allowance for bad debt reserves for amounts owed from customers that have purchased services from the City and is determined by analysis of the year-end receivable balances for those accounts which the City believes will not be collected based on past history.

Estimated unbilled revenues from the Water Sewer Utility Fund are recorded at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings for the month following the close of the fiscal year.

Prepayments

The City uses the purchases method to account for prepayments. Under the purchases method prepayments are recorded as expenditures when purchased.

Inventories

Inventories of supplies for all governmental funds are recorded at cost using the purchases method, whereby inventories are recorded as expenditures when purchased; however, material amounts of inventories are reported as assets of the respective fund. Inventories of the proprietary funds are recorded at the lower of cost or market on a first-in, first-out basis. There were no material amounts for inventories in the City's governmental funds and proprietary funds for December 31, 2013.

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as interfund receivables and payables on the balance sheet of the fund financial statements and as "internal balances" on the statement of net position in the government-wide financials statements. Internal balances are eliminated in the government-wide financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e. g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are valued at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Infrastructure acquired prior to June 30, 1980 is not reported.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlay for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest costs were capitalized for the year ended December 31, 2013.

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

Buildings and improvements	50 years
Machinery and equipment	5-7 years
Fire and garbage trucks	10-15 years
Water sewer systems	50 years
Infrastructure	25 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees may accumulate all unused vacation and sick leave to be received as compensation upon separation from service. The City's government-wide and proprietary funds include an accrual for the estimated compensation costs attributable to unused leave benefits. Compensated absences are liquidated through the General Fund.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net position in the government-wide financial statements and proprietary funds financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City does not have any reportable items in this category.

In addition to liabilities, the statement of net 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 unavailable revenue-property taxes in this category on the governmental funds balance sheets.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Government-Wide Financial Statements)

In June 2011, the GASB approved Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amended the net asset reporting requirements in Statement Number 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement were implemented January 1, 2013 with no material impact to the City's financial statements.

In March 2012, GASB approved Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund classifications and limiting the use of the term deferred in the financial statement presentation. The provisions of this Statement were implemented January 1, 2013. The restatement of prior year amounts in accordance with GASB 65 is discussed more fully below.

The City's net position is classified as follows:

Net investment in capital assets: This represents the City's total investment in capital assets, net of debt related to those capital assets.

Restricted: This represents the net amount of assets subject to constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Unrestricted: This represents the net amount of net position, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in any other category of net position.

Fund Balances (Governmental Funds Financial Statements)

The City requires the following actions to be taken for fund balance to be classified as "restricted", "committed", or "assigned":

Restricted - amounts that can be spent only for the specific purposes stipulated by external resource providers (i.e. grants, creditors), constitutionally, or through enabling legislation (i.e. legislation that creates a new revenue source and restricts its use). These restrictions may be changed or lifted only with the consent of the resource providers.

Committed - amounts that can be used only for the specific purpose determined by a formal action of City Council. Such commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally. The formal action must be taken before year-end, although the amount may not be determined until the subsequent period.

Assigned - amounts intended to be used by the City for specific purposes. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also uses “non-spendable” in its fund financial statements to classify fund balance amounts that are legally or contractually required and cannot be spent, or unassigned, which represents amounts not included in the other fund balance categories.

The City’s policy for the order of expenditure of funds by fund classification is as follows: Future qualifying expenditures will first reduce restricted fund balance, followed by a reduction of unrestricted fund balance starting first with “committed”, then “assigned”, then “unassigned” as applicable when expenditures are incurred for purposes for which amounts in any of those fund balance classifications could be used.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were recorded.

NOTE 2 - RESTATEMENT OF PRIOR YEAR AMOUNTS

Management has restated prior year amounts reported as net position in its government-wide financial statements for its governmental and business-type activities. Prior year amounts reported for fund balances in the City’s governmental funds and net position in the proprietary funds have also been restated in the fund financial statements. Prior year restatements and the effect on net position and fund balances as of December 31, 2012 are summarized as follows:

Government-Wide Financial Statements

The cumulative effect of prior year restatements on total net position as reported in the government-wide financial statements as of December 31, 2012, resulted in a net increase of $ 387,858. Restatements to prior year net position by activities of the primary government are as follows:

Governmental Activities - net position of the City’s governmental activities as of December 31, 2012 increased by $ 536,186. The increase is attributable to an understatement in cash balances and asset accruals totaling $ 76,063 and $ 59,187. The City’s investment in capital assets net of related debt was understated by $ 294,095. Accruals for unpaid liabilities and deferred inflows of resources were overstated by $ 106,841.

Business-Type Activities - net position of the City’s business-type activities as of December 31, 2012 decreased by $ 148,328. The decrease is attributable to an overstatement of $ 159,325 in the City’s investment in capital assets net of related debt, an understatement in asset accruals totaling $ 105,500, and an understatement of liability accruals totaling $ 25,657. In addition, management implemented GASB 65 this year which resulted in the expensing of prior year bond issuance costs in the year incurred resulting in a decrease in net position of $ 68,846.

Fund Financial Statements

The cumulative effect of prior year restatements on total fund balances as reported in the governmental funds financial statements as of December 31, 2012, resulted in a net increase of $ 79,819. Restatements to prior year fund balances by fund are as follows:

General Fund - fund balance of the General Fund as of December 31, 2012 increased by $ 71,843. The increase is attributable to an understatement in cash balances of $ 76,063, asset accruals of $ 31,556, and liability accruals of $ 35,776.

(Continued)

NOTE 2 - RESTATEMENT OF PRIOR YEAR AMOUNTS (Continued)

Non-Major Governmental Funds - fund balances of non-major funds as of December 31, 2012 increased by $ 7,976 as a result of an understatement in asset accruals.

Water Sewer Utility Fund - net position of the Water Sewer Utility Fund as of December 31, 2012 decreased by $ 148,328. Details of this decrease are discussed under business-type activities above.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

General Fund

Expenditures and other financing uses exceeded revenues and other financing sources by $ 27,676 for the year ended December 31, 2013. This decrease was absorbed by prior year unassigned fund balance.

Actual revenues and other financing sources (budgetary basis) were $ 97,313 more than budgeted amounts whereas actual expenditures and other financing uses (budgetary basis) were $ 56,934 more than appropriated amounts resulting in net increase in fund balance (budgetary basis) of $ 40,379.

Expenditures (budgetary basis) for general administration, judicial, public works, and community services exceeded appropriated amounts by $ 28,262, $ 1,842, $6,735, and $ 2,100 respectively. In addition, transfers out exceeded appropriations by $ 31,049. Although expenditures in these departments exceeded the legal level of budgetary control the overages were absorbed by additional revenues received in 2013.

Water Sewer Utility Fund

The net position of the Water Sewer Utility Fund decreased by $ 61,823 in 2013. This decrease includes depreciation expense totaling $ 212,124 which is a non-cash expense.

NOTE 4 - CASH DEPOSITS AND TEMPORARY INVESTMENTS

Deposits

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

The carrying amount of the City's deposits with financial institutions was $ 1,033,985 and the bank balance was $ 1,039,010 at December 31, 2013. All of the City's deposits were insured or collateralized with securities held by the pledging financial institution's agent in the City's name.

Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State statutes authorize the City to make direct investments in obligations of the State of Georgia or other states; obligations issued by the U.S. Government; obligations fully insured or guaranteed by the U.S. Government or by a government agency of the United States; obligations of any corporation of the U.S. Government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivision of the State of Georgia.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not invest in certificates of deposit with maturities greater than 366 days from date of purchase.

(Continued)

NOTE 4 - CASH DEPOSITS AND TEMPORARY INVESTMENTS (Continued)

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

Concentration of credit risk is the risk that the City will place no limit on the amount they invest in any one issuer. At December 31, 2013, no single issue investment exceeded 5% of total investments.

NOTE 5 - PROPERTY TAXES

Property taxes were levied on October 20, 2013 and were due on December 20, 2013. Property taxes became a lien on the first day of the levy year. Unpaid property taxes received within 60 days of year end are recognized and recorded as revenue (considered measurable and available), and property taxes unpaid 60 days after year end are recorded as unavailable revenue. An allowance is established for uncollectible amounts based on management's estimate.

A summary of the 2013 tax levy follows:

2013 millage rate		6.10
Taxable digest	$	33,297,000
Gross tax levy	$	306,032
Less sales tax rollback		(83,263)
Net property taxes	$	222,769
Property taxes receivable	$	67,569
Less allowance for uncollectible amounts		(25,210)
Net property taxes receivable	$	42,359
Unavailable property tax revenue	$	60,205

NOTE 6 - CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/2012 (As Restated)	Additions	Deletions/ Transfers	Balance 12/31/2013
Governmental Activities				
Capital assets not being depreciated				
Land	$ 145,507	$ -	$ -	$ 145,507
Construction in progress	320,019	313,601	-	633,620
Total capital assets not being depreciated	465,526	313,601	-	779,127
Capital assets being depreciated				
Buildings and improvements	927,566	38,464	-	966,030
Machinery and equipment	645,044	-	(68,295)	576,749
Infrastructure	1,715,160	34,767	-	1,749,927
Total capital assets being depreciated	3,287,770	73,231	(68,295)	3,292,706
Less accumulated depreciation				
Buildings and improvements	(518,704)	(19,120)	-	(537,824)
Machinery and equipment	(550,685)	(25,979)	35,795	(540,869)
Infrastructure	(654,163)	(69,997)	-	(724,160)
Total accumulated depreciation	(1,723,552)	(115,096)	35,795	(1,802,853)
Net capital assets being depreciated	1,564,218	(41,865)	(32,500)	1,489,853
Governmental activities capital assets-net	$ 2,029,744	$ 271,736	$ (32,500)	$ 2,268,980

The City records all expenditures related to capital projects as construction in progress until the project is completed and put into service.

Depreciation expense was charged to governmental functions as follows:

General government	$ 86,618
Public safety	19,699
Public works	8,779
Current year depreciation expense	$ 115,096

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Business-type capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/2012 (As Restated)	Additions	Deletions/ Transfers	Balance 12/31/2013
Business-type Activities				
Capital assets not being depreciated				
Land	$ 97,579	$ -	$ -	$ 97,579
Total capital assets not being depreciated	97,579	-	-	97,579
Capital assets being depreciated				
Buildings and improvements	32,217	-	-	32,217
Machinery and equipment	10,573,956	-	-	10,573,956
Total capital assets being depreciated	10,606,173	-	-	10,606,173
Less accumulated depreciation				
Buildings and improvements	(19,343)	(644)	-	(19,987)
Machinery and equipment	(3,139,667)	(211,480)	-	(3,351,147)
Total accumulated depreciation	(3,159,010)	(212,124)	-	(3,371,134)
Net capital assets being depreciated	7,447,163	(212,124)	-	7,235,039
Business-type activities capital assets-net	$ 7,544,742	$ (212,124)	$ -	$ 7,332,618

Depreciation expense on capital assets of the business-type activities was $ 212,124 for the year ended December 31, 2013.

Generally accepted accounting principles require that interest expenditures incurred during construction of assets be capitalized and concludes that constructed assets financed with the proceeds of tax-exempt debt (if those funds are externally restricted to finance the acquisitions of the asset or used to service the related debt) should include capitalized interest only to the extent that interest cost exceed interest earned on related interest-bearing borrowing. There was no construction period interest cost capitalized during the year ended December 31, 2013.

NOTE 7 - LONG-TERM DEBT

The following is a summary of the long-term liability transactions for the year ended December 31, 2013:

	Balance 12/31/2012 (As Restated)	Additions	Deletions	Balance 12/31/2013
Governmental Activities				
Capital leases	$ 57,462	$ -	$ (50,734)	$ 6,728
Accrued compensated absences	-	420	-	420
Total debt-governmental activities	$ 57,462	$ 420	$ (50,734)	$ 7,148
Business-type Activities				
Notes payable	$ 321,167	$ -	$ (20,500)	$ 300,667
Revenue bonds payable	4,217,457	-	(117,829)	4,099,628
Total debt-business-type activities	$ 4,538,624	$ -	$ (138,329)	$ 4,400,295

There was no short-term borrowing during the year ended December 31, 2013.

(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

The following summarizes long-term debt outstanding at December 31, 2013:

	Original Principal	Interest Rate	Final Maturity	Outstanding Balance	Amount Due Within One Year
Governmental Activities					
Capital lease, police cruisers	$ 25,928	3.35%	2014	$ 6,728	$ 6,728
	$ 25,928			6,728	6,728
Accrued compensated absences				420	-
Total-governmental activities				$ 7,148	$ 6,728
Business-type Activities					
Note payable, GEFA DWSRF 05-005	$ 410,000	0.00%	2028	$ 300,667	$ 20,500
Bonds payable, Series 1975	600,000	5.39%	2014	30,000	30,000
Bonds payable, USDA Series 1999A	1,277,500	4.75%	2039	1,054,832	21,816
Bonds payable, USDA Series 1999B	280,200	4.75%	2039	231,480	4,780
Bonds payable, USDA Series 2005	3,388,100	4.25%	2040	2,783,316	59,320
	$ 5,955,800			4,400,295	136,416
Accrued compensated absences				-	-
Total-business-type activities				$ 4,400,295	$ 136,416

Capital Lease Obligation

The future minimum lease obligation and the net present value of the minimum lease payments as of December 31, 2013, are as follows:

Year Ending December 31,	Governmental Activities
2014	$ 6,822
Total minimum lease payments	6,822
Less amount representing interest	(94)
Present value of minimum lease payments	$ 6,728

The total cost of capital assets leased under a capital lease as of December 31, 2013 was $ 25,928 and the related accumulated depreciation thereon totaled $ 15,557.

Note Payable

GEFA DWSRF 05-005 - On November 27, 2006 the City entered into a loan agreement with the Drinking Water State Revolving Fund (DWSRF) administered by the Georgia Environmental Facilities Authority (GEFA) to borrow $ 410,000 to finance the cost of acquiring, constructing, and installing water line improvements, security fencing, emergency generators, new windows, and a chlorine system at the water treatment plant. The City is to repay the loan in 239 monthly payments of $ 1,708 including principal and interest at 0.00% and a final payment of the remaining principal balance. The agreement is secured with the City's full faith and credit and revenue-raising power (including its taxing power) for such payment and performance. The initial payment was made in September 2008 and the final payment will be December 2026.

(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

Covenants contained in the agreement require that the City maintain a minimum "fixed charges coverage ratio" of 1.05 for any fiscal year. The required minimum fixed charges coverage ratio was not met in 2013. The computation of the fixed charges coverage ratio for the year ended December 31, 2013 is as follows:

				Fixed Charges Coverage Ratio
Income available for fixed charges	$	334,823	=	1.04
Fixed charges	$	322,851		

Annual requirements to fully amortize the outstanding note as of December 31, 2013 are as follows:

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
2014	$ 20,500	$ -	$ 20,500
2015	20,500	-	20,500
2016	20,500	-	20,500
2017	20,500	-	20,500
2018	20,500	-	20,500
2019 thru 2023	102,500	-	102,500
2024 thru 2026	95,667	-	95,667
	$ 300,667	$ -	$ 300,667

Revenue Bonds Payable

Series 1975 Bonds - The City, by ordinance adopted December 9, 1974, issued the City of Lincolnton Water and Sewerage Revenue Bonds, Series 1975, dated July 15, 1975. The aggregate principal amount of the issue was $ 600,000 bearing interest at 5.00% per annum and maturing on December 1, 2014. The Series 1975 Bonds are secured by a first lien on the net revenues of the system.

Series 1999A Bond - On July 8, 1999 the City issued the City of Lincolnton Water and Sewerage Revenue Bond, Series 1999A. The principal issue was $ 1,277,500 with a stated interest rate of 4.75% per annum. Terms of the issue call for a maximum of 480 equal monthly payments of $ 5,954 including principal and interest beginning August 8, 1999 with the final installment being due on July 8, 2039.

Series 1999B Bond - On July 8, 1999 the City issued the City of Lincolnton Water and Sewerage Revenue Bond, Series 1999B. The principal issue was $ 280,200 with a stated interest rate of 4.75% per annum. Terms of the issue call for a maximum of 480 equal monthly payments of $ 1,306 including principal and interest beginning August 8, 1999 with the final installment being due on July 8, 2039.

The 1999A and 1999B Bonds were issued to provide funds to pay the cost, in part, of modifying and upgrading the City's existing wastewater treatment facilities, including increasing treatment capacity to 520,000 gallons per day, purchasing a suitable site to accommodate the LAS type of effluent treatment, and provide a dual feed emergency power supply into the plant. The Bonds were issued pursuant to authority of and in accordance with the provisions of the Constitution of the State of Georgia, the Revenue Bond Law of Georgia, and the laws of the State of Georgia relating to the City, and were duly authorized by a bond ordinance adopted by the governing body of the City on June 1, 1998.

The 1999A and 1999B Bonds are secured by a pledge of and a lien on the revenues derived from the ownership and operation of the system except for payment of the reasonable and necessary expenses of operating, maintaining and repairing the system and the first lien securing payment of the outstanding and unpaid Series 1975 Bonds.

(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

Series 2005 Bond - On December 30, 2005 the City issued the City of Lincolnton Water and Sewerage Revenue Bond, Series 2005. The principal issue was $ 3,388,100 with a stated interest rate of 4.25% per annum. Terms of the issue call for a maximum of 480 equal monthly payments of $ 14,705 including principal and interest beginning January 28, 2006 with the final installment being due on December 28, 2045.

The 2005 Bond was issued to provide funds needed to pay the cost, in part, of acquiring, constructing, and equipping improvements and additions to and extensions of the existing water and sewerage system of the City. The Bond was issued pursuant to authority of and in accordance with the provisions of the Constitution of the State of Georgia, the Revenue Bond Law of Georgia, and the laws of the State of Georgia relating to the City, and was duly authorized by a bond ordinance adopted by the governing body of the City on June 1, 1998, as supplemented and amended by supplemental ordinance adopted the Mayor and Council on January 5, 2004.

The payment of this Bond is secured on a parity as to the pledge and lien of the Series 1999 Bonds on the revenues derived from the ownership and operation of the system except for payment of the reasonable and necessary expenses of operating, maintaining and repairing the system and the first lien securing the payment of the outstanding and unpaid Series 1975 Bonds.

Bond Covenants

The 1974 bond resolution requires several funds and accounts to facilitate the operation of the system and provide for servicing the bond obligation. The Revenue Fund is used as the depository for all revenues derived from the ownership and operation of the system. Costs of operating, maintaining and repairing the system are paid from the Revenue Fund. A Sinking Fund consisting of two accounts designated as the “Debt Service Account” and “Reserve Account” is maintained to provide for payment of the principal and interest of the Series 1975 Bonds. Beginning on December 20th of each year and continuing on the 20th of each month thereafter until the entire obligation has been paid, the City is to deposit into the Sinking Fund 1/12th of the annual installment of principal and interest coming due on the next succeeding December 1. In addition, the sum of $ 320 is to be deposited into the Sinking Fund on the 20th of each month until there is accumulated a reserve totaling $ 36,000, after which no further deposits into said reserve need to be made except to replace withdrawals charged against the reserve.

The reserve account shall be used to pay the cost of repairing or replacing damage to the system caused by an unforeseen catastrophe, making additions, extensions or improvements to the system with the prior written consent of bondholders, and making payments of principal and interest in the event no other funds are available.

In addition, the 1974 bond resolution creates a Renewal and Extension Fund. Any remaining funds in the Revenue Fund after payment of reasonable and necessary costs of operating and maintaining the system and funding the Sinking Fund are to be paid into the Renewal and Extension Fund until such time there is a sum of $ 10,000. Thereafter payments are to be made into the Renewal and Extension Fund only to reimburse money withdrawn therefrom. The Renewal and Extension Fund is to be used in a case of emergency having a major effect upon the system caused by an extraordinary occurrence and an insufficiency of money exists in the Revenue Fund, making replacements, additions, extensions and improvements deemed to be reasonable and in the best interest of the City and bondholders, and paying principal and interest in the event no other funds are available.

(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

The 1999 bond resolution provides provisions for prescribing and revising rates and collecting charges for the services, facilities, and commodities furnished by the system sufficient in amount to provide funds to pay the costs of maintaining, repairing and operating the system, maintaining the sinking fund requirements set forth in the 1974 resolution, and to fund two special accounts established in Sinking Fund No. 2. The Debt Service Account and the Reserve Account are to be maintained within Sinking Fund No. 2. On or before each monthly installment date the City is to deposit into the Debt Service Account the monthly installment of principal and interest coming due on each series of Bonds; and an amount equal to 10% of said monthly installments into the Reserve Account. These monthly deposits are to continue until there is established and maintained a debt service reserve sufficient to pay the principal and interest due on the Bonds in the next succeeding sinking fund year. Any excess funds remaining in Sinking Fund 2 at the end of each sinking fund year, after payment of principal and interest due, shall be credited against the monthly installments of principal and interest next due until excess funds are depleted. If the City shall fail to fund all or any part of the money covenanted to pay into Sinking Fund No. 2, the amount of such deficiency shall be added to and become a part of the next payment into Sinking Fund No. 2.

In addition, the 1999 bond resolution stipulates that after the Series 1975 Bonds have been satisfied the City, at its discretion, may continue to maintain the Renewal and Extension Fund for so long as the 1999 Bonds or future bonds issued on a parity therewith are outstanding. Transfers to the Renewal and Extension will continue under the same terms and conditions as discussed above should the City elect to continue maintaining the Renewal and Extension Fund.

Compliance With Bond Covenants

As of December 31, 2013, the Series 1975 sinking fund requirements totaled $ 36,000 and the renewal and extension requirement totaled $ 10,000, whereas sinking fund requirements for the 1999 and 2005 bonds totaled $ 228,288. Total sinking fund requirements, for all bonds issued, exceeded total cash deposits of the Water Sewer Utility Fund by $ 34,175 at December 31, 2013, accordingly the City is not in compliance with the sinking fund covenants.

Noncompliance with bond covenants could result in default upon written notice from the bondholders at which time the City would have 30 days to remedy the default unless action has been undertaken to correct the default. The City is current on all payments of principal and interest due on the bonds and has committed to complying with the requirements as excess funds become available.

Annual requirements to fully amortize the bonds outstanding as of December 31, 2013 are as follows:

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
2014	$ 115,916	$ 179,280	$ 295,196
2015	89,779	173,801	263,580
2016	93,805	169,775	263,580
2017	98,032	165,548	263,580
2018	102,440	161,140	263,580
2019 thru 2023	585,599	732,301	1,317,900
2024 thru 2028	729,757	588,143	1,317,900
2029 thru 2033	909,550	408,350	1,317,900
2034 thru 2038	1,133,781	184,119	1,317,900
2039 thru 2040	240,969	5,854	246,823
	$ 4,099,628	$ 2,768,311	$ 6,867,939

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2013, is as follows:

Due from/to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Water Sewer Utility Fund	$ 6,968

The Water Sewer Utility Fund bills and collects charges for sanitation services which are accounted for in the City's General Fund. The $ 6,968 due from the Water Sewer Utility Fund represents unbilled service revenues as of December 31, 2013 that are to be paid to the General Fund.

Interfund transfers

Transfers In	Transfers Out	Amount
Water Sewer Utility Fund	General Fund	$ 31,049

Water Sewer Utility Fund operating costs are supplemented with transfers from the General Fund on an as needed basis. Total transfers to the Water Sewer Utility Fund for operations totaled $ 31,049.

NOTE 9 - UNEARNED REVENUES AND DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent 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 property taxes unpaid sixty days after year-end in this category in the fund financial statements. No amounts are reported in this category in the government-wide financial statements. As of December 31, 2013, unavailable revenue-property taxes totaled $ 60,205.

NOTE 10 - NET POSITION

Net position of the government-wide and proprietary fund financial statements represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Reported amounts for net investment in capital assets and restricted net position are as follows at December 31, 2013:

	Governmental Activities	Business-type Activities
Net investment in capital assets		
Primary government	$ 2,268,980	$ 7,332,618
Less capital leases payable	(6,728)	-
Less notes payable	-	(300,667)
Less revenue bonds payable	-	(4,099,628)
Total net investment in capital assets	$ 2,262,252	$ 2,932,323

(Continued)

NOTE 10 - NET POSITION (Continued)

	Governmental Activities	Business-type Activities
Restricted for:		
Public works		
SPLOST Fund	$ 300,003	
TSPLOST Fund	22,369	
Total public works	$ 322,372	
Housing and development		
Hotel Motel Tax Fund	$ 16,211	
Total housing and development	$ 16,211	
Debt service		$ 227,556
Total debt service		$ 227,556

NOTE 11 - RELATED ORGANIZATIONS

CSRA Regional Commission

Under Georgia law, the City, in conjunction with other cities and counties in the Central Savannah River Area, is a member of the Central Savannah River Area Regional Commission (RC) and is required to pay annual dues thereto. During the year ended December 31, 2013, the City paid $ 1,566 in such dues. Membership in a RC is required by OCGA Section 50-8-34 that provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the RC. Separate financial statements may be obtained from:

CSRA Regional Commission
3023 River Watch Parkway, Suite A
Augusta, GA 30907

Housing Authority

The Housing Authority of the City of Lincolnton, Georgia is considered a related organization based upon the criteria in GASB Statement 14. The Housing Authority is a legally separate entity having a board composed of members appointed originally by the City. The City is not able to impose its will upon the Housing Authority and a financial benefit/burden relationship does not exist between them. Therefore, based upon the criteria, the Housing Authority of the City of Lincolnton, Georgia is a related organization and not a component unit.

NOTE 12 - CONTINGENT LIABILITIES

Federal and State Grants

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Litigation

As of December 31, 2013, the City was not involved in any pending or threatened litigation.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In order to minimize the risk of loss the City has joined with other municipalities in the state as a member of the Georgia Interlocal Risk Management Agency Fund (GIRMA), and the Georgia Municipal Association (GMA) Self-Insured Workmen's Compensation Fund. The City pays an annual premium to these Funds through the GIRMA and GMA. The City retains the first $ 1,000 of each risk of loss in the form of a deductible. All claims are filed with GIRMA and GMA who bills the City for any risk of loss up to the deductible amount.

As part of their agreement, the City must assist and cooperate in the defense and settlement of claims against the City. The City must furnish full cooperation to GIRMA's and GMA's attorneys, claims adjusters, and any agent or independent contractor of GIRMA and GMA. In addition, the City must report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in GIRMA and GMA or any Fund established by GIRMA and GMA being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection of a Fund or Funds in which the City participates. The City is required to use due diligence to avoid or diminish any loss covered under the agreement.

As a condition of coverage, GIRMA and GMA can request that the City assist in effecting settlements, securing and giving evidence, obtaining witnesses in the conduct of suits, and providing of written statements for the purposes of investigation, defense, and mitigation of claims. GIRMA and GMA are responsible for payment of all claims covered under the agreement. The maximum liability for any one occurrence or claim is the maximum liability as specified in the policies less the amount of stated deductibles.

For those risks covered by insurance, claims did not exceed coverage during the past three years.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

The City participates in the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for cities in the State of Georgia.

Actuarial valuations are done as of July 1 of each year and are based on a twelve month period. Payment of the recommended contribution to the Plan, as determined in the July 1 valuation, will begin January 1 of the following year.

Plan Description

The City's defined benefit pension plan (the Plan), provides retirement benefits to plan members and beneficiaries. The Plan is affiliated with the GMEBS which issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. The address of the GMEBS is 201 Pryor Street, SW, Atlanta, GA 30303, and their telephone number is 404-688-0472.

The City of Lincolnton originally established the Plan June 1, 1989 and executed the agreement adopting the GMEBS Master Plan and Joint Trust Agreement on January 1, 2003. The Adoption Agreement establishes the types of benefits available under the Plan and the City's obligation to contribute to the Plan. The City has the right to amend any or all elections in the Adoption Agreement. The amendment must be approved by GMEBS, cannot reduce any previously accrued benefits of the participants or beneficiaries, cannot authorize or permit any part of the Trust Fund to be diverted to any purpose other than for the exclusive benefit of participants and their beneficiaries, and cannot deprive any participant or beneficiary of any rights or benefits irrevocably vested under the Plan.

(Continued)

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

GMEBS can amend the Master Plan or the elective provisions of the Adoption Agreement in its sole discretion as Trustee of the Plan. Any amendment by GMEBS must be approved by the City of Lincolnton as the adopting employer. The City cannot amend the Master Plan or the Joint Trust Agreement.

All full-time employees, excluding officials, working at least 20 hours per week, are eligible, and become fully vested after 10 years of service. Normal retirement age is 65 with a minimum of 5 years of service, and early retirement is age 55 with a minimum of 10 years total credited service. Monthly benefits are based on (a) the average annual earnings paid to a participant during any consecutive 5 year period preceding actual date of retirement in which the earnings were highest and (b) total years of service. The system also provides death and disability benefits.

As of July 1, 2013, the most recent valuation date, there were eleven active participants, three retirees and beneficiaries receiving benefits, and one terminated participant with deferred vested benefits. There was no employer or related party securities or loans included in plan assets.

Summary of Significant Accounting Policies and Plan Asset Matters

The Pension Plan's financial statements are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employees provide services. Investment income is recognized as earned by the pension plan. The net appreciation/depreciation in the fair value of investments held by the Plan is recorded as an increase/decrease to investment income based on valuation of investments as of the balance sheet date. Investment valuations are based on quoted market prices at the balance sheet date.

Funding Policy

The City is required to contribute at an actuarially determined amount annually to the Plan's trust. The contribution amount is determined using actuarial methods and assumptions approved by the GMEBS Board of Trustees and intended to meet the minimum contribution requirements as set forth in the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

Annual Pension Cost

The City recomputed its net pension obligation (asset) as of December 31, 2013 based on historical information provided by GMEBS and the Plan's actuary. The City determined its net pension obligation (asset) was overstated by $ 76,834 as of January 1, 2012 as a result of this computation. The derivation of annual pension cost, derivation of net pension obligation (asset), and trend information for the Plan, as presented below have been restated to reflect the revised amounts.

The City's annual pension cost and net pension obligation for the plan year beginning July 1, 2013 (the most recent actuarial valuation date) are as follows:

Derivation of Annual Pension Cost	2013	2012
Annual required contribution	$ 27,933	$ 30,530
Interest on net pension obligation	(185)	(193)
Amortization net pension obligation	275	286
Annual pension cost	$ 28,023	$ 30,623

(Continued)

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

Derivation of Net Pension Obligation (Asset)	2013	2012
Annual pension cost for the current year	$ 28,023	$ 30,623
Actual contributions to plan for the year	(27,933)	(30,530)
Decrease in net pension asset	90	93
Net pension obligation (asset) beginning of year (original)	(2,391)	74,350
Prior period adjustment	-	(76,834)
Net pension obligation (asset) beginning of year (restated)	(2,391)	(2,484)
Net pension obligation (asset) end of year	$ (2,301)	$ (2,391)

Basis of Valuation

Current valuation date	July 1, 2013
Actuarial cost method	Projected unit credit
Amortization method	Closed level dollar for remaining unfunded liability
Remaining amortization period	10 years
Asset valuation method	Market value
Actuarial assumptions	
Net investment rate of return	7.75%
Projected salary increases	3.50% plus age and service based merit increases
Cost of living adjustments	0.00% (none)

Trend Information for the Plan

Year Ended December 31,	Annual Pension Cost (APC)	Actual City Contribution	% of APC Contributed	Net Pension Obligation (Asset)
2008	$ 20,025	$ 20,195	100.85%	$ 2,536
2009	$ 20,172	$ 25,390	125.87%	$ (2,682)
2010	$ 32,667	$ 32,566	99.69%	$ (2,581)
2011	$ 25,979	$ 25,882	99.63%	$ (2,484)
2012	$ 30,623	$ 30,530	99.70%	$ (2,391)
2013	$ 28,023	$ 27,933	99.68%	$ (2,301)

The funded status of the Plan as of July 1, 2013, the most recent valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Acturial Accrued Liability (AAL) Entry Age (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a % of Covered Payroll ((b-a)/c)
05/01/08	$ 387,496	$ 412,856	$ 25,360	93.86%	$ 322,194	7.87%
05/01/09	$ 289,033	$ 444,573	$ 155,540	65.01%	$ 291,746	53.31%
07/01/10	$ 394,477	$ 467,577	$ 73,100	84.37%	$ 277,531	26.34%
07/01/11	$ 428,177	$ 498,127	$ 69,950	85.96%	$ 308,137	22.70%
07/01/12	$ 457,853	$ 534,766	$ 76,913	85.62%	$ 280,886	27.38%
07/01/13	$ 496,272	$ 570,260	$ 73,988	87.03%	$ 301,245	24.56%

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

NOTE 15 - HOTEL/MOTEL TAX

The City has levied a 5% lodging tax. The Official Code of Georgia Annotated 48-13-51 (a) requires that 40% of lodging taxes levied at 5% be expended or obligated contractually for the promotion of tourism, conventions, or trade shows. Management represents that $ 9,750, or 77.15%, of the lodging taxes collected for the year ended December 31, 2013 were expended for such purposes. A summary of Hotel/Motel transactions for the year ended December 31, 2013 follows:

	12/31/2013	Percentage Expended
Tax percentage rate formally adopted by City	5.00%	
Hotel/Motel taxes collected	$ 12,638	
Expended for promoting tourism, conventions, and trade shows	$ 9,750	77.15%

NOTE 16 - COMMITMENTS AND SUBSEQUENT EVENTS

Commitments

On September 16, 2011 the City was awarded a Community Development Block Grant (CDBG), to be passed through the Georgia Department of Community Affairs, totaling $ 500,000. Proceeds of this grant will be combined with local funds and used to improve and upgrade the City's sewer facilities. Total cost of this project is expected to be $ 546,500. As of December 31, 2013, $ 499,117 had been expended on this project. Substantial portions of this project have been completed and the City is currently consulting with engineers to reallocate unexpended funds to other potential improvements.

The Georgia Department of Transportation awarded the City a Transportation Enhancement Act (TEA) Grant totaling $ 412,000. This grant, along with SPLOST proceeds, will be used to continue the redevelopment of the downtown area through the installation of sidewalks and other streetscape improvements. This grant represents Phase II of a comprehensive downtown redevelopment plan. Total cost of this project is estimated to be $ 515, 000. As of December 31, 2013, $ 94,687 had been expended on this project.

The Georgia Department of Transportation awarded the City a Transportation Enhancement Act (TEA) Grant totaling $ 480,000. This grant, along with SPLOST proceeds, will be used to continue the redevelopment of the downtown area through the installation of sidewalks and other streetscape improvements. This grant represents Phase III of a comprehensive downtown redevelopment plan. Total cost of this project is estimated to be $ 600, 000. As of December 31, 2013, $ 24,816 had been expended on this project.

The City is currently consulting with engineers to plan and develop improvements to the water pollution control plant. This project is in the preliminary design stage and has not been fully developed. Total cost incurred on this project as of December 31, 2013 was $ 15,000. Estimated costs to complete the project have yet to be determined.

(Continued)

NOTE 16 - COMMITMENTS AND SUBSEQUENT EVENTS (Continued)

As of December 31, 2013, construction in progress (amounts spent to date) and the estimated remaining commitment on these projects are as follows:

Project Description	Construction In Progress	Remaining Commitment
2011 CDBG sewer facilities	$ 499,117	$ 47,383
2006 TEA downtown redevelopment phase II	94,687	420,313
2011 TEA downtown redevelopment phase III	24,816	575,184
Water pollution control plant expansion	15,000	No determined
	$ 633,620	$ 1,042,880

Subsequent Events

In preparing these financial statements, the City's management has evaluated events and transactions for potential recognition or disclosure through December 5, 2014, the date the financial statements were available for issuance.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF FUNDING PROGRESS
DEFINED BENEFIT PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Acturial Accrued Liability (AAL) Entry Age (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a % of Covered Payroll ((b-a)/c)
05/01/08	$ 387,496	$ 412,856	$ 25,360	93.86%	$ 322,194	7.87%
05/01/09	$ 289,033	$ 444,573	$ 155,540	65.01%	$ 291,746	53.31%
07/01/10	$ 394,477	$ 467,577	$ 73,100	84.37%	$ 277,531	26.34%
07/01/11	$ 428,177	$ 498,127	$ 69,950	85.96%	$ 308,137	22.70%
07/01/12	$ 457,853	$ 534,766	$ 76,913	85.62%	$ 280,886	27.38%
07/01/13	$ 496,272	$ 570,260	$ 73,988	87.03%	$ 301,245	24.56%

The assumptions used in the preparation of the above schedule are disclosed in Note 14 in the Notes to the Financial Statements.

INDIVIDUAL AND COMBINING FUND STATEMENTS

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GENERAL FUND

The General Fund is used to account for resources traditionally associated with the City that are not required legally, or by sound financial management, to be accounted for in another fund.

CITY OF LINCOLNTON, GEORGIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET (BUDGETARY BASIS) AND ACTUAL
GENERAL FUND BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes				
Real property tax	$ 201,023	$ 201,023	$ 220,851	$ 19,828
Motor vehicle tax	17,900	17,900	11,397	(6,503)
Motor vehicle title advalorem tax	-	-	20,638	20,638
Mobile home tax	1,786	1,786	924	(862)
Real estate transfer tax	-	-	191	191
Franchise tax	103,600	103,600	108,119	4,519
Local option sales tax	126,000	126,000	122,981	(3,019)
Intangible tax	-	-	1,619	1,619
Hotel motel tax	11,000	11,000	-	(11,000)
Alcoholic beverage tax	45,000	45,000	48,998	3,998
Occupation tax	13,000	13,000	16,711	3,711
Insurance premium tax	83,000	83,000	80,781	(2,219)
Payment in lieu of taxes	2,600	2,600	2,618	18
Total taxes	604,909	604,909	635,828	30,919
Licenses and Permits				
Alcoholic beverage licenses	4,000	4,000	2,550	(1,450)
Building permits	7,000	7,000	4,086	(2,914)
Total licenses and permits	11,000	11,000	6,636	(4,364)
Intergovernmental				
State government	-	-	15,796	15,796
Total intergovernmental	-	-	15,796	15,796
Charges for Services				
Sanitation fees	167,000	167,000	180,285	13,285
Total charges for services	167,000	167,000	180,285	13,285
Fines and Forfeitures				
Municipal court fines	20,000	20,000	35,785	15,785
Total fines and forfeitures	20,000	20,000	35,785	15,785
Use of Money and Property				
Interest income	2,000	2,000	529	(1,471)
Rents	17,600	17,600	20,225	2,625
Total use of money and property	19,600	19,600	20,754	1,154
Other				
Sales of surplus property	-	-	47,559	47,559
Miscellaneous	8,400	8,400	10,579	2,179
Total other	8,400	8,400	58,138	49,738
Total revenues	830,909	830,909	953,222	122,313

(Continued)

CITY OF LINCOLNTON, GEORGIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET (BUDGETARY BASIS) AND ACTUAL
GENERAL FUND BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
EXPENDITURES				
General government				
Council	9,500	9,500	27,301	17,801
Mayor	5,950	5,950	17,105	11,155
General administration	171,442	171,442	170,748	(694)
Total general government	186,892	186,892	215,154	28,262
Judicial				
Municipal court	4,379	4,379	6,221	1,842
Total judicial	4,379	4,379	6,221	1,842
Public safety				
Police	272,510	272,510	272,292	(218)
Fire	25,730	25,730	19,530	(6,200)
Total public safety	298,240	298,240	291,822	(6,418)
Public works				
Streets and sanitation	343,448	343,448	350,183	6,735
Total public works	343,448	343,448	350,183	6,735
Community services				
Community center	4,650	4,650	6,750	2,100
Total community services	4,650	4,650	6,750	2,100
Housing and development				
Planning and zoning	18,300	18,300	11,664	(6,636)
Total housing and development	18,300	18,300	11,664	(6,636)
Total expenditures	855,909	855,909	881,794	25,885
Excess (deficiency) of revenues over/(under) expenditures	(25,000)	(25,000)	71,428	(96,428)
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	-	-	(31,049)	31,049
Total other financing sources (uses)	25,000	25,000	(31,049)	(56,049)
CHANGE IN FUND BALANCE	$ -	$ -	$ 40,379	$ 40,379

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Hotel Motel Tax Fund - This fund was established to account for revenues received from the imposition of a lodging tax to be used in part for the promotion of tourism, conventions, and trade shows.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

SPLOST Fund - This fund was established to account for proceeds from the special purpose local options sales tax used to provide grant matching funds for other capital projects and other capital expenditures funded with SPLOST proceeds.

TIA SPLOST Fund - This fund was established to account for proceeds from the Transportation Investment Act special purpose local option sales tax to provide funding for road and street maintenance, paving, and other related costs.

CITY OF LINCOLNTON, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	Special Revenue	Capital Projects		Total Nonmajor
	Hotel Motel Tax Fund	SPLOST Fund	TSPLOST Fund	Governmental Funds
ASSETS				
Cash and cash equivalents	$ 16,211	$ 285,294	$ 16,243	$ 317,748
Intergovernmental receivable	-	8,378	3,471	11,849
Total assets	$ 16,211	$ 293,672	$ 19,714	$ 329,597
LIABILITIES				
Accounts payable	$ -	$ 1,417	$ -	$ 1,417
Total liabilities	-	1,417	-	1,417
FUND BALANCES				
Restricted for:				
Public works	-	292,255	19,714	311,969
Housing and development	16,211	-	-	16,211
Total fund balances	16,211	292,255	19,714	328,180
Total liabilities and fund balances	$ 16,211	$ 293,672	$ 19,714	$ 329,597

CITY OF LINCOLNTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue	Capital Projects		Total Nonmajor
	Hotel Motel Tax Fund	SPLOST Fund	TSPLOST Fund	Governmental Funds
REVENUES				
Taxes	$ 12,638	$ 97,552	$ 34,180	$ 144,370
Interest income	11	238	5	254
Total revenues	12,649	97,790	34,185	144,624
EXPENDITURES				
Current				
Housing and development	13,994	-	-	13,994
Capital outlay				
Public works	-	82,412	14,471	96,883
Total expenditures	13,994	82,412	14,471	110,877
Excess (deficiency) of revenues over expenditures	(1,345)	15,378	19,714	33,747
Net change in fund balances	(1,345)	15,378	19,714	33,747
Fund balances, beginning of year (original)	17,556	268,901	-	286,457
Prior period adjustments	-	7,976	-	7,976
Fund balances, beginning of year (restated)	17,556	276,877	-	294,433
Fund balances, end of year	$ 16,211	$ 292,255	$ 19,714	$ 328,180

CITY OF LINCOLNTON, GEORGIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (BUDGETARY BASIS) AND ACTUAL

HOTEL-MOTEL TAX FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ -	$ -	$ 12,638	$ 12,638
Interest income	-	-	11	11
Total revenues	-	-	12,649	12,649
EXPENDITURES				
Housing and development	-	-	13,994	13,994
Total expenditures	-	-	13,994	13,994
CHANGE IN FUND BALANCE	$ -	$ -	(1,345)	$ (1,345)
FUND BALANCE, BEGINNING OF YEAR			17,556	
FUND BALANCE, END OF YEAR			$ 16,211	

SUPPLEMENTARY SCHEDULES

CITY OF LINCOLNTON, GEORGIA
COMMUNITY DEVELOPMENT BLOCK GRANTS
PROJECT COST SCHEDULE (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2013

Program Activity	Activity Number	Latest Approved Budget CDBG Funds	Accumulated Expenditures To Date CDBG Funds	Accumulated Expenditures To Date Other Funds	Grand Total Expenditures To Date	Questioned Costs (Explain)
Grant Number 11p-x-090-2-5354						
Sewer facilities	P-03J-02	$ 429,132	$ 436,242	$ -	$ 436,242	none
Contingency	C-022-00	40,868	-	-	-	none
Administration	A-21A-00	30,000	12,365	6,510	18,875	none
Preliminary engineering		-	-	44,000	44,000	none
		$ 500,000	$ 448,607	$ 50,510	$ 499,117	none

Source of other funds: local match

CITY OF LINCOLNTON, GEORGIA

COMMUNITY DEVELOPMENT BLOCK GRANTS

SOURCE AND APPLICATION OF FUNDS SCHEDULE (CASH BASIS)

FOR THE YEAR ENDED DECEMBER 31, 2013

Grant Number 11p-x-090-2-5354

Total program year 2011 funds allocated to recipient	$	500,000
Less total program year 2011 funds drawn by recipient		448,607
Funds still available from program year 2011 resources	$	51,393
Total program year 2011 funds drawn and received by recipient	$	448,607
Less funds applied and expended to program year 2011 costs		448,607
Total program year 2011 funds held by recipient	$	-

CITY OF LINCOLNTON, GEORGIA

SCHEDULE OF SPECIAL PURPOSE LOCAL OPTION SALES TAX

FOR THE YEAR ENDED DECEMBER 31, 2013

Project	Original Estimated Cost	Revised Estimated Cost	Prior Years (Restated)	Current Year	Total	Estimated Percentage of Completion
SPLOST 2005 - 2010						
Downtown Revitilization/ Water Sewer Capital	$ 1,000,000	$ 626,040	$ 581,580	$ 44,460	$ 626,040	100%
Totals	$ 1,000,000	$ 626,040	$ 581,580	$ 44,460	$ 626,040	
SPLOST 2011 - 2016						
Downtown Revitilization/ Water Sewer Capital	$ 634,560	$ 634,560	$ -	$ 37,952	$ 37,952	6%
	$ 634,560	$ 634,560	$ -	$ 37,952	$ 37,952	

COMPLIANCE SECTION

BARMORE HAMMOND
CERTIFIED PUBLIC ACCOUNTANTS
LIMITED LIABILITY PARTNERSHIP

Benjamin B. Barmore, CPA, PC
W. Lee Hammond, CPA, PC

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

Honorable Mayor and Members of City Council
City of Lincolnton
Lincolnton, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United State 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 Lincolnton, Georgia (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statement, and have issued our report thereon dated December 5, 2014.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1 to 2013-4 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-5 to 2013-7 to be significant deficiencies.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-5 to 2013-6.

We also noted certain additional matters that we reported to the management of the City of Lincolnton, Georgia in a separate letter dated December 5, 2014.

City of Lincolnton, Georgia's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Thomson, Georgia
December 5, 2014

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

There was no audit of major federal award programs as of December 31, 2013 due to the total amount of federal expenditures being less than $ 500,000 during the year 2013.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2013-1. Trial Balances

Criteria: Trial balances should be in balance at both the overall entity and individual fund levels.

Condition: The City's trial balances for the overall entity, General Fund, and Water Sewer Utility Fund were out of balance for the year ended December 31, 2013.

Context: During our testing of the trial balances, audit adjustments were required to balance the trial balances. These adjustments were due to an out-of-balance payroll transaction and the result of transactions being posted across funds.

Effect: An audit adjustment to increase salaries that did not post properly during payroll processing in the amount of $952 was made to the General Fund. Additionally, an audit adjustment was made to increase amounts posted to the General Fund totaling $ 43,865 and to decrease amounts posted to the Water Sewer Utility Fund totaling $ 43,865 to correct amounts posted across the two funds.

Recommendation: We recommend the City adopt procedures to insure that trial balances at both the overall entity and individual fund levels are in balance and remain in balance after transactions have been posted.

Views of Responsible Officials and Planned Corrective Action: We concur. Proposed audit entries to correct the finding were approved and posted to the general ledger. Procedures have been put in place to monitor balances going forward.

2013-2. Maintaining Separate Funds

Criteria: Certain provisions of laws, regulations, contracts and grant agreements, and the uniform chart of accounts require that separate funds be maintained to account for the transactions of specified activities of the City.

Condition: The City has provided separate funds for its Hotel Motel Tax Fund, SPLOST Fund, TSPLOST Fund, and CDBG Capital Projects Fund, however transactions related to these funds were accounted for in the City's General Fund and Water Sewer Utility Fund during the year ended December 31, 2013.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)

Context: During our testing of the trial balances, audit adjustments were required to reclassify account balances to the correct fund to comply with certain provisions of laws, regulations, contracts and grant agreements, and the uniform chart of accounts.

Effect: Audit adjustments of $ 12,649, $ 13,994, and $ 1,345 were made to reclassify Hotel Motel Tax revenues, expenditures, and net decrease in cash balances from the General Fund to the Hotel Motel Tax Fund. Audit adjustments of $ 97,454, $ 81,061, and $ 16,393 were made to reclassify SPLOST Fund revenues, expenditures, and net increase in cash balances from the General Fund and the Water Sewer Utility Fund to the SPLOST Fund. Audit adjustments of $ 30,714, $ 14,471, and $ 16,243 were made to reclassify TSPLOST Fund revenues, expenditures, and net increase in cash balances from the General Fund to the TSPLOST Fund. Finally, audit adjustments of $ 44,393 and $ 44,393 were made to reclassify CDBG Capital Projects Fund revenues and expenditures from the Water Sewer Utility Fund.

Recommendation: We recommend the City adopt procedures to insure that transactions are posted to the correct fund in accordance with certain provisions of laws, regulations, contracts and grant agreements, and the uniform chart of accounts.

Views of Responsible Officials and Planned Corrective Action: We concur. Proposed audit entries to correct the finding were approved and posted to the general ledger. A new city clerk was hired in September 2013 with a degree in accounting. We have provided, and will continue to provide, the clerk with continuing education opportunities to expand her knowledge of governmental accounting and requirements related thereto. We are confident these actions will have a positive impact on our financial reporting.

2013-3. Incomplete Posting of Transactions

Criteria: Procedures should be in place to insure all transactions are properly posted to the City's accounts in a timely manner.

Condition: All transactions of the City's CDBG Capital Projects Fund were not posted to the City's accounts.

Context: During the performance of procedures on the City's CDBG Capital Projects Fund, audit adjustments were required to record transactions that were not posted to the City's trial balance.

Effect: Audit adjustments of $ 186,796 were made to record federal grant revenues and the related expenditures.

Recommendation: We recommend the City adopt policies and procedures to insure that all transactions are posted to the City's trial balance.

Views of Responsible Officials and Planned Corrective Action: We concur. Proposed audit entries to correct the finding were approved and posted to the general ledger. The finding was discussed with the new clerk and procedures to insure complete posting of transactions to the accounts will be implemented.

2013-4. Restatement of Prior Year Amounts

Criteria: Generally accepted accounting principles require revenues to be recognized in the accounting period in which they become both measurable and available to finance expenditures in the current period. In addition, expenditures should be recorded when the liability is incurred and payable from current financial resources.

Condition: The City maintains its accounting records on the cash basis during the year. Asset and liability accruals are determined and recorded at year-end as part of the year-end financial close. Amounts for asset and liability accruals, as of December 31, 2012, were unrecorded or incorrectly stated.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)

Context: During our testing of the opening balances, for the year ended December 31, 2013, we determined that certain amounts for asset and liability accruals were not recorded. In addition, we determined that some recorded amounts were understated and that others were overstated.

Effect: The cumulative effect of prior year restatements on total net position as reported in the government-wide financial statements as of December 31, 2012, resulted in a net increase of $ 387,858. Restatements to prior year net position by activities of the primary government are as follows:

Governmental Activities - net position of the City's governmental activities as of December 31, 2012 increased by $ 536,186. The increase is attributable to an understatement in cash balances and asset accruals totaling $ 76,063 and $ 59,187. The City's investment in capital assets net of related debt was understated by $ 294,095. Accruals for unpaid liabilities and deferred inflows of resources were overstated by $ 106,841.

Business-Type Activities - net position of the City's business-type activities as of December 31, 2012 decreased by $ 148,328. The decrease is attributable to an overstatement of $ 159,325 in the City's investment in capital assets net of related debt, an understatement in asset accruals totaling $ 105,500, and an understatement of liability accruals totaling $ 25,657. In addition, management implemented GASB 65 this year which resulted in the expensing of prior year bond issuance costs in the year incurred resulting in a decrease in net position of $ 68,846.

Fund Financial Statements

The cumulative effect of prior year restatements on total fund balances as reported in the governmental funds financial statements as of December 31, 2012, resulted in a net increase of $ 79,819. Restatements to prior year fund balances by fund are as follows:

General Fund - fund balance of the General Fund as of December 31, 2012 increased by $ 71,843. The increase is attributable to an understatement in cash balances of $ 76,063, asset accruals of $ 31,556, and liability accruals of $ 35,776.

Non-Major Governmental Funds - fund balances of non-major funds as of December 31, 2012 increased by $ 7,976 as a result of an understatement in asset accruals.

Water Sewer Utility Fund - net position of the Water Sewer Utility Fund as of December 31, 2012 decreased by $ 148,328. Details of this decrease are discussed under business-type activities above.

Recommendation: We recommend the City adopt policies and procedures to accurately record year-end asset and liability accruals.

Views of Responsible Officials and Planned Corrective Action: We concur. The finding was discussed in great detail with the auditor to gain a better understanding as to the cause of the finding. We now understand that our books are maintained on the cash basis of accounting and that certain entries are required at year-end to convert to the various basis of accounting required by governmental reporting standards. We also concluded that management's limited knowledge of governmental accounting and the lack of communication between management and the prior auditor were a significant contributing factor to this finding. We reviewed the proposed restatements and approved the related adjustments and posted them to the general ledger. The hiring of a qualified city clerk, knowledgeable in governmental accounting, and the perspective gained from engaging a new auditor represent positive actions we have taken to date to remedy this finding. We have been and will continue to be proactive in improving our accounting procedures and financial reporting.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)

2013-5. Budgets and Budgetary Controls

Criteria: The Official Code of Georgia Annotated (OCGA) Section 36-81-3 requires the City to adopt and operate under an annual balanced budget for the general fund, each special revenue fund, and each debt service fund in use by the City. In addition, a project-length balanced budget is to be adopted for each capital project. Expenditures for each department for each fund for which a budget is required (the "legal of level of control") cannot exceed appropriations. The governing body can amend its budget so as to adapt to changing governmental needs during the budget period.

Condition: The City did not adopt an annual budget for the Hotel Motel Tax Fund. In addition, actual expenditures exceeded appropriated amounts in four of the General Fund's departments.

Context: During our testing of the City's budgetary policies and procedures we determined the City did not adopt an annual budget for the Hotel Motel Tax Fund. We also determined that four departments within the General Fund exceeded the legal level of control and that no budget amendments were made to the original adopted budget to correct the over expenditures.

Effect: The City was out of compliance with OCGA Section 36-81-3.

Recommendation: We recommend the City review the requirements of OCGA Section 36-81-3 and adopt policies and procedures to insure that all legally required budgets are adopted on an annual basis, monitored for excess expenditures, and formally adopt amendments to correct all excess expenditures.

Views of Responsible Officials and Planned Corrective Action: We concur. We acknowledge the cause of this finding has been our lack of accurate and timely financial reports to facilitate the budgetary process. We believe the actions taken, as discussed above, will result in more accurate financial reporting on a timely basis that will enhance our budgetary process.

2013-6. Debt Covenants

Criteria: The GEFA DWSRF loan agreement requires the City to maintain a "fixed charges coverage ratio" of at least 1.05 in any fiscal year. Bond covenants within the Series 1975, 1999, and 2005 bond ordinances require the City to maintain sinking funds to service the debts, provide for reserves for payment of the debt in situations of cash shortfalls, and provide funds for renewal and extension of the water sewer system.

Condition: The fixed charges coverage ratio for the year ended December 31, 2013 was 1.04 which is less than the 1.05 minimum as required by the loan agreement. Cash accounts within the water sewer fund are not suitably titled to accurately reflect their purpose and deposits on hand as of December 31, 2013 are not adequate to meet the reserve requirements stipulated in the bond ordinances.

Context: We reviewed all debt agreements and bond ordinances to determine covenants contained therein and we tested those covenants for compliance. We computed the fixed charges coverage ratio, current year income (loss) adjusted for depreciation and interest expense over total debt service principal and interest, to be 1.04, which is less than the 1.05 required by the loan agreement. The Series 1975 Bonds require that $ 320 per month be deposited into a reserve fund until there is a balance of $ 36,000 accumulated. In addition, the Series 1975 Bonds require that any excess funds held in the revenue fund be deposited into the renewal and extension fund until there is a maximum balance of $ 10,000 accumulated in such fund. The Series 1999 and 2005 Bonds require that the monthly principal and interest payments be deposited in the debt service fund along with an additional 10% of said payments until such time there are sufficient funds in the debt service fund to pay the principal and interest due in the next succeeding sinking fund year.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)

We determined that a total of $ 228,288 should be on deposit as of December 31, 2013 to fully fund the requirements of the Series 1999 and 2005 Bonds. Based on our computations and interpretation of the bond ordinances, we further determined that a total of $ 274,288 should be held in reserves for debt service on all outstanding issues as of December 31, 2013. Total cash deposits in the Water Sewer Utility Fund totaled $ 240,113 as of December 31, 2013 of which $ 12,557 is held in the revenue fund to be used for day-to-day operations leaving a balance of $ 227,556 for debt service reserves. Accordingly, we concluded that required debt service reserves were $ 46,732 short of their required balance. We also noted that debt service payments on the Series 1999 and 2005 Bonds were being made from the revenue fund instead of the debt service fund as prescribed by the bond ordinances.

Effect: The City is out of compliance with certain of its debt covenants as stipulated in the loan agreements and bond ordinances. Noncompliance with these covenants could result in default proceedings.

Recommendation: We recommend the City review its debt covenants related to all debt issues to ascertain their requirements, consider appropriate titles for the respective cash accounts, reallocate cash deposits to the respective accounts, and to fully fund reserve balances as soon as practicable.

Views of Responsible Officials and Planned Corrective Action: We concur. We are aware that as of the report date the reserve requirements stipulated by the 1975 Series Bonds will no longer be applicable since those bonds have been satisfied. We will review the accounts currently maintained, review the debt agreements to determine required accounts, rename those accounts accordingly, and properly fund those accounts as funds become available. We recognize the need to closely monitor revenues and expenditures of the Water Sewer Utility Fund to insure compliance with the fixed charges ratio. Rate increases will be considered should the fixed charges ratio continue to be below the minimum requirement.

2013-7. Segregation of Duties

Criteria: Internal controls should be in place to provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition: Appropriate segregation of duties does not exist among recording, distribution, and reconciling of cash accounts and other operational functions of the City.

Effect: Failure to properly segregate duties among recording, distribution, and reconciliation of accounts can lead to misappropriation of funds that is not detected during the normal course of business.

Cause: The lack of segregation of duties is common in smaller governments and is the result of limited resources and the number of personnel available to perform all duties.

Recommendation: We recommend that duties of recording, distribution, and reconciliation of accounts be segregated among personnel where feasible and cost effective. Management oversight should be strengthened through review of monthly bank statements, underlying financial documents, monthly financial statements, and budgetary comparisons.

Views of Responsible Officials and Planned Corrective Action: We concur. We will consider and implement additional internal controls, where feasible and cost effective, that will mitigate the lack of segregation of accounting duties.

SECTION III
FEDERAL AWARDS FINDINGS AND RESPONSES

Not applicable for the year ended December 31, 2013.

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

SUMMARY OF PRIOR AUDIT FINDINGS

There were no prior audit findings reported for the year ended December 31, 2012 which require a response in the December 31, 2013 financial statements.

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