CITY OF LINCOLNTON, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014

CITY OF LINCOLNTON, GEORGIA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

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BARMORE HAMMOND
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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, 2014, 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, 2014, 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 June 26, 2015 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.

Bennett Hammond, LLP

June 26, 2015
Thomson, Georgia

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 504,747	$ 68	$ 504,815
Restricted cash and cash equivalents	-	226,445	226,445
Receivables			
Taxes-net	31,952	-	31,952
Accounts-net	-	115,769	115,769
Interest	31	-	31
Intergovernmental	152,594	1,972	154,566
Internal balances	20,932	(20,932)	-
Capital assets net of accumulated depreciation			
Land	145,507	97,579	243,086
Buildings and improvements	409,085	11,585	420,670
Machinery and equipment	48,620	7,585,093	7,633,713
Infrastructure	1,602,191	-	1,602,191
Construction in progress	32,921	121,163	154,084
Net pension asset	2,215	-	2,215
Total assets	2,950,795	8,138,742	11,089,537
DEFERRED OUTFLOWS OF RESOURCES			
Prepaid items	20,334	2,545	22,879
Total assets and deferred outflows of resources	$ 2,971,129	$ 8,141,287	$ 11,112,416
LIABILITIES			
Accounts payable	$ 120,132	$ 24,805	$ 144,937
Accrued liabilities	-	56	56
Customer deposits	-	39,025	39,025
Intergovernmental payables	477	4,189	4,666
Accrued interest payable	-	4,722	4,722
Noncurrent liabilities			
Due within one year	493	110,279	110,772
Due in more than one year	-	4,153,599	4,153,599
Total liabilities	121,102	4,336,675	4,457,777
NET POSITION			
Net investment in capital assets	2,238,324	3,551,542	5,789,866
Restricted for:			
Public works	163,881	-	163,881
Housing and development	18,015	-	18,015
Debt service	-	226,445	226,445
Unrestricted	429,807	26,625	456,432
Total net position	$ 2,850,027	$ 3,804,612	$ 6,654,639

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, 2014

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	Primary Government: Business-type Activities	Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 351,458	$ -	$ -	$ -	$ (351,458)	$ -	$ (351,458)
Judicial	6,372	36,922	-	-	30,550	-	30,550
Public safety	340,543	3,500	-	-	(337,043)	-	(337,043)
Public works	879,907	166,173	-	598,267	(115,467)	-	(115,467)
Housing and development	21,976	7,504	-	8	(14,464)	-	(14,464)
Community services	7,507	20,150	-	-	12,643	-	12,643
Interest on long-term debt	96	-	-	-	(96)	-	(96)
Total governmental activities	1,607,859	234,249	-	598,275	(775,335)	-	(775,335)
Business-type activities:							
Water Sewer Utility Fund	966,494	820,130	-	565,509	-	419,145	419,145
Total business-type activities	966,494	820,130	-	565,509	-	419,145	419,145
Total primary government	$ 2,574,353	$ 1,054,379	$ -	$ 1,163,784	(775,335.00)	419,145.00	(356,190.00)
General revenues							
Property taxes					190,024	-	190,024
Motor vehicle taxes					13,742	-	13,742
Motor vehicle title advalorem taxes					38,053	-	38,053
Mobile home taxes					841	-	841
Payment in lieu of taxes					2,618	-	2,618
Sales taxes					165,489	-	165,489
Franchise taxes					110,767	-	110,767
Insurance premium taxes					84,462	-	84,462
Hotel Motel taxes					13,120	-	13,120
Alcoholic beverage taxes					50,328	-	50,328
Occupation taxes					14,540	-	14,540
Intangible taxes					1,222	-	1,222
Transfer taxes					367	-	367
Interest income					260	419	679
Other revenues					1,161	-	1,161
Transfers					(156,468)	156,468	-
Total general revenues and transfers					530,526	156,887	687,413
Change in net position					(244,809)	576,032	331,223
Net position, beginning of year					3,094,836	3,228,580	6,323,416
Net position, end of year					$ 2,850,027	$ 3,804,612	$ 6,654,639

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

CITY OF LINCOLNTON, GEORGIA
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General Fund	SPLOST Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 364,298	$ 79,452	$ 60,997	$ 504,747
Receivables (net of allowance for uncollectibles)				
Taxes	31,952	-	-	31,952
Interest	31	-	-	31
Intergovernmental receivables	14,790	109,924	3,653	128,367
Interfund receivables	20,932	-	-	20,932
Total assets	432,003	189,376	64,650	686,029
DEFERRED OUTFLOWS OF RESOURCES				
Prepaid items	20,334	-	-	20,334
Total assets and deferred outflows of resources	$ 452,337	$ 189,376	$ 64,650	$ 706,363
LIABILITIES				
Accounts payable	$ 35,724	$ 84,226	$ 182	$ 120,132
Intergovernmental payables	477	-	-	477
Total liabilities	36,201	84,226	182	120,609
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	34,343	-	-	34,343
Total liabilities and deferred inflows of resources	70,544	84,226	182	154,952
FUND BALANCES				
Nonspendable:				
Prepaid items	20,334	-	-	20,334
Restricted for:				
Public works	-	105,150	46,453	151,603
Housing and development	-	-	18,015	18,015
Unassigned	361,459	-	-	361,459
Total fund balances	381,793	105,150	64,468	551,411
Total liabilities, deferred inflows, and fund balances	$ 452,337	$ 189,376	$ 64,650	$ 706,363

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, 2014

Total fund balances - governmental funds	$	551,411
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		611,841
Infrastructure		2,409,540
Construction in progress		32,921
Accumulated depreciation		(1,927,515)
Total capital assets - governmental activities		2,238,324
Net pension asset used in governmental activities is not a financial resource and, therefore, is not reported in the funds.		2,215
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		24,227
Property taxes		34,343
Total unavailable revenues		58,570
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		(493)
Total long-term liabilities		(493)
Net position of governmental activities	$	2,850,027

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, 2014

	General Fund	SPLOST Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 642,032	$ -	$ 50,457	$ 692,489
Licenses and permits	25,544	-	-	25,544
Intergovernmental	36,369	511,116	51,393	598,878
Charges for services	166,173	-	-	166,173
Fines and forfeitures	36,922	-	-	36,922
Interest income	260	262	23	545
Rents	20,150	-	-	20,150
Other	1,161	-	-	1,161
Total revenues	928,611	511,378	101,873	1,541,862
EXPENDITURES				
Current				
General government	250,372	-	-	250,372
Judicial	6,372	-	-	6,372
Public safety	319,615	-	-	319,615
Public works	300,978	-	10,613	311,591
Community services	7,507	-	-	7,507
Housing and development	11,068	-	10,908	21,976
Debt service				
Principal	6,728	-	-	6,728
Interest	96	-	-	96
Capital outlay				
General government	15,706	-	-	15,706
Public safety	12,840	-	-	12,840
Public works	6,546	573,030	51,393	630,969
Total expenditures	937,828	573,030	72,914	1,583,772
Excess (deficiency) of revenues over expenditures	(9,217)	(61,652)	28,959	(41,910)
OTHER FINANCING SOURCES (USES)				
Transfers in	416	-	-	416
Transfers out	(31,015)	(125,453)	(416)	(156,884)
Total other financing sources (uses)	(30,599)	(125,453)	(416)	(156,468)
NET CHANGE IN FUND BALANCES	(39,816)	(187,105)	28,543	(198,378)
FUND BALANCES, BEGINNING OF YEAR	421,609	292,255	35,925	749,789
FUND BALANCES, END OF YEAR	$ 381,793	$ 105,150	$ 64,468	$ 551,411

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, 2014

Net change in fund balances - total governmental funds	$	(198,378)
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		659,515
Depreciation expense		(124,662)
Construction in progress completed and contributed to Water Sewer Utility Fund		(565,509)
Excess of depreciation expense and other adjustments over capital outlay		(30,656)
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 2014.		3,518
Unearned revenues decreased by this amount in 2014 .		(25,862)
Net change in revenues not providing current financial resources		(22,344)
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		6,728
Net decrease in long-term debt		6,728
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 2014.		(73)
Net pension asset decreased by this in 2014.		(86)
Net change in expenses not requiring the use of current financial resources		(159)
Change in net position of governmental activities	$	(244,809)

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, 2014

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ 604,909	$ 604,909	$ 638,711	$ 33,802
Licenses and permits	11,000	11,000	11,004	4
Intergovernmental	-	-	33,751	33,751
Charges for services	167,000	167,000	152,064	(14,936)
Fines and forfeitures	20,800	20,800	36,922	16,122
Use of money and property	19,600	19,600	20,440	840
Other	8,400	8,400	1,306	(7,094)
Total revenues	831,709	831,709	894,198	62,489
EXPENDITURES				
Current				
General government	194,818	194,818	260,184	65,366
Judicial	4,379	4,379	6,387	2,008
Public safety	299,040	299,040	351,247	52,207
Public works	331,522	331,522	318,272	(13,250)
Community services	8,650	8,650	7,934	(716)
Housing and development	18,300	18,300	11,068	(7,232)
Total expenditures	856,709	856,709	955,092	98,383
Excess (deficiency) of revenues over/(under) expenditures	(25,000)	(25,000)	(60,894)	35,894
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	-	-	(30,598)	30,598
Total other financing sources (uses)	25,000	25,000	(30,598)	(55,598)
CHANGE IN FUND BALANCE	$ -	$ -	(91,492)	$ (91,492)
RECONCILIATION TO GAAP BASIS				
To record effect of changes in receivables and other assets and payables and other liabilities				
Receivables and other assets			8,549	
Payables and other liabilities			43,127	
Total reconciliation to GAAP basis			51,676	
FUND BALANCE, BEGINNING OF YEAR			421,609	
FUND BALANCE, END OF YEAR			$ 381,793	

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, 2014

	Business-type Activities- Enterprise Funds Water Sewer Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 68
Restricted cash and cash equivalents	226,445
Accounts receivable-net	115,769
Intergovernmental receivables	1,972
Total current assets	344,254
Noncurrent assets	
Capital assets	
Land	97,579
Buildings and improvements	32,217
Machinery and equipment	11,154,043
Construction in progress	121,163
Less accumulated depreciation	(3,589,582)
Total capital assets (net of accumulated depreciation)	7,815,420
Total noncurrent assets	7,815,420
Total assets	8,159,674
DEFERRED OUTFLOWS OF RESOURCES	
Prepaid items	2,545
Total assets and deferred outflows of resources	8,162,219
LIABILITIES	
Current liabilities	
Accounts payable	24,805
Accrued liabilities	56
Customer deposits	39,025
Intergovernmental payables	4,189
Interfund payables	20,932
Current portion of notes payable	20,500
Current liabilities payable from restricted assets	
Accrued interest payable	4,722
Current portion of revenue bonds payable	89,779
Total current liabilities	204,008
Noncurrent liabilities	
Notes payable	259,667
Revenue bonds payable	3,893,932
Total noncurrent liabilities	4,153,599
Total liabilities	4,357,607
NET POSITION	
Net investment in capital assets	3,551,542
Restricted for debt service	226,445
Unrestricted	26,625
Total net position	$ 3,804,612

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, 2014

	Business-type Activities- Enterprise Funds
	Water Sewer Utility Fund
OPERATING REVENUES	
Charges for services	$ 799,753
Penalties	20,120
Other	257
Total operating revenues	820,130
OPERATING EXPENSES	
Personnel services and benefits	148,211
Professional and technical services	36,901
Repairs and maintenance	98,798
Other purchased services	209,753
Supplies	70,079
Depreciation	218,448
Bad debts	1,277
Other costs	4,189
Total operating expenses	787,656
Operating income	32,474
NON-OPERATING REVENUES (EXPENSES)	
Interest income	419
Interest expense	(178,838)
Total non-operating revenues (expenses)	(178,419)
Loss before transfers and capital contributions	(145,945)
TRANSFERS IN	156,468
CAPITAL CONTRIBUTIONS	565,509
CHANGE IN NET POSITION	576,032
NET POSITION, BEGINNING OF YEAR	3,228,580
NET POSITION, END OF YEAR	$ 3,804,612

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, 2014

	Business-type Activities-Enterprise Funds Water Sewer Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 859,547
Payments to suppliers and others	(424,632)
Payments to employees	(154,098)
Net cash provided by operating activities	280,817
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	55,914
Net cash provided by noncapital financing activities	55,914
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers from other funds	100,554
Purchase and construction of capital assets	(135,741)
Principal payments on long-term debt	(136,417)
Interest paid	(179,173)
Net cash used by capital and related financiang activities	(350,777)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	446
Net cash provided by investing activities	446
Net decrease in cash and cash equivalents	(13,600)
Cash and cash equivalents, beginning of year	240,113
Cash and cash equivalents, end of year	$ 226,513
CASH PER STATEMENT OF NET POSITION	
Cash	$ 68
Restricted cash-current	226,445
	$ 226,513

(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, 2014

	Business-type Activities-Enterprise Funds Water Sewer Utility Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 32,474
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	218,448
(Increase) decrease in current assets	
Accounts receivable	6,560
Intergovernmental receivables	11,164
Prepaid items	(2,545)
Increase (decrease) in current liabilities	
Accounts payable	871
Accrued liabilities	(5,887)
Customer deposits	4,817
Intergovernmental payables	951
Interfund payables	13,964
Total adjustments	248,343
Net cash provided by operating activities	$ 280,817
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Contribution of capital assets from other funds	$ 565,509
Total noncash investing, capital, and financing activities	$ 565,509

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, 2014.

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.

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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.

SPLOST Capital Projects Fund - The SPLOST Capital Projects Fund is used to account for proceeds from the special purpose local option sales tax and other intergovernmental revenues used for construction and acquisition of capital assets that are funded in part with SPLOST proceeds.

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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 2014 annual appropriated budget for the City's General Fund was adopted on February 4, 2014. 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 2014 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.

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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, 2014.

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, 2014.

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 reports insurance premiums paid in 2014 that benefit the subsequent year as prepaid items in this category on the Statements of Net Position and on the governmental funds balance sheets.

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. This amount represents property taxes not collected within sixty days of year end.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Government-Wide Financial Statements)

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.

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 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

General Fund

Expenditures and other financing uses exceeded revenues and other financing sources by $ 39,816 for the year ended December 31, 2014. This decrease was absorbed by prior year unassigned fund balance.

Actual revenues and other financing sources (budgetary basis) were $ 37,489 more than budgeted amounts whereas actual expenditures and other financing uses (budgetary basis) were $ 128,981 more than appropriated amounts resulting in net decrease in fund balance (budgetary basis) of $ 91,492.

Expenditures (budgetary basis) for general administration, judicial, and public safety exceeded appropriated amounts by $ 65,306, $ 2,008, and $ 52,207 respectively. In addition, transfers out exceeded appropriations by $ 30,598.

Water Sewer Utility Fund

The Water Sewer Utility Fund is reporting a loss of $ 145,945 before transfers in and capital contributions. This loss includes depreciation expense totaling $ 218,448 which is a non-cash expense.

NOTE 3 - 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 $ 731,260 and the bank balance was $ 737,288 at December 31, 2014. 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.

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, 2014, no single issue investment exceeded 5% of total investments.

NOTE 4 - PROPERTY TAXES

Property taxes were levied on October 20, 2014 and were due on December 20, 2014. 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 2014 tax levy follows:

2014 millage rate	6.10
Taxable digest	$ 31,149,927
Gross tax levy	$ 290,075
Less sales tax rollback	(83,604)
Net property taxes	$ 206,471
Property taxes receivable	$ 57,162
Less allowance for uncollectible amounts	(25,210)
Net property taxes receivable	$ 31,952
Unavailable property tax revenue	$ 34,343

NOTE 5 - CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 12/31/2013	Additions	Deletions/ Transfers	Balance 12/31/2014
Governmental Activities				
Capital assets not being depreciated				
Land	$ 145,507	$ -	$ -	$ 145,507
Construction in progress	633,620	624,423	(1,225,122)	32,921
Total capital assets not being depreciated	779,127	624,423	(1,225,122)	178,428
Capital assets being depreciated				
Buildings and improvements	966,030	-	-	966,030
Machinery and equipment	576,749	35,092	-	611,841
Infrastructure	1,749,927	659,613	-	2,409,540
Total capital assets being depreciated	3,292,706	694,705	-	3,987,411
Less accumulated depreciation				
Buildings and improvements	(537,824)	(19,121)	-	(556,945)
Machinery and equipment	(540,869)	(22,352)	-	(563,221)
Infrastructure	(724,160)	(83,189)	-	(807,349)
Total accumulated depreciation	(1,802,853)	(124,662)	-	(1,927,515)
Net capital assets being depreciated	1,489,853	570,043	-	2,059,896
Governmental activities capital assets-net	$ 2,268,980	$ 1,194,466	$ (1,225,122)	$ 2,238,324

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NOTE 5 - CAPITAL ASSETS (Continued)

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	$ 100,932
Public safety	20,983
Public works	2,747
Current year depreciation expense	$ 124,662

Business-type capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 12/31/2013	Additions	Deletions/ Transfers	Balance 12/31/2014
Business-type Activities				
Capital assets not being depreciated				
Land	$ 97,579	$ -	$ -	$ 97,579
Construction in progress	-	121,163	-	121,163
Total capital assets not being depreciated	97,579	121,163	-	218,742
Capital assets being depreciated				
Buildings and improvements	32,217	-	-	32,217
Machinery and equipment	10,573,956	580,087	-	11,154,043
Total capital assets being depreciated	10,606,173	580,087	-	11,186,260
Less accumulated depreciation				
Buildings and improvements	(19,987)	(645)	-	(20,632)
Machinery and equipment	(3,351,147)	(217,803)	-	(3,568,950)
Total accumulated depreciation	(3,371,134)	(218,448)	-	(3,589,582)
Net capital assets being depreciated	7,235,039	361,639	-	7,596,678
Business-type activities capital assets-net	$ 7,332,618	$ 482,802	$ -	$ 7,815,420

Depreciation expense on capital assets of the business-type activities was $ 218,448 for the year ended December 31, 2014.

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, 2014.

NOTE 6 - LONG-TERM DEBT

The following is a summary of the long-term liability transactions for the year ended December 31, 2014:

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Governmental Activities				
Capital leases	$ 6,728	$ -	$ (6,728)	$ -
Accrued compensated absences	420	493	(420)	493
Total debt-governmental activities	$ 7,148	$ 493	$ (7,148)	$ 493
Business-type Activities				
Notes payable	$ 300,667	$ -	$ (20,500)	$ 280,167
Revenue bonds payable	4,099,628	-	(115,917)	3,983,711
Total debt-business-type activities	$ 4,400,295	$ -	$ (136,417)	$ 4,263,878

There was no short-term borrowing during the year ended December 31, 2014.

The following summarizes long-term debt outstanding at December 31, 2014:

	Original Principal	Interest Rate	Final Maturity	Outstanding Balance	Amount Due Within One Year
Governmental Activities					
Accrued compensated absences				493	493
Total-governmental activities				$ 493	$ 493
Business-type Activities					
Note payable, GEFA DWSRF 05-005	$ 410,000	0.00%	2028	$ 280,167	$ 20,500
Bonds payable, USDA Series 1999A	1,277,500	4.75%	2039	1,033,015	22,876
Bonds payable, USDA Series 1999B	280,200	4.75%	2039	226,699	5,012
Bonds payable, USDA Series 2005	3,388,100	4.25%	2040	2,723,997	61,891
Total-business-type activities	$ 5,355,800			$ 4,263,878	$ 110,279

Capital Lease Obligation

The City paid off its remaining capital lease in 2014. The total cost of capital assets acquired under a capital lease as of December 31, 2014 was $ 25,928 and the related accumulated depreciation thereon totaled $ 20,742.

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.

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NOTE 6 - 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 2014. The computation of the fixed charges coverage ratio for the year ended December 31, 2014 is as follows:

			Fixed Charges Coverage Ratio
Income available for fixed charges	$ 307,255	=	0.97
Fixed charges	$ 315,254		

Annual requirements to fully amortize the outstanding note as of December 31, 2014 are as follows:

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
2015	$ 20,500	$ -	$ 20,500
2016	20,500	-	20,500
2017	20,500	-	20,500
2018	20,500	-	20,500
2019	20,500	-	20,500
2020 thru 2024	102,500	-	102,500
2025 thru 2028	75,167	-	75,167
	$ 280,167	$ -	$ 280,167

Revenue Bonds Payable

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 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.

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.

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NOTE 6 - LONG-TERM DEBT (Continued)

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.

Bond Covenants

The bond resolutions require 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. In addition, the resolutions require that a Debt Service Account and a Reserve Account 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.

Compliance With Bond Covenants

As of December 31, 2014, total sinking fund requirements, for all bonds issued, was $ 245,934 and total cash deposits of the Water Sewer Utility Fund were $ 226,513, resulting in a sinking fund deficiency of $ 19,421. The City was not in compliance with the sinking fund requirements as of December 31, 2014.

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, 2014 are as follows:

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
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	107,048	156,532	263,580
2020 thru 2024	611,936	705,964	1,317,900
2025 thru 2029	762,619	555,281	1,317,900
2030 thru 2034	950,522	367,378	1,317,900
2035 thru 2039	1,139,973	133,469	1,273,442
2040	27,557	145	27,702
	$ 3,983,711	$ 2,589,033	$ 6,572,744

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2014, is as follows:

Due from/to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Water Sewer Utility Fund	$ 20,932

The Water Sewer Utility Fund bills and collects charges for sanitation services which are accounted for in the City's General Fund. The $ 20,932 due from the Water Sewer Utility Fund represents the December 2014 billed and unbilled service revenues that are to be paid to the General Fund.

Interfund transfers

Transfers In	Transfers Out	Amount
Water Sewer Utility Fund	General Fund	$ 31,015
Water Sewer Utility Fund	SPLOST Capital Projects Fund	125,453
		$ 156,468

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 $ 31,015.

SPOST proceeds are transferred to the Water Sewer Utility Fund to provide additional funding for various capital projects and acquisition of capital assets. Total transfers to the Water Sewer Utility Fund for capital transactions totaled $ 125,453.

NOTE 8 - DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows of resources represent 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 reports insurance premiums paid in 2014 that benefit the subsequent year as prepaid items in this category on the Statements of Net Position and on the governmental funds balance sheets. As of December 31, 2014 prepaid items reported for governmental activities and business-type activities totaled $ 20,334 and $ 2,545, respectively.

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 not paid within 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, 2014, unavailable revenue-property taxes totaled $ 34,343.

NOTE 9 - 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, 2014:

	Governmental Activities	Business-type Activities
Net investment in capital assets		
Primary government	$ 2,238,324	$ 7,815,420
Less capital leases payable	-	-
Less notes payable	-	(280,167)
Less revenue bonds payable	-	(3,983,711)
Total net investment in capital assets	$ 2,238,324	$ 3,551,542
Restricted for:		
Public works		
SPLOST Fund	$ 114,628	
TSPLOST Fund	49,253	
Total public works	$ 163,881	
Housing and development		
Hotel Motel Tax Fund	$ 18,015	
Total housing and development	$ 18,015	
Debt service		$ 226,445
Total debt service		$ 226,445

NOTE 10 - 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, 2014, 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 11 - 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, 2014, the City was not involved in any pending or threatened litigation.

NOTE 12 - 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 13 - 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.

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

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.

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, 2014, the most recent valuation date, there were ten active participants, ten 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).

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost

The City's annual pension cost and net pension obligation for the plan year beginning July 1, 2014 (the most recent actuarial valuation date) are as follows:

Derivation of Annual Pension Cost	2014	2013	2012
Annual required contribution	$ 21,112	$ 27,933	$ 30,530
Interest on net pension obligation	(178)	(185)	(193)
Amortization net pension obligation	264	275	286
Annual pension cost	$ 21,198	$ 28,023	$ 30,623

Derivation of Net Pension Obligation (Asset)	2014	2013	2012
Annual pension cost for the current year	$ 21,198	$ 28,023	$ 30,623
Actual contributions to plan for the year	(21,112)	(27,933)	(30,530)
Decrease in net pension asset	86	90	93
Net pension asset beginning of year	(2,301)	(2,391)	(2,484)
Net pension asset end of year	$ (2,215)	$ (2,301)	$ (2,391)

Basis of Valuation

Current valuation date	July 1, 2014
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)
Annual inflation rate	3.50%

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)
2014	$ 21,198	$ 21,112	99.59%	$ (2,215)

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

The funded status of the Plan as of July 1, 2014, 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%
07/01/14	$ 526,774	$ 594,879	$ 68,105	88.55%	$ 233,314	29.19%

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 14 - 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 $ 7,750 or 59.07%, of the lodging taxes collected for the year ended December 31, 2014 were expended for such purposes. A summary of Hotel/Motel transactions for the year ended December 31, 2014 follows:

	12/31/2014	Percentage Expended
Tax percentage rate formally adopted by City	5.00%	
Hotel/Motel taxes collected	$ 13,120	
Expended for promoting tourism, conventions, and trade shows	$ 7,750	59.07%

NOTE 15 - COMMITMENTS AND SUBSEQUENT EVENTS

Commitments

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, 2014, $ 32,921 had been expended on this project.

The City was notified by the United States Department of Agriculture (USDA) on October 7, 2014 that their application for financial assistance was approved. The City was awarded grant funds of $ 4,573,000 and loan funds of $ 1,724,000 for total funding of $ 6,297,000. The loan will be repaid in monthly installments of principal and interest at 2.375% over a period of forty years. These funds will be used for improvements to the City's wastewater treatment plant and systems. As of December 31, 2014 the City had expended $ 121,163 on preliminary engineering design and evaluation for the project.

(Continued)

NOTE 15 - COMMITMENTS AND SUBSEQUENT EVENTS (Continued)

As of December 31, 2014, 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 TEA downtown redevelopment phase III	$ 32,921	$ 567,079
Wastewater plant and system improvements	121,163	6,175,837
	$ 154,084	$ 6,742,916

Subsequent Events

In preparing these financial statements, the City's management has evaluated events and transactions for potential recognition or disclosure through June 26, 2015, the date the financial statements were available for issuance.

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%
07/01/14	$ 526,774	$ 594,879	$ 68,105	88.55%	$ 233,314	29.19%

The assumptions used in the preparation of the above schedule are disclosed in Note 13 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, 2014

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes				
Real property tax	$ 201,023	$ 201,023	$ 200,431	$ (592)
Motor vehicle tax	17,900	17,900	13,024	(4,876)
Motor vehicle title advalorem tax	-	-	35,157	35,157
Mobile home tax	1,786	1,786	841	(945)
Real estate transfer tax	-	-	367	367
Franchise tax	103,600	103,600	110,767	7,167
Local option sales tax	126,000	126,000	124,954	(1,046)
Intangible tax	-	-	1,222	1,222
Hotel motel tax	11,000	11,000	-	(11,000)
Alcoholic beverage tax	45,000	45,000	50,328	5,328
Occupation tax	13,000	13,000	14,540	1,540
Insurance premium tax	83,000	83,000	84,462	1,462
Payment in lieu of taxes	2,600	2,600	2,618	18
Total taxes	604,909	604,909	638,711	33,802
Licenses and Permits				
Alcoholic beverage licenses	4,000	4,000	3,500	(500)
Building permits	7,000	7,000	7,504	504
Total licenses and permits	11,000	11,000	11,004	4
Intergovernmental				
State government	-	-	33,751	33,751
Total intergovernmental	-	-	33,751	33,751
Charges for Services				
Sanitation fees	167,000	167,000	152,064	(14,936)
Total charges for services	167,000	167,000	152,064	(14,936)
Fines and Forfeitures				
Municipal court fines	20,800	20,800	36,922	16,122
Total fines and forfeitures	20,800	20,800	36,922	16,122
Use of Money and Property				
Interest income	2,000	2,000	290	(1,710)
Rents	17,600	17,600	20,150	2,550
Total use of money and property	19,600	19,600	20,440	840
Other				
Miscellaneous	8,400	8,400	1,306	(7,094)
Total other	8,400	8,400	1,306	(7,094)
Total revenues	831,709	831,709	894,198	62,489

(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, 2014

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
EXPENDITURES				
General government				
Council	20,500	20,500	33,676	13,176
Mayor	7,250	7,250	12,258	5,008
General administration	167,068	167,068	214,250	47,182
Total general government	194,818	194,818	260,184	65,366
Judicial				
Municipal court	4,379	4,379	6,387	2,008
Total judicial	4,379	4,379	6,387	2,008
Public safety				
Police	273,310	273,310	319,341	46,031
Fire	25,730	25,730	31,906	6,176
Total public safety	299,040	299,040	351,247	52,207
Public works				
Streets and sanitation	331,522	331,522	318,272	(13,250)
Total public works	331,522	331,522	318,272	(13,250)
Community services				
Community center	8,650	8,650	7,934	(716)
Total community services	8,650	8,650	7,934	(716)
Housing and development				
Planning and zoning	18,300	18,300	11,068	(7,232)
Total housing and development	18,300	18,300	11,068	(7,232)
Total expenditures	856,709	856,709	955,092	98,383
Excess (deficiency) of revenues over/(under) expenditures	(25,000)	(25,000)	(60,894)	35,894
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	416	(24,584)
Transfers out	-	-	(31,014)	31,014
Total other financing sources (uses)	25,000	25,000	(30,598)	(55,598)
CHANGE IN FUND BALANCE	$ -	$ -	$ (91,492)	$ (91,492)

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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.

2011 CDBG Fund - This fund was established to account for proceeds from a Community Development Block Grant (CDBG) that was used for construction of water and sewer facilities.

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, 2014

	Special Revenue	Capital Projects		Total Nonmajor
	Hotel Motel Tax Fund	2011 CDBG Fund	TSPLOST Fund	Governmental Funds
ASSETS				
Cash and cash equivalents	$ 18,015	$ -	$ 42,982	$ 60,997
Intergovernmental receivable	-	182	3,471	3,653
Total assets	$ 18,015	$ 182	$ 46,453	$ 64,650
LIABILITIES				
Accounts payable	$ -	$ 182	$ -	$ 182
Total liabilities	-	182	-	182
FUND BALANCES				
Restricted for:				
Public works	-	-	46,453	46,453
Housing and development	18,015	-	-	18,015
Total fund balances	18,015	-	46,453	64,468
Total liabilities and fund balances	$ 18,015	$ 182	$ 46,453	$ 64,650

CITY OF LINCOLNTON, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue	Capital Projects		Total Nonmajor
	Hotel Motel Tax Fund	2011 CDBG Fund	TSPLOST Fund	Governmental Funds
REVENUES				
Taxes	$ 13,120	$ -	$ 37,337	$ 50,457
Intergovernmental	-	51,393	-	51,393
Interest income	8	-	15	23
Total revenues	13,128	51,393	37,352	101,873
EXPENDITURES				
Current				
Public works	-	-	10,613	10,613
Housing and development	10,908	-	-	10,908
Capital outlay				
Public works	-	51,393	-	51,393
Total expenditures	10,908	51,393	10,613	72,914
Excess of revenues over expenditures	2,220	-	26,739	28,959
OTHER FINANCING USES				
Transfers out	(416)	-	-	(416)
Total other financing uses	(416)	-	-	(416)
NET CHANGE IN FUND BALANCES	1,804	-	26,739	28,543
FUND BALANCES, BEGINNING OF YEAR	16,211	-	19,714	35,925
FUND BALANCES, END OF YEAR	$ 18,015	$ -	$ 46,453	$ 64,468

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, 2014

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ -	$ -	$ 13,120	$ 13,120
Interest income	-	-	8	8
Total revenues	-	-	13,128	13,128
EXPENDITURES				
Housing and development	-	-	10,908	10,908
Total expenditures	-	-	10,908	10,908
Excess of revenues over expenditures	-	-	2,220	2,220
OTHER FINANCING USES				
Transfers out	-	-	(416)	(416)
Total other financing uses	-	-	(416)	(416)
NET CHANGE IN FUND BALANCE	$ -	$ -	1,804	$ 1,804
FUND BALANCE, BEGINNING OF YEAR			16,211	
FUND BALANCE, END OF YEAR			$ 18,015	

SUPPLEMENTARY SCHEDULES

CITY OF LINCOLNTON, GEORGIA
COMMUNITY DEVELOPMENT BLOCK GRANTS
PROJECT COST SCHEDULE (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2014

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						
Water facilities	P-03J-01	$ 7,658	$ 7,476	$ -	$ 7,476	none
Sewer facilities	P-03J-02	462,342	462,342	-	462,342	none
Administration	A-21A-00	30,000	30,000	6,010	36,010	none
Preliminary engineering		-	-	44,000	44,000	none
		$ 500,000	$ 499,818	$ 50,010	$ 549,828	

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, 2014

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		499,818
Funds still available from program year 2011 resources	$	182
Total program year 2011 funds drawn and received by recipient	$	499,818
Less funds applied and expended to program year 2011 costs		499,818
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, 2014

Project	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total	Estimated Percentage of Completion
SPLOST 2011 - 2016						
Downtown Revitilization/ Water Sewer Capital	$ 634,560	$ 634,560	$ 37,952	$ 286,483	$ 324,435	51%
	$ 634,560	$ 634,560	$ 37,952	$ 286,483	$ 324,435	

COMPLIANCE SECTION

BARMORE HAMMOND
CERTIFIED PUBLIC ACCOUNTANTS
LIMITED LIABILITY PARTNERSHIP

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

W. G. Bullock Building
132 Railroad Street, Third Floor
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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statement, and have issued our report thereon dated June 26, 2015.

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 2014-1 to 2014-2 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 2014-3 to 2014-5 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 2014-3 to 2014-4.

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.



June 26, 2015
Thomson, Georgia

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

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

Federal funds expended during 2014 were less than $ 500,000; accordingly there was no audit of major federal awards programs for the year ended December 31, 2014.

SECTION II
FINANCIAL STATEMENT FINDINGS

2014-1. Trial Balances (Repeat Finding)

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, Hotel Motel Tax Fund, and Water Sewer Utility Fund were out of balance for the year ended December 31, 2014.

Context: During our testing of the trial balances, audit adjustments were required to balance the trial balances. These adjustments were necessary to correct transactions posted across funds.

Effect: An audit adjustment of $ 167,235 was made to correct amounts posted across these 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.

2014-2. Maintaining Separate Funds (Repeat Finding)

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. Transactions related to these funds were not properly posted to the respective funds throughout the year.

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.

SECTION II
FINANCIAL STATEMENT FINDINGS (Continued)

Effect: Audit adjustments of $ 18,122, $ 1,029,757, and $ 47,965 were made to reclassify Hotel Motel Tax Fund, SPLOST Fund, and TSPLOST Fund transactions to their respective funds.

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.

2014-3. Budgets and Budgetary Controls (Repeat Finding)

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 three 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 three 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.

2014-4. Debt Covenants (Repeat Finding)

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 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, 2014 was .97 which is less than the 1.05 minimum as required by the loan agreement. Cash balances as of December 31, 2014 were 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 .97, which is less than the 1.05 required by the loan agreement. 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.

Based on our review of the bond ordinances, we determined that a total of $ 245,934 should have been held in reserves for debt service on all outstanding issues as of December 31, 2014. Total cash deposits in the Water Sewer Utility Fund totaled $ 226,513 as of December 31, 2014 of which $ 68 was held in the revenue fund to be used for day-to-day operations. We concluded that required debt service reserves were $ 19,489 short of their required balance.

SECTION II
FINANCIAL STATEMENT FINDINGS (Continued)

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 and fully fund reserve balances as soon as practicable.

Views of Responsible Officials and Planned Corrective Action: We concur. We will review the debt requirements and properly fund the reserve account 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.

2014-5. Segregation of Duties (Repeat Finding)

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.

Recommendation: 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. 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
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

We have reviewed our auditor's findings for the year ended December 31, 2014 and concur with all findings. We acknowledge that all findings cited above are repeat findings from the prior year and attribute this to the fact that our prior year audit was not issued until December 5, 2014. Accordingly, the corrective actions taken by us and changes to policies and procedures to resolve these findings were not put into effect until 2015. Below is a listing of the auditor's findings for the year ended December 31, 2014 and the corrective action taken to date or the planned corrective action to resolve the finding.

2014-1. Trial Balances (Repeat Finding)

We concur that the trial balances for the overall entity, General Fund, Hotel Motel Tax Fund, and Water Sewer Utility Fund were out of balance for the year ended December 31, 2014.

Corrective Action Taken and/or Planned: We have reviewed and approved the auditor's proposed audit adjustment to correct the December 31, 2014 trial balances. Those entries have been posted to our general ledger. We will review our June 30, 2015 trial balances to insure that the current year is in balance and apply procedures to insure that the trial balances remain in balance going forward.

SECTION III
VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION (Continued)

2014-2. Maintaining Separate Funds (Repeat Finding)

We concur that transactions of the Hotel Motel Tax Fund, SPLOST Fund, and TSPLOST Fund were not properly posted to their respective fund throughout the year.

Corrective Action Taken and/or Planned: We have reviewed and approved the auditor's proposed audit adjustment to reclassify these transactions to their respective fund and have posted them to our general ledger. Accounting personnel have been informed of the requirements to maintain separate funds for these revenue streams. We will review our June 30, 2015 financial information to insure that transactions have been posted to the proper fund.

2014-3. Budgets and Budgetary Controls (Repeat Finding)

We concur that we did not adopt an annual budget for the Hotel Motel Tax Fund and that we did not amend our 2014 General Fund budget to eliminate the over expenditure of appropriated funds in three of our departments.

Corrective Action Taken and/or Planned: We acknowledge the cause of this finding has been our lack of accurate and timely financial reports to facilitate the budgetary process. We have consulted with our software vendor and other third-parties to assist us in improving our budgetary reporting process. While we have realized significant improvements in our financial reporting we recognize that continued training and understanding is warranted. We will also initiate policies and procedures to insure that all required budgets are adopted on an annual basis.

2014-4. Debt Covenants (Repeat Finding)

We concur that the "fixed charges coverage ratio" as prescribed by the GEFA DWSRF loan agreement was not met and that the required debt service reserve was below the required balance.

Corrective Action Taken and/or Planned: We recognize the need to closely monitor revenues and expenditures of the Water Sewer Utility Fund to insure compliance with this requirement. Rate increases will be considered should the ratio continue to be below the minimum requirements. We reviewed all cash accounts maintained by the City, closed accounts no longer required or of financial benefit and allocated balances accordingly. We will continue to fund the debt service reserve account as funds become available.

2014-5. Segregation of Duties (Repeat Finding)

We concur that appropriate segregation of duties does not exist among recording, distribution, and reconciling of cash accounts and other operational functions of the City.

Corrective Action Taken and/or Planned: We have hired additional part-time office staff and will continue to consider and implement additional internal controls, where feasible and cost effective, that will mitigate the lack of segregation of accounting duties.

SECTION IV
FEDERAL AWARDS FINDINGS AND RESPONSES

Not applicable for the year ended December 31, 2014.

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