CITY OF LINCOLNTON, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

CITY OF LINCOLNTON, GEORGIA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2015, 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made 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 the aggregate remaining fund information of the City as of December 31, 2015, 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

Implementation of New Accounting Standard

As described in Notes 12 and 15 to the financial statements, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2015. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net Pension Liability and Related Ratios – Retirement Plan and Schedule of Contributions – Retirement 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 July 29, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Thomson, Georgia
July 29, 2016

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 331,235	$ 8,979	$ 340,214
Restricted cash and cash equivalents	-	264,770	264,770
Receivables			
Taxes-net	43,904	-	43,904
Accounts-net	-	116,389	116,389
Interest	25	124	149
Intergovernmental	49,382	16,153	65,535
Prepaids	12,040	5,384	17,424
Internal balances	77,047	(77,047)	-
Capital assets net of accumulated depreciation			
Land	145,507	97,579	243,086
Buildings and improvements	395,588	10,941	406,529
Machinery and equipment	165,323	7,413,280	7,578,603
Infrastructure	1,576,737	-	1,576,737
Construction in progress	37,478	296,830	334,308
Total assets	2,834,266	8,153,382	10,987,648
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	19,905	10,087	29,992
LIABILITIES			
Accounts payable	18,949	8,943	27,892
Accrued liabilities	-	920	920
Customer deposits	-	43,183	43,183
Intergovernmental payables	951	-	951
Accrued interest payable	-	4,617	4,617
Noncurrent liabilities			
Due within one year	23,747	121,928	145,675
Due in more than one year	77,343	4,072,411	4,149,754
Net pension liability	59,852	32,205	92,057
Total liabilities	180,842	4,284,207	4,465,049
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	5,558	2,654	8,212
NET POSITION			
Net investment in capital assets	2,220,172	3,624,291	5,844,463
Restricted for:			
Public works	92,513	-	92,513
Housing and development	16,155	-	16,155
Debt service	-	264,770	264,770
Unrestricted	338,931	(12,453)	326,478
Total net position	$ 2,667,771	$ 3,876,608	$ 6,544,379

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, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expenses) and Changes in Net Position: Primary Government: Governmental Activities	Net Revenue (Expenses) and Changes in Net Position: Primary Government: Business-type Activities	Net Revenue (Expenses) and Changes in Net Position: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 341,630	$ -	$ -	$ -	$ (341,630)	$ -	$ (341,630)
Judicial	7,138	40,766	-	-	33,628	-	33,628
Public safety	346,473	2,500	-	-	(343,973)	-	(343,973)
Public works	288,648	166,294	-	117,159	(5,195)	-	(5,195)
Housing and development	18,061	7,816	8	-	(10,237)	-	(10,237)
Community services	7,622	21,501	-	-	13,879	-	13,879
Interest on long-term debt	1,434	-	-	-	(1,434)	-	(1,434)
Total governmental activities	1,011,006	238,877	8	117,159	(654,962)	-	(654,962)
Business-type activities:							
Water Sewer Utility Fund	987,279	846,080	-	-	-	(141,199)	(141,199)
Total business-type activities	987,279	846,080	-	-	-	(141,199)	(141,199)
Total primary government	$ 1,998,285	$ 1,084,957	$ 8	$ 117,159	(654,962)	(141,199)	(796,161)
General revenues							
Property taxes					208,843	-	208,843
Motor vehicle taxes					9,399	-	9,399
Motor vehicle title advalorem taxes					35,053	-	35,053
Mobile home taxes					890	-	890
Payment in lieu of taxes					2,618	-	2,618
Sales taxes					165,503	-	165,503
Franchise taxes					109,217	-	109,217
Insurance premium taxes					90,234	-	90,234
Hotel Motel taxes					16,385	-	16,385
Alcoholic beverage taxes					50,097	-	50,097
Occupation taxes					14,880	-	14,880
Intangible taxes					1,443	-	1,443
Transfer taxes					673	-	673
Interest income					167	812	979
Insurance claims					11,332	-	11,332
Other revenues					20,755	-	20,755
Gain on sale of capital assets					23,618	-	23,618
Transfers					(238,293)	238,293	-
Total general revenues and transfers					522,814	239,105	761,919
Change in net position					(132,148)	97,906	(34,242)
Net position, beginning of year, as originally reported					2,850,027	3,804,612	6,654,639
Implementation effect of GASB Statement Nos. 68 and 71					(50,108)	(25,910)	(76,018)
Net position, beginning of year, as restated					2,799,919	3,778,702	6,578,621
Net position, end of year					$ 2,667,771	$ 3,876,608	$ 6,544,379

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

CITY OF LINCOLNTON, GEORGIA
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	SPLOST Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 245,408	$ 25,903	$ 59,924	$ 331,235
Receivables (net of allowance for uncollectibles)				
Taxes	43,904	-	-	43,904
Interest	25	-	-	25
Intergovernmental receivables	14,982	8,108	3,543	26,633
Interfund receivables	77,047	-	-	77,047
Prepaids	12,040	-	-	12,040
Total assets	$ 393,406	$ 34,011	$ 63,467	$ 490,884
LIABILITIES				
Accounts payable	$ 18,949	$ -	$ -	$ 18,949
Intergovernmental payables	951	-	-	951
Total liabilities	19,900	-	-	19,900
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	38,694	-	-	38,694
FUND BALANCES				
Nonspendable:				
Prepaid items	12,040	-	-	12,040
Restricted for:				
Public works	-	34,011	47,312	81,323
Housing and development	-	-	16,155	16,155
Unassigned	322,772	-	-	322,772
Total fund balances	334,812	34,011	63,467	432,290
Total liabilities, deferred inflows of resources, and fund balances	$ 393,406	$ 34,011	$ 63,467	$ 490,884

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, 2015

Total fund balances - governmental funds	$	432,290
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		971,710
Machinery and equipment		621,113
Infrastructure		2,481,915
Construction in progress		37,478
Accumulated depreciation		(1,937,090)
Total capital assets - governmental activities		2,320,633
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		22,749
Property taxes		38,694
Total unavailable revenues		61,443
Deferred outflows of resources are not current assets or financial resources and, therefore, are not reported in the funds. Deferred outflows of resources consist of:		
Deferred outflows related to pension		19,905
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		(629)
Long-term debt		(100,461)
Net pension liability		(59,852)
Total liabilities		(160,942)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds. Deferred inflows of resources consist of:		
Deferred inflows related to pension		(5,558)
Net position of governmental activities	$	2,667,771

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, 2015

	General Fund	SPLOST Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 628,989	$ -	$ 54,741	$ 683,730
Licenses and permits	25,196	-	-	25,196
Intergovernmental	19,215	101,649	-	120,864
Charges for services	166,294	-	-	166,294
Fines and forfeitures	40,766	-	-	40,766
Interest income	167	24	31	222
Rents	21,501	-	-	21,501
Insurance claims	11,332	-	-	11,332
Other	20,161	594	-	20,755
Total revenues	933,621	102,267	54,772	1,090,660
EXPENDITURES				
Current				
General government	225,472	-	-	225,472
Judicial	7,138	-	-	7,138
Public safety	316,326	-	-	316,326
Public works	286,845	1,356	-	288,201
Community services	7,622	-	-	7,622
Housing and development	11,808	-	6,253	18,061
Debt service				
Principal	8,891	-	-	8,891
Interest	1,434	-	-	1,434
Capital outlay				
Public safety	136,701	-	12,000	148,701
Public works	34,855	4,557	37,520	76,932
Community services	5,680	-	-	5,680
Total expenditures	1,042,772	5,913	55,773	1,104,458
Excess (deficiency) of revenues over (under) expenditures	(109,151)	96,354	(1,001)	(13,798)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	23,618	-	-	23,618
Issuance of capital lease	32,814	-	-	32,814
Issuance of notes payable	76,538	-	-	76,538
Transfers in	2,939	-	-	2,939
Transfers out	(73,739)	(167,493)	-	(241,232)
Total other financing sources (uses)	62,170	(167,493)	-	(105,323)
NET CHANGE IN FUND BALANCES	(46,981)	(71,139)	(1,001)	(119,121)
FUND BALANCES, BEGINNING OF YEAR	381,793	105,150	64,468	551,411
FUND BALANCES, END OF YEAR	$ 334,812	$ 34,011	$ 63,467	$ 432,290

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, 2015

Net change in fund balances - total governmental funds	$ (119,121)
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	231,313
Depreciation expense	(149,004)
Excess of capital outlay over depreciation expense	82,309
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 decreased by this amount in 2015	(1,478)
Unearned revenues increased by this amount in 2015	4,351
Net change in revenues not providing current financial resources	2,873
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:	
Proceeds from the issuance of long-term debt	(109,352)
Principal payments on long-term debt	8,891
Net increase in long-term debt	(100,461)
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 2015	(136)
Net pension liability, deferred inflows and outflows related to pension decreased by this in 2015	2,388
Net change in expenses not requiring the use of current financial resources	2,252
Change in net position of governmental activities	$ (132,148)

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, 2015

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ 577,371	$ 577,371	$ 655,981	$ 78,610
Licenses and permits	11,000	11,000	10,316	(684)
Intergovernmental	-	-	16,597	16,597
Charges for services	167,000	167,000	166,926	(74)
Fines and forfeitures	20,800	20,800	40,766	19,966
Use of money and property	19,600	19,600	33,006	13,406
Other	2,400	2,400	2,358	(42)
Total revenues	798,171	798,171	925,950	127,779
EXPENDITURES				
Current				
General government	236,160	236,160	242,915	6,755
Judicial	6,000	6,000	7,132	1,132
Public safety	346,126	346,126	463,464	117,338
Public works	322,335	322,335	320,406	(1,929)
Community services	7,450	7,450	13,347	5,897
Housing and development	15,300	15,300	11,808	(3,492)
Total expenditures	933,371	933,371	1,059,072	125,701
Excess (deficiency) of revenues over (under) expenditures	(135,200)	(135,200)	(133,122)	2,078
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	23,618	23,618
Issuance of capital lease	-	-	32,814	32,814
Issuance of notes payable	-	-	76,538	76,538
Transfers in	135,200	135,200	2,939	(132,261)
Transfers out	-	-	(73,739)	73,739
Total other financing sources (uses)	135,200	135,200	62,170	(73,030)
CHANGE IN FUND BALANCE	$ -	$ -	(70,952)	$ (70,952)
RECONCILIATION TO GAAP BASIS				
To record effect of changes in receivables and other assets and payables and other liabilities				
Receivables and other assets			12,021	
Payables and other liabilities			11,950	
Total reconciliation to GAAP basis			23,971	
FUND BALANCE, BEGINNING OF YEAR			381,793	
FUND BALANCE, END OF YEAR			$ 334,812	

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, 2015

	Business-type Activities-Enterprise Fund Water Sewer Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 8,979
Restricted cash and cash equivalents	264,770
Accounts receivable-net	116,389
Interest receivable	124
Intergovernmental receivables	16,153
Prepaids	5,384
Total current assets	411,799
Noncurrent assets	
Capital assets	
Land	97,579
Buildings and improvements	32,217
Machinery and equipment	11,210,383
Construction in progress	296,830
Less accumulated depreciation	(3,818,379)
Total capital assets (net of accumulated depreciation)	7,818,630
Total noncurrent assets	7,818,630
Total assets	8,230,429
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	10,087
LIABILITIES	
Current liabilities	
Accounts payable	8,943
Accrued liabilities	920
Customer deposits	43,183
Interfund payables	77,047
Current portion of notes payable	28,123
Current liabilities payable from restricted assets	
Accrued interest payable	4,617
Current portion of revenue bonds payable	93,805
Total current liabilities	256,638
Noncurrent liabilities	
Notes payable	272,284
Revenue bonds payable	3,800,127
Net pension liability	32,205
Total noncurrent liabilities	4,104,616
Total liabilities	4,361,254
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	2,654
NET POSITION	
Net investment in capital assets	3,624,291
Restricted for debt service	264,770
Unrestricted	(12,453)
Total net position	$ 3,876,608

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, 2015

	Business-type Activities- Enterprise Fund
	Water Sewer Utility Fund
OPERATING REVENUES	
Charges for services	$ 822,601
Penalties	21,815
Other	1,664
Total operating revenues	846,080
OPERATING EXPENSES	
Personnel services and benefits	220,954
Professional and technical services	45,013
Repairs and maintenance	72,281
Other purchased services	185,731
Supplies	56,662
Depreciation	228,797
Bad debts	3,253
Total operating expenses	812,691
Operating income	33,389
NON-OPERATING REVENUES (EXPENSES)	
Interest income	812
Interest expense	(174,588)
Total non-operating revenues (expenses)	(173,776)
Loss before transfers in (out)	(140,387)
TRANSFERS IN (OUT)	
Transfers in	241,232
Transfers out	(2,939)
CHANGE IN NET POSITION	97,906
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY REPORTED	3,804,612
Implementation effect of GASB Statement Nos. 68 and 71	(25,910)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	3,778,702
NET POSITION, END OF YEAR	$ 3,876,608

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, 2015

	Business-type Activities-Enterprise Fund Water Sewer Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 884,110
Payments to suppliers and others	(378,388)
Payments to employees	(222,120)
Net cash provided by operating activities	283,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	73,739
Transfers to other funds	(2,939)
Net cash provided by noncapital financing activities	70,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers from other funds	167,493
Purchase and construction of capital assets	(191,267)
Principal payments on long-term debt	(110,279)
Interest paid	(173,801)
Net cash used by capital and related financiang activities	(307,854)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	688
Net cash provided by investing activities	688
Net increase in cash and cash equivalents	47,236
Cash and cash equivalents, beginning of year	226,513
Cash and cash equivalents, end of year	$ 273,749
CASH PER STATEMENT OF NET POSITION	
Cash	$ 8,979
Restricted cash-current	264,770
	$ 273,749

(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, 2015

	Business-type Activities-Enterprise Fund Water Sewer Utility Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 33,389
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	228,797
Other pension related charges	(1,138)
(Increase) decrease in current assets	
Accounts receivable	(620)
Intergovernmental receivables	(14,181)
Prepaid items	(2,839)
Increase (decrease) in current liabilities	
Accounts payable	(15,862)
Accrued liabilities	(28)
Customer deposits	4,158
Intergovernmental payables	(4,189)
Interfund payables	56,115
Total adjustments	250,213
Net cash provided by operating activities	$ 283,602
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Issued note payable to purchase capital assets	$ 40,740
Total noncash investing, capital, and financing activities	$ 40,740

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, housing and development, community services, 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, 2015.

C. Basic Financial Statements

The basic financial statements consist of the following:

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

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

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

The City reports the following major governmental funds:

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

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise fund:

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

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 2015 annual appropriated budget for the City's General Fund was adopted on October 7, 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 2015 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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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, 2015.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress, 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, 2015.

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 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 fund 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 employer contributions to its pension plan made subsequent to the Plan's measurement date and other deferred inflows of resources related to its pension plan in this category on the government-wide and proprietary fund Statements of Net Position.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Sheet. In addition, the City reports deferred inflows of resources related to its pension plan in this category on the government-wide and proprietary fund Statements of Net Position.

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 assets, 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $ 46,981 for the year ended December 31, 2015. This decrease was absorbed by prior year unassigned fund balance.

Actual revenues and other financing sources (budgetary basis) were $ 128,488 more than budgeted amounts whereas actual expenditures and other financing uses (budgetary basis) were $ 199,440 more than appropriated amounts resulting in net decrease in fund balance (budgetary basis) of $ 70,952.

Expenditures (budgetary basis) for general administration, judicial, public safety, and community services exceeded appropriated amounts by $ 6,755, $ 1,132, $ 117,338, and $ 5,897 respectively. In addition, transfers out exceeded appropriations by $ 73,739. Capital asset purchases totaling $ 109,352 represent the majority of the short fall reported by public safety. These purchases were funded by the issuance of a capital lease and notes payable.

SPLOST Capital Projects Fund

Expenditures and other financing uses exceeded revenues and other financing sources by $ 71,139 for the year ended December 31, 2015. This decrease was absorbed by prior year restricted fund balance.

Hotel Motel Tax Fund

Expenditures exceeded revenues by $ 1,860 for the year ended December 31, 2015. This decrease was absorbed by prior year restricted fund balance.

Water Sewer Utility Fund

The Water Sewer Utility Fund is reporting a loss of $ 140,387 before transfers. This loss includes depreciation expense totaling $ 228,797 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 $ 604,984 and the bank balance was $ 666,896 at December 31, 2015. 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.

(Continued)

NOTE 3 - CASH DEPOSITS AND TEMPORARY INVESTMENTS (Continued)

Collateralization of the City's deposits as of December 31, 2015 is as follows:

Amount insured by FDIC	$	426,990
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the City's name		239,906
Total bank balance	$	666,896

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, 2015, no single issue investment exceeded 5% of total investments.

NOTE 4 - PROPERTY TAXES

Property taxes were levied on October 22, 2015 and were due on December 20, 2015. 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 2015 tax levy follows:

2015 millage rate		6.10
Taxable digest	$	33,000,325
Gross tax levy	$	289,083
Less sales tax rollback		(87,781)
Net property taxes	$	201,302
Property taxes receivable	$	51,828
Less allowance for uncollectible amounts		(7,924)
Net property taxes receivable	$	43,904
Unavailable property tax revenue	$	38,694

NOTE 5 - CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2015, was as follows:

	Balance 12/31/2014	Additions	Deletions/ Transfers	Balance 12/31/2015
Governmental Activities				
Capital assets not being depreciated				
Land	$ 145,507	$ -	$ -	$ 145,507
Construction in progress	32,921	4,557	-	37,478
Total capital assets not being depreciated	178,428	4,557	-	182,985
Capital assets being depreciated				
Buildings and improvements	966,030	5,680	-	971,710
Machinery and equipment	611,841	148,701	(139,429)	621,113
Infrastructure	2,409,540	72,375	-	2,481,915
Total capital assets being depreciated	3,987,411	226,756	(139,429)	4,074,738
Less accumulated depreciation				
Buildings and improvements	(556,945)	(19,177)	-	(576,122)
Machinery and equipment	(563,221)	(31,998)	139,429	(455,790)
Infrastructure	(807,349)	(97,829)	-	(905,178)
Total accumulated depreciation	(1,927,515)	(149,004)	139,429	(1,937,090)
Net capital assets being depreciated	2,059,896	77,752	-	2,137,648
Governmental activities capital assets-net	$ 2,238,324	$ 82,309	$ -	$ 2,320,633

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	$ 116,750
Public safety	31,319
Public works	935
Current year depreciation expense	$ 149,004

(Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

Business-type capital asset activity for the year ended December 31, 2015, was as follows:

	Balance 12/31/2014	Additions	Deletions/ Transfers	Balance 12/31/2015
Business-type Activities				
Capital assets not being depreciated				
Land	$ 97,579	$ -	$ -	$ 97,579
Construction in progress	121,163	175,667	-	296,830
Total capital assets not being depreciated	218,742	175,667	-	394,409
Capital assets being depreciated				
Buildings and improvements	32,217	-	-	32,217
Machinery and equipment	11,154,043	56,340	-	11,210,383
Total capital assets being depreciated	11,186,260	56,340	-	11,242,600
Less accumulated depreciation				
Buildings and improvements	(20,632)	(644)	-	(21,276)
Machinery and equipment	(3,568,950)	(228,153)	-	(3,797,103)
Total accumulated depreciation	(3,589,582)	(228,797)	-	(3,818,379)
Net capital assets being depreciated	7,596,678	(172,457)	-	7,424,221
Business-type activities capital assets-net	$ 7,815,420	$ 3,210	$ -	$ 7,818,630

Depreciation expense on capital assets of the business-type activities was $ 228,797 for the year ended December 31, 2015.

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, 2015.

NOTE 6 - LONG-TERM DEBT

The following is a summary of the long-term liability transactions for the year ended December 31, 2015:

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Governmental Activities				
Capital leases	$ -	$ 32,814	$ (6,461)	$ 26,353
Notes payable	-	76,538	(2,430)	74,108
Accrued compensated absences	493	209	(73)	629
Total debt-governmental activities	$ 493	$ 109,561	$ (8,964)	$ 101,090
Business-type Activities				
Notes payable	$ 280,167	$ 40,740	$ (20,500)	$ 300,407
Revenue bonds payable	3,983,711	-	(89,779)	3,893,932
Total debt-business-type activities	$ 4,263,878	$ 40,740	$ (110,279)	$ 4,194,339

There was no short-term borrowing during the year ended December 31, 2015.

The following summarizes long-term debt outstanding at December 31, 2015:

	Original Principal	Interest Rate	Final Maturity	Outstanding Balance	Amount Due Within One Year
Governmental Activities					
Capital lease, GMA	$ 32,814	3.52%	2019	$ 26,353	$ 8,007
Note payable, F&M Bank	16,616	4.25%	2019	15,026	3,962
Note payable, F&M Bank	59,922	3.69%	2020	59,082	11,149
Accrued compensated absences				629	629
Total-governmental activities	$ 109,352			$ 101,090	$ 23,747
Business-type Activities					
Note payable, JD Financial	$ 40,740	3.34%	2020	$ 40,740	$ 7,623
Note payable, GEFA DWSRF 05-005	410,000	0.00%	2028	259,667	20,500
Bonds payable, USDA Series 1999A	1,277,500	4.75%	2039	1,010,140	23,983
Bonds payable, USDA Series 1999B	280,200	4.75%	2039	221,687	5,255
Bonds payable, USDA Series 2005	3,388,100	4.25%	2040	2,662,105	64,567
Total-business-type activities	$ 5,396,540			$ 4,194,339	$ 121,928

Capital Lease Obligation

Georgia Municipal Authority (the "GMA") - The City entered into a capital lease with GMA, on March 2, 2015, to purchase a police cruiser. Terms of the lease require 78 monthly payments of $ 734, including principal and interest at 3.52%. The initial payment was due April 2, 2015 with the final payment being due March 2, 2019. The lease is collateralized with the vehicle.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, are as follows:

Year Ending December 31,	Governmental Activities
2016	$ 8,806
2017	8,806
2018	8,806
2019	1,468
Total minimum lease payments	27,886
Less amount representing interest	(1,533)
Present value of minimum lease payments	$ 26,353

The total cost of capital assets acquired under capital lease as of December 31, 2015 was $ 32,814 and the related accumulated depreciation thereon totaled $ 3,281.

Notes Payable

F&M Bank - On July 27, 2015 the City issued a note payable to F&M Bank totaling $ 16,616 for the purchase of a police cruiser. Repayment terms require 48 monthly payments of $ 378, including principal and interest at 4.25%. The initial payment was due September 1, 2015 with the final payment being due August 1, 2019. The note payable is collateralized with the vehicle.

F&M Bank - On November 20, 2015 the City issued a note payable to F&M Bank totaling $ 59,922 for the purchase of a fire truck. Repayment terms require 60 monthly payment of $ 1,098, including principal and interest at 3.69%. The initial payment was due January 1, 2016 with the final payment being due December 1, 2020. The note payable is collateralized with the fire truck.

JD Financial - On May 6, 2015 the City issued a note payable to John Deere Financial totaling $ 40,740 for the purchase of a tractor, related implements, and a utility vehicle. Repayment terms require 5 annual payments of $ 8,983, including principal and interest at 3.34%. The initial payment was due May 6, 2016 with the final payment being due May 6, 2020. The note payable is collateralized with the equipment.

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

(Continued)

NOTE 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 computation of the fixed charges coverage ratio for the year ended December 31, 2015 is as follows:

			Fixed Charges Coverage Ratio
Income available for fixed charges	$ 339,570	=	1.19
Fixed charges	$ 284,867		

Annual requirements to fully amortize the outstanding notes payable as of December 31, 2015 are as follows:

	Governmental Activities		
Year Ending December 31,	Principal	Interest	Total
2016	$ 15,111	$ 2,597	$ 17,708
2017	15,718	1,990	17,708
2018	16,341	1,367	17,708
2019	15,084	735	15,819
2020	11,854	223	12,077
	$ 74,108	$ 6,912	$ 81,020

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
2016	$ 28,123	$ 1,360	$ 29,483
2017	28,377	1,106	29,483
2018	28,640	843	29,483
2019	28,912	571	29,483
2020	29,188	295	29,483
2021 thru 2025	102,500	-	102,500
2026 thru 2028	54,667	-	54,667
	$ 300,407	$ 4,175	$ 304,582

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.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

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

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

The payment of this Bond is secured on a parity as to the pledge of and charge or 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, 2015, total sinking fund requirements, for all bonds issued, was $ 273,580, whereas cash deposits held in restricted accounts totaled $ 264,770, resulting in a shortfall in sinking fund deposits of $ 8,810.

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.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

Annual requirements to fully amortize the bonds outstanding as of December 31, 2015 are as follows:

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
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	111,852	151,728	263,580
2021 thru 2025	639,479	678,421	1,317,900
2026 thru 2030	796,956	520,944	1,317,900
2031 thru 2035	993,346	324,554	1,317,900
2036 thru 2040	950,974	86,590	1,037,564
	$ 3,893,932	$ 2,415,232	$ 6,309,164

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2015, is as follows:

Due from/to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Water Sewer Utility Fund	$ 77,047

The Water Sewer Utility Fund bills and collects charges for sanitation services which are accounted for in the City's General Fund. The $ 77,047 due from the Water Sewer Utility Fund represents collections on 2015 sanitation fees and unbilled service revenues, as of December 31, 2015, that have not been remitted to the General Fund.

Interfund transfers

Transfers In	Transfers Out	Amount
Water Sewer Utility Fund	General Fund	$ 70,800
Water Sewer Utility Fund	SPLOST Capital Projects Fund	167,493
		$ 238,293

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 $ 70,800.

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 $ 167,493.

NOTE 8 - 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 as of December 31, 2015 are as follows:

	Governmental Activities	Business-type Activities
Net investment in capital assets		
Primary government	$ 2,320,633	$ 7,818,630
Less capital leases payable	(26,353)	-
Less notes payable	(74,108)	(300,407)
Less revenue bonds payable	-	(3,893,932)
Total net investment in capital assets	$ 2,220,172	$ 3,624,291
Restricted for:		
Public works		
SPLOST Fund	$ 42,355	
TSPLOST Fund	50,158	
Total public works	$ 92,513	
Housing and development		
Hotel Motel Tax Fund	$ 16,155	
Total housing and development	$ 16,155	
Debt service		$ 264,770
Total debt service		$ 264,770

NOTE 9 - 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, 2015, 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 10 - 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, 2015, the City was not involved in any pending or threatened litigation.

NOTE 11 - 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 12 - RETIREMENT PLAN

Plan Description

The City of Lincolnton Retirement Plan (the "Plan"), is a defined benefit pension plan affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association (GMA). Contributions made by the City are pooled with contributions made by other members of GMEBS for investment purposes; the City does not own any securities on its own. There are no employer or related party securities or loans included in plan assets. The GMA issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Association, The Burgess Building, 201 Pryor Street, SW, Atlanta, GA 30303, or by calling (404) 688-0472.

The City originally established the Plan January 1, 1989. On January 1, 2003 the City executed an agreement adopting the GMEBS Master Plan and Joint Trust Agreement (the "Adoption Agreement"). 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 as the adopting employer. The City cannot amend the Master Plan or the Joint Trust Agreement.

Benefits Provided

As provided by State law, benefit provisions for participants in GMEBS are established by the respective employers. As authorized by City Council, the Plan provides pension benefits and death and disability benefits for plan members and beneficiaries. All full-time employees of the City, excluding elected officials, working at least twenty hours per week, are eligible to participate immediately. Benefits are fully vested after ten years of service. Normal retirement age is 65 with a minimum of five years of service, and early retirement is age 55 with a minimum of ten years total credited service. Monthly benefits are based on (a) the average annual earnings paid to a participant during any consecutive five year period preceding actual date of retirement in which the earnings were highest and (b) total years of service.

As of July 1, 2015, the last valuation date, there were 24 participants consisting of the following:

Retired participants and beneficiaries currently receiving benefits	10
Terminated vested participants entitled to but not yet receiving benefits	2
Active participants-vested	2
Active participants-not vested	10
Total number of participants	24

Contributions

The Plan is subject to minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). GMEBS has adopted an actuarial funding policy that requires a different funding level than the estimated minimum annual contribution to minimize fluctuations in annual contribution amounts and to accumulate sufficient funds to secure benefits under the Plan. If the City contributes the recommended contribution developed under the actuarial funding policy each year, the Plan will meet applicable State funding standards. Employees do not contribute to the Plan.

(Continued)

NOTE 12 - RETIREMENT PLAN (Continued)

For 2015, the City's contribution to the Plan totaled $ 22,203, or 5.99% of covered-employee payroll. This contribution was equal to the recommended annual contribution determined as part of the July 1, 2014 actuarial valuation.

Net Pension Liability

Effective January 1, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No.* 68, which significantly changed the City's accounting for pension amounts. The information disclosed below is presented in accordance with these new standards.

The City's net pension liability was measured as of March 31, 2015.

Actuarial Assumptions. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment rate of return	7.75%, on going basis, based on long-term expected rate of return on pension plan investments
Projected salary increases	3.25%, plus service based merit increases
Inflation	3.25%
Cost of living adjustments	0.00%

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

Mortality rates for the July 1, 2015 valuation were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of March 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity	50.00%	5.95%
International equity	15.00%	6.45%
Fixed income	25.00%	1.55%
Real estate	10.00%	3.75%
Cash	0.00%	0.00%
Total	100.00%	

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

(Continued)

NOTE 12 - RETIREMENT PLAN (Continued)

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

Changes in the Net Pension Liability of the City. The changes in the components of the net pension liability of the City for the year ended December 31, 2015 were as follows:

	Total Pension Liability (TPL) (a)	Fiduciary Net Position (FNP) (b)	Net Pension Liability (NPL) (a) - (b)
Balances at March 31, 2014	$ 629,883	$ 540,246	$ 89,637
Changes for the year:			
Service cost	9,015	-	9,015
Interest	46,536	-	46,536
Differences between expected and actual experience	10,228	-	10,228
Contributions-employer	-	21,385	(21,385)
Contributions-employee	-	-	-
Net investment income	-	50,598	(50,598)
Benefit payments, including refunds of employee contributions	(58,846)	(58,846)	-
Administrative expense	-	(2,181)	2,181
Other	6,443	-	6,443
Net changes	13,376	10,956	2,420
Balances at March 31, 2015	$ 643,259	$ 551,202	$ 92,057

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following table presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's Net Pension Liability	$ 152,792	$ 92,057	$ 40,259

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of March 31, 2015 and the current sharing pattern of costs between employer and employee.

(Continued)

NOTE 12 - RETIREMENT PLAN (Continued)

Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued GMEBS financial report.

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

For the year ended December 31, 2015, the City recognized pension expense of $ 18,677. The City reported the following deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2015:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 16,652	$ -
Difference between expected and actual experience	8,184	-
Changes of assumptions	5,156	-
Net difference between projected and actual earnings on pension plan investments	-	8,212
Total	$ 29,992	$ 8,212

Contributions made subsequent to the measurement date totaling $ 16,652 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending December 31,				
	2016	2017	2018	2019	Total
Fiscal Year Outflows					
Demographic	$ 2,046	$ 2,046	$ 2,046	$ 2,046	$ 8,184
Assumption change	1,289	1,289	1,289	1,289	5,156
Fiscal Year Inflows					
Investment	(2,053)	(2,053)	(2,053)	(2,053)	(8,212)
Total	$ 1,282	$ 1,282	$ 1,282	$ 1,282	$ 5,128

Changes in Methods and Assumptions

As a result of the plan change to provide immediate participation for employees, the eligibility assumption has been changed from one year to immediate. The increase in the Plan's unfunded liability due to this change is minimal and has been treated as a difference between expected and actuarial experience.

As a result of the new administrative fee structure, the administrative expense assumption changed as follows:

	Current	Prior
Base fee	$ 2,500	$ 1,500
Per active and terminated vested participant	$ 36	$ 35
Per retiree and beneficiary	$ 48	$ 35
Percentage of the market value of the assets	0.06%	0.05%
Minimum fee	$ 3,000	$ 2,000

(Continued)

NOTE 12 - RETIREMENT PLAN (Continued)

Based on the results of an actuarial experience study covering the period January 1, 2010 to June 30, 2014, the following assumptions were changed in this valuation:

- The mortality table for disabled participants was changed to remove the two-year set-forward for males and the one-year set-forward for females.

- The turnover rates were updated to introduce select rates for service less than five years and to reduce the ultimate rate by 15% and to assume no turnover on and after age 55. The select period rates were further constrained to not be less than the ultimate rates.

- The retirement rates where normal retirement is only available on or after age 65 were changed from the prior assumption of 100% at age 65 to the new assumption of 60% at ages 65 to 69 and 100% at age 70. Where normal retirement is available prior to age 65, the rates were changed from the prior assumption of 100% at earliest reduced age, but not below age 60, to the new assumption of 10% at ages 55 to 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at ages 65 to 69, and 100% at age 70. If retirement is not available at a given age or a participant does not meet the Plan's service criteria to retire at a given age, no retirement is assumed at that age.

- The inflation assumption was decreased from 3.50% to 3.25%

- The salary increase assumption was changed from select period rates during the first five years of service, followed by age-related rates to an assumption based on new service-related rates. Under the prior assumption, the salary increases ranged from 4.00% to 11.00% and included an inflation assumption of 3.50%. Under the new assumption, the salary increases range from 3.75% to 8.00% and include an inflation assumption of 3.25%.

Benefit Changes

Effective January 1, 2015, the Plan was amended to provide for immediate participation for employees.

NOTE 13 - 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 $ 3,000 or 18.31%, of the lodging taxes collected for the year ended December 31, 2015 were expended for such purposes. A summary of Hotel/Motel transactions for the year ended December 31, 2015 follows:

	12/31/2015	Percentage Expended
Tax percentage rate formally adopted by City	5.00%	
Hotel/Motel taxes collected	$ 16,385	
Expended for promoting tourism, conventions, and trade shows	$ 3,000	18.31%

NOTE 14 - 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, 2015, $ 37,478 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, 2015 the City had expended $ 296,830 on preliminary engineering design and evaluation for the project.

As of December 31, 2015, 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	$ 37,478	$ 562,522
Wastewater plant and system improvements	296,830	6,000,170
	$ 334,308	$ 6,562,692

Subsequent Events

In preparing these financial statements, the City's management has evaluated events and transactions for potential recognition or disclosure through July 29, 2016, the date the financial statements were available for issuance.

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 12 above, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as well as, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to of GASB Statement No. 68*, effective January 1, 2015. The new standards significantly changed the City's accounting for pension amounts. As a result of this change in accounting principle, the City was required to restate beginning net position as of January 1, 2015 for the following:

(Continued)

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Governmental Activities

General Fund		
Net pension asset, previously reported	$	(2,215)
Net pension liability, beginning balance		(65,004)
Deferred outflows of resources related to pensions, beginning balance		24,059
Deferred inflows of resources related to pensions, beginning balance		(6,948)
Total net effect on beginning net position-Governmental Activities	$	(50,108)

Business-Type Activities

Water Sewer Utility Fund		
Net pension liability, beginning balance	$	(31,039)
Deferred outflows of resources related to pensions, beginning balance		8,446
Deferred inflows of resources related to pensions, beginning balance		(3,317)
Total net effect on beginning net position-Business-Type Activities	$	(25,910)

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LINCOLNTON, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
RETIREMENT PLAN

	2015
Total Pension Liability	
Service cost	$ 9,015
Interest	46,536
Differences between expected and actual experience	10,228
Changes of assumptions	6,443
Benefit payments, including refunds of employee contributions	(58,846)
	-
Net change in total pension liability	13,376
Total pension liability, beginning	629,883
Total pension liability, ending (a)	643,259
Plan Fiduciary Net Position	
Contributions-employer	21,385
Net investment income	50,598
Benefit payments, including refunds of employee contributions	(58,846)
Administrative expenses	(2,181)
Net change in fiduciary net position	10,956
Plan fiduciary net position, beginning	540,246
Plan fiduciary net position, ending (b)	551,202
Net pension liability, ending (a)-(b)	$ 92,057
Plan's fiduciary net position as a percentage of the total pension liability	85.69%
Covered employee payroll	$ 370,768
Net pension liability as a percentage of covered payroll	24.83%

Notes to the Schedule:

(1) Historical information prior to the implementation of GASB Statement Nos. 67/68 is not required. The schedule will present 10 years of information as it is accumulated.

CITY OF LINCOLNTON, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
RETIREMENT PLAN

	2015
Actuarially determined contribution	$ 22,203
Contributions in relation to the actuarially determined contribution	22,203
Contribution deficiency (excess)	$ -
Covered employee payroll	$ 370,768
Contributions as a percentage of covered employee payroll	5.99%

Notes to the Schedule:

(1) Actuarial Assumptions:

Valuation Date	July 1, 2014
Cost Method	Projected Unit Credit
Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted if necessary, to be within 20% of market value.
Assumed Rate of Return	7.75%
Projected Salary Increases	3.25%
Cost of Living Adjustments	0.00%
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	Varies, with a net effective amortization period of 10 years

(2) The schedule will present 10 years of information as it is accumulated.

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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, 2015

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes				
Real property tax	$ 206,471	$ 206,471	$ 198,174	$ (8,297)
Motor vehicle tax	25,000	25,000	9,422	(15,578)
Motor vehicle title advalorem tax	-	-	34,182	34,182
Mobile home tax	1,200	1,200	890	(310)
Real estate transfer tax	-	-	673	673
Franchise tax	104,100	104,100	109,217	5,117
Local option sales tax	97,000	97,000	128,148	31,148
Intangible tax	-	-	1,443	1,443
Alcoholic beverage tax	45,000	45,000	50,097	5,097
Occupation tax	13,000	13,000	14,880	1,880
Insurance premium tax	83,000	83,000	90,234	7,234
Penalties and interest	-	-	16,003	16,003
Payment in lieu of taxes	2,600	2,600	2,618	18
Total taxes	577,371	577,371	655,981	78,610
Licenses and Permits				
Alcoholic beverage licenses	4,000	4,000	2,500	(1,500)
Building permits	7,000	7,000	7,816	816
Total licenses and permits	11,000	11,000	10,316	(684)
Intergovernmental				
State government	-	-	16,597	16,597
Total intergovernmental	-	-	16,597	16,597
Charges for Services				
Sanitation fees	167,000	167,000	166,926	(74)
Total charges for services	167,000	167,000	166,926	(74)
Fines and Forfeitures				
Municipal court fines	20,800	20,800	40,766	19,966
Total fines and forfeitures	20,800	20,800	40,766	19,966
Use of Money and Property				
Interest income	2,000	2,000	173	(1,827)
Rents	17,600	17,600	21,501	3,901
Insurance claims	-	-	11,332	11,332
Total use of money and property	19,600	19,600	33,006	13,406
Other				
Miscellaneous	2,400	2,400	2,358	(42)
Total other	2,400	2,400	2,358	(42)
Total revenues	798,171	798,171	925,950	127,779

(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, 2015

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
EXPENDITURES				
General government				
Council	15,800	15,800	23,434	7,634
Mayor	7,300	7,300	12,601	5,301
General administration	213,060	213,060	206,880	(6,180)
Total general government	236,160	236,160	242,915	6,755
Judicial				
Municipal court	6,000	6,000	7,132	1,132
Total judicial	6,000	6,000	7,132	1,132
Public safety				
Police	300,575	300,575	369,716	69,141
Fire	45,551	45,551	93,748	48,197
Total public safety	346,126	346,126	463,464	117,338
Public works				
Streets and sanitation	322,335	322,335	320,406	(1,929)
Total public works	322,335	322,335	320,406	(1,929)
Community services				
Community center	7,450	7,450	13,347	5,897
Total community services	7,450	7,450	13,347	5,897
Housing and development				
Planning and zoning	15,300	15,300	11,808	(3,492)
Total housing and development	15,300	15,300	11,808	(3,492)
Total expenditures	933,371	933,371	1,059,072	125,701
Excess (deficiency) of revenues over (under) expenditures	(135,200)	(135,200)	(133,122)	2,078
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	23,618	23,618
Issuance of capital lease	-	-	32,814	32,814
Issuance of notes payable	-	-	76,538	76,538
Transfers in	135,200	135,200	2,939	(132,261)
Transfers out	-	-	(73,739)	73,739
Total other financing sources (uses)	135,200	135,200	62,170	(73,030)
CHANGE IN FUND BALANCE	$ -	$ -	$ (70,952)	$ (70,952)

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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.

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, 2015

	Special Revenue Hotel Motel Tax Fund	Capital Project TSPLOST Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	$ 16,155	$ 43,769	$ 59,924
Intergovernmental receivable	-	3,543	3,543
Total assets	$ 16,155	$ 47,312	$ 63,467
FUND BALANCES			
Restricted for:			
Public works	$ -	$ 47,312	$ 47,312
Housing and development	16,155	-	16,155
Total fund balances	$ 16,155	$ 47,312	$ 63,467

CITY OF LINCOLNTON, GEORGIA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Special Revenue Hotel Motel Tax Fund	Capital Project TSPLOST Fund	Total Nonmajor Governmental Funds
REVENUES			
Taxes	$ 16,385	$ 38,356	$ 54,741
Interest income	8	23	31
Total revenues	16,393	38,379	54,772
EXPENDITURES			
Current			
Housing and development	6,253	-	6,253
Capital outlay			
Public safety	12,000	-	12,000
Public works	-	37,520	37,520
Total expenditures	18,253	37,520	55,773
Excess (deficiency) of revenues over (under) expenditures	(1,860)	859	(1,001)
FUND BALANCES, BEGINNING OF YEAR	18,015	46,453	64,468
FUND BALANCES, END OF YEAR	$ 16,155	$ 47,312	$ 63,467

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, 2015

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ -	$ -	$ 16,385	$ 16,385
Interest income	-	-	8	8
Total revenues	-	-	16,393	16,393
EXPENDITURES				
Public safety	-	-	12,000	12,000
Housing and development	-	-	6,253	6,253
Total expenditures	-	-	18,253	18,253
Excess (deficiency) of revenues over (under) expenditures	$ -	$ -	(1,860)	$ (1,860)
FUND BALANCE, BEGINNING OF YEAR			18,015	
FUND BALANCE, END OF YEAR			$ 16,155	

SUPPLEMENTARY SCHEDULES

CITY OF LINCOLNTON, GEORGIA
COMMUNITY DEVELOPMENT BLOCK GRANTS
PROJECT COST SCHEDULE (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2015

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	$ 7,658	$ -	$ 7,658	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	$ 500,000	$ 50,010	$ 550,010	

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, 2015

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		500,000
Funds still available from program year 2011 resources	$	-
Total program year 2011 funds drawn and received by recipient	$	500,000
Less funds applied and expended to program year 2011 costs		500,000
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, 2015

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	$ 324,435	$ 173,406	$ 497,841	78%
	$ 634,560	$ 634,560	$ 324,435	$ 173,406	$ 497,841	

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statement, and have issued our report thereon dated July 29, 2016.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2015-1 to be a 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 2015-2 to 2015-4 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 2015-2 to 2015-4.

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.

Thomson, Georgia
July 29, 2016

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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

SECTION II. FINANCIAL STATEMENT FINDINGS

2015-1: TRIAL BALANCES OUT-OF BALANCE

Condition: The City's trial balances for the overall entity, General Fund, Hotel Motel Tax Fund, SPLOST Fund, TSPLOST Fund, and Water Sewer Utility Fund were out of balance for the year ended December 31, 2015.

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

Cause: Procedures have not been implemented as part of the transaction entry process to insure that the trial balances are in balance at the overall entity and individual fund levels.

Effect: A net audit adjustment of $ 25,996 was required to balance the trial balances.

Recommendation: We recommend the City adopt and implement procedures as part of the transaction entry process to insure that trial balances are in balance at the overall entity and individual fund levels.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with our finding. Management has been working diligently on a regular and continuous basis to resolve this issue. Accounting personnel have participated in additional training to gain a better understanding of the functionality of the City's accounting software and procedures required to properly perform period-end closings. Procedures are being developed to insure trial balances are in balance after transactions have been posted to the system.

2015-2: BUDGETS AND BUDGETARY CONTROLS

Condition: The City did not adopt an annual budget for the Hotel Motel Tax Fund for the year ended December 31, 2015. In addition, actual expenditures exceeded appropriated amounts in four of the General Fund's departments in 2015.

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.

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Cause: The Mayor and City Council did not adopt a budget for the Hotel Motel Tax Fund and did not monitor the adopted budget for its General Fund to facilitate amendments to the original budget for changing governmental needs during the budget period.

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

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

Views of Responsible Officials and Planned Corrective Actions: Management concurs with our finding. The Mayor and City Council have adopted an annual budget for the Hotel Motel Tax Fund for the year ending December 31, 2016. Management is monitoring budgetary reports on a regular basis to insure expenditures do not exceed budgeted amounts at the legal level of control. Policies and procedures have been adopted to facilitate amendments to the original budget to correct over expended amounts.

2015-3: DEBT SERVICE RESERVE REQUIREMENTS

Condition: Cash balances in the Water Sewer Utility Fund debt service reserve accounts were not adequate to meet the reserve requirements stipulated in the 1974 Bond Ordinance (the "Ordinance"). As of December 31, 2015, total debt service reserve requirements were $ 273,580 and total cash held in debt service reserve accounts totaled $ 264,770, resulting in an underfunding of $ 8,810.

Criteria: The Ordinance, adopted December 9, 1974, stipulates that the City establish a Renewal and Extension Fund in which $10,000 is deposited for emergency repairs having a major effect upon the System. In addition, ten-percent (10%) of the monthly installment of principal and interest coming due on the Bonds is to be deposited into the Reserve Account 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. As of December 31, 2015, the required amounts to be deposited into the Renewal and Extension Fund and Reserve Account totaled $ 10,000 and $ 263,580 respectively.

Cause: Cash flows of the Water Sewer Utility Fund were not sufficient to fully fund the debt service reserve accounts.

Effect: The City is out of compliance with the debt service requirements stipulated in the Ordinance. Noncompliance with these requirements could result in default proceedings.

Recommendation: We recommend the City review its debt covenants related to all debt issues to ascertain their requirements and consider raising water sewer rates to provide sufficient cash flow to fund the sinking fund accounts.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with our finding. Debt service reserve funds were fully funded in 2016 as required by conditions set-forth in the new USDA loan/grant award. In addition, sewer rates were increased in 2016 to provide funding for additional reserve payments that will be required upon completion of the USDA loan/grant wastewater treatment project. Management will continue to monitor service rates to insure cash flows are sufficient to meet future debt service reserve requirements.

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

2015-4: HOTEL MOTEL TAX EXPENDITURES

Condition: The City did not expend forty-percent (40%) of the hotel motel tax revenues collected during 2015 for the promotion of tourism, conventions, or trade shows.

Criteria: OCGA Section 48-13-51 (a) requires that forty-percent (40%) of lodging taxes levied at five-percent (5%) be expended or obligated contractually for the promotion of tourism, conventions, or trade shows.

Cause: Hotel motel tax revenues for the year ended December 31, 2015 totaled $ 16,385, of which the City expended $ 3,000 on the promotion of tourism, conventions, or trade shows. Amounts required to be expended pursuant to OCGA Section 48-13-51 (a) totaled $ 6,554 for the year ended December 31, 2015.

Effect: The City is out of compliance with the requirements of the Hotel Motel Tax and OCGA Section 48-13-51 (a).

Recommendation: We recommend the City review the requirements of the Hotel Motel Tax and OCGA Section 48-13-51 (a), adopt an annual balanced budget for the Hotel Motel Tax Fund, and monitor expenditures during the year to insure that required amounts are expended for the promotion of tourism, conventions, or trade shows.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with our finding. Management realized the City was not in compliance with the requirement upon completion of the annual Hotel Motel Tax Report filed with the Georgia Department of Community Affairs (the “DCA”). Management contacted the DCA to inform them of the City’s noncompliance and seek advice on correcting the oversight. Management was advised to and has committed to expend additional funds in 2016 to cover unexpended amounts from 2015.

CITY OF LINCOLNTON, GEORGIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

2014-1: TRIAL BALANCES OUT-OF BALANCE

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.

Recommendation: We recommended 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.

Current Status: Management has been working diligently on a regular and continuous basis to resolve this issue. Accounting personnel have participated in additional training to gain a better understanding of the functionality of the City's accounting software and procedures required to properly perform period-end closings. Procedures are being developed to insure trial balances are in balance after transactions have been posted to the system.

2014-2: MAINTAINING SEPARATE FUNDS

Condition: The City 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.

Recommendation: We recommended 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.

Current Status: The City is maintaining separate funds in accordance with the uniform chart of accounts, however management has not implemented procedures to insure against amounts being improperly posted across the funds resulting in the trial balances being out of balance. Procedures are being developed to insure trial balances are in balance after transactions have been posted to the system.

2014-3: BUDGETS AND BUDGETARY CONROLS

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.

Recommendation: We recommended 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.

Current Status: The Mayor and City Council have adopted an annual budget for the Hotel Motel Tax Fund for the year ending December 31, 2016. Management is monitoring budgetary reports on a regular basis to insure expenditures do not exceed budgeted amounts at the legal level of control. Policies and procedures have been adopted to facilitate amendments to the original budget to correct over expended amounts.

(Continued)

CITY OF LINCOLNTON, GEORGIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

2014-4: DEBT COVENANTS

Condition: The fixed charges coverage ratio for the year ended December 31, 2014 was .97 which was 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 by the bond ordinances.

Recommendation: We recommended the City review its debt covenants related to all debt issues to ascertain their requirements and fully fund reserve balances as soon as practicable.

Current Status: The fixed charges coverage ratio was met for the year ended December 31, 2015. Debt service reserve funds were fully funded in 2016 as required by conditions set-forth in the new USDA loan/grant award. In addition, sewer rates were increased in 2016 to provide funding for additional reserve payments that will be required upon completion of the USDA loan/grant wastewater treatment project. Management will continue to monitor service rates to insure cash flows are sufficient to meet future sinking fund requirements.

2014-5: SEGREGATION OF ACCOUNTING DUTIES

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

Recommendation: We recommended 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.

Current Status: Proper segregation of accounting duties is limited due to the number of accounting personnel available. The City has hired and assigned all reconciliation functions to a part-time assistant clerk. In addition, the Mayor and City Council have strengthened their oversight of the accounting and financial reporting functions based on our recommendation.