CITY OF LINCOLNTON, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

CITY OF LINCOLNTON, GEORGIA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2017

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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, and the aggregate remaining fund information of the City of Lincolnton, Georgia (the "City") as of and for the year ended December 31, 2017, 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 by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the aggregate remaining fund information of the City as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the 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 schedule, combining and individual nonmajor fund financial statements, community development block grant schedule, USDA loan/grant project schedule, special purpose local option sales tax schedule, and the schedule of Water Sewer Utility Fund activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary comparison schedule, combining and individual nonmajor fund financial statements, community development block grant schedule, USDA loan/grant project schedule, special purpose local option sales tax schedule, the schedule of Water Sewer Utility Fund activities, and the schedule of expenditures of federal awards 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 to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule, combining and individual nonmajor fund financial statements, community development block grant schedule, USDA loan/grant project schedule, special purpose local option sales tax schedule, the schedule of Water Sewer Utility Fund activities, and the schedule of expenditures of federal awards 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 August 20, 2018 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 solely 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 effectiveness of the City's 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
August 20, 2018

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BASIC FINANCIAL STATEMENTS

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 531,062	$ 95,990	$ 627,052
Restricted cash and cash equivalents	-	358,146	358,146
Receivables			
Taxes-net	28,768	-	28,768
Accounts-net	-	145,127	145,127
Interest	26	142	168
Capital lease	14,861	-	14,861
Intergovernmental	61,054	1,317,550	1,378,604
Prepaids	3,641	11,524	15,165
Internal balances	48,578	(48,578)	-
Capital assets net of accumulated depreciation			
Land	145,507	105,454	250,961
Buildings and improvements	387,083	9,652	396,735
Machinery and equipment	127,743	7,086,603	7,214,346
Infrastructure	1,457,911	-	1,457,911
Construction in progress	69,734	5,453,757	5,523,491
Total assets	2,875,968	14,535,367	17,411,335
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension plan	16,207	9,741	25,948
LIABILITIES			
Accounts payable	49,374	1,610,938	1,660,312
Accrued liabilities	1,038	1,318	2,356
Customer deposits	-	51,550	51,550
Intergovernmental payables	914	5,856	6,770
Accrued interest payable	-	5,750	5,750
Noncurrent liabilities			
Due within one year	25,653	219,019	244,672
Due in more than one year	32,429	6,499,101	6,531,530
Net pension liability	31,028	17,349	48,377
Total liabilities	140,436	8,410,881	8,551,317
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension plan	29,392	15,261	44,653
NET POSITION			
Net investment in capital assets	2,129,896	4,356,865	6,486,761
Restricted for:			
Public works	264,602	88,781	353,383
Housing and development	14,962	-	14,962
Debt service	-	269,365	269,365
Unrestricted	312,887	1,403,955	1,716,842
Total net position	$ 2,722,347	$ 6,118,966	$ 8,841,313

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, 2017

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	$ 354,118	$ -	$ -	$ -	$ (354,118)	$ -	$ (354,118)
Judicial	6,785	30,321	-	-	23,536	-	23,536
Public safety	372,111	2,600	-	-	(369,511)	-	(369,511)
Public works	288,310	165,095	-	151,068	27,853	-	27,853
Housing and development	22,308	9,685	8	-	(12,615)	-	(12,615)
Community services	10,976	22,975	-	-	11,999	-	11,999
Interest on long-term debt	2,557	-	-	-	(2,557)	-	(2,557)
Total governmental activities	1,057,165	230,676	8	151,068	(675,413)	-	(675,413)
Business-type activities:							
Water Sewer Utility Fund	1,122,660	976,671	-	2,336,172	-	2,190,183	2,190,183
Total business-type activities	1,122,660	976,671	-	2,336,172	-	2,190,183	2,190,183
Total primary government	$ 2,179,825	$ 1,207,347	$ 8	$ 2,487,240	(675,413)	2,190,183	1,514,770
General revenues							
Property taxes					233,553	-	233,553
Motor vehicle taxes					5,773	-	5,773
Motor vehicle title advalorem taxes					27,447	-	27,447
Mobile home taxes					807	-	807
Payment in lieu of taxes					2,617	-	2,617
Sales taxes					168,170	-	168,170
Franchise taxes					102,069	-	102,069
Insurance premium taxes					104,078	-	104,078
Hotel Motel taxes					12,454	-	12,454
Alcoholic beverage taxes					45,273	-	45,273
Occupation taxes					18,413	-	18,413
Intangible taxes					1,909	-	1,909
Transfer taxes					751	-	751
Interest income					220	784	1,004
Insurance claims					1,608	9,805	11,413
Other revenues					10,319	6,155	16,474
Gain on sales of surplus property					13,064	-	13,064
Transfers					12,467	(12,467)	-
Total general revenues and transfers					760,992	4,277	765,269
Change in net position					85,579	2,194,460	2,280,039
Net position, beginning of year					2,636,768	3,924,506	6,561,274
Net position, end of year					$ 2,722,347	$ 6,118,966	$ 8,841,313

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

CITY OF LINCOLNTON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 262,758	$ 268,304	$ 531,062
Receivables (net of allowance for uncollectibles)			
Taxes	28,768	-	28,768
Interest	26	-	26
Capital lease-current	6,783	-	6,783
Capital lease-long-term	8,078	-	8,078
Intergovernmental receivables	18,430	20,914	39,344
Interfund receivables	48,578	3,837	52,415
Prepaids	3,641	-	3,641
Total assets	$ 377,062	$ 293,055	$ 670,117
LIABILITIES			
Accounts payable	$ 26,499	$ 22,875	$ 49,374
Accrued liabilities	1,038	-	1,038
Intergovernmental payables	914	-	914
Interfund payables	-	3,837	3,837
Total liabilities	28,451	26,712	55,163
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	19,491	-	19,491
Unavailable revenue-capital lease	14,861	-	14,861
Total deferred inflows of resources	34,352	-	34,352
FUND BALANCES			
Nonspendable:			
Capital lease-long-term	8,078		8,078
Prepaids	3,641		3,641
Restricted for:			
Public works	-	251,381	251,381
Housing and development	-	14,962	14,962
Unassigned	302,540	-	302,540
Total fund balances	314,259	266,343	580,602
Total liabilities, deferred inflows of resources, and fund balances	$ 377,062	$ 293,055	$ 670,117

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, 2017

Total fund balances - governmental funds	$	580,602
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		1,001,976
Machinery and equipment		555,217
Infrastructure		2,565,151
Construction in progress		69,734
Accumulated depreciation		(2,149,607)
Total capital assets - governmental activities		2,187,978
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		21,710
Property taxes		19,491
Capital lease		14,861
Total unavailable revenues		56,062
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 plan		16,207
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:		
Long-term debt		(58,082)
Net pension liability		(31,028)
Total liabilities		(89,110)
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 plan		(29,392)
Net position of governmental activities	$	2,722,347

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, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 653,485	$ 56,617	$ 710,102
Licenses and permits	30,698	-	30,698
Intergovernmental	29,620	123,530	153,150
Charges for services	165,095	-	165,095
Fines and forfeitures	30,321	-	30,321
Interest income	220	117	337
Rents	28,463	-	28,463
Other	10,320	-	10,320
Total revenues	948,222	180,264	1,128,486
EXPENDITURES			
Current			
General government	261,298	-	261,298
Judicial	6,785	-	6,785
Public safety	357,529	-	357,529
Public works	309,056	2,160	311,216
Community services	19,221	-	19,221
Housing and development	15,175	7,133	22,308
Debt service			
Principal	28,662	-	28,662
Interest	2,557	-	2,557
Capital outlay			
Public works	-	42,379	42,379
Total expenditures	1,000,283	51,672	1,051,955
Excess (deficiency) of revenues over (under) expenditures	(52,061)	128,592	76,531
OTHER FINANCING SOURCES (USES)			
Insurance claims	1,608	-	1,608
Transfers in	18,442	-	18,442
Transfers out	-	(5,975)	(5,975)
Total other financing sources (uses)	20,050	(5,975)	14,075
Net change in fund balances	(32,011)	122,617	90,606
Fund balances, beginning of year	346,270	143,726	489,996
Fund balances, end of year	$ 314,259	$ 266,343	$ 580,602

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, 2017

Net change in fund balances - total governmental funds		$ 90,606
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	111,886	
Depreciation expense	(148,934)	
Net book value of disposed capital assets	(7,286)	
Excess of depreciation expense and net book value of disposed capital assets over capital outlay		(44,334)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Changes in these amounts are as follows:		
Intergovernmental receivables increased by this amount in 2017	1,836	
Unearned property tax revenues decreased by this amount in 2017	(9,228)	
Unearned capital lease revenues increased by this amount in 2017	14,861	
Net change in revenues not providing current financial resources		7,469
The issuance of long-term debt (e.g., notes payable, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Transactions related to long-term debt during the year were as follows:		
Principal payments on long-term debt		28,662
Net decrease in long-term debt		28,662
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.		
Net pension liability, deferred inflows and outflows related to pension decreased by this amount in 2017		3,176
Net change in expenses not requiring the use of current financial resources		3,176
Change in net position of governmental activities		$ 85,579

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, 2017

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ 641,493	$ 643,677	$ 673,160	$ 29,483
Licenses and permits	10,000	12,284	12,284	-
Intergovernmental	25,000	27,002	27,002	-
Charges for services	167,000	220,195	165,318	(54,877)
Fines and forfeitures	43,707	30,321	30,321	-
Use of money and property	20,125	24,312	24,404	92
Other	1,625	9,145	8,635	(510)
Total revenues	908,950	966,936	941,124	(25,812)
EXPENDITURES				
Current				
General government	274,960	336,364	252,618	(83,746)
Judicial	7,888	6,795	6,795	-
Public safety	398,001	377,381	386,948	9,567
Public works	303,872	319,095	321,598	2,503
Community services	9,534	19,215	19,215	-
Housing and development	13,895	15,010	15,010	-
Total expenditures	1,008,150	1,073,860	1,002,184	(71,676)
Excess (deficiency) of revenues over (under) expenditures	(99,200)	(106,924)	(61,060)	45,864
OTHER FINANCING SOURCES				
Transfers in	99,200	106,924	18,693	(88,231)
Total other financing sources	99,200	106,924	18,693	(88,231)
Change in fund balance	$ -	$ -	(42,367)	$ (42,367)
RECONCILIATION TO GAAP BASIS				
To record effect of changes in receivables and other assets and payables and other liabilities				
Receivables and other assets			14,485	
Payables and other liabilities			(4,129)	
Total reconciliation to GAAP basis			10,356	
Fund balance, beginning of year			346,270	
Fund balance, end of year			$ 314,259	

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

CITY OF LINCOLNTON, GEORGIA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

	Business-type Activities-Enterprise Fund Water Sewer Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 95,990
Restricted cash and cash equivalents	358,146
Accounts receivable-net	145,127
Interest receivable	142
Intergovernmental receivables	1,317,550
Prepaids	11,524
Total current assets	1,928,479
Noncurrent assets	
Capital assets	
Land	105,454
Buildings and improvements	32,217
Machinery and equipment	11,358,508
Construction in progress	5,453,757
Less accumulated depreciation	(4,294,470)
Total capital assets (net of accumulated depreciation)	12,655,466
Total noncurrent assets	12,655,466
Total assets	14,583,945
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension plan	9,741
LIABILITIES	
Current liabilities	
Accounts payable	1,610,938
Accrued liabilities	1,318
Customer deposits	51,550
Intergovernmental payables	5,856
Interfund payables	48,578
Current portion of notes payable	33,022
Current liabilities payable from restricted assets	
Accrued interest payable	5,750
Current portion of revenue bonds payable	185,997
Total current liabilities	1,943,009
Noncurrent liabilities	
Notes payable	226,476
Revenue bonds payable	6,272,625
Net pension liability	17,349
Total noncurrent liabilities	6,516,450
Total liabilities	8,459,459
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension plan	15,261
NET POSITION	
Net investment in capital assets	4,356,865
Restricted for debt service	269,365
Restricted for public works	88,781
Unrestricted	1,403,955
Total net position	$ 6,118,966

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, 2017

	Business-type Activities- Enterprise Fund
	Water Sewer Utility Fund
OPERATING REVENUES	
Charges for services	$ 952,842
Penalties	23,829
Other revenues	6,155
Total operating revenues	982,826
OPERATING EXPENSES	
Personnel services and benefits	198,251
Professional and technical services	56,950
Repairs and maintenance	86,803
Other purchased services	200,505
Supplies	69,251
Depreciation	239,787
Bad debts	693
Intergovernmental refunds	5,855
Total operating expenses	858,095
Operating income	124,731
NON-OPERATING REVENUES (EXPENSES)	
Intergovernmental revenues	2,336,172
Interest income	784
Insurance claims	9,805
Interest expense	(163,589)
Bond issuance costs	(100,976)
Total non-operating revenues (expenses)	2,082,196
Income before transfers out	2,206,927
TRANSFERS OUT	
Transfers out	(12,467)
Change in net position	2,194,460
Net position, beginning of year	3,924,506
Net position, end of year	$ 6,118,966

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, 2017

	Business-type Activities- Enterprise Fund Water Sewer Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 897,674
Payments to suppliers and others	(400,072)
Payments to employees	(210,768)
Net cash provided by operating activities	286,834
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(12,467)
Net cash used by noncapital financing activities	(12,467)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from insurance claims	9,805
Proceeds from issuance of bonds payable	2,658,000
Proceeds from capital grants	1,021,237
Purchase and construction of capital assets	(3,623,717)
Principal payments on long-term debt	(139,509)
Interest paid	(156,056)
Net cash used by capital and related financiang activities	(230,240)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	767
Net cash provided by investing activities	767
Net increase in cash and cash equivalents	44,894
Cash and cash equivalents, beginning of year	409,242
Cash and cash equivalents, end of year	$ 454,136
CASH PER STATEMENT OF NET POSITION	
Cash and cash equivalents	$ 95,990
Restricted cash and cash equivalents	358,146
	$ 454,136

(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, 2017

	Business-type Activities-Enterprise Fund Water Sewer Utility Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 124,731
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	239,787
Other pension related charges	(3,508)
(Increase) decrease in current assets	
Accounts receivable	(16,685)
Intergovernmental receivables	(793)
Prepaid items	(9,289)
Increase (decrease) in current liabilities	
Accounts payable	19,292
Accrued liabilities	280
Customer deposits	4,006
Intergovernmental payables	(16,348)
Interfund payables	(54,639)
Total adjustments	162,103
Net cash provided by operating activities	$ 286,834
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Issued bonds payable to refinance long-term debt and pay bond issuance costs	$ 3,840,000
Total noncash investing, capital, and financing activities	$ 3,840,000

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, 2017.

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 fund:

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.

(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 and special revenue fund on a total revenues and total expenditures basis.

The 2017 annual appropriated budgets were adopted on October 4, 2016. 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 budgets are 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.

Each 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. Revisions to the budget were made at year-end.

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, 2017.

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. Interest capitalized during the year ended December 31, 2017 totaled $ 35,421.

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

The City revised its policy on paid time off effective January 1, 2017. Under the revised policy, employees accrue paid time off in accordance with the City's personnel policy. Any accrued paid time off not utilized by the employee at year end, not to exceed ten (10) days, will be paid to the employee. Any accrued time off in excess of ten (10) days is forfeited. The revised policy results in no accrued compensated absences at year end.

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 and unavailable revenue-capital lease 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

The General Fund is reporting a decrease in fund balance of $ 32,011 for the year ended December 31, 2017. The City elected not to fully fund interfund transfers, which are discretionary in nature. The shortfall was absorbed by available fund balance.

Actual revenues and other financing sources (budgetary basis) were $ 114,043 less than budgeted amounts whereas actual expenditures and other financing uses (budgetary basis) were $ 71,676 less than appropriated amounts resulting in a net decrease in fund balance (budgetary basis) of $ 42,367. The budgetary shortfall is primarily due to the City not fully funding interfund transfers.

Expenditures (budgetary basis) for public safety and public works exceeded appropriated amounts by $ 9,567 and $ 2,503, respectively. These overages were absorbed by general government contingency funds.

Water Sewer Utility Fund

The Water Sewer Utility Fund is reporting an increase in net position of $ 2,194,460. This increase includes capital grant proceeds totaling $ 2,336,172. Exclusion of capital grant proceeds results in a decrease in net position of $ 141,712, which includes depreciation expense totaling $ 239,787, a non-cash expense.

Hotel Motel Tax Fund

Expenditures exceeded revenues by $ 646 for the year ended December 31, 2017. This decrease was absorbed by prior year restricted fund balance.

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.

(Continued)

NOTE 3 - CASH DEPOSITS AND TEMPORARY INVESTMENTS (Continued)

The carrying amount of the City's deposits with financial institutions was $ 985,198 and the bank balance was $ 1,072,356 at December 31, 2017. 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.

Collateralization of the City's deposits as of December 31, 2017 is as follows:

Amount insured by FDIC	$	428,157
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the City's name		644,199
Total bank balance	$	1,072,356

Investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The City had no investments subject to fair value measurements as of December 31, 2017.

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, 2017, no single issue investment exceeded 5% of total investments.

NOTE 4 - PROPERTY TAXES

Property taxes were levied on October 20, 2017 and were due on December 20, 2017. 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.

(Continued)

NOTE 4 - PROPERTY TAXES (Continued)

A summary of the 2017 tax levy follows:

2017 millage rate		7.10
Taxable digest	$	32,234,342
Gross tax levy	$	319,869
Less sales tax rollback		(82,423)
Net property taxes	$	237,446
Property taxes receivable	$	33,521
Less allowance for uncollectible amounts		(4,753)
Net property taxes receivable	$	28,768
Unavailable property tax revenue	$	19,491

NOTE 5 – CAPITAL LEASE RECEIVABLE

On March 10, 2017, the City entered into an agreement with a third-party to provide streetscape and landscape services to the City. In consideration of performance of the agreement, the City leased various pieces of equipment to the contractor under a capital lease. The lease requires thirty-six (36) monthly payments of $ 565, at 0.00% interest through March 1, 2020. The contractor has the option of purchasing the identified equipment for $ 1 upon expiration of the agreement. The City has accounted for the capital lease as a disposal of capital assets in the government-wide financial statements. The original cost of the leased equipment was $ 39,189 and accumulated depreciation totaled $ 31,903, resulting in a net book value of $ 7,286. Total lease payments to be recognized are $ 20,350, resulting in a recognized gain of $ 13.604

The City recognized rental income totaling $ 5,489 in the governmental funds financial statements which represents the lease payments collected through December 31, 2017. The remaining capital lease payments, totaling $ 14,861, are recorded as a receivable and a deferred inflow of resources on the governmental fund financial statements. Capital lease payments due under the agreement, through expiration, are as follows:

Year Ending December 31,		Governmental Activities
2018	$	6,780
2019		6,780
2020		1,301
Present value of minimum lease payments	$	14,861

NOTE 6 - CAPITAL ASSETS

Governmental capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deletions/ Transfers	Balance 12/31/2017
Governmental Activities				
Capital assets not being depreciated				
Land	$ 145,507	$ -	$ -	$ 145,507
Construction in progress	40,050	29,684	-	69,734
Total capital assets not being depreciated	185,557	29,684	-	215,241
Capital assets being depreciated				
Buildings and improvements	971,710	30,266	-	1,001,976
Machinery and equipment	579,614	14,792	(39,189)	555,217
Infrastructure	2,528,007	37,144	-	2,565,151
Total capital assets being depreciated	4,079,331	82,202	(39,189)	4,122,344
Less accumulated depreciation				
Buildings and improvements	(595,356)	(19,537)	-	(614,893)
Machinery and equipment	(431,844)	(27,533)	31,903	(427,474)
Infrastructure	(1,005,376)	(101,864)	-	(1,107,240)
Total accumulated depreciation	(2,032,576)	(148,934)	31,903	(2,149,607)
Net capital assets being depreciated	2,046,755	(66,732)	(7,286)	1,972,737
Governmental activities capital assets-net	$ 2,232,312	$ (37,048)	$ (7,286)	$ 2,187,978

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	$ 121,727
Public safety	25,664
Public works	1,543
Current year depreciation expense	$ 148,934

(Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

Business-type capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deletions/ Transfers	Balance 12/31/2017
Business-type Activities				
Capital assets not being depreciated				
Land	$ 105,454	$ -	$ -	$ 105,454
Construction in progress	334,963	5,118,794	-	5,453,757
Total capital assets not being depreciated	440,417	5,118,794	-	5,559,211
Capital assets being depreciated				
Buildings and improvements	32,217	-	-	32,217
Machinery and equipment	11,358,508	-	-	11,358,508
Total capital assets being depreciated	11,390,725	-	-	11,390,725
Less accumulated depreciation				
Buildings and improvements	(21,920)	(645)	-	(22,565)
Machinery and equipment	(4,032,763)	(239,142)	-	(4,271,905)
Total accumulated depreciation	(4,054,683)	(239,787)	-	(4,294,470)
Net capital assets being depreciated	7,336,042	(239,787)	-	7,096,255
Business-type activities capital assets-net	$ 7,776,459	$ 4,879,007	$ -	$ 12,655,466

Depreciation expense on capital assets of the business-type activities was $ 239,787 for the year ended December 31, 2017.

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. Construction period interest cost capitalized during the year ended December 31, 2017 totaled $ 35,421.

NOTE 7 - LONG-TERM DEBT

The following is a summary of the long-term liability transactions for the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
Governmental Activities				
Capital leases	$ 18,346	$ -	$ (8,294)	$ 10,052
Notes payable	68,398	-	(20,368)	48,030
Total debt-governmental activities	$ 86,744	$ -	$ (28,662)	$ 58,082
Business-type Activities				
Notes payable	$ 292,110	$ -	$ (32,612)	$ 259,498
Revenue bonds payable	3,800,118	6,498,000	(3,839,496)	6,458,622
Total debt-business-type activities	$ 4,092,228	$ 6,498,000	$ (3,872,108)	$ 6,718,120

There was no short-term borrowing during the year ended December 31, 2017.

The following summarizes long-term debt outstanding at December 31, 2017:

	Original Principal	Interest Rate	Final Maturity	Outstanding Balance	Amount Due Within One Year
Governmental Activities					
Capital lease, GMA	$ 32,814	3.520%	2019	$ 10,052	$ 8,590
Note payable, F&M Bank	16,616	4.250%	2019	7,288	4,308
Note payable, F&M Bank	63,887	3.240%	2021	40,742	12,755
Total-governmental activities	$ 113,317			$ 58,082	$ 25,653
Business-type Activities					
Note payable, JD Financial	$ 40,740	3.340%	2020	$ 25,226	$ 8,129
Note payable, F&M Bank	22,235	3.240%	2021	15,605	4,393
Note payable, GEFA DWSRF 05-005	410,000	0.000%	2028	218,667	20,500
Bonds payable, USDA Series 2017A	3,840,000	3.200%	2037	3,805,579	140,466
Bonds payable, USDA Series 2017B	1,724,000	2.125%	2057	1,719,429	27,873
Bonds payable, USDA Series 2017C	934,000	1.375%	2057	933,614	17,658
Total-business-type activities	$ 6,970,975			$ 6,718,120	$ 219,019

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 7 - LONG-TERM DEBT (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, are as follows:

Year Ending December 31,	Governmental Activities
2018	$ 8,806
2019	1,468
Total minimum lease payments	10,274
Less amount representing interest	(222)
Present value of minimum lease payments	$ 10,052

The total cost of capital assets acquired under capital lease as of December 31, 2017 was $ 32,814 and the related accumulated depreciation thereon totaled $ 16,407.

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 April 27, 2016 the City issued a note payable to F&M Bank totaling $ 86,122 for the refinancing of a fire truck and additional purchases of machinery and equipment for the General Fund and a service truck for the Water Sewer Utility Fund. Repayment terms require 60 monthly payments of $ 1,559, including principal and interest at 3.24%. The initial payment was due June 1, 2016 with the final payment being due May 1, 2021. The note payable is collateralized with the fire truck, equipment, and service truck.

The General Fund's proportionate share of note proceeds and monthly payment total $ 63,887 and $ 1,157, respectively. The Water Sewer Utility Fund's proportionate share of note proceeds and monthly payment total $ 22,235 and $ 402, respectively.

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 7 - LONG-TERM DEBT (Continued)

Covenants contained in the agreement require that the City maintain a minimum "fixed charges coverage ratio" of 1.05 for any fiscal year. The computation of the fixed charges coverage ratio for the year ended December 31, 2017 is as follows:

			Fixed Charges Coverage Ratio
Income available for fixed charges	$ 375,106	=	1.24
Fixed charges	$ 303,098		

Annual requirements to fully amortize the outstanding notes payable as of December 31, 2017 are as follows:

	Governmental Activities		
Year Ending December 31,	Principal	Interest	Total
2018	$ 17,063	$ 1,349	$ 18,412
2019	16,137	770	16,907
2020	13,595	284	13,879
2021	1,235	4	1,239
	$ 48,030	$ 2,407	$ 50,437

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
2018	$ 33,022	$ 1,292	$ 34,314
2019	33,442	872	34,314
2020	33,866	440	34,306
2021	22,501	17	22,518
2020	20,500	-	20,500
2023 thru 2027	102,500	-	102,500
2028 thru 2032	13,667	-	13,667
	$ 259,498	$ 2,621	$ 262,119

Revenue Bonds Payable

Advance Refunding of Bonds Payable

On August 23, 2017, it was resolved, by Mayor and City Council, that due to present market conditions and in order to achieve savings on annual debt service cost to the City and to shorten the maturities of its outstanding debt, it should currently refund and defease the outstanding Series 1999A Bonds, Series 1999B Bonds, and the Series 2005 Bonds (collectively, the "Refunded Bonds") by making due and legal provision for the prepayment of the Refunded Bonds and to pay all expenses necessary to accomplish the foregoing.

Prepayment of the Refunded Bonds was accomplished by the issuance of City of Lincolnton Water and Sewerage Refunding Revenue Bond, Series 2017A, in the principal amount of $ 3,840,000 (the "Series 2017A Bond"). The City advance refunded the existing bonds to shorten the debt repayment schedule by 3 years, resulting in debt service savings of $ 662,313 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $ 356,591.

(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

On September 15, 2017, the City refunded all of the outstanding Series 1999A Bonds, maturing on July 1, 2039 with an aggregate principal balance of $ 967,434, Series 1999B Bonds, maturing on July 1, 2039 with an aggregate principal balance of $ 212,330, and Series 2005 Bonds, maturing on December 28, 2040 with an aggregate principal balance of $ 2,552,835, resulting in defeasance of the Refunded Bonds.

The reacquisition price of the Refunded Bonds totaled $ 3,739,024, inclusive of accrued interest thereon totaling $ 6,425. The net carrying amount of the Refunded Bonds as restated pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was $ 3,739,024, accordingly there were no unamortized charges on the debt refunding. Bond issuance costs related to the refunding totaled $ 100,976 and are reported as a non-operating expense on the Statement of Revenues, Expenses, and Changes in Fund Net Position-Proprietary Funds in accordance with GASB Statement No. 65.

Series 2017A Bond - On September 15, 2017 the City issued the City of Lincolnton Water and Sewerage Refunding Revenue Bond, Series 2017A. The principal issue was $ 3,840,000 with a stated interest rate of 3.20% per annum. Terms of the issue call for a maximum of 240 equal monthly payments of $ 21,683 including principal and interest beginning October 15, 2017 with the final installment being due on September 15, 2037. Proceeds from the Series 2017A Bond were used to advance refund existing debt as discussed above.

Series 2017B Bond - On October 26, 2017 the City issued the City of Lincolnton Water and Sewerage Revenue Bond, Series 2017B. The principal issue was $ 1,724,000 with a stated interest rate of 2.125% per annum. Terms of the issue call for a maximum of 480 equal monthly payments of $ 5,345 including principal and interest beginning November 26, 2017 with the final installment being due on September 26, 2057. Proceeds from the Series 2017B Bond were used to finance sewerage improvements to the System.

Series 2017C Bond - On October 26, 2017 the City issued the City of Lincolnton Water and Sewerage Revenue Bond, Series 2017C. The principal issue was $ 934,000 with a stated interest rate of 1.375% per annum. Terms of the issue call for a maximum of 480 equal monthly payments of $ 2,532 including principal and interest beginning December 26, 2017 with the final installment being due on November 26, 2057. Proceeds from the Series 2017C Bond were used to finance sewerage improvements to the System.

The Series 2017 Bonds are secured by a first pledge of and charge or lien on the revenues derived from the ownership and operation of the System, and include all funds received as grants from the Government, or an instrumentality or agency of the foregoing in aid of the System, subordinate only to the payment of the reasonable and necessary expenses of operating, maintaining and repairing the system.

Bond Covenants

The 2017 Bond Ordinance (the ‘Ordinance”) requires several funds and accounts to facilitate the operation of the system and provide for servicing the bond obligation. The Revenue Fund is used as the depository for all revenues derived from the ownership and operation of the system. Costs of operating, maintaining and repairing the system are paid from the Revenue Fund. A Sinking Fund consisting of two accounts designated the “Debt Service Account” and “Reserve Account” is maintained to provide for payment of the principal and interest of the bonds. A monthly deposit is made to the Debt Service Account in amounts sufficient to fully fund the next ensuing payment of principal and interest. As of December 31, 2017, the balance in the Debt Service Account was $ 0 after payment of December principal and interest payments totaling $ 29,560. The Ordinance stipulates that a monthly deposit equal to ten-percent (10%) of the monthly installment of principal and interest be made to the Reserve Account. These payments are to continue until there is a reserve sufficient to pay the principal and interest due on each series of Bonds in the next succeeding sinking fund year. As of December 31, 2017, the required balance to be deposited into the Reserve Account was $ 7,827, whereas the actual deposits held in the Reserve Account totaled $ 194,076.

(Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

In addition, the Ordinance establishes a reserve account designated the "Short-Lived Assets Account". A monthly installment of $ 867, or such amount to credit $ 10,400 on an annual basis, is required to be deposited into the Short-Lived Asset Account. The Short-Lived Asset Account will be used to replace equipment for the System in the future and is not pledged to make any principal and interest on the Series 2017 Bonds or any future bonds issued on a parity therewith. As of December 31, 2017, the required balance to be deposited into the Short-Lived Asset Account was $ 1,733, whereas the actual deposits held in the Short-Lived Asset Account totaled $ 75,289.

Compliance With Bond Covenants

As of December 31, 2017, total sinking fund requirements, for all bonds issued, was $ 9,560, whereas cash deposits held in accounts restricted by the Ordinance totaled $ 269,365. As of December 31, 2017 the City's debt service sinking funds were overfunded by $ 259,805.

Annual requirements to fully amortize the bonds outstanding as of December 31, 2017 are as follows:

	Business-type Activities		
Year Ending December 31,	Principal	Interest	Total
2018	$ 185,997	$ 168,723	$ 354,720
2019	191,401	163,319	354,720
2020	196,837	157,883	354,720
2021	202,705	152,015	354,720
2022	208,617	146,103	354,720
2023 thru 2027	1,138,153	635,450	1,773,603
2028 thru 2032	1,315,429	458,174	1,773,603
2033 thru 2037	1,456,612	251,943	1,708,555
2038 thru 2042	341,771	130,849	472,620
2043 thru 2047	375,181	97,439	472,620
2048 thru 2052	411,960	60,660	472,620
2053 thru 2057	433,959	20,092	454,051
	$ 6,458,622	$ 2,442,650	$ 8,901,272

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2017, is as follows:

Due from/to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Water Sewer Utility Fund	$ 48,578
SPLOST Fund	CDBG Fund	3,837
		$ 52,415

The Water Sewer Utility Fund bills and collects charges for sanitation services which are accounted for in the City's General Fund. The $ 48,578 due from the Water Sewer Utility Fund represents collections on 2017 sanitation fees and unbilled service revenues, as of December 31, 2017, that have not been remitted to the General Fund.

The SPLOST Fund provided interim funding for project costs associated with the City's 2016 CDBG capital project. The $ 3,837 due from CDBG Fund represents amounts to be reimbursed in 2018.

(Continued)

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers

Transfers In	Transfers Out	Amount
General Fund	Hotel-Motel Tax Fund	$ 5,975
General Fund	Water Sewer Utility Fund	12,467
		$ 18,442

Hotel-Motel Tax Fund proceeds were transferred to the General Fund to provide additional funding and reimbursement for operating costs and tourism related expenditures.

Administrative services and grounds maintenance are provided to the Water Sewer Utility Fund by the General Fund. The Water Sewer Utility Fund transfers its allocated portion of these costs to the General Fund.

NOTE 9 - NET POSITION

Net position of the government-wide and proprietary fund financial statements represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Reported amounts for net investment in capital assets and restricted net position as of December 31, 2017 are as follows:

	Governmental Activities	Business-type Activities
Net investment in capital assets		
Primary government	$ 2,187,978	$ 12,655,466
Less capital leases payable	(10,052)	-
Less notes payable	(48,030)	(259,498)
Less revenue bonds payable	-	(6,458,622)
Less construction payables	-	(1,314,935)
Less retainage payable	-	(265,546)
Total net investment in capital assets	$ 2,129,896	$ 4,356,865
Restricted for:		
Public works		
SPLOST Fund	$ 159,370	$ -
TSPLOST Fund	105,232	-
USDA Sewer Project	-	88,781
Total public works	$ 264,602	$ 88,781
Housing and development		
Hotel Motel Tax Fund	$ 14,962	
Total housing and development	$ 14,962	
Debt service		$ 269,365
Total debt service		$ 269,365

NOTE 10 - RELATED ORGANIZATIONS

CSRA Regional Commission

Under Georgia law, the City, in conjunction with other cities and counties in the Central Savannah River Area, is a member of the Central Savannah River Area Regional Commission (RC) and is required to pay annual dues thereto. During the year ended December 31, 2017, the City paid $ 1,566 in such dues. Membership in a RC is required by OCGA Section 50-8-34 that provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the RC. Separate financial statements may be obtained from:

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

Housing Authority

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

NOTE 11 - CONTINGENT LIABILITIES

Federal and State Grants

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

Litigation

As of December 31, 2017, the City was not involved in any pending or threatened litigation.

NOTE 12 - RISK MANAGEMENT

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

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

(Continued)

NOTE 12 - RISK MANAGEMENT (Continued)

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

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

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

NOTE 13 - 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 (the "GMEBS"), an agent multiple-employer pension plan administered by the Georgia Municipal Association (the "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.

(Continued)

NOTE 13 - RETIREMENT PLAN (Continued)

Benefits Provided

As provided by State law, benefit provisions for participants in GMEBS are established by the respective employers. As authorized by the 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, 2017, the last valuation date, there were 23 participants consisting of the following:

Retired participants and beneficiaries currently receiving benefits	9
Terminated vested participants entitled to but not yet receiving benefits	3
Active participants-vested	2
Active participants-not vested	9
Total number of participants	23

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.

For 2017, the City's contribution to the Plan totaled $ 24,619, or 7.11% of covered-employee payroll. This contribution was equal to the recommended annual contribution determined as part of the July 1, 2016 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, 2017.

Actuarial Assumptions. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 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%

(Continued)

NOTE 13 - RETIREMENT PLAN (Continued)

The mortality and economic actuarial assumptions used in the July 1, 2017 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, 2017 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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity	45.00%	6.71%
International equity	20.00%	7.71%
Real estate	10.00%	5.21%
Global fixed income	5.00%	3.36%
Domestic fixed income	20.00%	2.11%
Cash	0.00%	0.00%
Total	100.00%	

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

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.

(Continued)

NOTE 13 - RETIREMENT PLAN (Continued)

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, 2017 were as follows:

	Total Pension Liability (TPL) (a)	Fiduciary Net Position (FNP) (b)	Net Pension Liability (NPL) (a) - (b)
Balances at March 31, 2016	$ 625,657	$ 512,259	$ 113,398
Changes for the year:			
Service cost	13,692	-	13,692
Interest	46,099	-	46,099
Differences between expected and actual experience	(39,709)	-	(39,709)
Contributions-employer	-	27,105	(27,105)
Contributions-employee	-	-	-
Net investment income	-	62,068	(62,068)
Benefit payments, including refunds of employee contributions	(61,673)	(61,673)	-
Administrative expense	-	(4,070)	4,070
Other	-	-	-
Net changes	(41,591)	23,430	(65,021)
Balances at March 31, 2017	$ 584,066	$ 535,689	$ 48,377

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	$ 104,847	$ 48,377	$ 726

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, 2017 and the current sharing pattern of costs between employer and employee.

(Continued)

NOTE 13 - 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, 2017, the City recognized pension expense of $ 17,935. The City reported the following deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 18,464	$ -
Difference between expected and actual experience	4,092	44,653
Changes of assumptions	2,578	-
Net difference between projected and actual earnings on pension plan investments	814	-
Total	$ 25,948	$ 44,653

Contributions made subsequent to the measurement date totaling $ 18,464 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, 2018. Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending December 31,				
	2018	2019	2020	2021	Total
Fiscal Year Outflows					
Demographic	$ 2,046	$ 2,046	$ -	$ -	$ 4,092
Assumption change	1,289	1,289	-	-	2,578
Investment	1,178	1,178	3,231	(4,773)	814
Total	$ 4,513	$ 4,513	$ 3,231	$ (4,773)	$ 7,484
Fiscal Year Inflows					
Demographic	$ 12,237	$ 12,237	$ 12,237	$ 7,942	$ 44,653
Total	$ 12,237	$ 12,237	$ 12,237	$ 7,942	$ 44,653

Changes in Methods and Assumptions

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

Benefit Changes

There were no changes to Plan benefits during the year ended December 31, 2017.

NOTE 14 - HOTEL/MOTEL TAX

The City has levied a 5% lodging tax. The Official Code of Georgia Annotated 48-13-51 (a) requires that 40% of lodging taxes levied at 5% be expended or obligated contractually for the promotion of tourism, conventions, or trade shows. Management represents that $ 8,223 or 66.03%, of the lodging taxes collected for the year ended December 31, 2017 were expended for such purposes. A summary of Hotel/Motel transactions for the year ended December 31, 2017 follows:

	12/31/2017	Percentage Expended
Tax percentage rate formally adopted by City	5.00%	
Hotel/Motel taxes collected	$ 12,454	
Expended for promoting tourism, conventions, and trade shows	$ 8,223	66.03%

NOTE 15 - COMMITMENTS AND SUBSEQUENT EVENTS

Commitments

The Georgia Department of Transportation awarded the City a Transportation Enhancement Act (TEA) Grant totaling $ 480,000. This grant, along with SPLOST proceeds, will be used to continue the redevelopment of the downtown area through the installation of sidewalks and other streetscape improvements. This grant represents Phase III of a comprehensive downtown redevelopment plan. Total cost of this project is estimated to be $ 600,000. As of December 31, 2017, $ 43,022 had been expended on this project.

On October 7, 2014 the United States Department of Agriculture (USDA) awarded the City grant funds of $ 4,573,000 and loan funds of $ 2,658,000 to fund improvements at the wastewater control plant. An additional $ 165,000 in local matching funds results in an estimated total project cost of $ 7,396,000. The loan will be repaid in monthly installments of principal and interest, ranging from 1.375% to 2.125%, over a period of forty years. Construction began in 2017 and as of December 31, 2017 the City had expended $ 5,453,757 on this project.

On October 7, 2016 the City was awarded a Community Development Block Grant (CDBG) by the Georgia Department of Community Affairs totaling $ 426,000. Proceeds from this grant will be combined with local matching funds and in-kind services totaling $ 31,850 for an estimated total project cost of $ 457,850. The scope of this project is to construct and install sewer improvements in low-to-moderate income neighborhoods in the City. As of December 31, 2017 the City had expended $ 26,712 on this project.

As of December 31, 2017, 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	$ 43,022	$ 556,978
2016 CDBG sewer improvements	26,712	431,138
Wastewater plant and system improvements	5,453,757	1,942,243
	$ 5,523,491	$ 2,930,359

(Continued)

NOTE 15 - COMMITMENTS AND SUBSEQUENT EVENTS (Continued)

Subsequent Events

In preparing these financial statements, the City's management has evaluated events and transactions for potential recognition or disclosure through August 20, 2018, the date the financial statements were available for issuance.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015
Total Pension Liability			
Service cost	$ 13,692	$ 17,593	$ 9,015
Interest	46,099	47,481	46,536
Differences between expected and actual experience	(39,709)	(21,473)	10,228
Changes of assumptions	-	-	6,443
Benefit payments, including refunds of employee contributions	(61,673)	(61,203)	(58,846)
Net change in total pension liability	(41,591)	(17,602)	13,376
Total pension liability, beginning	625,657	643,259	629,883
Total pension liability, ending (a)	584,066	625,657	643,259
Plan Fiduciary Net Position			
Contributions-employer	27,105	23,636	21,385
Net investment income	62,068	1,143	50,598
Benefit payments, including refunds of employee contributions	(61,673)	(61,203)	(58,846)
Administrative expenses	(4,070)	(2,519)	(2,181)
Net change in fiduciary net position	23,430	(38,943)	10,956
Plan fiduciary net position, beginning	512,259	551,202	540,246
Plan fiduciary net position, ending (b)	535,689	512,259	551,202
Net pension liability, ending (a)-(b)	$ 48,377	$ 113,398	$ 92,057
Plan's fiduciary net position as a percentage of the total pension liability	91.72%	81.88%	85.69%
Covered employee payroll during the measurement period	$ 346,227	$ 329,385	$ 370,768
Net pension liability as a percentage of covered payroll	13.97%	34.43%	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

	2017	2016	2015
Actuarially determined contribution	$ 24,619	$ 27,934	$ 22,203
Contributions in relation to the actuarially determined contribution	24,619	27,934	22,203
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll during the measurement period	$ 346,227	$ 329,385	$ 370,768
Contributions as a percentage of covered employee payroll	7.11%	8.48%	5.99%

Notes to the Schedule:

(1) Actuarial Assumptions:

Valuation Date	July 1, 2017
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, 2017

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes				
Real property tax	$ 230,702	$ 232,000	$ 232,000	$ -
Motor vehicle tax	45,243	7,933	7,933	-
Motor vehicle title advalorem tax	-	9,758	29,028	19,270
Mobile home tax	1,213	807	807	-
Real estate transfer tax	668	751	751	-
Franchise tax	105,896	102,069	102,069	-
Local option sales tax	113,171	111,848	122,061	10,213
Intangible tax	1,000	1,909	1,909	-
Alcoholic beverage tax	45,000	45,273	45,273	-
Occupation tax	13,000	18,413	18,413	-
Insurance premium tax	83,000	104,078	104,078	-
Penalties and interest	-	6,220	6,220	-
Payment in lieu of taxes	2,600	2,618	2,618	-
Total taxes	641,493	643,677	673,160	29,483
Licenses and Permits				
Alcoholic beverage licenses	3,000	2,600	2,600	-
Building permits	7,000	9,684	9,684	-
Total licenses and permits	10,000	12,284	12,284	-
Intergovernmental				
State government	25,000	27,002	27,002	-
Total intergovernmental	25,000	27,002	27,002	-
Charges for Services				
Sanitation fees	167,000	220,195	165,318	(54,877)
Total charges for services	167,000	220,195	165,318	(54,877)
Fines and Forfeitures				
Municipal court fines	43,707	30,321	30,321	-
Total fines and forfeitures	43,707	30,321	30,321	-
Use of Money and Property				
Interest income	185	134	226	92
Rents	19,940	22,570	22,570	-
Insurance claims	-	1,608	1,608	-
Total use of money and property	20,125	24,312	24,404	92
Other				
Miscellaneous	1,625	9,145	8,635	(510)
Total other	1,625	9,145	8,635	(510)
Total revenues	908,950	966,936	941,124	(25,812)

(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, 2017

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
EXPENDITURES				
General government				
Council	20,759	18,246	18,246	-
Mayor	10,955	12,422	12,422	-
General administration	243,246	305,696	221,950	(83,746)
Total general government	274,960	336,364	252,618	(83,746)
Judicial				
Municipal court	7,888	6,795	6,795	-
Total judicial	7,888	6,795	6,795	-
Public safety				
Police	332,036	321,277	332,179	10,902
Fire	65,965	56,104	54,769	(1,335)
Total public safety	398,001	377,381	386,948	9,567
Public works				
Streets and sanitation	303,872	319,095	321,598	2,503
Total public works	303,872	319,095	321,598	2,503
Community services				
Community center	9,534	19,215	19,215	-
Total community services	9,534	19,215	19,215	-
Housing and development				
Planning and zoning	13,895	15,010	15,010	-
Total housing and development	13,895	15,010	15,010	-
Total expenditures	1,008,150	1,073,860	1,002,184	(71,676)
Excess (deficiency) of revenues over (under) expenditures	(99,200)	(106,924)	(61,060)	45,864
OTHER FINANCING SOURCES				
Transfers in	99,200	106,924	18,693	(88,231)
Total other financing sources	99,200	106,924	18,693	(88,231)
Change in fund balance	$ -	$ -	$ (42,367)	$ (42,367)

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

CAPITAL PROJECTS FUNDS

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

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

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

2016 CDBG Fund - This fund was established to account for proceeds from a Community Development Block Grant (CDBG) to be used for improvements to the water-sewer system.

CITY OF LINCOLNTON, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	Special Revenue	Capital Projects			Total Nonmajor
	Hotel Motel Tax Fund	SPLOST Fund	TSPLOST Fund	2016 CDBG Fund	Governmental Funds
ASSETS					
Cash and cash equivalents	$ 14,962	$ 137,491	$ 97,389	$ 18,462	$ 268,304
Intergovernmental receivable	-	8,101	4,563	8,250	20,914
Interfund receivable	-	3,837	-	-	3,837
Total assets	$ 14,962	$ 149,429	$ 101,952	$ 26,712	$ 293,055
LIABILITIES					
Accounts payable	$ -	$ -	$ -	$ 22,875	$ 22,875
Interfund payable	-	-	-	3,837	3,837
Total liabilities	-	-	-	26,712	26,712
FUND BALANCES					
Restricted for:					
Public works	-	149,429	101,952	-	251,381
Housing and development	14,962	-	-	-	14,962
Total fund balances	14,962	149,429	101,952	-	266,343
Total liabilities and fund balances	$ 14,962	$ 149,429	$ 101,952	$ 26,712	$ 293,055

CITY OF LINCOLNTON, GEORGIA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Revenue	Capital Projects			Total Nonmajor
	Hotel Motel Tax Fund	SPLOST Fund	TSPLOST Fund	2016 CDBG Fund	Governmental Funds
REVENUES					
Taxes	$ 12,454	$ -	$ 44,163	$ -	$ 56,617
Intergovernmental	-	96,818	-	26,712	123,530
Interest income	8	45	64	-	117
Total revenues	12,462	96,863	44,227	26,712	180,264
EXPENDITURES					
Current					
Public works	-	-	2,160	-	2,160
Housing and development	7,133	-	-	-	7,133
Capital outlay					
Public works	-	2,972	12,695	26,712	42,379
Total expenditures	7,133	2,972	14,855	26,712	51,672
Excess of revenues over expenditures	5,329	93,891	29,372	-	128,592
OTHER FINANCING USES					
Transfers out	(5,975)	-	-	-	(5,975)
Total other financing uses	(5,975)	-	-	-	(5,975)
Net change in fund balances	(646)	93,891	29,372	-	122,617
Fund balances, beginning of year	15,608	55,538	72,580	-	143,726
Fund balances, end of year	$ 14,962	$ 149,429	$ 101,952	$ -	$ 266,343

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, 2017

	Budgetary Basis			Variance With
	Original Budget	Amended and Final Budget	Actual	Final Budget Over (Under)
REVENUES				
Taxes	$ 11,000	$ 12,454	$ 12,454	$ -
Interest income	-	8	8	-
Total revenues	11,000	12,462	12,462	-
EXPENDITURES				
Housing and development	11,000	7,133	7,133	-
Total expenditures	11,000	7,133	7,133	-
Excess of revenues over expenditures	-	5,329	5,329	-
OTHER FINANCING USES				
Transfers out	-	(5,329)	(5,975)	646
Total other financing uses	-	(5,329)	(5,975)	(646)
Net change in fund balances	$ -	$ -	(646)	$ (646)
Fund balance, beginning of year			15,608	
Fund balance, end of year			$ 14,962	

SUPPLEMENTARY SCHEDULES

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF COMMUNITY DEVELOPMENT BLOCK GRANTS
PROJECT COSTS AND SOURCE AND APPLICATION OF FUNDS (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2017

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)
Project Costs						
Grant Number 16p-x-090-2-5862						
Acquisition of property	P-001-01	$ 3,000	$ -	$ -	$ -	none
Contingencies	C-022-00	33,220	-	-	-	none
Engineering-water/sewer	T-03J-00	30,000	-	1,125	1,125	none
Sewer facilities	P-03J-02	334,280	-	-	-	none
Administration	A-21A-00	25,500	-	3,837	3,837	none
		$ 426,000	$ -	$ 4,962	$ 4,962	
Source of other funds: local match						

Source and Application of Funds	
Grant Number 16p-x-090-2-5862	
Total program year 2016 funds allocated to recipient	$ 426,000
Less total program year 2016 funds drawn by recipient	18,462
Funds still available from program year 2016 resources	$ 407,538
Total program year 2016 funds drawn and received by recipient	$ 18,462
Less funds applied and expended to program year 2016 costs	-
Total program year 2016 funds held by recipient	$ 18,462

Notes to the Schedule:

(1) The Schedule of Community Development Block Grants Project Costs and Source and Application of Funds is presented on the cash basis of accounting. Therefore, some amounts reported in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements and the Schedule of Expenditures of Federal Awards which are prepared on the modified accrual basis of accounting.

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF USDA LOAN/GRANT PROJECT COSTS AND
SOURCE AND APPLICATION OF FUNDS (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2017

Program Activity	Latest Approved Budget USDA Funds	Accumulated Expenditures To Date USDA Funds	Accumulated Expenditures To Date Other Funds	Grand Total Expenditures To Date	Questioned Costs (Explain)
Project Costs					
Loan/Grant Number 10-090-581284003					
Development	$ 6,307,715	$ 3,276,752	$ 632	$ 3,277,384	none
Legal services	80,000	50,000	5,141	55,141	none
Architecturial engineering and planning	653,205	345,470	159,859	505,329	none
Interest	40,000	7,015	28,406	35,421	none
Contingencies	150,080				
	$ 7,231,000	$ 3,679,237	$ 194,038	$ 3,873,275	
Source of other funds: local match					

Source and Application of Funds	
Loan/Grant Number 10-090-581284003	
Total program year 2014 funds allocated to recipient	$ 7,231,000
Less total program year 2014 funds drawn by recipient	3,679,237
Funds still available from program year 2014 resources	$ 3,551,763
Total program year 2014 funds drawn and received by recipient	$ 3,679,237
Less funds applied and expended to program year 2014 costs	3,679,237
Total program year 2014 funds held by recipient	$ -

Notes to the Schedule:

(1) The Schedule of USDA Loan/Grant Project Costs and Source and Application of Funds is presented on the cash basis of accounting. Therefore, some amounts reported in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements and the Schedule of Expenditures of Federal Awards which are prepared on the modified accrual basis of accounting.

CITY OF LINCOLNTON, GEORGIA

SCHEDULE OF SPECIAL PURPOSE LOCAL OPTION SALES TAX

FOR THE YEAR ENDED DECEMBER 31, 2017

Project	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total	Estimated Percentage of Completion
SPLOST 2011 - 2017						
Downtown Revitilization/ Water Sewer Capital	$ 634,560	$ 634,560	$ 577,930	$ 2,972	$ 580,902	92%
	$ 634,560	$ 634,560	$ 577,930	$ 2,972	$ 580,902	

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF WATER SEWER UTILITY FUND ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Water Activities	Sewer Activities	Business-type Activities- Enterprise Fund Water Sewer Utility Fund
OPERATING REVENUES			
Charges for services	$ 600,131	$ 352,711	$ 952,842
Penalties	8,926	14,903	23,829
Other revenues	3,951	2,204	6,155
Total operating revenues	613,008	369,818	982,826
OPERATING EXPENSES			
Personnel services and benefits	120,476	77,775	198,251
Professional and technical services	36,904	20,046	56,950
Repairs and maintenance	48,646	38,157	86,803
Other purchased services	120,217	80,288	200,505
Supplies	45,468	23,783	69,251
Depreciation	132,037	107,750	239,787
Bad debts	433	260	693
Intergovernmental refunds	5,855	-	5,855
Total operating expenses	510,036	348,059	858,095
Operating income	102,972	21,759	124,731
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	-	2,336,172	2,336,172
Interest income	490	294	784
Insurance claims	6,132	3,673	9,805
Interest expense	(102,382)	(61,207)	(163,589)
Bond issurance costs	(69,061)	(31,915)	(100,976)
Total non-operating revenues (expenses)	(164,821)	2,247,017	2,082,196
Income (loss) before transfers out	(61,849)	2,268,776	2,206,927
TRANSFERS OUT			
Transfers out	(7,797)	(4,670)	(12,467)
Change in net position	$ (69,646)	$ 2,264,106	$ 2,194,460

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COMPLIANCE AND SINGLE AUDIT SECTION

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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, and the aggregate remaining fund information of the City of Lincolnton, Georgia (the "City"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 20, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
August 20, 2018

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	10-090-581284003	$ 5,089,756
Total U.S. Department of Agriculture			5,089,756
U.S. Department of Housing and Urban Development			
Community Development and Planning			
Passed thru:			
Georgia Department of Community Affairs			
Community Development Block Grant	14.228	16p-x-090-2-5862	26,712
Total U.S. Department of Housing and Urban Development			26,712
U.S. Department of Transportation			
Federal Highway Administration			
Passed thru:			
Georgia Department of Transportation	20.205	TE-0008-00 (169)	-
Total U.S. Department of Transportation			-
Total expenditures of federal awards			$ 5,116,468

See accompanying notes to schedule of expenditures of federal awards.

CITY OF LINCOLNTON, GEORGIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lincolnton, Georgia and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - NON-CASH AWARDS

The City of Lincolnton, Georgia did not receive any non-cash awards during the year ended December 31, 2017.

NOTE 3 - INDIRECT COST RATE

The City of Lincolnton, Georgia has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF LINCOLNTON, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:				Unmodified
Internal control over financial reporting:				
Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(ies) identified?	____	Yes	X	No
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:				Unmodified
Internal control over major programs:				
Material weakness(es) identified?	____	Yes	X	No
Significant deficiency(ies) identified?	____	Yes	X	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	Yes	X	No

Identification of major program:

CFDA Number	Name of Federal Program
10.760	RUS-Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs:				$ 750,000
Auditee qualified as low-risk auditee?	____	Yes	X	No

SECTION II. FINANCIAL STATEMENT FINDINGS

None reported

SECTION III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported

CITY OF LINCOLNTON, GEORGIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

2016-1: TRIAL BALANCES OUT-OF BALANCE

Condition: The City's trial balances for the overall entity, General Fund, SPLOST Fund, and Water Sewer Utility Fund were out of balance for the year ended December 31, 2016.

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 is continuing to work 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.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Mayor and City Council
City of Lincolnton, Georgia

Report on Compliance for Each Major Federal Program

We have audited the City of Lincolnton, Georgia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based in the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Barmore Hammond, LLP
Certified Public Accountants

Thomson, Georgia
August 20, 2018

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