

CITY OF LINCOLNTON, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PREPARED BY
CITY OF LINCOLNTON FINANCE DEPARTMENT

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CITY OF LINCOLNTON, NORTH CAROLINA

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 - **List of Principal Officials**
-
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CITY COUNCIL
Ed L. Hatley, Mayor
Martin A. Eaddy, Mayor Pro-Tem
David M. Black
Roby D. Jetton
Tim Smith



CITY MANAGER
Steve Zickefoose, MBA
szickefoose@lincolntonnc.org
CITY CLERK
Donna C. Flowers, MMC, NCCMC
donnaflowers@ci.lincolnton.nc.us
CITY ATTORNEY
Thomas J. Wilson, Jr.

Letter of Transmittal

The Honorable Mayor, Members of the
City Council and the Citizens of
the City of Lincolnton, North Carolina

The Comprehensive Annual Financial Report of the City of Lincolnton, North Carolina is submitted for your review and use. The City, like other local governments in the State, is required by state law to publish a complete set of financial statements within four months of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is published to fulfill that requirement for the fiscal year ended June 30, 2017, and to provide complete and further accountability to citizens and other interested parties by providing a comprehensive report in lieu of the minimum basic financial statement requirements.

Management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, we have established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Lincolnton's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The cost of internal controls should not outweigh their benefits. The City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we believe to the best of our knowledge, this financial report is complete and reliable in all material respects and is reported in a manner to present fairly the financial position of the City.

Lowdermilk Church & Co., L.L.P., Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Lincolnton's financial statements for the fiscal year ended June 30, 2017. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

Profile of the City

The City of Lincolnton, incorporated in 1785, is the County seat of Lincoln County (“the County”). It is located in the heart of the Piedmont section of the State, approximately 32 miles northwest of Charlotte on highways U.S. 321, State 27, and State 150. The City is the second oldest city west of the Catawba River in North Carolina with Morganton, established 1784, being the oldest city. Evidence of our long and distinguished history abounds throughout the stately streets of the City. The State of North Carolina has erected over a dozen historical markers to honor some of the important events, landmarks, and distinguished people in Lincolnton’s past. Lincolnton was named for Benjamin Lincoln, who achieved fame at the time of Cornwallis’ surrender to Washington at Yorktown, Virginia. It currently occupies 8.6 square miles and serves a population of 10,754. Lincolnton is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City of Lincolnton is the only incorporated municipality in the County and operates under the council-manager form of government. The Mayor is elected at large for a two-year term. Composed of four members, the Lincolnton City Council has policy making and legislative authority. Members are elected at large but must file for election by ward. Two members of the City Council are elected every two years, serving four year terms. The City Council is responsible for the budget approval and appointing the City Manager and City Attorney. The City Manager is responsible for implementing Council policies and City ordinances, managing daily operations, and acts on all recommendations of employment for the City.

The City of Lincolnton provides a full range of services, including police and fire protection, the construction and maintenance of streets, curbs, gutters, sidewalks, and other infrastructure; solid waste and recycling; community development; planning and zoning; cemetery; and recreation and cultural activities. Additionally the City owns and operates an electric and water and sewer system, which provides services to residents of the City and its environs. This report includes all of the City’s activities in delivering and administrating these services. Although legally separate from the City, the City of Lincolnton ABC Board (“the Board”) and the Lincolnton Tourism Development Authority (LTDA) are important to the City because the City exercises control over the Board and the LTDA by appointing members to the boards, and because the Board is required to distribute its profits to the City. Additional information on those legally separate entities can be found in the notes to the financial statements.

The Council is required to adopt a budget by July 1 of each year. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City’s budget ordinance creates a legal limit on spending authorizations, and serves as the foundation for Lincolnton’s financial planning and control. The budget is prepared by fund and department (e.g., police).

Local Economy

Major industries located within the City boundaries or close proximity include manufacturers of ball bearings and textiles, as well as several financial institutions, restaurants, and real estate related businesses. Lincolnton is fortunate to have retained much of its older textile base due to the firms altering their production to a specialty product that gave them a niche in the market. The City has offered a favorable water and sewer fee rate structure that has also enabled the textile market to survive fierce domestic and foreign competition. Other major employers include the local county schools, local county and city government sectors, medical center, and retail businesses. The top employment sectors are manufacturing (41%), education (22%), retail (14%), public administration (14%) and medical (9%).

During the past ten years, the unemployment rate rose from an initial low of 5.1 percent (2007) to a decade high of 14.8 percent (2009), only to descend to the current rate of 3.8 percent. This rate is lower than the State’s rate of 4.3 percent and lower than the national rate of 4.3 percent. Lincolnton has followed the same pattern as the State during the economic cycles.

Numerous small businesses opened in Lincolnton, including Central Café, NSC Behavioral Concepts, Bennett's Auto Repair, Bennett's Iron Thunder, Downtown Dairy Treats, The Leprechaun, Hoshi Express, Just Around the Corner, Convenience City, King Law Offices, Morgan's Dairy Bar, and Trident Trikes.

Two local industries are bringing more investment into Lincoln County. At the July 18, 2016 meeting of the Lincoln County Board of Commissioners, the Lincoln Economic Development Association presented incentive grant requests on behalf of two local companies, the Timken Company and Spantek. Per the Lincoln County Industrial Incentive Grant Program, the Commissioners voted to approve both requests. The Timken Company incentive request was the first presented for approval. Timken plans to invest just under two million dollars in equipment for the relocation of an existing hub bearing operation to the Lincoln County facility. As part of this new product line, Timken plans to hire multiple positions locally and is working to secure and train the needed workforce in order to begin production. Currently, Timken employs over 450 at the Iron Station location in eastern Lincoln County.

Spantek, located in the City of Lincolnton, is expanding as well. A manufacturer of expanded metal products, Spantek's growth has necessitated the need for two new production lines, with an investment of \$2.2 million dollars. Currently, Spantek has 33 employees and plans to hire three to four more with the expansion. Mike Gillboy, President of Spantek, said, "Spantek is excited to make an investment in capital improvements in our Lincolnton facility. We're making this investment because we believe in the long-term success of our Lincolnton workforce and operations. The planned equipment additions will increase our capacity while providing technological advancements in our processes for the benefit of our customers and Spantek associates."

UNOX, Inc. has reached an agreement to relocate its U. S. Corporate Headquarters to the Airlie Business Park in Lincoln County, N. C. UNOX S. p. A., headquartered in Italy, is present in 110 countries and is the # 1 producer for the number of professional commercial ovens sold worldwide each year. UNOX will purchase the Airlie I shell building, plus an adjacent site, to create a headquarters and future manufacturing campus at its Lincoln County location. Denver Construction and Campbell Design have been awarded a contract to design and construct the interior headquarters upfit work. The initial capital investment is expected to reach approximately \$4,000,000 and will include five corporate employees.

Blum Inc. in Lincoln County will add up to 20 jobs at its cabinet hardware plant in Stanley as it spends \$16 million to upgrade the facility. The new jobs will boost employment there to more than 400 as the company enjoys an uptick in demand for its products, says Karl Rudisser, Blum CEO. "Anytime we invest back into our plant and operations, the benefits not only stimulate success for Blum, but also reaches into the community in the form of good jobs and more spending in the local economy," he says. Lincoln County will chip in a total of \$362,110 in incentives over seven years. In this latest expansion, about \$7 million will go toward equipment upgrades in Blum's automated warehouse at the plant site. Another \$6 million will be spent on machinery and tools used to make hinges, drawer runners and lift systems that are used in cabinets.

Robert Bosch Tool Corporation is investing \$13.3 million in their production facility in Lincolnton, adding more than 50 jobs at the plant. Most of the funds will be spent on new machinery and equipment to expand the production of cutting tools at the plant, which was built in 1976. Germany-based Bosch keeps its headquarters in Farmington Hills, Michigan. "Increasing our Lincolnton capabilities is an exciting opportunity," David Lee, director of packaging at the Bosch facility, said in a news release. "It shows the company's confidence in our capabilities and associates to support this business." Lincoln County recently received a State Rural Infrastructure Authority Grant worth \$250,000 to support building renovations at the Bosch facility.

Governor Pat McCrory, N. C. Commerce Secretary John E. Skvarla, III, and the Economic Development Partnership of N. C. announced that Kaco USA Inc. will expand its production facility in Lincoln County. The company will hire an additional 100 workers over the coming three years as it invests nearly \$8.4 million there.

“Kaco USA’s expansion in North Carolina is more evidence that our state is a top global destination for automotive suppliers,” said Governor McCrory. “When it comes to a world-class workforce, proximity to automakers and a welcoming business climate, nothing compares to North Carolina.” Kaco USA manufactures high-precision sealing solutions for the automotive industry. The company is part of Germany-based KACO GmbH+Co. KG, a privately held manufacturer founded in 1914. Its Lincolnton plant is one of nine locations the company maintains worldwide. Kaco is part of the Zhongding Group, which maintains nine operations in North America.

Tenowo USA, a German-owned manufacturer of non-woven textiles located in Lincoln County, celebrated the completion of its facility and machinery expansion on Thursday, March 23, 2017 with a ribbon cutting ceremony. Joining in the festivities included customers, suppliers, employees, State economic developers and top leadership from the parent location in Germany. The \$12.5 million-dollar expansion brings Tenowo’s total investment in the local facility to over \$25 million-dollars since 2000. First opened locally in 1993 as Hof Textiles, Tenowo Nonwovens services the automotive industry. Currently employing 102 employees, the expansion provides for a new production line and process which promises additional opportunities within the automotive industry and the Lincoln County facility.

During the past five years, the government’s expenses related to public safety have remained fairly constant with only a slight decrease in amount, and also decreased as a percentage of total expense (a five-year decrease of 0.84 percent). The decrease reflects the City’s efforts to control costs.

During this same five-year period, charges for services, continue to increase in amount, and have increased slightly as a percentage of total revenue (a five-year decrease of 0.78 percent). The reason for this relative small increase is the relative increase in expenses related to services that are not supported by fees and charges (e.g., public safety); thus, as taxes have increased to support these services, so has the proportion of total revenue generated by taxes.

Long-Term Financial Planning and Major Initiatives

Unassigned fund balance in the general fund is 27.43 percent of total general fund expenditures, which is above the required amount of 8 percent set by the State of North Carolina. As demonstration of the City's commitment to financial planning and fiscal health, the unreserved, unassigned fund balance in the general fund was \$2,794,186.

Each year the City adopts a capital improvement budget and prepares a 5-year capital improvement plan.

During the year, the City funded and managed significant projects including the following:

Downtown infrastructure improvements \$750,000.

Building of First Federal Park and splash pad \$500,000.

Improvements to the electrical substation \$400,000.

Financing of \$394,000 for purchasing of service vehicles and equipment.

Upgrading of various departmental needs including service vehicles, technology and service equipment items.

Relevant Financial Policies

The City of Lincolnton's Unified Development Ordinance requires that a developer of a subdivision dedicate land for a park, recreation, and open space purposes or the developer pay a fee in lieu of land before the subdivision is approved. The use of these funds is governed by the North Carolina General Statute 160A-372.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincolnton for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-seventh consecutive year that Lincolnton has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Water Department was one of four water systems that was honored for surpassing federal and State drinking water standards by the Department of Environmental Quality for ten years in a row. Awards are given to water systems that demonstrate outstanding turbidity and microbial removal, two factors important in determining the drinking water quality. While all systems must meet strict guidelines from federal and State standards, those awarded met performance goals that were more rigorous.

The preparation of this report would have not been possible without the efficient and dedicated service of the entire staff of the finance department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the City Manager, Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lincolnton's finances.

Respectfully submitted,

Steven B. Zickefoose

Steven B. Zickefoose, MBA
City Manager/Finance Director

November 20, 2017



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

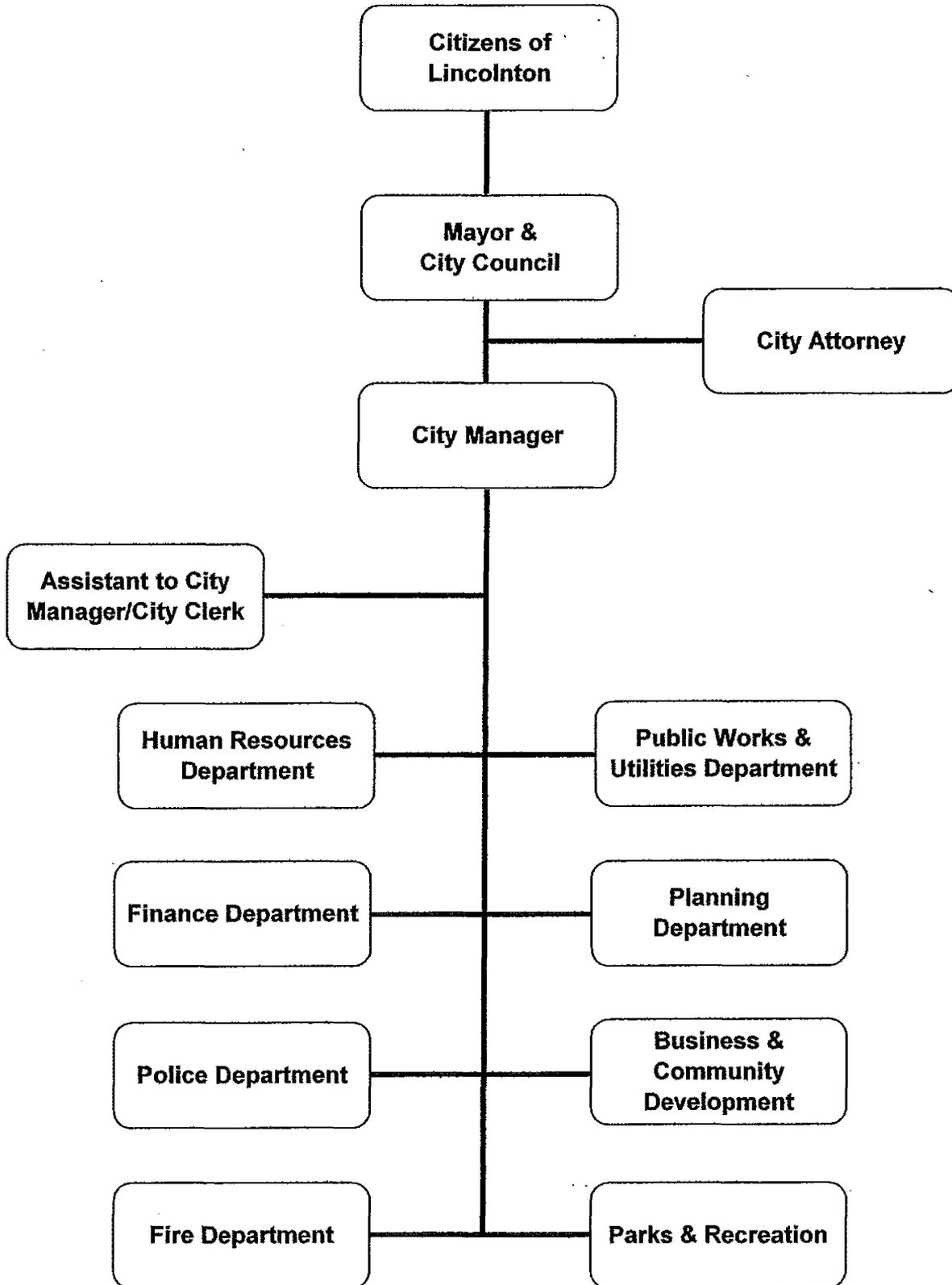
**City of Lincolnton
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

City of Lincoln Department Organizational Chart



CITY OF LINCOLNTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2017

Mayor & City Council

Mayor	Edward L. Hatley, Jr.
Ward I	Tim Smith
Ward II	David M. Black
Ward III Mayor Pro-Tem	Martin Eaddy
Ward IV	Roby D. Jetton

City Administration

City Manager	Steven B. Zickefoose
Assistant City Manager	Richard Haynes
Assistant to City Manager/City Clerk	Donna Flowers
Human Resources Director	Tanya Osborne
Police Chief	Rodney Jordan
Fire Chief	Ryan Heavner
Public Works & Electric Utility Director	Steve Peeler
Water Resources Director	Robert Pearson
Planning & Development Director	Laura Elam
Parks & Recreation Director	Nathan Eurey

FINANCIAL SECTION

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 - **Management's Discussion and Analysis**
 - **Basic Financial Statements**
 - **Notes to the Financial Statements**
 - **Required Supplemental Information**
 - **Individual Fund Statements and Schedules**
 - **Other Supplementary Financial Data**
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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council and the Citizens of
the City of Lincolnton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincolnton, North Carolina as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Lincolnton, North Carolina'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of City of Lincolnton ABC Board and the Lincolnton Tourism Development Authority were not audited in accordance with Government Auditing Standards. 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln, North Carolina, as of June 30, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions, Local Government Employees' Retirement System Schedules of the Proportionate Share of the Net Pension Liability and Contributions and Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability and the Law Enforcement Officers' Separation Allowance, Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 13–22 and 73–79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln, North Carolina's basic financial statements. The introductory section, individual fund financial statements, budgetary schedules and other schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and State 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, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The individual fund financial statements, budgetary schedules and other schedules and the schedule of expenditures of federal and State 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 the underlying accounting and other records used to prepare the basic 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, individual fund financial statements, budgetary schedules and other schedules and the schedule of expenditures of federal and State awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2017 on our consideration of the City of Lincolnton, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Lincolnton, North Carolina's internal control over financial reporting and compliance.

Low Smith Church & Co., L.L.C.

Morganton, North Carolina
November 20, 2017

Management's Discussion and Analysis

As management of the City of Lincolnton, we offer the readers of the City of Lincolnton's financial statements this narrative overview and analysis of the financial activities of the City of Lincolnton for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

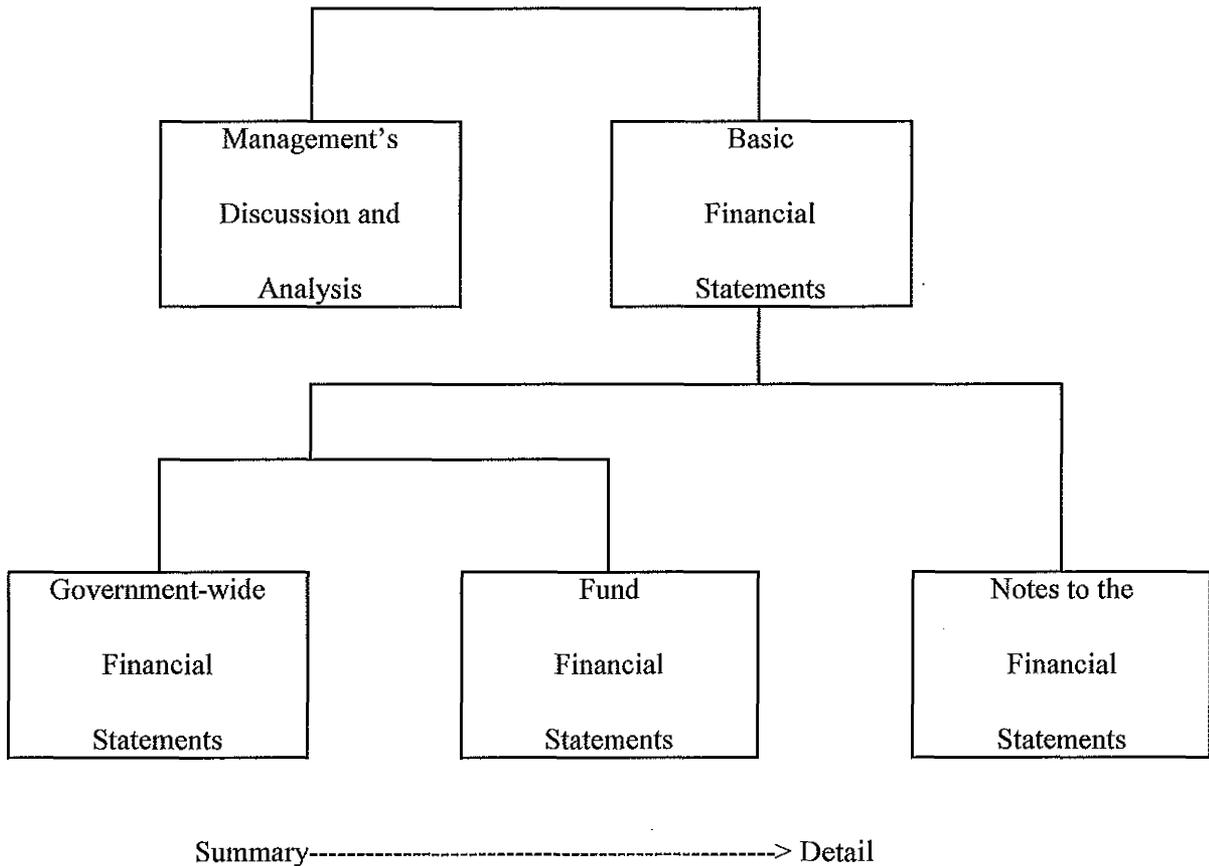
Financial Highlights

- The assets and deferred outflows of resources of the City of Lincolnton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$50,514,695 (net position).
- The City's total net position increased by \$679,446, primarily due to cost-saving measures and additional capital contributions.
- As of the close of the current fiscal year, the City of Lincolnton's governmental funds reported combined ending fund balances of \$5,152,070, with a net decrease of \$70,389 in fund balance. Approximately 30.52 percent of this total amount, or \$1,572,583, is nonspendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,794,186, or 27.43 percent of total general fund expenditures for the fiscal year.
- The City of Lincolnton's total debt decreased by \$528,139 (2.83%) during the current fiscal year. The key factor in this decrease was principal payments.
- The City's last bond rating was Aaa and AAA.
- The City's total capital assets decreased by \$662,841 (1.32%) during the current fiscal year. The key factor in this decrease is depreciation expense.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lincolnton's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Lincolnton.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements (pages 23 through 25) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 26 through 34) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and electric services offered by the City of Lincolnton. The final category is the component units. Although legally separate from the City, the City of Lincolnton ABC Board ("the Board") is important to the City because the City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City. Although legally separate from the City, the Lincolnton Tourism Development Authority is important to the City because the City exercises control over the Board by appointing its members and because the occupancy tax collected is used to promote travel and tourism in the City.

The government-wide financial statements are on pages 23 through 25 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lincolnton, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Lincolnton can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Lincolnton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds - The City of Lincolnton has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lincolnton uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 35 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Lincolnton’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 73 of this report.

The individual fund statements and schedules are presented immediately following the required supplementary information on pensions. Individual fund statements and schedules can be found beginning on page 74 of this report.

Interdependence with Other Entities – The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

	The City of Lincolnton, Net Position					
	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	Activities	Activities
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 5,731,640	\$ 5,719,111	\$13,464,834	\$13,565,030	\$19,196,474	\$19,284,141
Capital assets	<u>18,989,715</u>	<u>19,012,216</u>	<u>30,506,664</u>	<u>31,147,003</u>	<u>49,496,379</u>	<u>50,159,219</u>
Total assets	<u>24,721,354</u>	<u>24,731,327</u>	<u>43,971,498</u>	<u>44,712,033</u>	<u>\$68,692,853</u>	<u>69,443,360</u>
Deferred outflows of resources	<u>1,454,930</u>	<u>329,564</u>	<u>444,325</u>	<u>107,637</u>	<u>1,899,255</u>	<u>437,201</u>
Long term liabilities outstanding	5,603,876	3,759,362	9,650,052	11,476,773	15,253,929	15,236,135
Other liabilities	<u>954,885</u>	<u>800,023</u>	<u>3,708,474</u>	<u>3,735,778</u>	<u>4,663,359</u>	<u>4,535,801</u>
Total liabilities	<u>6,558,760</u>	<u>4,559,386</u>	<u>13,358,526</u>	<u>15,212,552</u>	<u>19,917,289</u>	<u>19,771,936</u>
Deferred inflows of resources	<u>124,835</u>	<u>206,340</u>	<u>35,290</u>	<u>67,035</u>	<u>160,125</u>	<u>273,375</u>
Net position:						
Net investment in capital assets	17,836,400	17,845,361	19,838,664	18,312,253	37,675,064	36,157,614
Restricted	1,522,318	1,592,073	-	-	1,522,318	1,592,073
Unrestricted	<u>133,971</u>	<u>857,731</u>	<u>11,183,342</u>	<u>11,227,830</u>	<u>11,317,313</u>	<u>12,085,561</u>
Total net position	<u>\$19,492,689</u>	<u>\$20,295,166</u>	<u>\$31,022,006</u>	<u>\$29,540,083</u>	<u>\$50,514,695</u>	<u>\$49,835,249</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Lincoln exceeded liabilities and deferred inflows by \$50,514,695 as of June 30, 2017. The City's net position increased by \$679,446 for the fiscal year ended June 30, 2017. However, the largest portion of net position (74.58%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Lincoln uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lincoln's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Lincoln's net position, \$1,522,318, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$11,317,314 is unrestricted.

Several particular aspects of the City's financial operations influenced the total unrestricted governmental net position:

- Decrease in capital grants and contributions and an increase in general revenues in the governmental activities.
- Slight increase in overall governmental expenses.
- Decrease due to implementation of GASB 73.
- Slight increase in overall expenses in the business-type activities.
- Decrease in charges for services in the Water and Sewer Fund.

City of Lincoln, Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 213,807	\$ 163,209	\$ 15,929,943	\$ 16,187,307	\$ 16,143,750	\$ 16,350,516
Operating grants and contributions	490,071	428,431	-	-	490,071	428,431
Capital grants and contributions	-	364,737	-	-	-	364,737
General revenues:						
Property taxes	4,718,281	4,641,125	-	-	4,718,281	4,641,125
Other taxes	4,148,712	3,682,640	-	-	4,148,712	3,682,640
Unrestricted investment earnings	18,979	10,321	51,748	26,421	70,726	36,742
Other	(3,245)	86,953	17,744	2,914	14,499	89,867
Total revenues	<u>9,586,605</u>	<u>9,377,416</u>	<u>15,999,435</u>	<u>16,216,642</u>	<u>25,586,039</u>	<u>25,594,057</u>
Expenses:						
General government	1,864,038	1,896,606	-	-	1,864,038	1,896,606
Public safety	4,808,973	4,487,641	-	-	4,808,973	4,487,641
Public works	1,352,039	1,342,101	-	-	1,352,039	1,342,101
Economic and physical development	333,749	404,448	-	-	333,749	404,448
Environmental protection	1,010,361	1,120,857	-	-	1,010,361	1,120,857
Cultural and recreational	688,966	683,973	-	-	688,966	683,973
Interest on long-term debt	37,365	16,458	296,382	312,469	333,747	328,927
Water and sewer	-	-	6,370,070	6,220,282	6,370,070	6,220,282
Electric	-	-	7,445,989	7,525,821	7,445,989	7,525,821
Total expenses	<u>10,095,491</u>	<u>9,952,085</u>	<u>14,112,441</u>	<u>14,058,572</u>	<u>24,207,932</u>	<u>24,010,656</u>

City of Lincoln, Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
	Increase (decrease) in net position before transfers	\$ (508,886)	\$ (574,669)	\$ 1,886,994	\$ 2,158,070	\$ 1,378,107
Transfers	405,071	405,071	(405,071)	(405,071)	-	-
Increase (decrease) in net position	<u>\$ (103,815)</u>	<u>\$ (169,597)</u>	<u>\$ 1,481,923</u>	<u>\$ 1,752,998</u>	<u>\$ 1,378,107</u>	<u>\$ 1,583,402</u>
Net position, July 1, as previously reported	\$ 20,295,166	\$20,464,763	\$ 29,540,083	\$ 27,787,085	\$ 49,835,249	\$ 48,251,848
Restatement	(698,662)	-	-	-	(698,662)	-
Net position, July 1, restated	19,596,504	20,464,763	29,540,083	27,787,085	49,136,587	48,251,848
Increase (decrease) in net position	<u>(103,815)</u>	<u>(169,597)</u>	<u>1,481,923</u>	<u>1,752,998</u>	<u>1,378,108</u>	<u>1,583,401</u>
Net position, June 30	<u>\$ 19,492,689</u>	<u>\$20,295,166</u>	<u>\$ 31,022,006</u>	<u>\$29,540,083</u>	<u>\$50,514,695</u>	<u>\$ 49,835,248</u>

Governmental Activities. Governmental activities decreased the City's net position by \$103,815. Key elements of this decrease are as follows:

- No capital grants and contributions.
- Expenses increased slightly.

Business-type Activities. Business-type activities increased the City of Lincoln's net position by \$1,481,923, however, this was a decrease of \$271,075 from the prior year. Key elements of this change are as follows:

- Charges for services decreased approximately \$260,000.
- Investment earnings increased 96%.
- \$405,071 transfers out, in the current year.
- The Water and Sewer Fund rates increased as follows: 1.0% increase for non (textile based) and 1.0% increase for industrial (textile based).
- Electric Fund rates did not increase.
- Administrative expenditures to the General Fund were \$674,552 for the Water and Sewer Fund and \$475,000 for the Electric Fund.
- Purchase for power decreased approximately \$1,400.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City of Lincoln's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Lincoln's financing requirements.

The General Fund is the chief operating fund of the City of Lincolnton. At the end of the current fiscal year, the City of Lincolnton's fund balance available in the General Fund was \$4,274,549, while total fund balance reached \$5,152,070. The City currently has an available fund balance of 41.97 percent of General Fund expenditures while total fund balance represents 50.59 percent of that same amount.

General Fund Budgetary Highlights. During the year, there was a \$1,059,946 increase in appropriations between the original and final budget. Following are the main components of the increase:

- \$414,873 CMAQ Grant for General Boulevard Intersection Project.
- \$142,866 issuance of debt for Police vehicles.
- \$130,200 in donations for park project.
- \$55,900 for an additional School Resource Officer.
- \$316,107 fund balance appropriation for carryover park project in progress.

Revenues increased from the prior year due to the issuance of debt, capital contributions, Powell Bill reimbursements, donations and interest on investments. The increase was due to anticipated revenues being received.

The final budget and actual results varied during the year. The significant budgetary variances are as follows:

- Total governmental expenditures were approximately \$1,677,894 less than budgeted due to an overall controlling of costs in all departments and capital projects not completed by year end.
- Public safety was less than budgeted due to vacancies and lower operating costs of \$361,628.
- Public works was less than budgeted due to lower operating costs for administration and solid waste of \$324,175.
- Street maintenance was less than budgeted due to vacancies and lower operating costs of \$183,334.
- The General Boulevard Intersection Project is still in design phase. \$414,873.
- Parks and recreation was less than budgeted due to lower operating costs of \$77,985 and the progress of a major capital project for \$100,487.
- General expenses were less than budgeted due to lower operating costs of \$80,966 and an unspent contingency of \$72,625.
- The City Manager and Finance expenses were less than budgeted due to vacancies and lower operating costs of \$147,221.

Proprietary Funds. The City of Lincolnton's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$7,477,506, and unrestricted net position for the Electric Fund amounted to \$3,705,837. The total change in net position for both funds was \$1,016,034 and \$465,889, respectively. The change in net position in the Water and Sewer Fund is a result of decreased operating expenses and a decrease in interest expense. The increase in the Electric Fund is a result of a decrease in expenses.

Capital Asset and Debt Administration

Capital Assets. The City of Lincolnton's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$49,496,379 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Major additions in the General Fund included vehicles and equipment of approximately \$556,000, and construction in progress of \$814,000.
- The Electric Fund had approximately \$379,000 in current year additions for system improvements.
- The Water and Sewer Fund had approximately \$286,000 of new additions for vehicles and equipment, \$178,000 for system repairs and \$711,000 in construction in progress for pump station repairs and for infrastructure improvements.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
	Land	\$ 8,214,213	\$ 8,300,388	\$ 105,820	\$ 105,820	\$ 8,320,033
Buildings and improvements	5,260,074	5,596,134	7,948,381	8,311,825	13,208,455	13,907,959
Distribution systems	180,042	189,260	20,766,822	20,984,902	20,946,864	21,174,162
Infrastructure	2,754,189	2,954,573	-	-	2,754,189	2,954,573
Vehicles and equipment	1,420,524	1,428,741	1,097,317	1,269,305	2,517,841	2,698,046
Construction in progress	<u>1,160,673</u>	<u>543,120</u>	<u>588,324</u>	<u>475,152</u>	<u>1,748,997</u>	<u>1,018,272</u>
Total	<u>\$18,989,715</u>	<u>\$19,012,216</u>	<u>\$30,506,664</u>	<u>\$31,147,004</u>	<u>\$49,496,379</u>	<u>\$50,159,219</u>

Additional information on the City's capital assets can be found in Note IIIA. of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2017, the City of Lincolnton had total bonded debt outstanding of \$6,428,000 and \$5,536,182 of loans payable. The loans payable is backed by security interest in the property for which it was issued. The remainder of the City's debt represents bonds secured solely by specified revenue sources (e.g. revenue bonds).

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
	Loans payable	\$1,296,182	\$1,309,722	\$ 4,240,000	\$ 4,866,749	\$ 5,536,182
Revenue bonds	-	-	6,428,000	7,968,000	6,428,000	7,968,000
Compensated absences	357,360	349,015	131,501	130,042	488,861	479,057
OPEB	2,045,022	1,939,258	682,280	657,853	2,727,302	2,597,111
Pension related debt (LGERS)	1,536,631	371,761	501,871	121,419	2,038,502	493,180
Pension related debt (LEO)	<u>943,092</u>	<u>976,259</u>	<u>-</u>	<u>-</u>	<u>943,092</u>	<u>976,259</u>
Total	<u>\$6,178,287</u>	<u>\$4,946,015</u>	<u>\$11,983,652</u>	<u>\$13,744,063</u>	<u>\$18,161,939</u>	<u>\$18,690,078</u>

The City of Lincolnton's total debt decreased by \$528,139 (2.83%) during the fiscal year, primarily due to debt principal payments.

The City of Lincolnton has an Aaa bond rating from Moody's Investors Service and AAA rating from Standard and Poor's Corporation and Fitch Ratings. This bond rating is a clear indicator of the sound financial condition of the City of Lincolnton. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the City of Lincolnton is \$68,087,886. The City has no bonds authorized but un-issued at June 30, 2017.

Additional information regarding the City of Lincolnton's long-term debt can be found in Note III.B of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- The City is continuing to evaluate its infrastructure assets and as part of that ongoing evaluation will prioritize any necessary capital improvements.
- The two major industrial parks in Lincoln County are located within close proximity of our corporate limits and their continuous growth benefits the City economically.
- The City funded \$379,000 to make system upgrades to our electrical substation.
- The City conducted a Pay and Class Study and fully implemented the recommendations for employee pay schedules, classifications and adjustments for years of service experience.
- The City approved a \$426,000 project for a new park that includes restrooms and a splash pad.
- Numerous small businesses opened in Lincolnton, including: Central Café, NCS Behavioral Concepts, Bennett's Auto Repair, Bennett's Iron Thunder, Downtown Dairy Treats, The Leprechaun, Hoshi Express, Just Around the Corner, Convenience City, King Law Offices, Morgan's Dairy Bar, and Trident Trikes.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities: Property taxes are expected to increase two percent from amounts budgeted in the prior year due to growth. The City's general fund budgeted revenues are approximately \$11,038,040, which reflects a decrease from the prior year.

The City has appropriated to use \$785,301 of fund balance.

The tax rate is to remain at \$.56 cents per 100 dollars valuation.

Budgeted expenditures compared with the 2016 actual expenditures are expected to decrease 6%. Completed capital projects will account for 4% of the decrease. The remaining 2% is in solid waste.

Business-type Activities: The City continues to evaluate its water and sewer rates to ensure that revenues generated by that activity are sufficient to meet operating requirements as well as ongoing debt service requirements.

Water and Sewer rates did not change. Electric rates did not change.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the City's information found in this report or requests for additional information should be directed to the Director of Finance, City of Lincolnton, P. O. Box 617, Lincolnton, N. C. 28092. Questions concerning any of the Alcoholic Beverage Control Board information found in this report or requests for additional information should be directed to the Finance Officer, City of Lincolnton ABC Board, 105 Stanford Road, Lincolnton, N. C. 28092. You can also call 704-736-8980, visit our website at www.ci.lincolnton.nc.us or send an email to stevezickefoose@ci.lincolnton.nc.us for more information.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements provide a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.

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CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Net Position
June 30, 2017**

	Primary Government			Component Units	
	Governmental Activities	Business - type Activities	Total	Lincolnton Tourism Develop- ment Authority	City of Lincolnton ABC Board
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,935,399	\$11,682,853	\$15,618,252	\$ 310,154	\$ 256,779
Taxes receivable, net	201,161	-	201,161	-	-
Accounts receivable, net	502,861	1,244,057	1,746,918	-	-
Due from other government agencies	204,025	-	204,025	-	-
Inventories	5,828	118,190	124,017	-	294,745
Prepaid items	44,437	56,288	100,725	-	9,504
Total current assets	<u>4,893,711</u>	<u>13,101,387</u>	<u>17,995,098</u>	<u>310,154</u>	<u>561,028</u>
Noncurrent assets:					
Restricted cash	837,929	363,447	1,201,376	-	-
Capital assets:					
Land and nondepreciable assets	9,374,886	694,144	10,069,030	-	425,000
Other capital assets, net of accumulated depreciation	9,614,829	29,812,520	39,427,349	-	1,112,242
Total capital assets	<u>18,989,715</u>	<u>30,506,664</u>	<u>49,496,379</u>	<u>-</u>	<u>1,537,242</u>
Total assets	<u>24,721,354</u>	<u>43,971,498</u>	<u>68,692,852</u>	<u>310,154</u>	<u>2,098,270</u>
Deferred Outflows of Resources					
Pension deferrals	1,454,930	444,325	1,899,255	-	52,689
Liabilities					
Accounts payable and accrued liabilities	374,463	1,011,428	1,385,891	-	299,986
Customer deposits -restricted	-	363,447	363,447	-	-
Unearned revenues	6,010	-	6,010	-	-
Current portion of long-term liabilities	574,411	2,333,600	2,908,011	-	-
Total current liabilities	954,885	3,708,474	4,663,359	-	299,986
Long-term liabilities					
Net pension liability	1,536,631	501,871	2,038,502	-	35,230
Total pension liability	943,092	-	943,092	-	-
Due in more than one year	3,124,153	9,148,181	12,272,334	-	-
Total liabilities	<u>6,558,760</u>	<u>13,358,526</u>	<u>19,917,287</u>	<u>-</u>	<u>335,216</u>
Deferred Inflows of Resources					
Prepaid taxes	1,939	-	1,939	-	-
Pension deferrals	122,896	35,290	158,186	-	1,235
Total deferred inflows of resources	<u>124,835</u>	<u>35,290</u>	<u>160,125</u>	<u>-</u>	<u>1,235</u>
Net Position					
Net investment in capital assets	17,836,400	19,838,664	37,675,064	-	1,537,242
Restricted for:					
Working capital	-	-	-	-	81,498
Stabilization by State Statute	827,256	-	827,256	-	-
Streets	695,057	-	695,057	-	-
Public safety	5	-	5	-	-
Economic development	-	-	-	310,154	-
Unrestricted	133,971	11,183,342	11,317,314	-	195,768
Total net position	<u>\$ 19,492,689</u>	<u>\$31,022,006</u>	<u>\$50,514,695</u>	<u>\$ 310,154</u>	<u>\$ 1,814,508</u>

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Activities
For the Year Ended June 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Component Units</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Lincolnton Tourism Development Authority</u>	<u>City of Lincolnton ABC Board</u>	
					<u>Governmental Activities</u>	<u>Business-type Activities</u>			<u>Total</u>
Primary Government:									
Governmental activities:									
General government	\$ 1,864,038	\$ -	\$ -	\$ -	\$ (1,864,038)	\$ -	\$ (1,864,038)	\$ -	\$ -
Public safety	4,808,973	6,913	176,963	-	(4,625,097)	-	(4,625,097)	-	-
Public works	1,352,039	-	313,108	-	(1,038,931)	-	(1,038,931)	-	-
Economic and physical development	333,749	10,514	-	-	(323,235)	-	(323,235)	-	-
Environmental protection	1,010,361	27,201	-	-	(983,160)	-	(983,160)	-	-
Cultural and recreational	688,966	169,179	-	-	(519,787)	-	(519,787)	-	-
Interest on long-term debt	37,365	-	-	-	(37,365)	-	(37,365)	-	-
Total governmental activities	10,095,491	213,807	490,071	-	(9,391,613)	-	(9,391,613)	-	-
Business-type activities:									
Water and sewer	6,666,452	8,011,313	-	-	-	1,344,861	1,344,861	-	-
Electric	7,445,989	7,918,630	-	-	-	472,640	472,640	-	-
Total business-type activities	14,112,442	15,929,943	-	-	-	1,817,502	1,817,502	-	-
Total primary government	\$24,207,933	\$16,143,750	\$ 490,071	\$ -	(9,391,613)	1,817,502	(7,574,112)	-	-
Component Unit:									
Lincolnton Tourism Development Authority	\$ 42,281	\$ -	\$ 115,543	\$ -	-	-	-	73,262	-
City of Lincolnton ABC Board	2,123,143	2,118,956	-	-	-	-	-	-	(4,187)
Total component unit	\$ 2,165,424	\$ 2,118,956	\$ 115,543	\$ -	-	-	-	73,262	(4,187)

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

Page 2 of 2, cont.

**Statement of Activities
For the Year Ended June 30, 2017**

	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lincolnton Tourism Develop- ment Authority	City of Lincolnton ABC Board
General revenues:					
Ad valorem taxes	\$ 4,718,281	\$ -	\$ 4,718,281	\$ -	\$ -
Local option sales tax	2,983,564	-	2,983,564	-	-
Franchise tax	911,698	-	911,698	-	-
Other taxes and licenses	253,451	-	253,451	-	-
Unrestricted investment earnings	18,979	51,748	70,727	1,140	1,326
Miscellaneous	(3,245)	17,744	14,499	-	(3,536)
Transfers	405,071	(405,071)	-	-	-
Total general revenues and transfers	<u>9,287,798</u>	<u>(335,579)</u>	<u>8,952,219</u>	<u>1,140</u>	<u>(2,210)</u>
Changes in net position	<u>\$ (103,815)</u>	<u>\$ 1,481,923</u>	<u>\$ 1,378,108</u>	<u>\$ 74,402</u>	<u>\$ (6,397)</u>
Net position - beginning, as previously reported	\$ 20,295,166	\$ 29,540,083	\$ 49,835,249	\$ 235,752	\$ 1,820,905
Restatement	(698,662)	-	(698,662)	-	-
Net position - beginning, restated	19,596,504	29,540,083	49,136,587	235,752	1,820,905
Changes in net position	<u>(103,815)</u>	<u>1,481,923</u>	<u>1,378,108</u>	<u>74,402</u>	<u>(6,397)</u>
Net position - ending	<u>\$ 19,492,689</u>	<u>\$ 31,022,006</u>	<u>\$ 50,514,694</u>	<u>\$ 310,154</u>	<u>\$ 1,814,508</u>

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2017**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 3,935,399
Taxes receivable, net	201,161
Accounts receivable, net	502,861
Due from government agencies	204,025
Inventories	5,828
Prepaid items	44,437
Restricted cash	<u>837,929</u>
 Total assets	 <u>\$ 5,731,640</u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 370,460
Unearned revenues	<u>6,010</u>
Total liabilities	<u>376,470</u>
<u>Deferred Inflows of Resources</u>	
Property taxes receivable	201,161
Prepaid taxes	<u>1,939</u>
Total deferred inflows of resources	<u>203,100</u>
<u>Fund Balances</u>	
Nonspendable:	
Inventories	5,828
Prepaid expenditures	44,437
Restricted:	
Stabilization by State Statute	827,256
Streets - Powell Bill	695,057
Public safety - police	5
Assigned:	
Subsequent year's expenditures	785,301
Unassigned	<u>2,794,186</u>
Total fund balances	<u>5,152,070</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 5,731,640</u>

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

CITY OF LINCOLNTON, NORTH CAROLINA

Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
June 30, 2017

Total Fund Balance, Governmental Funds \$ 5,152,070

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.

Gross capital assets at historical cost	\$ 40,427,048	-
Accumulated depreciation	<u>(21,437,333)</u>	18,989,715

Deferred outflows of resources related to pensions are not
reported in the funds. 1,454,930

Earned revenues considered deferred inflows of
resources in the fund statements.

Property taxes receivable	201,161
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Long-term liabilities used in governmental activities are not
financial uses and therefore are not reported in the funds.

Accrued interest on long-term debt	(4,003)
Long-term debt	(1,296,182)
Compensated absences	(357,360)
Other post employment benefits	(2,045,022)
Net pension liability	(1,536,631)
Total pension liability	(943,092)

Deferred inflows of resources related to pensions are
not reported in the funds. (122,896)

Net position of governmental activities \$ 19,492,689

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>
Revenues:	
Ad valorem taxes	\$ 4,704,877
Other taxes and licenses	167,263
Unrestricted intergovernmental revenues	4,109,375
Restricted intergovernmental revenues	362,145
Permits and fees	35,394
Sales and services	199,336
Investment earnings	18,979
Miscellaneous	120,621
Total revenues	<u>9,717,991</u>
Expenditures:	
General government	1,293,767
Public safety	5,022,088
Public works	1,651,114
Economic and physical development	315,893
Environmental protection	873,584
Cultural and recreational	977,385
Debt service:	
Principal retirement	404,726
Interest and other charges	37,591
Total expenditures	<u>10,576,149</u>
Revenues over (under) expenditures	<u>(858,158)</u>
Other Financing Sources (Uses):	
Issuance of debt	391,186
Transfers - in	405,071
Total other financing sources (uses)	<u>796,257</u>
Net changes in fund balances	(61,901)
Fund balances, July 1	5,222,459
Increase (decrease) in inventory	<u>(8,488)</u>
Fund balances, June 30	<u>\$ 5,152,070</u>

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2017**

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

Net change in fund balances - total governmental funds	\$ (61,901)
Change in fund balance due to change in reserve for inventory	(8,488)

Governmental funds report capital outlays as expenditures. However, in the the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	1,146,854
Depreciation expense	(1,024,566)
Gain (loss) on sale of assets	(70,182)
Proceeds from sale of fixed assets	(74,608)

Contributions to the pension plan in the current year fiscal year are not included on the Statement of Activities	375,990
Benefit payments paid and administrative expenses for the LEOSSA are not included in the Statement of Activities	91,495

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred revenue for tax purposes	13,404

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term and related items.

New long-term debt issued	(391,186)
Principal payments on long-term debt	404,726
Accrued interest payable	226

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

Compensated absences	(8,345)
Pension expense	(391,470)
Other post employment benefits - health care	(105,764)

Change in net position of governmental activities	<u>\$ (103,815)</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,865,156	\$ 4,865,156	\$ 4,704,877	\$ (160,279)
Other taxes and licenses	181,900	181,900	167,263	(14,637)
Unrestricted intergovernmental revenues	3,666,370	3,722,270	4,109,375	387,105
Restricted intergovernmental revenues	351,500	866,373	362,145	(504,228)
Permits and fees	28,600	28,600	35,394	6,794
Sales and services	122,200	152,400	199,336	46,936
Investment earnings	2,000	2,000	18,979	16,979
Miscellaneous	92,700	92,700	120,621	27,921
Total revenues	<u>9,310,426</u>	<u>9,911,399</u>	<u>9,717,991</u>	<u>(193,408)</u>
Expenditures:				
General government	1,757,482	1,608,941	1,293,767	315,174
Public safety	5,117,463	5,360,392	5,022,088	338,304
Public works	1,642,217	2,816,895	1,651,114	1,165,781
Economic and physical development	455,803	436,951	315,893	121,058
Environmental protection	1,021,899	1,033,044	873,584	159,460
Cultural and recreational	739,323	1,155,858	977,385	178,473
Debt service:				
Principal retirement	396,110	396,110	404,726	(8,616)
Interest and other charges	29,425	29,425	37,591	(8,166)
Total expenditures	<u>11,159,722</u>	<u>12,837,616</u>	<u>10,576,149</u>	<u>2,261,467</u>
Revenues over (under) expenditures	<u>(1,849,296)</u>	<u>(2,926,217)</u>	<u>(858,158)</u>	<u>2,068,059</u>
Other Financing Sources (Uses):				
Issuance of debt	394,000	536,867	391,186	(145,681)
Appropriated fund balance	1,050,000	1,984,054	-	(1,984,054)
Transfers in	405,296	405,296	405,071	(225)
Total other financing sources (uses)	<u>1,849,296</u>	<u>2,926,217</u>	<u>796,257</u>	<u>(2,129,960)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(61,901)	<u>\$ (61,901)</u>
Fund balance, July 1			5,222,459	
Increase (decrease) in reserve for inventory			(8,488)	
Fund balance, June 30			<u>\$ 5,152,070</u>	

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Fund Net Position
Proprietary Funds
June 30, 2017**

	Business-type Activities		
	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 7,749,011	\$ 3,933,841	\$ 11,682,853
Accounts receivable	618,372	625,685	1,244,057
Inventories	74,782	43,408	118,190
Prepaid expenses	18,147	38,141	56,288
Total current assets	<u>8,460,312</u>	<u>4,641,075</u>	<u>13,101,387</u>
Noncurrent assets:			
Restricted cash and cash equivalents	102,599	260,848	363,447
Capital assets, net of accumulated depreciation	29,287,813	1,218,851	30,506,664
Total noncurrent assets	<u>29,390,412</u>	<u>1,479,699</u>	<u>30,870,111</u>
Total assets	<u>37,850,724</u>	<u>6,120,774</u>	<u>43,971,498</u>
<u>Deferred Outflows of Resources</u>			
Pension deferrals	<u>353,539</u>	<u>90,786</u>	<u>444,325</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	217,707	793,720	1,011,428
Customer deposits - restricted	102,599	260,848	363,447
Bonds payable - current	1,567,000	-	1,567,000
Loans payable - current	697,000	-	697,000
Accrued compensated absences	61,631	7,969	69,600
Total current liabilities	<u>2,645,937</u>	<u>1,062,537</u>	<u>3,708,474</u>
Noncurrent liabilities:			
Bonds payable	4,861,000	-	4,861,000
Loans payable	3,543,000	-	3,543,000
Other post retirement benefits liability	589,699	92,581	682,280
Accrued compensated absences	39,902	21,999	61,901
Net pension liability	399,327	102,544	501,871
Total noncurrent liabilities	<u>9,432,928</u>	<u>217,124</u>	<u>9,650,052</u>
Total liabilities	<u>12,078,865</u>	<u>1,279,661</u>	<u>13,358,526</u>
<u>Deferred Inflows of Resources</u>			
Pension deferrals	<u>28,079</u>	<u>7,211</u>	<u>35,290</u>
<u>Net Position</u>			
Net investment in capital assets	18,619,813	1,218,851	19,838,664
Unrestricted	7,477,506	3,705,837	11,183,342
Total net position	<u>\$ 26,097,319</u>	<u>\$ 4,924,688</u>	<u>\$ 31,022,006</u>

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017**

	Business-type Activities		
	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Operating Revenues:			
Electricity sales	\$ -	\$ 6,907,921	\$ 6,907,921
Water sales	3,451,827	-	3,451,827
Sewer charges	4,343,685	-	4,343,685
Water and sewer taps	25,200	-	25,200
Electricity - municipal operations	-	697,327	697,327
Other operating revenues	190,602	313,382	503,983
Total operating revenues	<u>8,011,313</u>	<u>7,918,630</u>	<u>15,929,943</u>
Operating Expenses:			
Electrical operations	-	857,477	857,477
Electrical power purchases	-	5,985,261	5,985,261
Water treatment plant	1,568,229	-	1,568,229
Water and sewer distribution maintenance	1,480,901	-	1,480,901
Waste treatment plant	1,568,198	-	1,568,198
Administrative	-	475,000	475,000
Depreciation	1,752,742	128,252	1,880,994
Total operating expenses	<u>6,370,070</u>	<u>7,445,989</u>	<u>13,816,059</u>
Operating income (loss)	<u>1,641,243</u>	<u>472,640</u>	<u>2,113,884</u>
Nonoperating Revenues (Expenses):			
Investment earnings	37,297	14,451	51,748
Gain (loss) on disposal of capital assets	12,971	4,773	17,744
Interest on long-term debt	(296,382)	-	(296,382)
Total nonoperating revenues (expenses)	<u>(246,114)</u>	<u>19,224</u>	<u>(226,890)</u>
Income (loss) before transfers and capital contributions	1,395,130	491,864	1,886,994
Transfers (to) from other funds			
General Fund-payment in lieu of taxes	<u>(379,096)</u>	<u>(25,975)</u>	<u>(405,071)</u>
Changes in net position	1,016,034	465,889	1,481,923
Total net position - beginning	<u>25,081,285</u>	<u>4,458,798</u>	<u>29,540,083</u>
Total net position - ending	<u>\$ 26,097,319</u>	<u>\$ 4,924,688</u>	<u>\$ 31,022,006</u>

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

CITY OF LINCOLNTON, NORTH CAROLINA

Page 1 of 2

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017**

	Business-type Activities		
	Enterprise Funds		
	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash received from customers	\$8,032,111	\$7,880,439	\$ 15,912,550
Customer deposits received	1,453	2,490	3,943
Cash paid for goods and services	(2,875,861)	(6,834,409)	(9,710,270)
Cash paid to or on behalf of employees for services	<u>(1,798,515)</u>	<u>(446,280)</u>	<u>(2,244,795)</u>
Net cash provided (used) by operating activities	<u>3,359,188</u>	<u>602,240</u>	<u>3,961,428</u>
Cash Flows From Non-Capital Financing Activities:			
Transfers - in (out)	<u>(379,096)</u>	<u>(25,975)</u>	<u>(405,071)</u>
Net cash provided (used) by non-capital financing activities	<u>(379,096)</u>	<u>(25,975)</u>	<u>(405,071)</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(1,013,414)	(227,242)	(1,240,656)
Proceeds from sale of capital assets	12,971	4,773	17,744
Principal paid on long-term debt	(2,166,748)	-	(2,166,748)
Interest paid on long-term debt	<u>(319,892)</u>	<u>-</u>	<u>(319,892)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,487,083)</u>	<u>(222,469)</u>	<u>(3,709,552)</u>
Cash Flows From Investing Activities:			
Investment earnings	<u>37,297</u>	<u>14,451</u>	<u>51,748</u>
Net cash provided (used) by investing activities	<u>37,297</u>	<u>14,451</u>	<u>51,748</u>
Net increase (decrease) in cash and cash equivalents	(469,694)	368,247	(101,447)
Cash and cash equivalents at beginning of year	<u>8,321,303</u>	<u>3,826,442</u>	<u>12,147,745</u>
Cash and cash equivalents at end of year	<u>\$7,851,609</u>	<u>\$4,194,689</u>	<u>\$ 12,046,297</u>

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

Page 2 of 2, cont.

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017**

	Business-type Activities		
	Enterprise Funds		
	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$1,641,243	\$ 472,640	\$ 2,113,883
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,752,742	128,251	1,880,993
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	20,798	(38,191)	(17,393)
(Increase) decrease in inventory	10,549	(1,038)	9,511
(Increase) decrease in prepaid expense	7,183	(553)	6,630
Increase (decrease) in accounts payable and other accrued liabilities	(93,218)	19,174	(74,044)
Increase (decrease) in accrued vacation pay	(808)	2,267	1,459
Increase (decrease) in other post retirement benefits	9,683	14,744	24,427
Increase (decrease) in deferred outflows of resources - pensions	(267,895)	(68,793)	(336,688)
Increase (decrease) in net pension liability	302,717	77,735	380,452
Increase (decrease) in deferred inflows of resources - pensions	(25,259)	(6,486)	(31,745)
Increase (decrease) in customer deposits	<u>1,453</u>	<u>2,490</u>	<u>3,943</u>
 Net cash provided (used) by operating activities	 <u>\$3,359,188</u>	 <u>\$ 602,240</u>	 <u>\$ 3,961,428</u>
 Supplemental Schedule of Non Cash Financing Activities:			
Payment of debt with the issuance of debt	<u>\$4,240,000</u>	<u>\$ -</u>	<u>\$ 4,240,000</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

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CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

I. Summary of Significant Accounting Policies

The accounting policies of the City of Lincolnton and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Lincolnton is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the City and its component units, two legally separate entities for which the City is financially accountable. The discretely presented component units presented below are reported in separate columns in the City's financial statements in order to emphasize that they are legally separate from the City.

City of Lincolnton ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Lincolnton ABC Board, 105 Stanford Road, Lincolnton, N.C. 28092.

Lincolnton Tourism Development Authority

The members of the Lincolnton Tourism Development Authority (LTDA) governing board are appointed by the City. The City collects Room Occupancy Tax as provided in N.C. General Statutes 160A-215 and remits the tax to LTDA. The LTDA is required to make use of at least 2/3 of the funds remitted to it to promote travel and tourism in the City of Lincolnton and the remainder for tourism related expenditures. The LTDA, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). Financial statements of LTDA are included in this report. The LTDA does not issue separate financial statements.

B. Basis of Presentation - Fund Accounting

Government-wide Statements. The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. 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.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements
June 30, 2017

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 a program or function and, therefore, are clearly identifiable to a particular function. 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.

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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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 required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, and other general government services.

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the City's water and sewer operations.

Electric Fund. This Fund is used to account for the City's electric operations.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

Government-wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates, are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2017

Sales taxes and certain intergovernmental revenues, such as beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Lincolnton because the tax is levied by Lincoln County and then remitted to, and distributed by, the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally, they are not measurable until received in cash. All taxes including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Enterprise Funds and the Lincolnton Tourism Development Authority (a discretely presented component unit). All annual appropriations lapse at the fiscal year-end. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Budget ordinances allow for the transfer of funds within the department, as long as expenditures do not exceed the appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board, and the board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the City and the ABC Board, are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City, the ABC Board and LTDA may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City, the ABC Board and LTDA may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City, the ABC Board and LTDA to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The investments of the City, the ABC Board and LTDA are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of twelve months or less when purchased to be cash and cash equivalents. The LTDA cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. The unexpended debt proceeds of the General Fund are classified as restricted assets for the General Fund because their use is completely restricted to the purpose for which the debt was originally issued. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Federal Asset Seizure Funds are also classified as restricted cash because it can be expended only for the purposes of expenses associated with forfeited operations or used to finance certain general investigative expenses.

City of Lincolnton Restricted Cash	
Governmental activities	
General Fund	
Unspent debt proceeds	\$ 142,867
Streets	695,057
Public safety	<u>5</u>
	<u>837,929</u>
Business-type activities	
Water and Sewer Fund	
Customer deposits	102,599
Electric Fund	
Customer deposits	<u>260,848</u>
Total business-type activities	<u>363,447</u>
Total restricted cash	<u>\$ 1,201,376</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventories and Prepaid Items

The inventory of the City is valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased. The inventories of the City's enterprise funds and the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased. The inventory of the ABC Board is valued at lower of cost (FIFO) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and are expensed as the items are used. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20-45
Buildings	25-50
Improvements	8-25
Vehicles	4-6
Furniture and equipment	5-15
Computer equipment	5

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10-33
Improvements and equipment	5-10

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditures until then. The City has one item that meets this criterion, pension deferrals for the 2017 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has only three items that meet the criterion for this category - prepaid taxes, property taxes receivable and deferrals.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of the City provides for a maximum of 240 hours to be carried from one year to the next. Any employee with more than 240 hours of accumulated leave during the last pay period of each calendar year shall have the excess accumulation removed so that only 240 hours are carried forward to the first pay period of the next calendar year. All excess vacation hours

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

over 240 will be converted to the employee's sick leave account. If the employee separates from service, payment for accumulated vacation leave shall not exceed 240 hours. The vacation policy of the ABC Board provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. The ABC Board's accumulated vacation pay is not considered to be material.

Both the City and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the City, nor the ABC Board, has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is classified as invested in capital assets, restricted and unrestricted. Restricted net position represents 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.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - portion of fund balances that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid Items - portion of fund balance that is not available for appropriation because it represents the year-end balance of prepaid items, which are not expendable available resources.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

Restricted Fund Balance - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Economic Development - portion of fund balance used to account for occupancy tax revenue which is restricted for tourism related purposes.

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for narcotic enforcement.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by a majority vote by quorum of City of Lincolnton's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance - portion of fund balance that City of Lincolnton intends to use for specific purposes but does not meet the criteria to be classified as committed. The governing council (council) has the authority to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Subsequent Year's Expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Unassigned Fund Balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City of Lincolnton does not have a formal revenue spending policy that provides guidance for programs with multiple revenue sources. However, the Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2017

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Lincolnton's employer contributions are recognized when due and the City of Lincolnton has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Other

Management Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2017, the expenditures made in the City's Water and Sewer Fund exceeded the authorized appropriations made by the governing board for debt service by \$4,238,298. This over-expenditure occurred because of the refunding of debt. Management and the Board will more closely review the budget reports to ensure compliance in future years.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City, the ABC Board and the LTDA are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's, the ABC Board's and LTDA's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, the ABC Board and the LTDA, these deposits are considered to be held by the City's, the ABC Board's and the LTDA's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

The State Treasurer does not confirm this information with the City, the ABC Board and LTDA, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City, the ABC Board and LTDA under the Pooling Method, the potential exists for undercollateralization. This risk may increase in periods of high cash flows.

However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City, the ABC Board and LTDA have no formal policy regarding custodial credit risk for deposits, but rely on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the City's deposits had a carrying amount of \$12,216,749 and a bank balance of \$12,665,160. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. At June 30, 2017, the City's petty cash fund totaled \$1,150.

At June 30, 2017, the ABC Board had a carrying amount of \$252,679 and a bank balance of \$253,396. Of the bank balance, \$250,000 was covered by federal depository insurance. At June 30, 2017, the ABC Board had cash on hand of \$4,100.

At June 30, 2017, the LTDA had a carrying amount of \$310,154 and a bank balance of \$310,154. Of the bank balance \$250,000 was covered by federal depository insurance.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

2. Investments

<u>Investment by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/17</u>	<u>Maturity</u>	<u>Rating</u>
N. C. Capital Management Trust-Government Portfolio	Amortized Cost	<u>\$4,601,729</u>	N/A	AAAm

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Interest Rate Risk. The City has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City has no formal policy regarding credit risk, but has internal management procedures that limit the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investments in the N. C. Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard and Poor's as of June 30, 2017.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	<u>\$ 100,000</u>
Enterprise Funds:	
Water and Sewer Fund	146,188
Electric Fund	<u>70,037</u>
Total enterprise funds	<u>216,225</u>
Total	<u>\$316,225</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

4. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2017, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,300,388	\$ -	\$ 86,175	\$ 8,214,213
Construction in progress	<u>543,120</u>	<u>617,553</u>	<u>-</u>	<u>1,160,673</u>
Total capital assets not being depreciated	<u>8,843,508</u>	<u>\$ 617,553</u>	<u>\$ 86,175</u>	<u>9,374,886</u>
Capital assets being depreciated:				
Building	7,647,240	\$ -	\$ -	7,647,240
Other improvements	2,455,638	13,319	-	2,468,957
Plant and distribution systems	239,075	-	-	239,075
Furniture and equipment	1,726,673	220,260	11,625	1,935,308
Vehicles and motorized equipment	5,488,726	295,722	505,835	5,278,613
Infrastructure	<u>13,482,969</u>	<u>-</u>	<u>-</u>	<u>13,482,969</u>
Total capital assets being depreciated	<u>31,040,321</u>	<u>\$ 529,301</u>	<u>\$517,460</u>	<u>31,052,162</u>
Less accumulated depreciation for:				
Building	3,268,147	\$ 235,349	\$ -	3,503,496
Other improvements	1,238,597	114,030	-	1,352,627
Plant and distribution systems	49,815	9,218	-	59,033
Furniture and equipment	1,369,329	111,724	11,625	1,469,428
Vehicles and motorized equipment	4,417,329	353,861	447,221	4,323,969
Infrastructure	<u>10,528,396</u>	<u>200,384</u>	<u>-</u>	<u>10,728,780</u>
Total accumulated depreciation	<u>20,871,613</u>	<u>\$1,024,566</u>	<u>\$458,846</u>	<u>21,437,333</u>
Total capital assets being depreciated, net	<u>10,168,708</u>			<u>9,614,829</u>
Governmental activity capital assets, net	<u>\$19,012,216</u>			<u>\$18,989,715</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 503,334
Public safety	224,743
Public works	95,912
Economic and physical development	576
Environmental protection	144,874
Cultural and recreational	<u>55,127</u>
Total depreciation expense	<u>\$1,024,566</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Water and Sewer Fund:				
Capital assets, not being depreciated:				
Land	\$ 95,600	\$ -	\$ -	\$ 95,600
Construction in progress	461,516	817,013	835,087	443,442
Total capital assets not being depreciated	<u>557,116</u>	<u>\$ 817,013</u>	<u>\$835,087</u>	<u>539,042</u>
Capital assets being depreciated:				
Building and improvements	13,767,670	\$ 7,694	\$ -	13,775,364
Plant and distribution systems	45,972,157	885,234	-	46,857,391
Furniture and equipment	7,818,332	34,671	105,200	7,747,803
Vehicles	418,921	103,889	38,318	484,492
Total capital assets being depreciated	<u>67,977,080</u>	<u>\$1,031,488</u>	<u>\$143,518</u>	<u>68,865,050</u>
Less accumulated depreciation for:				
Building and improvements	5,899,462	\$ 333,940	\$ -	6,233,402
Plant and distribution systems	25,482,435	1,085,740	-	26,568,175
Furniture and equipment	6,788,964	283,516	105,200	6,967,280
Vehicles	336,193	49,547	38,318	347,422
Total accumulated depreciation	<u>38,507,054</u>	<u>\$1,752,743</u>	<u>\$143,518</u>	<u>40,116,279</u>
Total capital assets being depreciated, net	<u>29,470,026</u>			<u>28,748,771</u>
Water and Sewer Fund capital assets, net	<u>30,027,142</u>			<u>29,287,813</u>
Electric Fund:				
Capital assets not being depreciated:				
Land	10,220	\$ -	\$ -	10,220
Construction in progress	13,636	131,246	-	144,882
Total capital assets not being depreciated	<u>23,856</u>	<u>\$ 131,246</u>	<u>\$ -</u>	<u>155,102</u>
Capital assets being depreciated:				
Building and improvements	775,989	\$ -	\$ -	775,989
Plant and distribution systems	3,367,368	33,434	-	3,400,802
Furniture and equipment	106,045	27,810	-	133,855
Vehicles	672,149	34,751	46,553	660,347
Total capital assets being depreciated	<u>4,921,551</u>	<u>\$ 95,995</u>	<u>\$ 46,553</u>	<u>4,970,993</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Less accumulated depreciation for:				
Building and improvements	\$ 332,372	\$ 37,198	\$ -	\$ 369,570
Plant and distribution systems	2,872,188	51,008	-	2,923,196
Furniture and equipment	76,619	4,789	-	81,408
Vehicles	<u>544,366</u>	<u>35,257</u>	<u>46,553</u>	<u>533,070</u>
Total accumulated depreciation	<u>3,825,545</u>	<u>\$ 128,252</u>	<u>\$46,553</u>	<u>3,907,244</u>
 Total capital assets being depreciated, net	 <u>1,096,006</u>			 <u>1,063,749</u>
 Electric Fund capital assets, net	 <u>1,119,862</u>			 <u>1,218,851</u>
Business-type activities capital assets, net	<u>\$31,147,004</u>			<u>\$30,506,664</u>

The City has active construction projects as of June 30, 2017. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
First Federal Park	\$ 278,709	\$ 228,083
Downtown Infrastructure	748,649	66,778
Substation Improvements	154,517	224,483
Rail Trail Culvert Repairs	-	85,000
Water Line - Heather Drive	-	62,000
Generals Boulevard Intersection	<u>54,461</u>	<u>526,609</u>
Total	<u>\$1,236,336</u>	<u>\$1,192,953</u>

Discretely Presented Component Unit:

Activity for the City of Lincolnton ABC Board for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 425,000	\$ -	\$ -	\$ 425,000
 Capital assets being depreciated:				
Building and improvements	1,340,266	\$ -	\$ -	1,340,266
Equipment	<u>166,858</u>	<u>6,623</u>	-	<u>173,481</u>
Total capital assets being depreciated	<u>1,507,124</u>	<u>\$ 6,623</u>	<u>\$ -</u>	<u>1,513,747</u>
 Less accumulated depreciation for:				
Building and improvements	224,353	\$35,202	\$ -	259,555
Equipment	<u>126,606</u>	<u>15,345</u>	-	<u>141,951</u>
Total accumulated depreciation	<u>350,959</u>	<u>\$50,547</u>	<u>\$ -</u>	<u>401,506</u>
 Total capital assets being depreciated, net	 <u>1,156,165</u>			 <u>1,112,241</u>
 Capital assets, net	 <u>\$1,581,166</u>			 <u>\$1,537,242</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Payables at the government-wide level at June 30, 2017 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total</u>
Governmental activities:					
General	\$ 121,102	\$249,357	\$ 4,003	\$ -	\$ 374,463
Other governmental	-	-	-	-	-
Total governmental activities	<u>121,102</u>	<u>249,357</u>	<u>4,003</u>	<u>-</u>	<u>374,463</u>
Business-type activities:					
Water and Sewer	133,263	62,763	21,681	-	217,707
Electric	<u>752,615</u>	<u>17,630</u>	<u>-</u>	<u>23,475</u>	<u>793,720</u>
Total business-type activities	<u>885,877</u>	<u>80,394</u>	<u>21,681</u>	<u>23,475</u>	<u>1,011,428</u>
Total	<u>\$1,006,979</u>	<u>\$329,751</u>	<u>\$ 25,685</u>	<u>\$ 23,475</u>	<u>\$1,385,891</u>

2. Pension Plan and Post-employment Obligations

a. Local Governmental Employees' Retirement System

Plan Description - The City of Lincolnton is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members -- nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

Benefits Provided - LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service, or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service, or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty), or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions - Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The City of Lincolnton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Lincolnton's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.350% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Lincolnton were \$491,998 for the year ended June 30, 2017.

Refunds of Contributions - City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

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

At June 30, 2017, the City reported a liability of \$2,038,502 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the City's proportion was 0.09605%, which was a decrease of 0.01384% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$554,056. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 38,300	\$ 71,431
Changes of assumptions	139,619	-
Net difference between projected and actual earnings on pension plan investments	1,127,035	-
Changes in proportion and differences between City contributions and proportionate share of contributions	10,808	71,910
City contributions subsequent to the measurement date	<u>491,998</u>	<u>-</u>
Total	<u>\$1,807,760</u>	<u>\$ 143,341</u>

\$491,998 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$172,941
2019	173,042
2020	516,034
2021	310,408
2022	-
Thereafter	-

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Discount rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension asset to changes in the discount rate - The following presents the City's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Increase <u>(6.25%)</u>	Discount Decrease <u>(7.25%)</u>	1% Rate <u>(8.25%)</u>
City's proportionate share of the net pension liability (asset)	<u>\$4,838,318</u>	<u>\$2,038,503</u>	<u>\$(300,111)</u>

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

Plan Description - The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	7
Terminated plan members entitled to, but not receiving, benefits	-
Active plan members	<u>37</u>
Total	<u>44</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Summary of Significant Accounting Policies

Basis of Accounting - The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meet the following criteria which we outlined in GASB Statement 73:

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality rates are based on the RP-2000 Mortality Tables with adjustments for mortality improvements based on Scale AA.

Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City's obligation to contribute to this plan is established, and may be amended by, the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$85,979 as benefits came due for the reporting period.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

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

At June 30, 2017, the City reported a total pension liability of \$943,092. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$67,884.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	14,845
City benefit payments and plan administrative expense made subsequent to the measurement date	<u>91,495</u>	-
Total	<u>\$91,495</u>	<u>\$14,845</u>

\$91,495 reported as deferred outflows of resources related to pensions resulting from benefit payments made, and administrative expenses incurred subsequent to the measurement date, will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ended June 30:

2018	\$3,336
2019	3,336
2020	3,336
2021	3,336
2022	1,501
Thereafter	-

\$91,495 paid as benefits came due and \$-0- of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the City's total pension liability calculated using the discount rate of 3.86 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	<u>1% Decrease (2.86%)</u>	<u>Discount Rate (3.86%)</u>	<u>1% Increase (4.86%)</u>
Total pension liability	<u>\$1,007,555</u>	<u>\$943,092</u>	<u>\$883,540</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Law Enforcement Officers' Special Separation Allowance

Beginning balance	\$ 976,259
Service cost	37,675
Interest on the total pension liability	33,318
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	-
Changes of assumptions or other inputs	(18,181)
Benefit payments	(85,979)
Other changes	-
Ending balance of the total pension liability	<u>\$ 943,092</u>

The plan currently uses mortality tables that vary by age and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U. S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (the Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy - Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

The City made contributions of \$73,510 for the reporting year. No amounts were forfeited.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description - The State of North Carolina contributes, on behalf of the City of Lincolnton, to the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighters' and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighters' and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided - FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions - Plan members are required to contribute \$10 per month to the plan, which is paid by the City. The State, a non-employer contributor, funds the plan through appropriations. Contribution provisions are established by General Statute 58 - 86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2016, the State contributed \$13,900,000 to the plan. The City of Lincolnton's proportionate share of the State's contribution is \$6,111.

Refunds of Contributions - Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

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

At June 30, 2017, the City reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the City through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the City and supported by the State was \$16,133. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the City is not projected to make any future contributions to the plan, its proportionate share at June 30, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the City recognized pension expense of \$4,773 and revenue of \$4,773 for support provided by the State. At June 30, 2017, the City reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions - The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

e. Other Post-employment Benefits

Healthcare Benefits

Plan Description - Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides post-employment health care benefits to retirees of the City provided they participate in the North Carolina Local Government Employees' Retirement System (the System) and have at least the following years of creditable service with the City or a disability status with the following years of creditable service with the City:

	<u>Creditable Years of Service</u>	<u>Disability Creditable Years of Service</u>
For employees hired on or after July 1, 2012	25	15
For employees hired prior to July 1, 2012	20	10

The City pays the full cost of coverage for these benefits. Also, the City's retirees can purchase coverage for their dependents. Currently, thirty (30) retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2017, the City made payments for post-employment health benefit premiums of \$484,599. As of February 1, 2016, the City participates in the North Carolina State Health Plan which is a division of the North Carolina Department of State Treasury.

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	31
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	114
Active employees-Law Enforcement Officers	<u>37</u>
Total	<u>182</u>

Funding Policy - The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a City resolution that can be amended by City Council. The City's members pay the City's group rates for dependent coverage, if enrolled in dependent coverage at the time of retirement. The City has chosen to fund the healthcare benefits on a pay as you go basis.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

The current ARC rate is 5.80% of annual covered payroll. For the current year, the City contributed \$549,082 or 9.63% of annual covered payroll. The City participates in the North Carolina State Health Plan which is a division of the North Carolina Department of State Treasury. There were no contributions made by employees, except for dependent coverage. The City's obligation to contribute to HCB Plan is established and may be amended by the City Council.

Summary of Significant Accounting Policies - Post-employment expenditures are made from the fund and function level for which the employee retired, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and OPEB Obligation - The City's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 674,631
Interest on net OPEB obligation	103,884
Adjustment to annual required contribution	<u>(99,242)</u>
Annual OPEB cost (expense)	679,273
Contributions made	<u>(549,082)</u>
Increase (decrease) in net OPEB obligation	130,191
Net OPEB obligation, beginning of year	<u>2,597,110</u>
Net OPEB obligation, end of year	<u>\$ 2,727,301</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation as of June 30 were as follows:

3 Year Trend Information			
For Year Ended	Annual	Percentage of Annual	Net OPEB
<u>June 30</u>	<u>OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Obligation</u>
2015	\$652,352	58.2%	\$2,309,801
2016	\$796,408	63.9%	\$2,597,110
2017	\$679,273	80.8%	\$2,727,301

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

Funded Status and Funding Progress - As of December 31, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$8,585,737. The covered payroll (annual payroll of active employees covered by the plan) was \$5,978,469, and the ratio of the UAAL to the covered payroll was 143.6%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 % investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.75 % to 5.00 %, annually. The investment rate included a 3.00 % inflation assumption. The actuarial value of assets, if any, was determined using the market value of investments. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

The ABC Board has not elected to provide other post-employment benefits to employees.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

f. Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service, and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan, and not by the City. The City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial. The City provides additional group term life insurance through their health insurance plan. Any amount in excess of \$50,000 is considered taxable to the employee as a fringe benefit.

3. Deferred Outflows and Inflows of Resources

The City has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

<u>Source</u>	
Contributions to pension plan in current fiscal year	\$ 491,998
Benefit payments made and administrative expenses for LEOSA	91,495
Differences between expected and actual experience	38,300
Changes of assumptions	139,619
Net difference between projected and actual	1,127,035
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>10,808</u>
Total	<u>\$1,899,255</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Deferred inflows of resources at year-end is comprised of the following:

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ 1,939	\$ 1,939
Taxes receivable, less penalties (General Fund)	-	201,161
Changes in assumptions	14,845	-
Differences between expected and actual experience	71,431	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>71,910</u>	<u>-</u>
Total	<u>\$160,125</u>	<u>\$203,100</u>

4. 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. The City participates in a self-funding risk financing pool offered by the North Carolina League of Municipalities for worker's compensation coverage up to statutory limits.

The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The City is eligible to, and has, purchased commercial flood insurance for a limit of \$5,000,000 for all locations on our commercial property policy, except the areas located in special flood hazard area as defined by the National Flood Insurance Program, and all locations in any Federal Emergency Management Agency Flood Zones.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$200,000. The remaining employees that have access to funds are insured up to \$100,000.

The Lincolnton Tourism Development Authority's finance officer is bonded for \$50,000.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

5. Long-Term Obligations

a. Loans Payable

Loans payable

Serviced by the General Fund:

\$120,000, 2015, 4.5% loan payable to an individual bank, in monthly installments of \$1,244, due in 2025	\$ 98,247
\$350,000, 2015, 1.50% loan payable to bank, in annual installments of \$87,500, due in 2018	77,732
\$175,000, 2016, 1.5% loan payable to bank, in semi-annual installments of \$22,550, due in 2019	93,845
\$1,025,000, 2016, 1.65% loan payable to bank, in annual installments of \$154,395 to \$153,492, due in 2022	733,000
\$391,186, 2017, 1.40% loan payable to bank, in annual installments of \$100,537, due in 2020	<u>293,358</u>
Total	<u>\$1,296,182</u>

b. Revolving Loans

In June 2000, a grant of \$269,425 was received from the State of North Carolina Department of Environment and Natural Resources and in December 2001, a State revolving loan was received in conjunction to finance water supply projects pursuant to the North Carolina Clean Water Revolving Loan and Grant Act of 1987. In July 2003, an additional revolving loan was received to finance a wastewater treatment facility upgrade. Both of these loans were refunded in June 2017 for \$4,240,000. The loans are reported as long-term debt in the Water and Sewer Fund. The loans are collateralized by water and sewer fee collections. Principal and interest requirements are appropriated when due.

Current refunding - On June 13, 2017, the City of Lincolnton entered into a Series 2017 Water & Sewer Refunding Bonds of \$4,240,000, with an interest rate of 2.0% for six years to refinance two revolving loans, a December 2001, 2.87% revolving loan with a remaining balance of \$322,146, maturity date 2021, and a July 2003, 2.87% revolving loan with a remaining balance of \$3,883,994, maturity date 2023. As a result of the current refunding, the City reduced its annual debt service cost from \$800,286 to \$784,580, which resulted in an economic gain (difference between the present value of the old debt and the new debt service payments) of \$84,523. There were no premiums or discounts related to the refunded debt, and therefore, there was not a deferred inflow of resources, nor a deferred outflow of resources.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Revolving loans payable consist of the following individual issue at June 30, 2017:

\$4,240,000 Water and Sewer revenue loan, with principal installments due annually in May with semiannual interest payments due in May and November, at an annual interest rate of 2.00% through 2023 \$ 4,240,000

c. Revenue Bond

Revenue bonds of \$23,130,000 that were originally issued in December, 1996, refunded in October 2005 for \$19,790,000 and refunded in April 2015 for \$9,479,000 were used to finance the construction of facilities utilized in the operations of the water and sewer system. The bonds which will be retired by its resources are reported as long-term debt in the Water and Sewer Fund. The City has pledged future water and sewer revenues, net of specified operating expenses, to repay \$9,479,000 in water and sewer system revenue bonds issued in April 2015. The bonds are payable solely from water and sewer customer net revenues and are payable through 2021. Principal and interest requirements are appropriated when due.

Bonds payable consists of the following individual issue at June 30, 2017:

\$9,479,000, 2015, revenue bonds with principal installments due annually in May of \$1,511,000 to \$1,647,000 through 2021; with semiannual interest payments due in May and November at rates of 1.65% \$6,428,000

Annual debt service requirements to maturity for long-term obligations are as follows:

	<u>Loans Payable</u>		<u>Revolving Loans</u>		<u>Revenue Bonds</u>		<u>Total Debt Due</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Governmental activities:								
2018	\$ 363,969	\$23,364	\$ -	\$ -	\$ -	\$ -	\$ 363,969	\$23,364
2019	290,692	17,421	-	-	-	-	290,692	17,421
2020	276,940	12,616	-	-	-	-	276,940	12,616
2021	161,269	8,144	-	-	-	-	161,269	8,144
2022	163,832	5,147	-	-	-	-	163,832	5,147
2023-2027	<u>39,480</u>	<u>4,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,480</u>	<u>4,725</u>
Total governmental	<u>1,296,182</u>	<u>71,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,296,182</u>	<u>71,417</u>
Business-type activities:								
2018	-	-	697,000	74,907	1,567,000	106,062	2,264,000	180,969
2019	-	-	714,000	70,860	1,596,000	80,207	2,310,000	151,067
2020	-	-	728,000	56,580	1,618,000	53,873	2,346,000	110,453
2021	-	-	743,000	42,020	1,647,000	27,176	2,390,000	69,196
2022	-	-	672,000	27,160	-	-	672,000	27,160
2023-2027	<u>-</u>	<u>-</u>	<u>686,000</u>	<u>13,720</u>	<u>-</u>	<u>-</u>	<u>686,000</u>	<u>13,720</u>
Total business-type	<u>-</u>	<u>-</u>	<u>4,240,000</u>	<u>285,247</u>	<u>6,428,000</u>	<u>267,317</u>	<u>10,668,001</u>	<u>552,564</u>
Total	<u>\$1,296,182</u>	<u>\$71,417</u>	<u>\$ 4,240,000</u>	<u>\$285,247</u>	<u>\$6,428,000</u>	<u>\$267,317</u>	<u>\$11,964,183</u>	<u>\$ 623,980</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

The City is in compliance with the covenants as to rates, fees, rentals, and charges in Section 704 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2005. Section 704(a) of the Bond Order requires the debt service coverage ratio for Parity Indebtedness to be no less than 120%, including 15% of water and sewer unrestricted net assets as of the last day of the proceeding fiscal year, and no less than 100% for Parity Indebtedness and Subordinated Indebtedness. The debt service coverage ratio calculation for the year ended June 30, 2017, is as follows:

	Revenue Bond Only	All Debt
Operating revenues	\$8,011,313	\$ 8,011,313
Operating expenses*	<u>4,617,328</u>	<u>4,617,328</u>
Operating income	3,393,985	3,393,985
Nonoperating revenues (expenses)**	50,268	50,268
15% of prior year unrestricted net assets	<u>1,183,334</u>	<u>-</u>
Income available for debt	<u>\$4,627,587</u>	<u>\$ 3,444,253</u>
Debt service, principal and interest paid	\$1,667,237	\$ 2,462,331
Debt service coverage	278%	140%

*Per rate covenants, this does not include the depreciation expense of \$1,752,742.

**Per rate covenants, this does not include interest payments of \$296,382.

Per rate covenants, this does not include PILOT (payment in lieu of taxes) paid of \$-0-.

At June 30, 2017, the City of Lincolnton had no bonds authorized but un-issued and a legal debt margin of \$68,087,886.

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$9,479,000 in water and sewer system revenue bonds issued in April 2015. Proceeds from the bonds provided financing for the construction of facilities utilized in the operations of water and sewer. The bonds are payable solely from water and sewer customer net revenues and are payable through 2021. Annual principal and interest payments on the bonds are appropriated when due. The total principal and interest remaining to be paid on the bonds is \$6,695,317. Principal and interest paid for the current year was \$1,671,472.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Changes in Long-Term Liabilities

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Compensated absences	\$ 349,015	\$ 245,490	\$ 237,145	\$ 357,360	\$ 210,442
Total pension liability (LEO)	976,259	52,812	85,979	943,092	-
Other post-employment benefits	1,939,258	531,073	425,309	2,045,022	-
Net pension liability (LGERS)	371,761	1,164,870	-	1,536,631	-
Loans payable	<u>1,309,722</u>	<u>391,186</u>	<u>404,726</u>	<u>1,296,182</u>	<u>363,969</u>
Governmental activities long-term liabilities	<u>\$ 4,946,015</u>	<u>\$2,385,431</u>	<u>\$ 1,153,159</u>	<u>\$ 6,178,287</u>	<u>\$ 574,411</u>
Business-type activities:					
Water and Sewer Fund:					
Compensated absences	\$ 102,341	\$ 62,037	\$ 62,845	\$ 101,533	\$ 61,631
Other post-employment benefits	580,016	133,457	123,774	589,699	-
Net pension liability (LGERS)	96,610	302,717	-	399,327	-
Revenue bonds	7,968,000	-	1,540,000	6,428,000	1,567,000
Revolving loans	<u>4,866,749</u>	<u>4,240,000</u>	<u>4,866,749</u>	<u>4,240,000</u>	<u>697,000</u>
Water and Sewer Fund long-term liabilities	<u>13,613,716</u>	<u>4,738,211</u>	<u>6,593,368</u>	<u>11,758,559</u>	<u>2,325,631</u>
Electric Fund:					
Compensated absences	27,702	10,817	8,551	29,968	7,969
Other post-employment	77,837	14,744	-	92,581	-
Net pension liability (LGERS)	<u>24,809</u>	<u>77,735</u>	<u>-</u>	<u>102,544</u>	<u>-</u>
Electric Fund long-term liabilities	<u>130,348</u>	<u>103,296</u>	<u>8,551</u>	<u>225,093</u>	<u>7,969</u>
Business-type activities long-term liabilities	<u>\$13,744,063</u>	<u>\$4,841,507</u>	<u>\$ 6,601,919</u>	<u>\$11,983,652</u>	<u>\$2,333,600</u>

C. Interfund Balances and Activity

Transfers To/From Other Funds

The composition of transfers as of June 30, 2017 is as follows:

	<u>General Fund</u>	<u>Transfers In Electric Rate Stabilization Fund</u>	<u>Total</u>
Transfer Out			
Water and Sewer Fund	\$379,096	\$ -	\$379,096
Electric Fund	<u>25,975</u>	<u>25,000</u>	<u>50,975</u>
Total	<u>\$405,071</u>	<u>\$25,000</u>	<u>\$430,071</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

Transfers are used to (1) move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, (2) move funds from the fund with collection authorization to other funds to stabilize rates.

For the year ended June 30, 2017, the government made the following transfers:

Transfers from the Water and Sewer Fund to the General Fund - payment in lieu of taxes.

Transfers from the Electric Fund to the General Fund - payment in lieu of taxes.

Transfers from the Electric Fund to the Electric Rate Stabilization Fund to accumulate funds to stabilize electric rates.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2017, the City of Lincolnton has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$4,733 for the 24 employed firemen who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$120 annual contribution paid by the City, investment income, and a State appropriation.

Also, the City has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$-0- for the low interest loans provided to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2017. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

E. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 18,989,715	\$ 30,506,664
Less: long-term debt	(1,296,182)	(10,668,000)
Unspent debt proceeds	142,867	-
	<u>\$ 17,836,400</u>	<u>\$ 19,838,664</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2017**

F. Fund Balance

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance-General Fund	\$5,152,070
Less:	
Inventories	5,828
Prepaid	44,437
Stabilization by State Statute	827,256
Streets-Powell Bill	695,057
Police	5
Appropriated Fund Balance in 2018 budget	785,301
Remaining Fund Balance	2,794,186

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

<u>Encumbrances</u>	<u>General Fund</u>	<u>Non-Major Funds</u>
	\$120,380	\$-0-

III. Jointly Governed Organizations

The City, in conjunction with eighteen other local governments, is a member of the North Carolina Municipal Power Agency Number 1 (NCMPA#1). The Electric Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The nineteen members, which receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the fiscal year ended June 30, 2017 were \$5,985,261.

The City, in conjunction with nine counties and seventy-four other municipalities established the Centralina Council of Governments (the Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$2,525 to the Council during the fiscal year ended June 30, 2017.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2017

IV. Joint Venture

The City, in conjunction with Lincoln County, participates in a general aviation airport. Each participating government appoints three members to the six-member board. The Airport is a joint venture established to facilitate economic expansion within the County and improve the quality of life for its citizens. The Airport has been in existence since 1986, but it is not yet self-sustaining. The City has an ongoing financial responsibility for the Airport because it and the County are legally obligated under the intergovernmental agreement that created the Airport to honor any deficiencies in the event that proceeds from other default remedies are insufficient. The City contributed \$68,400 to the Airport during the fiscal year ended June 30, 2017. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2017. Complete financial statements for the Airport can be obtained from Lincoln County administrative offices at 115 West Main Street, Lincolnton, N. C. 28092.

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2017, the City reported revenues and expenditures for the payments of \$-0- made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2017. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina, 27603.

V. Related Organization

The five-member board of the City of Lincolnton Housing Authority is appointed by the City Council of the City of Lincolnton. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City of Lincolnton is also disclosed as a related organization in the notes to the financial statements for the City of Lincolnton Housing Authority. Complete financial statements for the Housing Authority can be obtained from the Authority's office at 806 McBee Street, Lincolnton, N. C. 28092.

VI. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The City has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements
June 30, 2017

VII. Significant Effects of Subsequent Events

Management has evaluated subsequent events through November 20, 2017 the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, the following subsequent event occurred that requires recognition or disclosure in these financial statements.

The City anticipates issuing \$260,000 for the purchase of mobile radios for the police department.

The City has entered into a contract for culvert repairs on the Rail Trail in the amount of \$75,000.

VIII. Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$698,662.

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REQUIRED SUPPLEMENTARY INFORMATION

This section contains additional information required by generally accepted accounting principles

- **Schedule of Funding Progress for the Other Post-employment Benefits.**
 - **Schedule of Employer Contributions for the Other Post-employment Benefits.**
 - **Notes to the Required Schedules for the Other Post-employment Benefits.**
 - **Schedule of the Proportionate Share of the Net Pension Liability (Asset) Local Government Employees' Retirement System**
 - **Schedule of Contributions - Local Government Employees' Retirement System**
 - **Schedule of the Proportionate Share of Net Pension Liability-Firefighters' and Rescue Squad Workers' Pension**
 - **Schedule of Changes in Total Pension Liability**
 - **Schedule of Total Pension Liability as a Percentage of Covered Payroll**
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CITY OF LINCOLNTON, NORTH CAROLINA

**Other Post-employment Benefits
Required Supplementary Information
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/08	-	\$6,311,805	\$6,311,805	0%	\$5,830,706	108.3%
12/31/09	-	6,295,360	6,295,360	0%	6,005,830	104.8%
12/31/10	-	6,141,503	6,141,503	0%	5,984,911	102.6%
12/31/11	-	6,662,214	6,662,214	0%	6,175,733	107.9%
12/31/12	-	6,487,957	6,487,957	0%	5,849,512	110.9%
12/31/13	-	7,847,877	7,847,877	0%	6,031,272	130.1%
12/31/14	-	9,496,222	9,496,222	0%	5,625,969	168.8%
12/31/15	-	8,585,737	8,585,737	0%	5,700,342	150.6%
12/31/16	-	8,585,737	8,585,737	0%	5,978,469	143.6%

Note: The City of Lincolnton implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. As the City has additional actuary valuations performed, previous years information will be added to this Schedule.

CITY OF LINCOLNTON, NORTH CAROLINA

**Other Post-employment Benefits
Required Supplementary Information
Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2010	\$539,675	27.4%
2011	529,260	34.0%
2012	523,248	39.4%
2013	556,063	45.4%
2014	538,152	51.3%
2015	648,710	58.2%
2016	792,279	63.9%
2017	674,631	80.8%

Note: The City of Lincolnton implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. As the City has additional actuary valuations performed, previous years information will be added to this Schedule.

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part actuarial valuation follows:

Valuation date	12/31/15
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return*	4.0%
Medicare cost trend rate	7.75% - 5.00%
Year of ultimate trend rate	2022
*Includes inflation at	3.00%

CITY OF LINCOLNTON, NORTH CAROLINA

**City of Lincolnton's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years*
Local Government Employees' Retirement System**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City of Lincolnton's proportion of the net pension liability (asset)(%)	0.09605%	0.10989%	0.11119%	0.10930%
City of Lincolnton's proportion of the net pension liability (asset)(\$)	\$2,038,503	\$ 493,180	\$ (655,739)	\$1,317,485
City of Lincolnton's covered payroll	\$6,145,468	\$6,170,108	\$6,230,371	\$6,051,103
City of Lincolnton's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.17%	7.99%	(10.52%)	21.75%
Plan fiduciary net pension as a percentage of the total pension liability**	91.47%	98.09%	102.64 %	94.35%

*The amount presented for each fiscal year was determined as of the prior fiscal year ending June 30.

**This will be the same percentage for all participant employees in the LGERS plan.

Information is not required to be presented retroactively. Additional years information will be displayed as it becomes available.

CITY OF LINCOLNTON, NORTH CAROLINA

**City of Lincolnton's Contributions
Required Supplementary Information
Last Four Fiscal Years**

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$491,998	\$ 437,201	\$ 440,567	\$ 443,242
Contributions in relation to the contractually required contributions	<u>491,998</u>	<u>437,201</u>	<u>440,567</u>	<u>443,242</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City of Lincolnton's covered-employee payroll	\$6,563,566	\$6,145,468	\$6,170,108	\$6,230,371
Contributions as a percentage of covered employee payroll	7.50%	7.11%	7.15%	7.11%

Information is not required to be presented retroactively. Additional years information will be displayed as it becomes available.

CITY OF LINCOLNTON, NORTH CAROLINA

**City of Lincolnton's Proportionate Share of Net Pension Liability
Required Supplementary Information
Last Fiscal Year*
Firefighters' and Rescue Squad Workers' Pension**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City of Lincolnton's proportionate share of the net pension liability (%)	0.0000%	0.0000%	0.0000%
City of Lincolnton's proportionate share of the net pension liability (\$)	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with City of Lincolnton	<u>16,133</u>	<u>20,230</u>	<u>11,033</u>
Total	<u>\$ 16,133</u>	<u>\$ 20,230</u>	<u>\$ 11,033</u>
City of Lincolnton's covered-employee payroll	\$936,500	\$744,636	\$824,108
City of Lincolnton's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.72%	2.72%	1.33%
Plan fiduciary net position as a percentage of the total pension liability	84.94%	91.40%	93.42%

*The amounts are presented for the prior fiscal year.

Information is not required to be presented retroactively. Additional years information will be displayed as it becomes available.

CITY OF LINCOLNTON, NORTH CAROLINA

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2017**

	<u>2017</u>
Beginning balance	\$ 976,259
Service cost	37,675
Interest on the total pension liability	33,318
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(18,181)
Benefit payments	(85,979)
Other changes	-
Ending balance of the total pension liability	<u>\$ 943,092</u>

The amounts presented for each fiscal year were determined as of the prior December 31.

Information is not required to be presented retroactively. Additional years information will be displayed as it becomes available.

CITY OF LINCOLNTON, NORTH CAROLINA

**Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2017**

	<u>2017</u>
Total Pension liability	\$ 943,092
Covered payroll	1,545,187
Total pension liability as a percentage of covered payroll	61.03%

Notes to the schedules:

The City of Lincolnton has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay the related benefits.

Information is not required to be presented retroactively. Additional years information will be displayed as it becomes available.

GOVERNMENTAL ACTIVITIES

GENERAL FUND

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

CITY OF LINCOLNTON, NORTH CAROLINA

**General Fund
Balance Sheets
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,935,399	\$ 3,763,248
Taxes receivable, net	201,161	187,757
Accounts receivable, net	502,861	486,085
Due from governmental agencies	204,025	170,854
Inventories	5,828	14,316
Prepaid items	44,437	57,490
Restricted cash	837,929	1,039,360
Total assets	<u>\$ 5,731,640</u>	<u>\$ 5,719,110</u>
<u>Liabilities</u>		
Accounts payable and other accrued liabilities	\$ 370,460	\$ 301,792
Unearned revenues	6,010	6,010
Total liabilities	<u>376,470</u>	<u>307,802</u>
<u>Deferred Inflows of Resources</u>		
Property taxes receivable	201,161	187,757
Prepaid taxes	1,939	1,092
Total deferred inflows of resources	<u>203,100</u>	<u>188,849</u>
<u>Fund Balances</u>		
Non Spendable:		
Inventories	5,828	14,316
Prepaid expenditures	44,437	57,490
Restricted:		
Stabilization by State statute	827,256	695,340
Streets	695,057	896,728
Public safety - police	5	5
Assigned:		
Subsequent year's expenditures	785,301	1,050,000
Unassigned	2,794,186	2,508,579
Total fund balances	<u>5,152,070</u>	<u>5,222,459</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,731,640</u>	<u>\$ 5,719,110</u>

CITY OF LINCOLNTON, NORTH CAROLINA

Page 1 of 6

**General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017**

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	2017		Variance Positive (Negative)	2016 Actual
	Budget	Actual		
Revenues:				
Ad valorem taxes:				
Current year	\$ 4,730,156	\$4,601,315	\$ (128,841)	\$4,574,882
Prior years	100,000	76,637	(23,363)	110,681
Interest and penalties	35,000	26,925	(8,075)	27,046
Total	4,865,156	4,704,877	(160,279)	4,712,610
Other taxes and licenses:				
Other taxes	181,900	167,263	(14,637)	32,034
Unrestricted intergovernmental revenues:				
Local option sales tax	2,660,000	2,983,564	323,564	2,644,526
Payment in lieu of taxes	22,470	23,400	930	21,216
Utility franchise tax	820,000	911,698	91,698	873,432
Beer and wine tax	44,000	47,787	3,787	46,286
ABC profit distribution	60,000	15,000	(45,000)	64,737
Other	115,800	127,926	12,126	59,125
Total	3,722,270	4,109,375	387,105	3,709,323
Restricted intergovernmental revenues:				
Powell Bill street aid allocation	311,000	309,152	(1,848)	312,774
Powell Bill investment earnings	300	3,956	3,656	2,351
Other Powell Bill receipts	-	-	-	974
Controlled substance tax	5,000	4,304	(696)	5,794
ABC revenue for law enforcement	30,000	40,000	10,000	40,000
Restricted investment earnings	-	-	-	2
On-behalf of payments-Fire and Rescue	5,200	4,733	(467)	5,818
Federal, state and local grants	514,873	-	(514,873)	138,237
Total	866,373	362,145	(504,228)	505,951

cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	<u>2017</u>		<u>Variance Positive (Negative)</u>	<u>2016 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Revenues (continued):				
Permits and fees:				
Zoning fees	\$ 10,000	\$ 10,514	\$ 514	\$ 9,960
Online convenience fees	14,000	19,649	5,649	16,192
Other fees	4,600	5,232	632	6,407
Total	<u>28,600</u>	<u>35,394</u>	<u>6,794</u>	<u>32,559</u>
Sales and services:				
Cemetery lot sales	10,000	27,201	17,201	29,259
Recreation fees and concessions	139,000	169,179	30,179	116,764
Other	3,400	2,956	(444)	3,109
Total	<u>152,400</u>	<u>199,336</u>	<u>46,936</u>	<u>149,132</u>
Investment earnings	<u>2,000</u>	<u>18,979</u>	<u>16,979</u>	<u>10,321</u>
Miscellaneous:				
Sale of property	12,600	76,708	64,108	14,335
Other	80,100	43,913	(36,187)	282,152
Total	<u>92,700</u>	<u>120,621</u>	<u>27,921</u>	<u>296,487</u>
Total revenues	<u>9,911,399</u>	<u>9,717,991</u>	<u>(193,408)</u>	<u>9,448,416</u>

cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	<u>2017</u>		<u>Variance Positive (Negative)</u>	<u>2016 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Expenditures:				
General government:				
Governing body				
Salaries and employee benefits	\$ 89,228	\$ 73,648	\$ 15,580	\$ 161,550
Other operating expenditures	752,239	624,706	127,533	515,940
Tax collection fees	162,100	151,533	10,567	145,180
Capital outlay	-	-	-	7,870
Interdepartmental charges	<u>(193,813)</u>	<u>(193,813)</u>	<u>-</u>	<u>(193,813)</u>
	<u>809,754</u>	<u>656,074</u>	<u>153,680</u>	<u>636,727</u>
Administrative				
Salaries and employee benefits	602,851	562,894	39,957	509,662
Other operating expenditures	90,400	72,763	17,637	57,137
Capital outlay	8,000	7,607	393	-
Interdepartmental charges	<u>(175,673)</u>	<u>(175,673)</u>	<u>-</u>	<u>(175,671)</u>
	<u>525,578</u>	<u>467,592</u>	<u>57,986</u>	<u>391,128</u>
Finance				
Salaries and employee benefits	577,127	523,578	53,549	625,599
Other operating expenditures	105,950	64,692	41,258	92,302
Capital outlay	8,700	-	8,700	-
Interdepartmental charges	<u>(418,168)</u>	<u>(418,168)</u>	<u>-</u>	<u>(418,168)</u>
	<u>273,609</u>	<u>170,101</u>	<u>103,508</u>	<u>299,733</u>
Total general government	<u>1,608,941</u>	<u>1,293,767</u>	<u>315,174</u>	<u>1,327,589</u>
Public safety:				
Police				
Salaries and employee benefits	2,605,571	2,523,331	82,240	2,395,348
Other operating expenditures	374,371	329,589	44,782	296,764
Capital outlay	<u>174,000</u>	<u>159,660</u>	<u>14,340</u>	<u>208,083</u>
	<u>3,153,942</u>	<u>3,012,580</u>	<u>141,362</u>	<u>2,900,195</u>

cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	<u>2017</u>		Variance Positive (Negative)	2016 Actual
	<u>Budget</u>	<u>Actual</u>		
Expenditures (continued):				
Fire				
Salaries and employee benefits	\$ 1,707,245	\$1,632,729	\$ 74,516	\$1,603,226
Other operating expenditures	290,150	250,734	39,416	165,438
Capital outlay	<u>209,055</u>	<u>126,045</u>	<u>83,010</u>	<u>391,868</u>
	<u>2,206,450</u>	<u>2,009,508</u>	<u>196,942</u>	<u>2,160,532</u>
 Total public safety	 <u>5,360,392</u>	 <u>5,022,088</u>	 <u>338,304</u>	 <u>5,060,727</u>
 Public works:				
General and administrative				
Salaries and employee benefits	233,535	187,318	46,217	197,920
Operating expenditures	127,686	52,427	75,259	56,021
Capital outlay	35,812	-	35,812	-
Interdepartmental charges	<u>(150,495)</u>	<u>(150,495)</u>	<u>-</u>	<u>(150,945)</u>
	<u>246,538</u>	<u>89,250</u>	<u>157,288</u>	<u>102,997</u>
Street maintenance				
Salaries and employee benefits	591,663	595,474	(3,811)	628,665
Operating expenditures	398,978	251,033	147,945	163,782
Capital outlay	579,573	145,499	434,074	-
Interdepartmental charges	<u>(155,323)</u>	<u>(155,323)</u>	<u>-</u>	<u>(155,323)</u>
	<u>1,414,891</u>	<u>836,683</u>	<u>578,208</u>	<u>637,124</u>
Powell Bill assistance				
Operating expenditures	<u>929,247</u>	<u>514,780</u>	<u>414,467</u>	<u>309,256</u>
 Fleet maintenance				
Salaries and employee benefits	138,340	137,299	1,041	138,928
Operating expenditures	34,409	28,176	6,234	29,522
Capital outlay	30,000	29,857	143	-
Interdepartmental charges	<u>(44,930)</u>	<u>(44,930)</u>	<u>-</u>	<u>(44,930)</u>
	<u>157,819</u>	<u>150,401</u>	<u>7,418</u>	<u>123,520</u>
 Airport operation	 <u>68,400</u>	 <u>60,000</u>	 <u>8,400</u>	 <u>68,334</u>
 Total public works	 <u>2,816,895</u>	 <u>1,651,114</u>	 <u>1,165,781</u>	 <u>1,241,230</u> cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	<u>2017</u>		Variance Positive (Negative)	2016 Actual
	<u>Budget</u>	<u>Actual</u>		
Expenditures (continued):				
Economic and physical development:				
Business and community development				
Salaries and employee benefits	\$ 88,918	\$ 42,137	\$ 46,781	\$ 127,968
Operating expenditures	<u>71,775</u>	<u>39,139</u>	<u>32,636</u>	<u>63,958</u>
	<u>160,693</u>	<u>81,276</u>	<u>79,417</u>	<u>191,926</u>
Planning and zoning				
Salaries and employee benefits	216,603	210,052	6,552	167,925
Operating expenditures	69,805	35,716	34,089	25,712
Capital outlay	1,000	-	1,000	-
Interdepartmental charges	<u>(11,150)</u>	<u>(11,150)</u>	<u>-</u>	<u>(11,150)</u>
	<u>276,258</u>	<u>234,617</u>	<u>41,641</u>	<u>182,486</u>
Total economic and physical development	<u>436,951</u>	<u>315,893</u>	<u>121,058</u>	<u>374,412</u>
Environmental protection:				
Solid waste				
Salaries and employee benefits	594,507	513,402	81,105	581,186
Operating expenditures	217,728	159,411	58,317	280,025
Capital outlay	<u>8,250</u>	<u>13,850</u>	<u>(5,600)</u>	<u>490,825</u>
	<u>820,485</u>	<u>686,662</u>	<u>133,823</u>	<u>1,352,036</u>
Cemetery				
Salaries and employee benefits	144,623	132,700	11,923	137,004
Operating expenditures	43,636	30,004	13,632	23,370
Capital outlay	<u>24,300</u>	<u>24,218</u>	<u>82</u>	<u>6,599</u>
	<u>212,559</u>	<u>186,922</u>	<u>25,637</u>	<u>166,973</u>
Total environmental protection	<u>1,033,044</u>	<u>873,584</u>	<u>159,460</u>	<u>1,519,010</u>
Cultural and recreational:				
Salaries and employee benefits	440,924	402,394	38,530	399,611
Operating expenditures	248,234	208,779	39,455	201,768
Capital outlay	<u>466,700</u>	<u>366,212</u>	<u>100,488</u>	<u>107,249</u>
Total cultural and recreational	<u>1,155,858</u>	<u>977,385</u>	<u>178,473</u>	<u>708,628</u>

cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2017
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	<u>2017</u>		Variance Positive (Negative)	2016 Actual
	<u>Budget</u>	<u>Actual</u>		
Expenditures (continued):				
Debt service:				
Principal retirement	\$ 396,110	\$ 404,726	\$ (8,616)	\$ 271,078
Interest and other charges	<u>29,425</u>	<u>37,591</u>	<u>(8,166)</u>	<u>12,229</u>
Total debt service	<u>425,535</u>	<u>442,317</u>	<u>(16,782)</u>	<u>283,307</u>
Total expenditures	<u>12,837,616</u>	<u>10,576,149</u>	<u>2,261,467</u>	<u>10,514,902</u>
Revenues over (under) expenditures	<u>(2,926,217)</u>	<u>(858,158)</u>	<u>2,068,059</u>	<u>(1,066,486)</u>
Other Financing Sources (Uses):				
Issuance of debt	536,867	391,186	(145,681)	1,200,000
Appropriated fund balance	1,984,054	-	(1,984,054)	-
Transfers (to) from other funds				
Water and Sewer Fund	379,096	379,096	-	379,096
Electric Fund	<u>26,200</u>	<u>25,975</u>	<u>(225)</u>	<u>25,975</u>
Total other financing sources (uses)	<u>2,926,217</u>	<u>796,257</u>	<u>(2,129,960)</u>	<u>1,605,071</u>
Revenues and other financing sources over (under) expenditures and other financing uses and extraordinary item	<u>\$ -</u>	(61,901)	<u>\$ (61,901)</u>	538,585
Fund balances, July 1		5,222,459		4,692,437
Increase (decrease) in reserve for inventory		<u>(8,488)</u>		<u>(8,563)</u>
Fund balances, June 30		<u>\$5,152,070</u>		<u>\$5,222,459</u>

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**GOVERNMENTAL ACTIVITIES
COMPONENT UNIT**

Lincolnton Tourism Development Authority - This fund is used to account for occupancy tax revenue to be used for tourism related purposes.

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CITY OF LINCOLNTON, NORTH CAROLINA

**Lincolnton Tourism Development Authority - Component Unit
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

For the Year Ended June 30, 2017

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2016)

	<u>2017</u>		<u>Variance</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u>	<u>2016</u>
			<u>(Negative)</u>	<u>Actual</u>
Revenues:				
Unrestricted intergovernmental:				
Local occupancy tax	\$ 95,000	\$ 115,543	\$ 20,543	\$ 106,187
Investment earnings	400	1,140	740	529
	<u>95,400</u>	<u>116,683</u>	<u>21,283</u>	<u>106,717</u>
Total revenues				
	<u>95,400</u>	<u>116,683</u>	<u>21,283</u>	<u>106,717</u>
Expenditures:				
Advertising	28,050	7,345	20,705	800
Other operating expenditures	34,300	34,936	(636)	63,950
Capital outlay	40,000	-	40,000	220,000
	<u>102,350</u>	<u>42,281</u>	<u>60,069</u>	<u>284,750</u>
Total expenditures				
	<u>102,350</u>	<u>42,281</u>	<u>60,069</u>	<u>284,750</u>
Revenues over (under) expenditures	(6,950)	74,402	81,352	(178,033)
Other Financing Sources (Uses):				
Appropriated fund balance	6,950	-	(6,950)	-
	<u>6,950</u>	<u>-</u>	<u>(6,950)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 74,402</u>	<u>\$ 74,402</u>	<u>\$(178,033)</u>
Fund balance, July 1, as previously reported		\$ 235,752		\$ 30,397
Prior period adjustment		-		383,388
Fund balance, July 1, restated		<u>235,752</u>		<u>413,785</u>
Revenues over (under) expenditures		<u>74,402</u>		<u>(178,033)</u>
Fund balance, June 30		<u>\$ 310,154</u>		<u>\$ 235,752</u>

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BUSINESS - TYPE ACTIVITIES

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the government's governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's governing body has decided that periodic determination of net income is appropriate for accountability purposes.

***Water and Sewer Fund* - This fund is used to account for the activities associated with the production, distribution and transmission of potable water by the City to its users and for the operation and maintenance of the City's sewer and surface drainage systems.**

***Electric Fund* - This fund is used to account for the activities associated with the distribution and transmission of electricity by the City to its users.**

***Electric Rate Stabilization Fund* - This fund is used to account for funds being accumulated to stabilize Electric Rates.**

CITY OF LINCOLNTON, NORTH CAROLINA

**Statements of Net Position
Water and Sewer Fund
June 30, 2017 and 2016**

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 7,749,011	\$ 8,220,157
Accounts receivable	618,372	639,170
Inventories	74,782	85,331
Prepaid expenses	<u>18,147</u>	<u>25,330</u>
Total current assets	8,460,312	8,969,989
Noncurrent assets:		
Restricted cash and cash equivalents	102,599	101,146
Capital assets, net of accumulated depreciation	<u>29,287,813</u>	<u>30,027,142</u>
Total assets	<u>37,850,724</u>	<u>39,098,277</u>
 <u>Deferred Outflows of Resources</u>		
Pension deferrals	<u>353,539</u>	<u>85,644</u>
Total deferred outflows of resources	<u>353,539</u>	<u>85,644</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued liabilities	217,707	334,435
Customer deposits - restricted	102,599	101,146
Bonds payable - current	1,567,000	1,540,000
Loans payable - current	697,000	660,610
Accrued compensated absences	<u>61,631</u>	<u>57,925</u>
Total current liabilities	<u>2,645,937</u>	<u>2,694,116</u>
Noncurrent liabilities:		
Bonds payable	4,861,000	6,428,000
Loans payable	3,543,000	4,206,139
Other post employment benefits liability	589,699	580,016
Accrued compensated absences	39,902	44,416
Net pension liability	<u>399,327</u>	<u>96,610</u>
Total noncurrent liabilities	<u>9,432,928</u>	<u>11,355,181</u>
Total liabilities	<u>12,078,865</u>	<u>14,049,298</u>
 <u>Deferred Infows of Resources</u>		
Pension deferrals	<u>28,079</u>	<u>53,338</u>
Total deferred inflows of resources	<u>28,079</u>	<u>53,338</u>
 <u>Net Position</u>		
Net investment in capital assets	18,619,813	17,192,392
Unrestricted	<u>7,477,506</u>	<u>7,888,893</u>
Total net position	<u>\$ 26,097,319</u>	<u>\$ 25,081,285</u>

CITY OF LINCOLNTON, NORTH CAROLINA

Statements of Revenues, Expenses and Changes in Net Position

Water and Sewer Fund

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Water charges	\$ 3,451,827	\$ 3,670,163
Sewer charges	4,343,685	4,500,742
Water and sewer taps	25,200	21,100
Other operating revenues	<u>190,602</u>	<u>201,723</u>
Total operating revenues	<u>8,011,313</u>	<u>8,393,729</u>
Operating Expenses:		
Water treatment plant	1,568,229	1,475,065
Water and sewer distribution maintenance	1,480,901	1,406,668
Waste treatment plant	1,568,198	1,603,778
Depreciation	<u>1,752,742</u>	<u>1,734,771</u>
Total operating expenses	<u>6,370,070</u>	<u>6,220,283</u>
Operating income (loss)	<u>1,641,243</u>	<u>2,173,446</u>
Nonoperating Revenues (Expenses):		
Investment earnings	37,297	19,459
Gain (loss) on disposition of capital assets	12,971	2,909
Interest on long-term debt	<u>(296,382)</u>	<u>(312,469)</u>
Total nonoperating revenues (expenses)	<u>(246,114)</u>	<u>(290,101)</u>
Income (loss) before transfers and capital contributions	1,395,130	1,883,345
Transfer to General Fund-payment in lieu of taxes	<u>(379,096)</u>	<u>(379,096)</u>
Change in net position	1,016,034	1,504,249
Total net position -beginning	<u>25,081,285</u>	<u>23,577,036</u>
Total net position - ending	<u>\$ 26,097,319</u>	<u>\$ 25,081,285</u>

CITY OF LINCOLN, NORTH CAROLINA

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**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Water and Sewer Fund
For the Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)**

	2017		Variance Positive (Negative)	2016 Actual
	Budget	Actual		
Revenues:				
Operating revenues:				
Water charges	\$ 3,250,000	\$ 3,451,827	\$ 201,827	\$ 3,670,163
Sewer charges	4,200,975	4,343,685	142,710	4,500,742
Water and sewer taps	24,000	25,200	1,200	21,100
Other	212,850	190,602	(22,248)	201,723
Total operating revenues	<u>7,687,825</u>	<u>8,011,313</u>	<u>323,488</u>	<u>8,393,729</u>
Nonoperating revenues:				
Investment earnings	5,500	37,297	31,797	19,459
Total nonoperating revenues	<u>5,500</u>	<u>37,297</u>	<u>31,797</u>	<u>19,459</u>
Total revenues	<u>7,693,325</u>	<u>8,048,610</u>	<u>355,285</u>	<u>8,413,188</u>
Expenditures:				
Operating expenditures:				
Water treatment plant				
Salaries and employee benefits	605,028	563,724	41,304	571,095
Chemicals	143,000	103,375	39,625	117,409
Electricity	264,600	262,316	2,284	262,927
Water service contract	118,500	118,273	227	114,386
Administrative	207,103	206,966	137	209,500
Repairs and maintenance	92,700	84,522	8,178	53,046
Other operating expenditures	309,645	221,826	87,819	183,466
	<u>1,740,576</u>	<u>1,561,002</u>	<u>179,574</u>	<u>1,511,830</u>
Water and sewer distribution maintenance				
Salaries and employee benefits	705,420	659,846	45,574	672,070
Supplies	184,790	166,263	18,527	136,365
Administrative	261,317	261,143	174	256,000
Repairs and maintenance	246,360	209,088	37,272	128,615
Other operating expenditures	186,424	133,514	52,910	142,578
	<u>1,584,311</u>	<u>1,429,854</u>	<u>154,457</u>	<u>1,335,627</u>
Waste treatment plant				
Salaries and employee benefits	652,131	574,945	77,186	594,268
Sludge removal	220,000	202,439	17,561	300,097
Electricity	278,000	278,000	-	278,000
Administrative	206,580	206,443	137	209,500
Repairs and maintenance	119,700	153,505	(33,805)	43,573
Other operating expenditures	265,615	182,151	83,464	200,572
	<u>1,742,026</u>	<u>1,597,483</u>	<u>144,543</u>	<u>1,626,011</u>

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

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Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

Water and Sewer Fund

For the Year Ended June 30, 2017

(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		Variance Positive (Negative)	2016 Actual
	Budget	Actual		
Total operating expenditures	\$ 5,066,913	\$ 4,588,339	\$ 478,574	\$ 4,473,468
Debt service:				
Principal retirement	2,200,611	6,406,750	(4,206,139)	2,153,184
Interest and fees	287,733	319,892	(32,159)	320,485
Total debt service	2,488,344	6,726,642	(4,238,298)	2,473,669
Capital outlay:				
Water treatment plant	-	-	-	82,911
Water and sewer distribution maintenance	1,067,181	983,724	83,457	509,227
Waste water treatment plant	131,000	29,690	101,310	108,855
Total capital outlay	1,198,181	1,013,414	184,767	700,993
Total expenditures	8,753,438	12,328,395	(3,574,957)	7,648,130
Revenues over (under) expenditures	(1,060,113)	(4,279,784)	(3,219,671)	765,058
Other Financing Sources (Uses):				
Appropriated fund balance	1,265,399	-	(1,265,399)	-
Transfer-General Fund-payment in lieu of taxes	(379,096)	(379,096)	-	(379,096)
Capital contributions	170,810	-	(170,810)	-
Gain (loss) on disposition of capital assets	3,000	12,971	9,971	2,909
Proceeds from debt refunding	-	4,240,000	4,240,000	-
Total other financing sources	1,060,113	3,873,875	2,813,762	(376,187)
Revenues and other sources over (under) expenditures and other uses	\$ -	(405,910)	\$ (405,910)	388,870
Reconciliation From Budgetary Basis (Modified Accrual) to Full Accrual:				
Increase (decrease) in inventory		(10,550)		28,380
(Increase) decrease in accrued vacation pay		808		(2,568)
Increase (decrease) in net pension asset		(127,609)		(127,609)
Increase (decrease) in deferred outflows of resources - pensions		267,895		59
(Increase) decrease in net pension liability		(175,108)		(96,610)
(Increase) decrease in deferred infows of resources - pensions		25,259		253,459
(Increase) decrease in other post employment benefits		(9,683)		(67,153)
Cost of expenditures that were capitalized		1,013,414		700,993
Payment of debt principal		6,406,750		2,153,184
Proceeds from refunding		(4,240,000)		-
(Increase) decrease in accrued interest		23,510		8,017
Depreciation		(1,752,742)		(1,734,771)
Change in net position		\$ 1,016,034		\$ 1,504,249

CITY OF LINCOLNTON, NORTH CAROLINA

**Statements of Cash Flows
Water and Sewer Fund
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Cash received from customers and users	\$ 8,032,111	\$ 8,507,515
Customer deposits received	1,453	9,387
Cash paid for goods and services	(2,875,861)	(2,498,214)
Cash paid to or on behalf of employees for services	<u>(1,798,515)</u>	<u>(1,837,433)</u>
Net cash provided (used) by operating activities	<u>3,359,188</u>	<u>4,181,255</u>
Cash Flows From Non-Capital Financing Activities:		
Transfers - in (out)	<u>(379,096)</u>	<u>(379,096)</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(1,013,414)	(700,993)
Proceeds from sale of capital assets	12,971	2,909
Principal paid on long-term debt	(2,166,748)	(2,153,181)
Interest paid on long-term debt	<u>(319,892)</u>	<u>(320,486)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,487,083)</u>	<u>(3,171,751)</u>
Cash Flows From Investing Activities:		
Investment earnings	<u>37,297</u>	<u>19,459</u>
Net cash provided (used) by investing activities	<u>37,297</u>	<u>19,459</u>
Net increase (decrease) in cash and cash equivalents	(469,694)	649,867
Cash and cash equivalents at beginning of year	<u>8,321,303</u>	<u>7,671,436</u>
Cash and cash equivalents at end of year	<u>\$ 7,851,609</u>	<u>\$ 8,321,303</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 1,641,243	\$ 2,173,446
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,752,742	1,734,771
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	20,798	113,786
(Increase) decrease in inventory	10,549	(28,380)
(Increase) decrease in prepaid expense	7,183	(2,971)
Increase (decrease) in accounts payable and other accrued liabilities	(93,218)	140,793
Increase (decrease) in accrued vacation pay	(808)	2,569
Increase (decrease) in other post retirement benefits	9,683	67,153
(Increase) decrease in net pension asset	-	127,609
(Increase) decrease in deferred outflows of resources-pensions	(267,895)	(59)
Increase (decrease) in net pension liability	302,717	96,610
Increase (decrease) in deferred inflows of resources-pensions	(25,259)	(253,459)
Increase (decrease) in customer deposits	<u>1,453</u>	<u>9,387</u>
Net cash provided (used) by operating activities	<u>\$ 3,359,188</u>	<u>\$ 4,181,255</u>
Supplemental Schedule of Non Cash Financing Activities:		
Payment of debt with the issuance of debt	<u>\$ 4,240,000</u>	<u>\$ -</u>

cont.

CITY OF LINCOLN, NORTH CAROLINA

**Statements of Net Position
Electric Fund
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,933,841	\$ 3,568,085
Accounts receivable	625,685	587,494
Inventories	43,408	42,370
Prepaid expenses	38,141	37,588
Total current assets	<u>4,641,075</u>	<u>4,235,537</u>
Noncurrent assets:		
Restricted cash and cash equivalents	260,848	258,358
Capital assets, net of accumulated depreciation	<u>1,218,851</u>	<u>1,119,861</u>
Total assets	<u>6,120,774</u>	<u>5,613,756</u>
<u>Deferred Outflows of Resources</u>		
Pension deferrals	<u>90,786</u>	<u>21,993</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued liabilities	793,720	774,548
Customer deposits - restricted	260,848	258,358
Accrued compensated absences	7,969	8,756
Total current liabilities	<u>1,062,537</u>	<u>1,041,662</u>
Noncurrent liabilities:		
Other post employment benefits liability	92,581	77,837
Accrued compensated absences	21,999	18,945
Net pension liability	<u>102,544</u>	<u>24,809</u>
Total noncurrent liabilities	<u>217,124</u>	<u>121,592</u>
Total liabilities	<u>1,279,661</u>	<u>1,163,254</u>
<u>Deferred Inflows of Resources</u>		
Pension deferrals	<u>7,211</u>	<u>13,697</u>
<u>Net Position</u>		
Net investment in capital assets	1,218,851	1,119,861
Unrestricted	<u>3,705,837</u>	<u>3,338,937</u>
Total net position	<u>\$ 4,924,688</u>	<u>\$ 4,458,798</u>

CITY OF LINCOLN, NORTH CAROLINA

**Statements of Revenues, Expenses and Changes in Net Position
Electric Fund
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Electric sales	\$ 6,907,921	\$ 6,842,766
Electricity - municipal operations	697,327	697,314
Other operating revenues	<u>313,382</u>	<u>253,498</u>
	-	-
Total operating revenues	<u>7,918,630</u>	<u>7,793,578</u>
Operating Expenses:		
Electrical operations	857,477	953,058
Electrical power purchases	5,985,261	5,986,666
Administrative	475,000	475,000
Depreciation	<u>128,252</u>	<u>111,097</u>
Total operating expenses	<u>7,445,989</u>	<u>7,525,821</u>
Operating income (loss)	<u>472,640</u>	<u>267,757</u>
Nonoperating Revenues (Expenses);		
Investment earnings	14,451	6,962
Gain (loss) on disposition of capital assets	<u>4,773</u>	<u>5</u>
	-	-
Total nonoperating revenues (expenses)	<u>19,224</u>	<u>6,967</u>
Income (loss) before transfers	491,864	274,724
Transfer to the General Fund-payment in lieu of taxes	<u>(25,975)</u>	<u>(25,975)</u>
Change in net position	465,889	248,749
Total net position - beginning	<u>4,458,798</u>	<u>4,210,049</u>
Total net position - ending	<u>\$ 4,924,688</u>	<u>\$ 4,458,798</u>

CITY OF LINCOLNTON, NORTH CAROLINA

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**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Electric Fund
For the Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)**

	<u>2017</u>		Variance	2016
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
Revenues:				
Operating revenues:				
Electricity sales	\$6,944,286	\$6,907,921	\$ (36,365)	\$6,842,766
Electricity - municipal operations	776,914	697,327	(79,587)	697,314
Other operating revenues	<u>266,800</u>	<u>313,382</u>	<u>46,582</u>	<u>253,498</u>
Total operating revenues	7,988,000	7,918,630	(69,370)	7,793,578
Nonoperating revenues:				
Investment earnings	<u>2,000</u>	<u>14,451</u>	<u>12,451</u>	<u>6,962</u>
Total revenues	<u>7,990,000</u>	<u>7,933,081</u>	<u>(56,919)</u>	<u>7,800,540</u>
Expenditures:				
Salaries and employee benefits	468,085	446,281	21,804	473,098
Electrical power purchases	6,000,000	5,985,261	14,739	5,986,666
Administrative	475,000	475,000	-	475,000
Repairs and maintenance	205,000	46,239	158,761	83,928
Other operating expenditures	500,940	346,529	154,411	376,006
Capital outlay	<u>379,000</u>	<u>227,242</u>	<u>151,758</u>	<u>114,296</u>
Total operating expenditures	<u>8,028,025</u>	<u>7,526,552</u>	<u>501,473</u>	<u>7,508,994</u>
Revenues over (under) expenditures	<u>(38,025)</u>	<u>406,529</u>	<u>444,554</u>	<u>291,546</u>
Other Financing Sources (Uses):				
Appropriated fund balance	79,000	-	(79,000)	-
Proceeds from borrowing	10,000	-	(10,000)	-
Transfers from (to):				
General Fund-payment in lieu of taxes	(25,975)	(25,975)	-	(25,975)
Rate Stabilization Fund	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>
Total other financing sources (uses)	<u>38,025</u>	<u>(50,975)</u>	<u>(89,000)</u>	<u>(50,975)</u>

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

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**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Electric Fund
For the Year Ended June 30, 2017
(With Comparative Actual Amounts for the Year Ended June 30, 2016)**

	2017		Variance Positive (Negative)	2016 Actual
	Budget	Actual		
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	\$ 355,554	<u>\$ 355,554</u>	\$ 240,571
Reconciliation From Budgetary Basis (Modified Accrual) to Full Accrual:				
Transfer to Rate Stabilization Fund		25,000		25,000
Increase (decrease) in inventory		1,038		3,866
(Increase) decrease in accrued vacation pay		(2,267)		(5,382)
Increase (decrease) in net pension asset		-		(30,044)
Increase (decrease) in deferred outflows of resources - pensions		68,793		2,486
(Increase) decrease in net penion liability		(77,735)		(24,809)
(Increase) decrease in deferred inflows of resources - pensions		6,486		58,535
(Increase) decrease in other post retirement benefits		(14,744)		(24,678)
Gain (loss) on disposition of assets		4,773		5
Cost of expenditures that were capitalized		227,242		114,296
Depreciation		<u>(128,252)</u>		<u>(111,097)</u>
Changes in net position		<u>\$ 465,889</u>		<u>\$ 248,749</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Statements of Cash Flows
Electric Fund
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Cash received from customers and users	\$ 7,880,439	\$ 7,827,869
Customer deposits received	2,490	11,312
Cash paid for goods and services	(6,834,409)	(6,954,468)
Cash paid to or on behalf of employees for services	<u>(446,280)</u>	<u>(473,099)</u>
Net cash provided (used) by operating activities	<u>602,240</u>	<u>411,614</u>
Cash Flows From Non-Capital Financing Activities:		
Transfers - in (out)	<u>(25,975)</u>	<u>(25,975)</u>
Net cash provided (used) by non-capital financing activities	<u>(25,975)</u>	<u>(25,975)</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(227,242)	(114,296)
Proceeds from sale of capital assets	<u>4,773</u>	<u>5</u>
Net cash provided (used) by capital and related financing activities	<u>(222,469)</u>	<u>(114,291)</u>
Cash Flows From Investing Activities:		
Investment earnings	<u>14,451</u>	<u>6,962</u>
Net cash provided (used) by investing activities	<u>14,451</u>	<u>6,962</u>
Net increase (decrease) in cash and cash equivalents	368,247	278,310
Cash and cash equivalents at beginning of year	<u>3,826,442</u>	<u>3,548,132</u>
Cash and cash equivalents at end of year	<u>\$ 4,194,689</u>	<u>\$ 3,826,442</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 472,640	\$ 267,757
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	128,251	111,097
Changes in assets, deferred outflows of resources and liabilities:		
(Increase) decrease in accounts receivable	(38,191)	34,291
(Increase) decrease in inventory	(1,038)	(3,866)
(Increase) decrease in prepaid expense	(553)	(31,088)
Increase (decrease) in accounts payable and other accrued liabilities	19,174	(1,780)
Increase (decrease) in accrued vacation pay	2,267	5,381
Increase (decrease) in other post retirement benefits	14,744	24,678
(Increase) decrease in net pension asset	-	30,044
(Increase) decrease in deferred outflows of resources-pensions	(68,793)	(2,486)
Increase (decrease) net pension liability	77,735	24,809
Increase (decrease) in deferred inflows of resources-pensions	(6,486)	(58,535)
Increase (decrease) in customer deposits	<u>2,490</u>	<u>11,312</u>
Net cash provided (used) by operating activities	<u>\$ 602,240</u>	<u>\$ 411,614</u>

CITY OF LINCOLNTON, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

Electric Rate Stabilization Fund

From Inception and for the Year Ended June 30, 2017

	<u>Project Authorization</u>	<u>Actual Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Investment earnings	\$ -	\$ -	\$ -	\$ -
Other Financing Sources (Uses):				
Transfers in (out):				
Electric Fund	725,000	700,000	25,000	725,000
Electric Fund	<u>(725,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>700,000</u>	<u>25,000</u>	<u>725,000</u>
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ 700,000</u>	<u>\$ 25,000</u>	<u>\$ 725,000</u>

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OTHER SCHEDULES

This section contains additional information required on property taxes and transfers.

- **Schedule of Ad Valorem Taxes Receivable**
 - **Analysis of Current Tax Levy**
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CITY OF LINCOLNTON, NORTH CAROLINA

**Schedule of Ad Valorem Taxes Receivable
June 30, 2017**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016 - 2017	\$ -	\$4,766,152	\$4,653,457	\$ 112,695
2015 - 2016	79,506	-	44,686	34,820
2014 - 2015	38,529	-	14,603	23,926
2013 - 2014	42,233	-	10,967	31,266
2012 - 2013	26,115	-	4,872	21,243
2011 - 2012	19,099	-	945	18,154
2010 - 2011	15,780	-	810	14,970
2009 - 2010	14,191	-	400	13,791
2008 - 2009	15,486	-	521	14,965
2007 - 2008	15,867	-	537	15,330
2006 - 2007	15,952	-	15,952	-
Total	<u>\$ 282,757</u>	<u>\$4,766,152</u>	<u>\$4,747,750</u>	301,161
Less allowance for uncollectibles				<u>(100,000)</u>
Balance				<u>\$ 201,161</u>
Reconciliation With Revenue:				
Taxes - Ad valorem - General Fund				\$ 4,704,877
Adjustments, releases and discounts				53,584
Taxes written off				15,914
Interest collected				<u>(26,925)</u>
Total collections and credits				<u>\$ 4,747,450</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Analysis of Current Tax Levy
June 30, 2017**

	City Wide			Total Levy	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxes at current year's rate	\$ 771,430,385	0.56	\$ 4,320,010	\$ 4,320,010	\$ -
Motor vehicles taxed at current year rate	<u>74,736,607</u>	0.56	<u>418,525</u>	<u>-</u>	<u>418,525</u>
Total	<u>846,166,992</u>		<u>4,738,535</u>	<u>4,320,010</u>	<u>418,525</u>
Discoveries:					
Current year taxes	5,336,757		29,886	29,885	-
Adjustments	<u>(405,178)</u>		<u>(2,269)</u>	<u>(2,269)</u>	<u>-</u>
Total	<u>4,931,579</u>		<u>27,617</u>	<u>27,616</u>	<u>-</u>
Total property valuation	<u>\$ 851,098,571</u>				
Net levy			4,766,152	4,347,626	418,525
Less uncollected taxes at June 30, 2017			<u>(112,695)</u>	<u>(112,695)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 4,653,457</u>	<u>\$ 4,234,931</u>	<u>\$ 418,525</u>
Current levy collection percentage			<u>97.64%</u>	<u>97.41%</u>	<u>100.00%</u>

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STATISTICAL SECTION

(Unaudited)

This part of the City of Lincolnton's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF LINCOLNTON, NORTH CAROLINA

**Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental Activities:										
Net investment in capital assets	\$20,987,519	\$20,760,706	\$20,342,099	\$20,210,351	\$19,493,069	\$19,313,526	\$18,914,071	\$18,225,559	\$17,845,361	\$17,836,400
Restricted	1,299,143	1,338,407	1,302,773	1,864,473	1,912,469	1,876,915	1,903,248	1,490,531	1,592,074	1,522,318
Unrestricted	<u>4,749,473</u>	<u>4,311,861</u>	<u>4,687,937</u>	<u>2,897,027</u>	<u>2,329,895</u>	<u>1,656,570</u>	<u>1,213,155</u>	<u>748,673</u>	<u>857,731</u>	<u>133,971</u>
Total governmental activities net position	<u>\$27,036,135</u>	<u>\$26,410,974</u>	<u>\$26,332,809</u>	<u>\$24,971,852</u>	<u>\$23,735,434</u>	<u>\$22,847,010</u>	<u>\$22,030,474</u>	<u>\$20,464,763</u>	<u>\$20,295,166</u>	<u>\$19,492,689</u>
Business-type Activities:										
Net investment in capital assets	\$15,432,757	\$15,580,344	\$15,321,964	\$15,584,724	\$15,270,921	\$15,251,603	\$17,188,580	\$17,189,653	\$18,312,253	\$19,838,664
Unrestricted	<u>10,769,631</u>	<u>10,146,582</u>	<u>9,432,418</u>	<u>9,310,193</u>	<u>9,272,685</u>	<u>9,886,493</u>	<u>10,465,958</u>	<u>10,597,432</u>	<u>11,227,830</u>	<u>11,183,342</u>
Total business-type activities net position	<u>\$26,202,388</u>	<u>\$25,726,926</u>	<u>\$24,754,382</u>	<u>\$24,894,916</u>	<u>\$24,543,606</u>	<u>\$25,138,096</u>	<u>\$27,654,538</u>	<u>\$27,787,085</u>	<u>\$29,540,083</u>	<u>\$31,022,006</u>
Primary Government:										
Net investment in capital assets	\$36,420,276	\$36,341,050	\$35,664,063	\$35,795,075	\$34,763,990	\$34,565,129	\$36,102,650	\$35,415,211	\$36,157,613	\$37,675,063
Restricted	1,299,143	1,338,407	1,302,773	1,864,473	1,912,469	1,876,915	1,903,248	1,490,531	1,592,074	1,522,318
Unrestricted	<u>15,519,104</u>	<u>14,458,443</u>	<u>14,120,355</u>	<u>12,207,220</u>	<u>11,602,580</u>	<u>11,543,063</u>	<u>11,679,114</u>	<u>11,346,106</u>	<u>12,085,562</u>	<u>11,317,314</u>
Total primary government net position	<u>\$53,238,523</u>	<u>\$52,137,901</u>	<u>\$51,087,192</u>	<u>\$49,866,769</u>	<u>\$48,279,040</u>	<u>\$47,985,106</u>	<u>\$49,685,012</u>	<u>\$48,251,848</u>	<u>\$49,835,249</u>	<u>\$50,514,695</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Change in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

Expenses:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
General government	\$ 2,011,281	\$ 2,005,540	\$ 2,030,667	\$ 1,810,131	\$ 1,880,470	\$ 1,898,069	\$ 2,025,069	\$ 1,864,278	\$ 1,896,606	\$ 1,864,038
Public safety	3,955,603	4,268,681	4,445,229	4,510,132	4,773,082	4,586,096	4,663,422	4,562,298	4,487,641	4,808,973
Public works	1,335,245	1,545,041	1,422,754	1,460,931	1,312,549	1,530,196	1,488,646	1,315,049	1,342,101	1,352,039
Economic and physical development	395,563	485,736	431,472	430,681	532,931	531,028	497,450	348,274	404,448	333,749
Environmental protection	978,261	1,088,088	1,131,470	1,198,004	1,194,004	1,133,471	1,067,913	1,173,121	1,120,857	1,010,361
Cultural and recreational	547,857	626,197	637,700	662,228	667,510	673,215	718,794	654,985	683,973	688,966
Interest on long-term debt	46,994	39,451	31,710	23,762	16,973	11,190	5,428	5,662	16,458	37,365
Total governmental activities	9,270,805	10,058,734	10,131,001	10,095,868	10,377,520	10,363,265	10,466,722	9,923,668	9,952,085	10,095,491
Business-type activities:										
Interest on long-term debt	1,164,787	1,106,711	1,053,796	983,268	911,725	827,061	760,216	663,840	312,468	296,382
Water and sewer	5,952,991	5,944,608	5,998,337	6,095,894	6,420,997	6,438,818	6,470,498	6,516,275	6,220,283	6,370,070
Electric	6,381,703	6,628,371	6,850,392	7,248,183	7,341,177	7,351,083	7,601,547	8,066,191	7,525,821	7,445,989
Total business-type activities	13,499,480	13,679,690	13,902,524	14,327,344	14,673,899	14,616,961	14,832,261	15,246,306	14,058,572	14,112,442
Total expenses	\$22,770,286	\$23,738,424	\$24,033,525	\$24,423,213	\$25,051,419	\$24,980,226	\$25,298,983	\$25,169,974	\$24,010,658	\$24,207,933
Program Revenues:										
Governmental activities:										
Charges for services:										
Environmental protection	\$ 56,315	\$ 46,604	\$ 63,668	\$ 14,487	\$ 40,608	\$ 19,001	\$ 71,766	\$ 8,875	\$ 29,259	\$ 27,201
Cultural and recreational	65,237	80,740	89,218	93,470	98,702	96,676	91,302	120,945	116,764	169,179
Other	30,536	28,371	24,533	15,355	15,638	13,014	13,860	24,052	17,187	17,427
Operating grants and contributions	599,519	491,458	454,353	434,879	644,722	617,234	557,434	447,765	428,431	490,071
Capital grants and contributions	9,200	18,920	40,375	-	-	305,882	-	14,237	364,737	-
Total governmental activities	760,807	666,093	672,147	558,191	799,670	1,051,807	734,362	615,874	956,378	703,878
Business-type activities:										
Charges for services-Water and Sewer	6,857,883	6,677,523	7,072,445	7,972,746	8,186,402	8,384,249	8,380,928	8,434,290	8,393,729	8,011,313
Charges for services-Electric	6,226,419	6,197,694	6,186,496	6,457,194	6,681,363	7,204,066	7,677,848	7,943,099	7,793,578	7,918,630
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	766,778	533,700	-	-	-	-	1,674,563	-	-	-
Total business-type activities	13,851,080	13,408,917	13,258,941	14,429,940	14,867,765	15,588,315	17,733,339	16,377,389	16,187,307	15,929,943
Total program revenues	\$14,611,887	\$14,075,010	\$13,931,088	\$14,988,131	\$15,667,435	\$16,640,122	\$18,467,701	\$16,993,263	\$17,143,685	\$16,633,821

CITY OF LINCOLNTON, NORTH CAROLINA

**Change in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net revenue (expense)										
Governmental activities	\$ (8,509,998)	\$ (9,392,642)	\$ (9,458,855)	\$ (9,537,677)	\$ (9,577,850)	\$ (9,311,458)	\$ (9,732,360)	\$ (9,307,794)	\$ (8,995,707)	\$ (9,391,613)
Business-type activities	<u>351,599</u>	<u>(270,773)</u>	<u>(643,583)</u>	<u>102,596</u>	<u>193,865</u>	<u>971,353</u>	<u>2,901,078</u>	<u>1,131,083</u>	<u>2,128,735</u>	<u>1,817,502</u>
Total net expense	<u>\$ (8,158,399)</u>	<u>\$ (9,663,415)</u>	<u>\$10,102,438</u>	<u>\$ (9,435,081)</u>	<u>\$ (9,383,985)</u>	<u>\$ (8,340,105)</u>	<u>\$ (6,831,281)</u>	<u>\$ (8,176,711)</u>	<u>\$ (6,866,972)</u>	<u>\$ (7,574,112)</u>
General Revenues										
Governmental activities:										
Ad valorem taxes	\$ 4,057,630	\$ 4,740,285	\$ 4,715,808	\$ 4,697,996	\$ 4,563,151	\$ 4,724,967	\$ 4,849,278	\$ 4,761,205	\$ 4,641,125	\$ 4,718,281
Other taxes and licenses	3,685,879	3,492,339	3,295,628	3,331,733	3,311,700	3,292,144	3,349,868	3,573,901	3,682,640	4,148,713
Unrestricted investment earnings	253,311	94,982	18,895	20,384	6,830	3,990	1,916	3,477	10,321	18,979
Other	67,288	64,875	18,759	126,607	71,951	11,235	320,657	56,808	86,953	(3,245)
Transfers	372,500	375,000	381,600	-	387,800	390,700	394,105	394,135	405,071	405,071
Extraordinary item	-	-	950,000	-	-	-	-	-	-	-
Total governmental activities	<u>8,436,608</u>	<u>8,767,481</u>	<u>9,380,691</u>	<u>8,176,720</u>	<u>8,341,432</u>	<u>8,423,036</u>	<u>8,915,824</u>	<u>8,789,526</u>	<u>8,826,110</u>	<u>9,287,798</u>
Business-type activities:										
Unrestricted investment earnings	403,737	170,312	41,539	38,791	21,211	14,743	9,233	10,869	26,421	51,748
Other	-	-	11,100	(852)	-	(906)	236	(405,084)	2,914	17,744
Transfers	<u>(372,500)</u>	<u>(375,000)</u>	<u>(381,600)</u>	<u>-</u>	<u>(387,800)</u>	<u>(390,700)</u>	<u>(394,105)</u>	<u>(394,135)</u>	<u>(405,071)</u>	<u>(405,071)</u>
Total business-type activities	<u>31,237</u>	<u>(204,688)</u>	<u>(328,961)</u>	<u>37,939</u>	<u>(366,589)</u>	<u>(376,863)</u>	<u>(384,637)</u>	<u>(788,350)</u>	<u>(375,736)</u>	<u>(335,579)</u>
Total primary government	<u>\$ 8,467,845</u>	<u>\$ 8,562,794</u>	<u>\$ 9,051,730</u>	<u>\$ 8,214,659</u>	<u>\$ 7,974,843</u>	<u>\$ 8,046,172</u>	<u>\$ 8,531,188</u>	<u>\$ 8,001,176</u>	<u>\$ 8,450,374</u>	<u>\$ 8,952,219</u>
Change in Net Position:										
Governmental activities	\$ (73,392)	\$ (625,160)	\$ (78,165)	\$ (1,360,957)	\$ (1,236,418)	\$ (888,422)	\$ (816,535)	\$ (518,268)	\$ (169,597)	\$ (103,815)
Business-type activities	<u>382,836</u>	<u>(475,461)</u>	<u>(972,544)</u>	<u>140,534</u>	<u>(172,724)</u>	<u>594,491</u>	<u>2,516,442</u>	<u>342,733</u>	<u>1,752,998</u>	<u>1,481,923</u>
Total primary government	<u>\$ 309,444</u>	<u>\$ (1,100,621)</u>	<u>\$ (1,050,709)</u>	<u>\$ (1,220,423)</u>	<u>\$ (1,409,142)</u>	<u>\$ (293,933)</u>	<u>\$ 1,699,906</u>	<u>\$ (175,535)</u>	<u>\$ 1,583,401</u>	<u>\$ 1,378,108</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

Fiscal Year	Property Tax	Rental Vehicle Tax	Sales Tax	Franchise Tax	Payment in lieu of Tax (1)	Payment in lieu of Tax (2)	Alcoholic Beverage Tax	Solid Waste Disposal Tax (3)	Total
2008	\$4,057,630	\$ 13,373	\$2,444,284	\$ 948,544	\$ 18,154	\$ 372,500	\$ 49,708	\$ -	\$7,904,193
2009	4,740,285	13,275	2,266,490	949,800	17,612	375,000	49,675	3,329	8,415,466
2010	4,715,808	12,519	2,125,810	888,871	17,209	381,600	16,140	7,810	8,165,767
2011	4,697,996	13,743	2,166,206	860,398	22,950	-	50,919	7,717	7,819,929
2012	4,563,151	16,399	2,138,139	849,492	25,552	387,800	45,667	7,375	8,033,575
2013	4,724,967	20,592	2,173,528	868,442	24,732	390,700	42,462	6,618	8,252,041
2014	4,849,278	19,622	2,264,938	808,761	22,651	394,105	45,873	5,899	8,411,127
2015	4,761,205	21,270	2,499,885	920,256	22,471	394,135	50,317	6,717	8,676,256
2016	4,641,125	16,000	2,644,526	873,432	21,216	405,071	46,286	5,900	8,653,556
2017	4,718,281	27,376	2,983,564	911,698	23,400	405,071	47,787	7,086	9,124,263

- (1) Payment in lieu of tax from the Housing Authority
- (2) Payment in lieu of tax from the Enterprise Funds
- (3) First year of tax 2009

CITY OF LINCOLNTON, NORTH CAROLINA

**Fund Balances, Governmental Funds-Pre GASB 54
Fiscal Years 2008 through 2010
(Modified Accrual Basis of Accounting)
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund:			
Reserved	\$ 2,235,855	\$ 2,177,926	\$ 2,340,260
Unreserved:			
Designated	1,174,269	1,321,355	1,724,750
Undesignated	<u>2,591,581</u>	<u>2,342,762</u>	<u>2,418,046</u>
Total general fund	<u>\$ 6,001,705</u>	<u>\$ 5,842,043</u>	<u>\$ 6,483,056</u>
All Other Governmental Funds:			
Unreserved, reported in:			
Special revenue funds	\$ 310,725	\$ 354,768	\$ 400,207
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 310,725</u>	<u>\$ 354,768</u>	<u>\$ 400,207</u>

The increase in unreserved fund balance in the General Fund for the fiscal year 2008 is due to the transfer of the Recreation Commission (a prior year component unit) to the City of Lincolnton.

The increase in unreserved fund balance in the General Fund for the fiscal year 2010 is due to a one time payment from the City of Lincolnton ABC Board for excess proceeds from the sale of the ABC Board's land and building.

CITY OF LINCOLNTON, NORTH CAROLINA

**Fund Balances, Governmental Funds-GASB 54
Last Seven Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund:							
Nonspendable:							
Inventories	\$ 184,545	\$ 149,779	\$ 144,390	\$ 134,268	\$ 22,880	\$ 14,316	\$ 5,828
Prepaid expenditures	53,192	57,049	53,022	55,321	58,524	57,490	44,437
Restricted:							
Stabilization by State Statute	580,149	644,443	635,842	686,430	633,776	695,340	827,256
Streets - Powell Bill	894,846	917,139	905,325	833,430	849,755	896,728	695,057
Public safety - Police	-	-	-	-	7,000	5	5
Assigned:							
Subsequent year's expenditures	1,617,555	1,784,060	1,443,059	1,547,057	1,405,541	1,050,000	785,301
Unassigned	<u>2,184,903</u>	<u>1,737,430</u>	<u>1,618,193</u>	<u>1,364,736</u>	<u>1,714,961</u>	<u>2,508,579</u>	<u>2,794,186</u>
Total general fund	<u>\$5,515,190</u>	<u>\$5,289,900</u>	<u>\$4,799,831</u>	<u>\$4,621,242</u>	<u>\$4,692,437</u>	<u>\$5,222,459</u>	<u>\$5,152,070</u>
All Other Governmental Funds:							
Restricted:							
Economic development	\$ 389,478	\$ 350,887	\$ 362,848	\$ 383,128	\$ -	\$ -	\$ -
Assigned:							
Subsequent year's expenditures	<u>47,800</u>	<u>43,950</u>	<u>16,850</u>	<u>260</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 437,278</u>	<u>\$ 394,837</u>	<u>\$ 379,698</u>	<u>\$ 383,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GASB 54 implemented in 2011.

CITY OF LINCOLNTON, NORTH CAROLINA

**Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Basis of Accounting)
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:										
Ad valorem taxes	\$4,010,196	\$4,689,312	\$4,754,810	\$4,714,523	\$4,573,099	\$4,680,104	\$4,905,832	\$ 4,734,705	\$ 4,712,610	\$4,704,877
Other taxes and licenses	13,373	16,667	20,831	21,614	23,774	27,210	25,521	27,986	32,034	167,263
Unrestricted intergovernmental	3,672,505	3,475,672	3,325,324	3,351,667	3,397,305	3,398,765	3,379,348	3,601,858	3,709,323	4,109,375
Restricted intergovernmental	542,492	447,063	444,202	393,331	534,113	768,655	418,009	391,822	505,951	362,145
Permits and fees	30,536	28,371	24,532	15,355	15,638	13,014	25,768	27,756	32,559	35,394
Sales and services	121,552	127,344	152,886	107,957	139,310	115,676	166,235	142,760	149,132	199,336
Investment earnings	245,488	93,334	18,895	20,384	8,060	4,618	1,916	3,477	10,321	18,979
Miscellaneous	77,180	86,514	40,759	126,607	71,951	92,549	304,501	54,519	296,487	120,621
Total revenues	<u>8,713,322</u>	<u>8,964,277</u>	<u>8,782,239</u>	<u>8,751,438</u>	<u>8,763,250</u>	<u>9,100,592</u>	<u>9,227,129</u>	<u>8,984,882</u>	<u>9,448,416</u>	<u>9,717,989</u>
Expenditures:										
General government	1,361,069	1,318,593	1,400,247	1,188,057	1,165,808	1,248,570	1,392,411	1,355,882	1,327,589	1,293,767
Public safety	3,805,788	4,008,254	4,191,610	4,332,145	4,485,885	4,487,544	4,599,355	4,902,029	5,060,727	5,022,088
Public works	1,577,621	1,582,187	1,404,132	1,800,117	1,359,972	1,566,676	1,553,660	1,234,560	1,241,230	1,651,114
Economic and physical development	440,533	479,530	457,145	473,906	565,131	902,831	409,460	346,769	374,412	315,893
Environmental protection	940,604	1,203,912	1,171,102	1,098,170	1,102,472	1,065,771	980,682	1,099,891	1,519,010	873,584
Cultural and recreational	738,143	718,722	593,233	638,588	593,648	610,871	781,570	632,441	708,628	977,385
Debt service:										
Principal	140,690	145,982	151,474	151,540	94,126	97,658	67,134	89,200	271,078	404,726
Interest	46,994	39,451	31,710	23,762	16,973	11,190	5,428	5,662	12,229	37,591
Total expenditures	<u>9,051,441</u>	<u>9,496,630</u>	<u>9,400,652</u>	<u>9,706,284</u>	<u>9,384,015</u>	<u>9,991,112</u>	<u>9,789,700</u>	<u>9,666,434</u>	<u>10,514,903</u>	<u>10,576,148</u>
Revenues over (under) expenditures	<u>(338,119)</u>	<u>(532,353)</u>	<u>(618,412)</u>	<u>(954,846)</u>	<u>(620,765)</u>	<u>(890,520)</u>	<u>(562,571)</u>	<u>(681,552)</u>	<u>(1,066,487)</u>	<u>(858,158)</u>

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

**Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Basis of Accounting)
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Other Financing Sources (Uses):										
Transfers in	\$ 372,500	\$ 375,000	\$ 381,600	\$ -	\$ 387,800	\$ 390,700	\$ 394,105	\$ 394,135	\$ 405,071	\$ 405,071
Issuance of debt	-	-	-	-	-	-	-	470,000	1,200,000	391,186
Extraordinary item	-	-	950,000	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>372,500</u>	<u>375,000</u>	<u>1,331,600</u>	<u>-</u>	<u>387,800</u>	<u>390,700</u>	<u>394,105</u>	<u>864,135</u>	<u>1,605,071</u>	<u>796,257</u>
Net change in fund balances	<u>\$ 34,381</u>	<u>\$ (157,353)</u>	<u>\$ 713,188</u>	<u>\$ (954,846)</u>	<u>\$ (232,965)</u>	<u>\$ (499,820)</u>	<u>\$ (168,466)</u>	<u>\$ 182,583</u>	<u>\$ 538,585</u>	<u>\$ (61,901)</u>
Debt service as a percentage of non-capital project expenditures	2.3%	2.1%	2.1%	2.0%	1.2%	1.2%	0.8%	1.0%	3.1%	4.7%

CITY OF LINCOLNTON, NORTH CAROLINA

**Assessed Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Assessed Value (1)				Property Tax Rate (Per \$100 Assessed Value)	Percent Increase in Value	Estimated Actual Taxable Value (4)	Assessed Value as a Percentage of Actual Value
	Real Property	Personal Value(3)	Public Service Companies	Total				
2008	\$ 558,464,883	\$144,861,332	\$ 19,266,237	\$ 722,592,452	0.56	1.4%	\$ 859,512,849	84.07%
2009 (2)	690,763,741	140,967,952	19,243,063	850,974,756	0.56	17.8%	857,923,940	99.19%
2010	703,874,050	126,090,395	17,329,754	847,294,199	0.56	(0.4)%	868,663,317	97.54%
2011	704,250,623	120,213,019	20,881,247	845,344,889	0.56	(0.2)%	789,968,124	107.01%
2012 (2)	686,864,483	114,288,978	21,123,419	822,276,880	0.56	(2.7)%	833,360,576	98.67%
2013	702,066,213	125,389,496	21,180,272	848,635,981	0.56	3.2%	812,869,714	104.40%
2014	705,934,770	157,621,750	18,774,043	882,330,563	0.56	4.0%	845,954,519	104.30%
2015	706,398,383	134,664,090	19,126,151	860,188,624	0.56	(2.5)%	859,243,456	100.11%
2016	685,583,561	125,026,097	21,026,134	831,635,792	0.56	(3.3)%	831,552,837	100.01%
2017	702,208,297	125,357,003	23,533,271	851,098,571	0.56	0.7%	846,166,992	99.42%

Notes:

- (1) Assessed value is established by Lincoln County Assessor's office.
- (2) North Carolina General Statutes require that a reappraisal of real property be conducted every eight years. A revaluation of real property became effective for the fiscal year ended 2012.
- (3) Includes vehicles. During 2014, the State of North Carolina began collecting vehicle taxes.
- (4) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the State Department of Revenue. The ratio is based on the actual property sales which took place for Lincoln County during the fiscal year.

CITY OF LINCOLNTON, NORTH CAROLINA

**Property Tax Rates - Direct and Overlapping Governments
Last Ten Fiscal Years
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
City of Lincolnton	<u>0.56</u>									
Lincoln County	<u>0.61</u>	<u>0.57</u>	<u>0.57</u>	<u>0.57</u>	<u>0.598</u>	<u>0.598</u>	<u>0.598</u>	<u>0.598</u>	<u>0.611</u>	<u>0.611</u>
Special District:										
East Lincoln Water and Sewer District	<u>0.0750</u>	<u>0.0200</u>	<u>0.0175</u>	<u>0.0175</u>	<u>0.0199</u>	<u>0.0355</u>	<u>0.0342</u>	<u>0.0342</u>	<u>0.0345</u>	<u>0.0345</u>
Fire Districts:										
Alexis	0.1450	0.1142	0.1050	0.1100	0.1100	0.1100	0.1100	0.1100	0.1165	0.1165
Boger City	0.0700	0.0700	0.0700	0.0750	0.0925	0.0925	0.0925	0.0925	0.0999	0.0999
Crouse	0.0600	0.0600	0.0600	0.0600	0.0609	0.0609	0.0609	0.0609	0.0640	0.0640
Denver	0.1150	0.0981	0.0968	0.0968	0.1099	0.1099	0.1099	0.1099	0.1125	0.1125
East Lincoln	0.0650	0.0606	0.0606	0.0606	0.0680	0.0785	0.0850	0.0850	0.0850	0.1125
Howards Creek	0.0500	0.0700	0.1000	0.1000	0.1050	0.1050	0.1150	0.1150	0.1203	0.1223
North Brook	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0800	0.0800	0.1000	0.1000
North 321	0.0350	0.0350	0.0350	0.0350	0.0350	0.0350	0.0400	0.0400	0.0400	0.0400
Pumpkin Center	0.1000	0.0951	0.0951	0.0951	0.0951	0.0951	0.1242	0.1242	0.1295	0.9700
South Fork	0.0500	0.0776	0.0910	0.0910	0.0910	0.0910	0.1236	0.1236	0.1250	0.1250
Union	<u>0.0650</u>	<u>0.0750</u>	<u>0.0750</u>	<u>0.0750</u>	<u>0.0750</u>	<u>0.0900</u>	<u>0.0900</u>	<u>0.0900</u>	<u>0.0900</u>	<u>0.0900</u>
	<u>0.81</u>	<u>0.82</u>	<u>0.85</u>	<u>0.86</u>	<u>0.90</u>	<u>0.93</u>	<u>1.03</u>	<u>1.03</u>	<u>1.08</u>	<u>1.95</u>

Other Tax Data:

Tax rates are established on a per \$100 valuation basis and are levied on July 1, the first day of the fiscal year.

There is a State statutory tax rate limit of \$1.50 per hundred dollars valuation for operating expenses, but no limitation on the rate of tax, which may be levied for debt service.

The City has no financial responsibility for the public school system. It is funded through the County, State and Federal Government.

Lincoln County is an overlapping district of the East Lincoln Water and Sewer District.

Fire districts are overlapping of the County and the East Lincoln Water and Sewer District, but not of the City of Lincolnton.

CITY OF LINCOLNTON, NORTH CAROLINA

**Principal Property Taxpayers
Nine Years Ago and Current Year
(Unaudited)**

<u>Taxpayer</u>	<u>Type of Enterprise</u>	<u>2017</u>		<u>2008</u>		<u>Percentage of Total Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
		<u>Total Assessed Valuation</u>	<u>Rank</u>	<u>Total Assessed Valuation</u>	<u>Rank</u>		
Wal-Mart Real Estate Business	Real Estate	\$ 13,599,830	1	1.62	\$ -	-	-
Griffin-American Healthcare REIT	Healthcare	13,277,880	2	1.59	-	-	-
Lowes Home Centers, Inc.	Retail	10,575,374	3	1.26	8,817,748	4	1.22
T & T Investments	Real Estate	9,743,936	4	1.16	7,576,120	6	1.05
Ingles Markets	Retail	8,693,034	5	1.04	-	-	-
Ingles Markets Inc., LLC	Retail	6,939,163	6	0.83	-	-	-
Colonial Village of Linc, LLC	Apts/Real Estate	6,917,998	7	0.83	-	-	-
The Oaks Apartments	Apts/Real Estate	6,009,178	8	0.72	-	-	-
Archer Central Building	Real Estate	5,765,321	9	0.69	-	-	-
Provest Lincolnton Center	Retail	5,732,018	10	0.68	-	-	-
Bell South Telephone Company	Utility	-	-	-	9,521,527	3	1.32
Cochrane Furniture Co.	Manufacturing	-	-	-	11,391,323	2	1.58
Mohican Mills, Inc.	Textile	-	-	-	4,478,831	10	0.62
Robert Bosch Tool	Manufacturing	-	-	-	15,768,334	1	2.18
McMurray Fabrics	Textile	-	-	-	8,524,893	5	1.18
Inland Mart Limited Partnership	Real Estate	-	-	-	6,302,566	8	0.87
RSI	Manufacturing	-	-	-	7,503,200	7	1.04
Duke Energy	Utility	-	-	-	4,927,480	9	0.68
Totals		<u>\$ 87,253,732</u>		<u>10.42</u>	<u>\$ 84,812,022</u>		<u>11.74</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Total tax Levy for Fiscal Year	Current Year's Taxes Collected/Credited	Percentage of Levy Collected	Collections in Subsequent Years	Total Collections and Credits	Percentage of Total Tax Collections to Net Levy	Taxes Receivable Balance June 30 (1)
2008	\$ 4,053,489	\$ 3,945,454	97.3	\$ 92,705	\$ 4,038,159	99.6	\$ 15,330
2009	4,771,612	4,632,981	97.1	123,666	4,756,647	99.7	14,965
2010	4,752,808	4,649,531	97.8	89,486	4,739,017	99.7	13,791
2011	4,751,351	4,636,451	97.6	99,930	4,736,381	99.7	14,970
2012	4,609,731	4,483,921	97.3	107,656	4,591,577	99.6	18,154
2013	4,756,670	4,619,621	97.1	115,806	4,735,427	99.6	21,243
2014	4,941,052	4,819,616	97.5	90,170	4,909,786	99.4	31,266
2015	4,817,056	4,688,416	97.3	104,714	4,793,130	99.5	23,926
2016	4,657,160	4,577,654	98.3	44,686	4,622,340	99.3	34,820
2017	4,766,152	4,653,457	97.6	-	4,653,457	97.6	112,695

Notes:

(1) Includes current portion only of taxes receivable.

CITY OF LINCOLNTON, NORTH CAROLINA

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Governmental Activities	Business-type Activities		Total Primary Government	Percentage of Personal Income(1)	Per Capita(1)
	Installment Financing	Revenue Bonds	State Revolving Loan			
2008	\$ 707,913	\$ 17,745,000	\$ 9,460,873	\$ 27,913,786	8.79%	\$ 2,524
2009	561,932	16,700,000	9,010,873	26,272,805	7.62%	2,322
2010	410,458	15,615,000	8,460,873	24,486,331	6.44%	2,119
2011	258,918	14,475,000	7,903,414	22,637,332	6.44%	2,148
2012	164,792	13,280,000	7,329,956	20,774,748	5.98%	1,975
2013	67,134	12,040,000	6,740,040	18,847,173	5.24%	1,797
2014	-	10,750,000	6,133,193	16,883,192	4.40%	1,608
2015	380,800	9,479,000	5,508,929	15,368,728	3.78%	1,461
2016	1,309,722	7,968,000	4,866,749	14,144,472	3.34%	1,333
2017	1,296,182	6,428,000	4,240,000	11,964,183	2.51%	1,112

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

(1) See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF LINCOLNTON, NORTH CAROLINA

**Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Population(1)	Total Assessed Value	Gross Bonded Debt	Less: Debt Payable From Enterprise Revenues	Total General Bonded Debt	Percentage of Actual Taxable Value of Property	Per Capita
2008	11,061	\$ 722,592,452	\$ 17,745,000	\$ 17,745,000	-	-	-
2009	11,316	850,974,756	16,700,000	16,700,000	-	-	-
2010	11,553	847,294,199	15,615,000	15,615,000	-	-	-
2011	10,540	845,344,889	14,475,000	14,475,000	-	-	-
2012	10,517	822,276,880	13,280,000	13,280,000	-	-	-
2013	10,487	848,635,981	12,040,000	12,040,000	-	-	-
2014	10,498	882,330,563	10,750,000	10,750,000	-	-	-
2015	10,552	860,188,624	9,479,000	9,479,000	-	-	-
2016	10,612	831,635,792	7,968,000	7,968,000	-	-	-
2017	10,754	851,098,571	6,428,000	6,428,000	-	-	-

(1) North Carolina Office of State Budget and Management.

CITY OF LINCOLNTON, NORTH CAROLINA

Direct and Overlapping Government Activities Debt

June 30, 2017

(Unaudited)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes:			
County of Lincoln	\$ 86,941,936	9.57%	<u>\$ 8,320,343</u>
Subtotal, overlapping debt			8,320,343
City of Lincolnton direct debt			<u>1,296,182</u>
Total direct and overlapping debt			<u><u>\$ 9,616,525</u></u>

Note: The percentage of overlapping debt is based on the June 30, 2017 assessed valuation of the County of Lincoln of \$8,748,996,456 as compared to the June 30, 2017 assessed valuation for the City of Lincolnton of \$851,098,571.

CITY OF LINCOLNTON, NORTH CAROLINA

**Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Assessed value of taxable property	<u>\$722,592,452</u>	<u>\$850,974,756</u>	<u>\$847,294,199</u>	<u>\$845,344,889</u>	<u>\$822,276,880</u>	<u>\$848,635,981</u>	<u>\$882,330,563</u>	<u>\$860,188,624</u>	<u>\$831,635,792</u>	<u>\$851,098,571</u>
Debt limit, 8% of assessed value (statutory limitation)	<u>\$ 57,807,396</u>	<u>\$ 68,077,980</u>	<u>\$ 67,783,536</u>	<u>\$ 67,627,591</u>	<u>\$ 65,782,150</u>	<u>\$ 67,890,878</u>	<u>\$ 70,586,445</u>	<u>\$ 68,815,090</u>	<u>\$ 66,530,863</u>	<u>\$ 68,087,886</u>
Debt applicable to limit:										
General obligation bonds	-	-	-	-	-	-	-	-	-	-
Less: Amount set aside for repayment of general obligation debt	<u>-</u>									
Total net debt applicable to limit	<u>-</u>									
Legal debt margin	<u>\$ 57,807,396</u>	<u>\$ 68,077,980</u>	<u>\$ 67,783,536</u>	<u>\$ 67,627,591</u>	<u>\$ 65,782,150</u>	<u>\$ 67,890,878</u>	<u>\$ 70,586,445</u>	<u>\$ 68,815,090</u>	<u>\$ 66,530,863</u>	<u>\$ 68,087,886</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: NC Statute GS 159-55 limits the City's outstanding debt to 8% of the appraised value of property subject to taxation.

CITY OF LINCOLNTON, NORTH CAROLINA

**Bond Coverage
Combined Enterprise System Bonds
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Revenue Available for Debt Service	Less Expenses	Income Available for Debt Service	Total Debt Service	Principal	Interest	Coverage
2008	\$ 6,857,883	\$ 4,003,776	\$ 2,854,107	\$ 2,430,429	\$ 1,345,000	\$ 1,085,429	1.17
2009	6,764,580	3,928,574	2,836,006	2,522,353	1,495,000	1,027,353	1.12
2010	7,088,173	3,981,988	3,106,185	2,609,438	1,635,000	974,438	1.19
2011	7,990,029	4,135,944	3,854,085	2,601,370	1,697,459	903,911	1.48
2012	8,194,878	4,486,488	3,708,390	2,600,825	1,768,458	832,367	1.43
2013	8,390,074	4,583,075	3,806,999	2,597,647	1,829,916	767,731	1.47
2014	10,059,186	4,702,685	5,356,501	2,597,732	1,896,847	700,885	2.06
2015	8,445,905	4,769,117	3,676,788	2,485,103	1,895,263	589,840	1.48
2016	8,416,097	4,485,512	3,930,585	2,465,652	2,153,184	312,468	1.59
2017	8,061,581	4,617,328	3,444,253	6,703,132	6,406,750	296,382	0.51

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements. Operating expenses do not include interest, depreciation or PILOT (payment in lieu of taxes).

CITY OF LINCOLNTON, NORTH CAROLINA

**Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Population(1)	Personal Income (Amounts Expressed in Thousands)	Per Capita Personal Income(2)	Median Age(1)	School Enrollment(3)	Unemployment Rate (%) (4)
2008	11,061	\$ 317,661	\$ 28,719	38.2	12,012	7.1
2009	11,316	344,572	30,450	38.8	12,002	14.6
2010	11,553	380,232	32,912	39.3	11,757	12.2
2011	10,540	351,773	33,375	38.9	11,571	11.5
2012	10,517	347,366	33,029	41.1	11,655	10.4
2013	10,487	359,442	34,275	41.5	11,447	9.8
2014	10,498	384,016	36,580	42.0	11,589	8.3
2015	10,522	406,301	38,614	42.0	11,646	5.9
2016	10,612	423,938	39,949	38.5	11,503	4.7
2017	10,754	-	-	42.0	11,503	3.8

Data Sources

(1) North Carolina Office of State Budget and Management, U.S. Census Bureau

(2) State Department of Commerce, Bureau of Economic Analysis

(3) School District

(4) North Carolina Employment Security Commission

Information not available for 2017 personal income and per capita personal income.

Note: Separate data for the City is not available except for the population amounts, Lincoln County data was provided. Personal income information is a total for the previous year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

CITY OF LINCOLNTON, NORTH CAROLINA

**Principal Employers
Current Year and Nine Years Ago
(Unaudited)**

<u>Employer</u>	<u>2017</u>			<u>2008</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Lincoln County Schools	1,557	1	4.00%	1,703	1	4.64%
Lincoln County Government	781	2	2.01%	682	5	1.86%
Wal-Mart Stores, Inc.	730	3	1.88%	646	6	1.76%
Carolina Medical Center	676	4	1.74%	697	4	1.90%
RSI Home Products	630	5	1.62%	1,050	2	2.86%
The Timken Company	531	6	1.36%	950	3	2.59%
Julius Blum, Inc.	372	7	0.96%	480	8	1.31%
Actavis Corp	330	8	0.85%	220	13	0.60%
Lowe's	263	9	0.68%	-	-	-
Cataler North America	264	10	0.68%	190	14	0.52%
VT LeeBoy, Inc.	237	11	0.61%	265	10	0.72%
Wireway/Husky	190	12	0.49%	185	15	0.50%
State of North Carolina	190	13	0.49%	-	-	-
McMurray Fabrics	190	14	0.49%	260	11	0.71%
Mohican Mills	-	-	-	300	9	0.82%
Robert Bosch Tool Company	180	15	0.46%	482	7	1.31%
Cochrane Furniture	-	-	-	241	12	0.66%
Total	<u>7,121</u>		<u>18.32%</u>	<u>8,351</u>		<u>22.76%</u>
Total Civilian Labor Force	<u>38,906</u>			<u>36,689</u>		

Sources: Lincoln Economic Development Association
 North Carolina Department of Commerce Division of Employment Security
 Telephone survey by Lincoln County Finance Department

Note: Separate Data for the City is not available, Lincoln County data was provided.

CITY OF LINCOLNTON, NORTH CAROLINA

**Full-Time Equivalent City Government Employees By Function
Last Ten Fiscal Years
(Unaudited)**

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Government										
City Manager	3	3	3	3	3	3	3	3	3	4
Human resources	4	4	4	4	4	4	4	4	4	4
Finance	9	9	9	9	9	9	9	9	9	8
Public Safety										
Police										
Officers	26	29	31	30	27	30	31	31	31	33
Civilians	5	5	5	5	5	5	5	5	5	5
Fire										
Firefighters and officers	20	21	21	21	24	21	22	21	21	22
Civilians	1	1	1	1	1	1	1	1	1	1
Public Works										
Public works	3	3	3	3	3	3	3	3	3	3
Street	11	12	12	13	12	12	12	12	12	12
Equipment services	3	3	3	3	3	3	3	3	2	2
Environmental Protection										
Solid waste	10	13	13	13	13	12	12	12	13	13
General services-cemetery	2	3	3	3	3	2	2	2	2	2
Economic and Physical Development										
Planning and zoning	3	3	3	3	3	3	2	2	2	2
Business and community development	2	2	2	2	2	2	2	2	2	1
Cultural and Recreational										
Parks and recreation	5	5	5	5	5	5	5	5	5	5
Water and Sewer										
Water treatment plant	10	10	10	9	10	9	9	9	10	10
Distribution and collection	11	11	12	12	12	11	13	13	11	11
Waste water treatment plant	9	9	9	9	9	8	8	8	9	9
Electric	<u>7</u>	<u>7</u>	<u>6</u>	<u>6</u>	<u>5</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>8</u>	<u>8</u>
Total	<u>144</u>	<u>153</u>	<u>155</u>	<u>154</u>	<u>153</u>	<u>150</u>	<u>153</u>	<u>152</u>	<u>153</u>	<u>155</u>

Source: Finance Department's payroll record

CITY OF LINCOLNTON, NORTH CAROLINA

**Operating Indicators By Function
Last Ten Fiscal Years
(Unaudited)**

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Public Safety										
Police										
Physical arrests	1,867	1,986	1,836	1,448	1,580	1,588	1,500	1,505	1,330	1,243
Parking violations	150	400	243	82	63	74	68	79	61	150
Traffic violations	2,779	1,274	1,339	798	707	1,183	1,366	1,727	2,359	1,830
Fire										
Number of calls answered	1,128	1,753	1,802	1,975	1,983	2,013	2,016	2,164	2,185	2,212
Inspections	572	312	636	698	615	598	526	597	344	301
Public Works - Highways and streets										
Street resurfacing (miles)	1.55	1.48	0.92	0.82	0.22	0.95	0.98	0.98	1.03	2.24
Potholes repaired	39	30	30	29	37	41	39	42	39	83
Environmental Protection										
Refuse collected (tons/day)	37.36	32.44	32.39	33.08	29.98	31.13	31.01	30.33	27.88	26.56
Recyclables collected (tons/day)	1.13	0.82	0.95	0.99	2.62	0.82	0.89	1.07	1.04	1.10
Cultural and Recreational (1)										
Youth sports participants	191	362	494	584	698	932	1,075	1,228	1,209	1,157
Youth camps/clinics participants	182	268	261	301	286	235	170	235	179	199
Open gym participants	5,747	9,738	10,139	12,511	12,703	13,118	4,072	10,099	7,827	9,846
Swimming pool participants	12,050	12,268	12,167	12,404	12,467	11,672	6,826	10,825	11,045	7,767
Other programs participants	1,324	1,833	4,029	3,440	5,015	5,196	4,125	5,305	3,992	3,435
Special events	11	12	16	22	26	26	13	19	23	23
Special events participants	4,568	5,587	6,613	5,992	7,399	7,935	4,456	6,427	6,971	3,435
Recreation program participants	24,062	30,056	33,703	35,232	38,568	39,088	20,724	34,109	34,223	28,791
Facility and ball field rentals	892	2,142	2,681	2,682	2,848	2,587	727	2,570	2,911	2,952

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

Page 2 of 2, cont.

**Operating Indicators By Function
Last Ten Fiscal Years
(Unaudited)**

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>
Water										
New connections	42	32	16	12	20	12	9	18	12	14
Water main breaks	45	33	27	31	42	21	20	20	31	18
Average daily consumption (thousands of gallons)	3,407	2,868	2,890	3,000	2,810	3,000	3,000	3,000	3,000	2,689
Wastewater										
New connections	36	44	19	5	19	9	7	10	5	14
Average daily sewage treatment (thousands of gallons)	2,711	2,467	2,588	2,390	2,390	2,357	2,650	2,075	2,390	1,760
Electric										
New connections	16	16	13	4	6	9	5	15	4	23

Sources: Various City departments.

Note: Indicators are not available for general government function.

(1) Flood on July 28, 2013, resulted in a lower number of participants in 2014.

CITY OF LINCOLNTON, NORTH CAROLINA

**Capital Asset Statistics By Function
Last Ten Fiscal Years
(Unaudited)**

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol units	22	22	24	25	25	25	25	34	37	38
Fire stations	1	1	2	2	2	2	2	2	2	2
Public Works - Highways and streets										
Streets (miles)	58.80	58.80	58.65	60.03	60.03	59.90	59.90	59.90	59.90	60.15
Streetlights	957	979	979	979	979	981	981	981	981	981
Traffic signals	11	11	11	11	11	11	11	11	11	11
Environmental Protection										
Refuse collection trucks	5	5	5	5	5	5	5	5	5	5
Cultural and Recreational										
Number of parks	3	3	3	3	3	3	3	3	3	3
Park acreage	79.37	79.37	79.37	79.37	79.37	79.37	79.37	79.37	79.37	79.37
Number of parks with trail systems	2	2	2	2	2	2	2	2	2	2
Park trail mileage	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Number of greenways	1	1	1	1	1	1	1	1	1	1
Greenway mileage	1	1	1	1	1	1.70	1.70	1.70	1.70	1.70
Number of ball fields	5	5	5	5	5	5	5	5	5	5
Number of soccer fields	2	2	2	2	2	2	2	2	2	2

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

**Capital Asset Statistics By Function
Last Ten Fiscal Years
(Unaudited)**

Function	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Water										
Water mains (miles)	260	260	260	260	260	260	260	260	260	260
Fire hydrants	709	709	717	717	717	717	717	717	717	717
Maximum daily capacity (thousands of gallons)	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Sewer										
Sanitary sewers (miles)	224	225.75	225.75	225.75	225.75	225.75	229.00	229.00	229.00	229.00
Storm sewers (miles)(1)	-	-	-	-	-	-	-	-	-	-
Maximum daily treatment capacity (thousands of gallons)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Electric										
Number of distribution stations	1	1	1	1	1	1	1	1	1	1
Miles of services lines	74.5	74.5	74.5	75.0	76.0	76.0	76.0	76.0	76.0	76.0

Sources: Various city departments.

Note: No capital asset indicators are available for general government function.

(1) Not under Phase I or II storm water regulations-miles unknown.

CITY OF LINCOLNTON, NORTH CAROLINA

**Water Sold By Type Of Customer
Last Ten Fiscal Years
(in millions of gallons)
(Unaudited)**

Type of Customer	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	252.0	239.6	232.5	222.8	217.1	216.9	210.8	198.1	214.7	215.9
Industrial	598.4	464.6	1.8	2.6	3.7	3.9	4.9	4.0	18.2	20.2
Industrial/Textile (1)	-	-	412.4	422.3	418.6	438.6	363.6	308.8	227.1	167.7
Commerical	223.3	157.2	147.1	155.1	148.1	148.0	111.1	108.5	107.7	106.4
Institutional (3)	-	-	-	-	-	-	33.2	37.9	38.7	38.0
Other Local Governments (2)	-	-	12.2	13.2	77.4	63.6	65.7	19.8	116.3	187.7
Military	-	-	-	-	-	-	-	0.1	0.1	0.1
Government	<u>34.4</u>	<u>37.0</u>	<u>35.8</u>	<u>20.7</u>	<u>8.4</u>	<u>10.4</u>	<u>9.5</u>	<u>7.3</u>	<u>7.6</u>	<u>8.7</u>
Total	<u>1,108.1</u>	<u>898.4</u>	<u>841.8</u>	<u>836.7</u>	<u>873.3</u>	<u>881.4</u>	<u>798.8</u>	<u>684.5</u>	<u>730.4</u>	<u>744.7</u>
Total direct rate per 1,000 gallons	<u>\$ 2.68</u>	<u>\$ 3.14</u>	<u>\$ 3.59</u>	<u>\$ 3.92</u>	<u>\$ 3.88</u>	<u>\$ 3.99</u>	<u>\$ 4.31</u>	<u>\$ 4.99</u>	<u>\$ 5.00</u>	<u>\$ 4.81</u>

Source: City of Lincolnton, Utility Billing Office

(1) 2010-First year of segregating Industrial Customers into two

(2) 2010-First year of segregating Other Local Governments

(3) 2014-First year of segregating water sold to customers classified as Institutional category.

CITY OF LINCOLNTON, NORTH CAROLINA

**Sewer Sold By Type Of Customer
Last Ten Fiscal Years
(in millions of gallons)
(Unaudited)**

Type of Customer	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	182.8	174.6	171.6	163.2	161.3	161.6	158.9	161.6	157.6	158.9
Industrial	587.5	479.1	45.1	52.9	56.4	55.5	54.7	55.2	63.8	58.8
Industrial/Textile (1)	-	-	391.8	405.5	380.5	415.5	350.0	267.9	195.2	137.7
Commerical	129.7	127.0	130.8	132.6	125.1	128.5	99.3	94.4	91.8	93.1
Institutional (2)	-	-	-	-	-	-	30.0	33.3	28.9	30.5
Military	-	-	-	-	-	-	-	0.1	0.1	0.1
Government	<u>32.9</u>	<u>34.6</u>	<u>34.7</u>	<u>19.6</u>	<u>7.8</u>	<u>9.3</u>	<u>8.7</u>	<u>7.0</u>	<u>7.3</u>	<u>8.3</u>
Total	<u>932.9</u>	<u>815.3</u>	<u>774.0</u>	<u>773.8</u>	<u>731.1</u>	<u>770.4</u>	<u>701.6</u>	<u>619.5</u>	<u>544.7</u>	<u>487.4</u>
Total direct rate per 1,000 gallons	<u>\$ 4.26</u>	<u>\$ 4.83</u>	<u>\$ 5.47</u>	<u>\$ 5.96</u>	<u>\$ 6.25</u>	<u>\$ 6.33</u>	<u>\$ 6.87</u>	<u>\$ 7.57</u>	<u>\$ 8.60</u>	<u>\$ 9.00</u>

Source: City of Lincolnton, Utility Billing Office

(1) 2010-First year of segregating Industrial Customers into two categories.

(2) 2014-First year of segregating sewer sold to customers classified as Institutional category.

CITY OF LINCOLNTON, NORTH CAROLINA

**Water and Sewer Rates
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	Water		Sewer	
	<u>Monthly Base Rate</u>	<u>Rate per 1,000 Gallons</u>	<u>Monthly Base Rate</u>	<u>Rate per 1,000 Gallons</u>
2008	9.07	2.44	13.58	4.04
2009	11.74	3.16	17.58	5.23
2010	11.74	3.16	17.58	5.23
2011	13.09	3.52	19.60	5.83
2012	13.62	3.67	20.39	6.07
2013	14.16	3.82	21.21	6.31
2014	14.73	3.97	22.06	6.56
2015	15.32	4.57	22.94	6.82
2016	16.71	4.52	22.94	7.47
2017	16.56	4.48	24.77	7.40

Note: Rates are based on 5/8" meter, which is the standard household meter size.

COMPLIANCE SECTION

**Independent Auditors' Report On Internal Control Over
Financial Reporting And On Compliance And Other
Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

**Report On Compliance For Each Major State Program;
Report On Internal Control Over Compliance; In Accordance With
OMB Uniform Guidance; And the State Single Audit
Implementation Act**

Schedule of Findings and Responses

Corrective Action Plan

Summary Schedule of Prior Year Audit Findings

Schedule of Expenditures of State Awards

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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

**Independent Auditors' Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

To the Honorable Mayor and Members
Of the City Council and the Citizens of
the City of Lincolnton, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincolnton, North Carolina as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Lincolnton, North Carolina's basic financial statements, and have issued our report thereon dated November 20, 2017. The financial statements of City of Lincolnton ABC Board and the Lincolnton Tourism Development Authority were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lincolnton, North Carolina'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 of Lincolnton, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lincolnton, North Carolina's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincolnton, North Carolina'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Low Smith Church & Co., L.L.P.

Morganton, North Carolina
November 20, 2017

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In Accordance With OMB Uniform Guidance; And The State Single Audit Implementation Act

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
City of Lincolnton, North Carolina

Report on Compliance for Each Major State Program

We have audited the City of Lincolnton, North Carolina's, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Lincolnton's major State programs for the year ended June 30, 2017. The City of Lincolnton's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and responses.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lincolnton's major State 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 applicable sections of Title 2 *US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about the City of Lincolnton'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 State program. However, our audit does not provide a legal determination of the City of Lincolnton's compliance.

Opinion on Each Major State Program

In our opinion, the City of Lincolnton 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 State programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City of Lincolnton 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 of Lincolnton's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for a major State 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 State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 State 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 significant deficiencies or material weaknesses. 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 the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Low Smith Church & Co., L.L.C.

Morganton, North Carolina
November 20, 2017

CITY OF LINCOLNTON, NORTH CAROLINA

Schedule of Findings and Responses
For the Year Ended June 30, 2017

Section I. Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes

X no

Significant deficiency(ies) identified?

_____ yes

X none reported

Noncompliance material to financial statements noted

_____ yes

X no

Federal Awards

None

State Awards

Internal control over major State programs:

Material weakness(es) identified?

_____ yes

X no

Significant deficiency(ies) identified?

_____ yes

X none reported

Type of auditors' report issued on compliance for major State programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act

_____ yes

X no

Identification of major State programs:

Program Name

Powell Bill

Section II. Financial Statement Findings

None reported.

Section III. State Award Findings and Responses

None reported.

CITY OF LINCOLNTON, NORTH CAROLINA

**Corrective Action Plan
For the Year Ended June 30, 2017**

Section II. Financial Statement Findings

None reported.

Section III. State Award Findings and Responses

None reported.

CITY OF LINCOLNTON, NORTH CAROLINA

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2017**

None reported

CITY OF LINCOLNTON, NORTH CAROLINA

**Schedule of Expenditures of State Awards
For the Year Ended June 30, 2017**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-through to Subrecipients</u>	<u>Local Expenditures</u>
State Grants:						
Cash Assistance:						
<u>N. C. Department of Transportation</u>						
Powell Bill		38570	\$ -	\$514,780	\$ -	\$ -
Total assistance - State Programs			-	514,780	-	-
Total assistance			<u>\$ -</u>	<u>\$514,780</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures of State Awards:

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of State Awards (SESA) includes the State grant activity of the City of Lincolnton under the programs of the State of North Carolina for the year ended June 30, 2017. The information in this SESA 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 and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Lincolnton, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Lincolnton.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SESA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

City of Lincolnton has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.