

**CITY OF LINCOLNTON, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PREPARED BY
CITY OF LINCOLNTON FINANCE DEPARTMENT

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CITY OF LINCOLNTON, NORTH CAROLINA

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For the Year Ended June 30, 2014**

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INTRODUCTORY SECTION

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CITY OF LINCOLNTON

CITY COUNCIL

John O. Gilleland, Jr., Mayor
John L. Cloninger, Mayor Pro-Tem
Devin Rhyne
Carroll Heavner
Larry Mac Hovis



CITY MANAGER

JEFF EMORY
jeffemory@ci.lincolnton.nc.us

CITY CLERK

DONNA C. FLOWERS, CMC
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
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, 2014, 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, 2014. 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 10,498. 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") is important to the City because the City exercises control over the Board by appointing members to the Board, and because the Board is required to distribute its profits to the City. Additional information on this legally separate entity 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 three employment sectors are service (34%), manufacturing (17%), and public administration (15%).

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 8.3 percent. This rate is slightly higher than the State's rate of 6.5 percent and the national rate of 6.2 percent. Lincolnton has followed the same pattern as the State during the economic downturn. A number of manufacturing and restaurant employers have closed resulting in the loss of employment.

Numerous small businesses opened in Lincolnton, including Popeye's, Harvest Moon Grill, Cackie-Jacks Consignments, Ingle Builders, Live N Joy Counseling Services and Game Swap. In addition, national retailer Ross "Dress for Less" and grocery chain Ingle's plan to open this fall.

After two years of negotiations, the City of Lincolnton and Lincoln County entered into a wholesale water purchase agreement that provide much needed water to County customers and revenues to the City operations. The agreement is very beneficial and improves the efficiency and cost effectiveness for governmental services.

The Lincoln Economic Development Association along with Lincoln County, City of Lincolnton and the Lincolnton-Lincoln County Regional Airport jointly hosted a ribbon cutting celebration for the completion of the sewer line to serve the airport and debut of the future Airport Business Park. As a result of the sewer line project, the vision by all entities to provide additional hangers and develop a business park surrounding the airport can now come to fruition. The airport sewer line extension was made possible through a US Department of Commerce-Community Trade and Assistance Economic Development Administration (EDA) grant. The total project cost was \$1,717,500 of which \$1,631,625 was provided through the EDA grant funds and \$85,875 was a local match provided by Lincoln County and the City of Lincolnton.

Lincoln County Schools, through collaboration with the Industrial Manager's Association of Lincoln County and LEDA's Existing Business Program, is receiving a \$200,000 grant from the Golden LEAF Foundation of North Carolina; the first ever to be awarded in Lincoln County. The purpose of the grant is to support the Lincoln County Schools' "Manufacturing: A Future that Works" program, which builds a foundation to develop the skills of the Lincoln County labor force to meet the needs of local business and industry. Golden LEAF funds will be applied toward equipment for the new Advanced Manufacturing programs offered at all four high schools and the Lincoln County School of Technology. The new advanced manufacturing program is designed to address industry needs in the workforce and to prepare students for career opportunities upon graduation from high school specifically in advanced manufacturing.

After learning of Actavis' plans to phase out their production and close the plant in Lincoln County NC, G&W became interested in learning more about the facility and the processes currently being used by Actavis. G&W manufactures some of the same types of products but they also found that the facility could manufacture some additional products that would expand their product portfolio. After months of visits and interviews, G&W not only was impressed with the facility but with the passion and commitment the employees displayed. Negotiations began to take place between the two companies and as a result G&W Laboratories will become the new owner of the 139,856 SF facility located at 1877 Kawai Road, Lincolnton, which employs 300 people as of June 13, 2014. G&W is expected to invest approximately \$3.5 million in machinery and equipment and initially maintain the 300 jobs with future plans to increase that number.

R&R Powder Coatings recently purchased one of the former Carolina Mills buildings located at 569 S. Grove Street in Lincolnton in order to expand their production. R&R specializes in the application of dry powder to metal substrate then curd in an oven for a durable finish. The family owned business was established in April 2000 in a 10,000 sq. ft. building located in Dallas NC with ownership consisting of Ray Jenkins, President, Tim Hayes, Vice President, Charlotte Jenkins, CFO and Monica Hayes, Operations Manager. With only four employees initially, the company experienced a run of five continuous years of success, prompting them to expand to a 20,000 sq. ft. building and eventually to 30,000 sq. ft. adding 20 additional employees.

The Lincoln Economic Development Association (LEDA) has worked with Medline for more than four years as the scope and dynamics of the project changed and evolved into fruition. Medline will begin construction of a 400,000 square foot energy efficient technology distribution center in early 2014 to be located in the Lincoln County Industrial Park with an estimated investment of \$18 million; the company anticipates employing

approximately 40 people initially with an additional 60 jobs by 2019. Medline Industries, Inc. is the largest privately held manufacturer and distributor of healthcare supplies in the United States. Formed in 1910 from a small manufacturer of surgical gowns and uniforms, Medline now leads the market in more than a dozen major medical product categories including exam gloves, plastic patient utensils, skin care, gauze, bathing systems and much more.

RSI Home Products, a manufacturer of bath cabinetry and countertops, celebrated the completion of its 225,000 square foot expansion on Friday August 30th with a ribbon cutting ceremony including guests and employees. The second expansion on RSI's facility in less than 10 years brought the overall total space to over 1 million square feet. This expansion allowed the consolidation of manufacturing and distribution operations under one roof and eliminated the movement of product between two facilities. Selling primarily to the home center industry, RSI is corporately located in Anaheim California. In a strategic move, RSI purchased Lincoln based General Marble in 1998 and assumed their existing operations in Lincoln. Since then, RSI has seen continued growth and now is the largest manufacturing employer in Lincoln County with over 800 employees.

During the past five years, the government's expenses related to public safety have increased in amount, and also increased as a percentage of total expense (a five-year increase of 0.54 percent). Much of the increase reflects a regional trend that has seen the salaries and benefits of police and firefighters growing at a much faster rate than those of other categories of public-sector employees.

During this same five year period, charges for services, while continuing to increase in amount, have increased slightly as a percentage of total revenue (a five-year increase of 0.07 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 14.28 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 \$1,364,736.

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:

Completion of the airport sewer line extension project which was made possible through a US Department of Commerce-Community Trade and Assistance Economic Development Administration (EDA) grant. The total project cost was \$1,717,500 of which \$1,631,625 was provided through the EDA grant funds and \$85,875 was a local match provided by Lincoln County and the City of Lincoln.

The City continues to upgrade various departmental needs including service vehicles, technology and service equipment items.

Relevant Financial Policies

The City of Lincoln'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 Lincoln for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. This was the twenty-fourth consecutive year that Lincoln 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.

In addition, the City of Lincoln was again recognized by the National Trust Main Street Program as a National Main Street. Over \$30 million has been invested in downtown Lincoln since being recognized as a Main Street Community sixteen years ago, which equates to over \$1.9 million each year and just under \$2,800 per capita using 2010 Census figures.

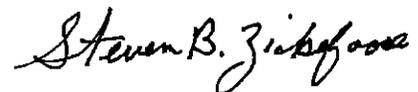
The Water Department was one of the thirty six water systems that was honored for surpassing federal and state drinking water standards by the N.C. Division of Water Resources' Public Water Supply section. Awards are given to water systems that demonstrate outstanding turbidity and microbial removal, 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 Lincoln's finances.

Respectfully submitted,



Jeff B. Emory
City Manager



Steven B. Zickefoose
Finance Director

November 17, 2014



Government Finance Officers Association

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

Presented to

**City of Lincolnton
North Carolina**

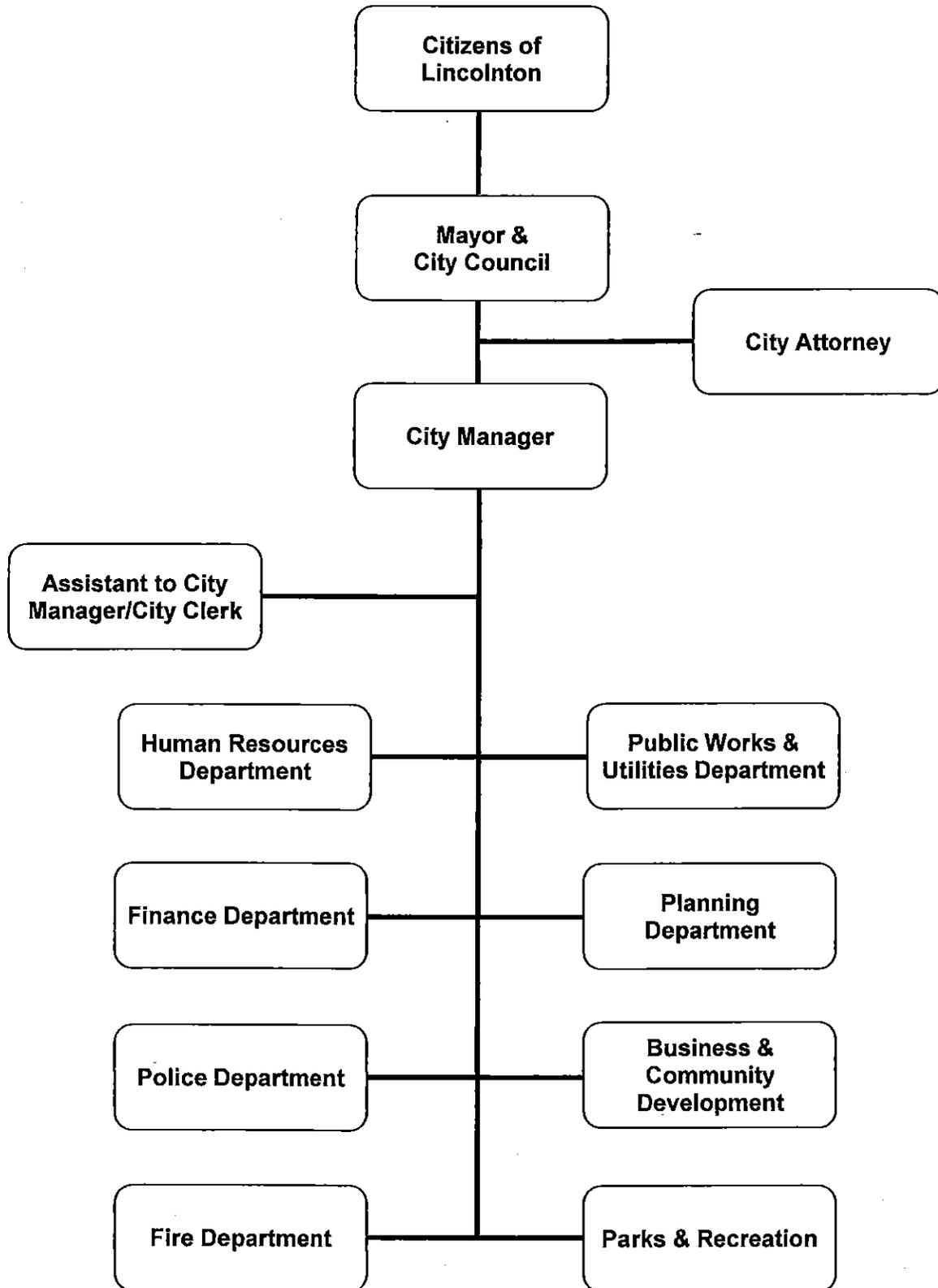
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

City of Lincolnton

Department Organizational Chart



CITY OF LINCOLNTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS
June 30, 2014

Mayor & City Council

Mayor	John O. Gilleland, Jr.
Ward I	Devin Rhyne
Ward II Mayor Pro-Tem	John "Les" Cloninger
Ward III	Carroll Heavner
Ward IV	Larry Mac Hovis

City Administration

City Manager	Jeff Emory
City Attorney	Thomas J. Wilson, Jr.
Assistant to City Manager/City Clerk	Donna Flowers
Human Resources Director	Tanya Osborne
Finance Director	Steven B. Zickefoose
Police Chief	Rodney Jordan
Fire Chief	David M. Burgin, Jr.
Public Works & Utilities Director	Steve Peeler
Planning Director	Laura Simmons
Business & Community Development Director	Vacant
Parks & Recreation Director	Richard Haynes

FINANCIAL SECTION

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 - **Management's Discussion and Analysis**
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 - **Required Supplemental Information**
 - **Combining, 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
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 unit, each major fund, and the aggregate remaining fund information of City of Lincolnton, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the City of Lincolnton ABC Board were not audited in accordance with Government Auditing Standards.

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 unit, each major fund, and the aggregate remaining fund information of the City of Lincolnton, North Carolina, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in 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 and Law Enforcement Officers' Separation Allowance and Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions on pages 12 through 20, and 63 through 66 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 Lincolnton, North Carolina's basic financial statements. The introductory section, individual fund financial statements, budgetary schedules, other schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements, budgetary schedules and other schedules 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, the individual fund financial statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information 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 17, 2014, 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 City of Lincolnton, North Carolina's internal control over financial reporting and compliance.

Lawrence Smith Church & Co.

Morganton, North Carolina
November 17, 2014

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, 2014. 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.

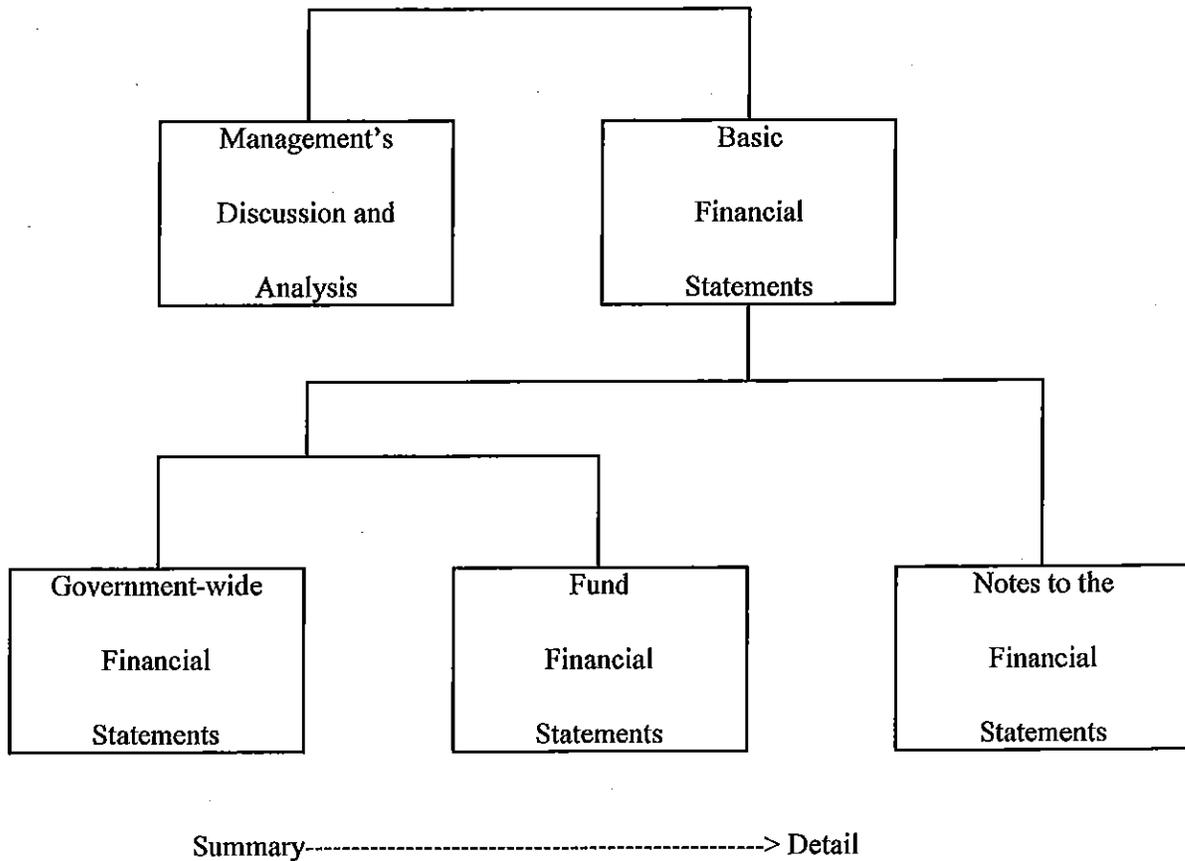
Financial Highlights

- 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 \$49,685,012 (net position).
- The City's total net position increased by \$1,699,906, primarily due to increases in the business-type activities net position due to a capital contribution.
- As of the close of the current fiscal year, the City of Lincolnton's governmental funds reported combined ending fund balances of \$5,004,630, with a net decrease of \$174,898 in fund balance. Approximately 41.82 percent of this total amount, or \$2,092,577, is nonspendable.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,364,736 or 13.94 percent of total general fund expenditures for the fiscal year.
- The City of Lincolnton's total debt decreased by \$1,963,980 (10.4%) 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 \$375,635 (0.7%) 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 21 through 23) 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 24 through 32) 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 they have 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 unit. 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.

The government-wide financial statements are on pages 21 through 23 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 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 - City of Lincolnnton 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. City of Lincolnnton 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 33 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 Lincolnnton’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 63 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 67 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 Lincolnnton, Net Position						
Figure 2						
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 5,505,795	\$ 5,741,809	\$12,415,445	\$11,634,482	\$17,921,240	\$17,376,291
Capital assets	18,914,071	19,380,660	33,720,251	33,629,297	52,634,322	53,009,957
Deferred outflows of resources	-	-	508,430	581,938	508,430	581,938
Total assets and deferred outflows of resources	<u>\$24,419,866</u>	<u>\$25,122,469</u>	<u>\$46,644,126</u>	<u>\$45,845,717</u>	<u>\$71,063,992</u>	<u>\$70,968,186</u>
Long term liabilities outstanding	\$ 1,911,234	\$ 1,734,088	\$15,463,766	\$17,368,487	\$17,375,001	\$19,102,576
Other liabilities	477,860	541,111	3,368,914	3,159,541	3,846,774	3,700,652
Deferred inflows of resources	297	259	156,908	179,594	157,205	179,853
Total liabilities and deferred inflows of resources	<u>\$ 2,389,392</u>	<u>\$ 2,275,459</u>	<u>\$18,989,589</u>	<u>\$20,707,623</u>	<u>\$21,378,981</u>	<u>\$22,983,082</u>
Net position:						
Net investment in capital assets	\$18,914,071	\$19,313,526	\$17,188,580	\$15,251,603	\$36,102,651	\$34,565,129
Restricted	1,903,248	1,876,915	-	-	1,903,248	1,876,915
Unrestricted	<u>1,213,155</u>	<u>1,656,570</u>	<u>10,465,958</u>	<u>9,886,493</u>	<u>11,679,113</u>	<u>11,543,063</u>
Total net position	<u>\$22,030,474</u>	<u>\$22,847,010</u>	<u>\$27,654,538</u>	<u>\$25,138,096</u>	<u>\$49,685,012</u>	<u>\$47,985,106</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 \$49,685,012 as of June 30, 2014. The City's net position increased by \$1,699,906 for the fiscal year ended June 30, 2014. However, the largest portion of net position (72.7%) 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, \$1,903,248, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$11,679,114 is unrestricted.

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

- Increase in ad valorem taxes and increase in other general revenues in the governmental activities.
- Slight increase in overall governmental expenses.
- Increase in capital grants and contributions due to the contribution of a sewer line.
- Increase in overall expenses in the business-type activities.
- Increase in charges for services in the electric fund.

City of Lincoln, Changes In Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 176,928	\$ 128,690	\$ 16,058,777	\$ 15,588,315	\$ 16,235,705	\$ 15,717,005
Operating grants and contributions	557,434	617,234	-	-	557,434	617,234
Capital grants and contributions	-	305,882	1,674,563	-	1,674,563	305,882
General revenues:						
Property taxes	4,849,278	4,724,967	-	-	4,849,278	4,724,967
Other taxes	3,349,868	3,292,144	-	-	3,349,868	3,292,144
Unrestricted investment earnings	1,916	3,990	9,233	14,743	11,148	18,732
Other	320,657	11,235	236	(906)	320,893	10,329
Total revenues	9,256,081	9,084,142	17,742,809	15,602,152	26,998,889	24,686,293
Expenses:						
General government	2,025,069	1,898,069	-	-	2,025,069	1,898,069
Public safety	4,663,422	4,586,096	-	-	4,663,422	4,586,096
Public works	1,488,646	1,530,196	-	-	1,488,646	1,530,196
Economic and physical development	497,450	531,028	-	-	497,450	531,028
Environmental protection	1,067,913	1,133,471	-	-	1,067,913	1,133,471
Cultural and recreational	718,794	673,215	-	-	718,794	673,215
Interest on long-term debt	5,428	11,190	760,216	827,061	765,644	838,251
Water and sewer	-	-	6,470,498	6,438,818	6,470,498	6,438,818
Electric	-	-	7,601,547	7,351,083	7,601,547	7,351,083
Total expenses	10,466,722	10,363,266	14,832,261	14,616,962	25,298,983	24,980,227

City of Lincolnton, Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Increase (decrease) in net position before transfers and extraordinary item	\$ (1,210,641)	\$ (1,279,124)	\$ 2,910,548	\$ 985,190	\$ 1,699,906	\$ (293,933)
Transfers	<u>394,105</u>	<u>390,700</u>	<u>(394,105)</u>	<u>(390,700)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(816,535)	(888,424)	2,516,442	594,490	1,699,906	(293,933)
Net position, July 1	<u>22,847,010</u>	<u>23,735,434</u>	<u>25,138,096</u>	<u>24,543,605</u>	<u>47,985,106</u>	<u>48,279,040</u>
Net position, June 30	<u>\$ 22,030,474</u>	<u>\$ 22,847,010</u>	<u>\$ 27,654,538</u>	<u>\$ 25,138,096</u>	<u>\$ 49,685,012</u>	<u>\$ 47,985,106</u>

Governmental Activities. Governmental activities decreased the City's net position by \$816,535. Key elements of this decrease are as follows:

- Program revenues and general revenues increased. The increase did offset the governmental expenditures, which only increased slightly.
- \$394,105 transfers in the current year.
- Expenses remained fairly constant.

Business-type Activities. Business-type activities increased the City of Lincolnton's net position by \$2,516,442. Key elements of this increase are as follows:

- Program revenues increased approximately \$2,145,000 due to both rate increases and a capital contribution.
- \$394,105 transfers out, in the current year.
- The Water and Sewer Fund rates increased as follows: 4% increase for non (textile based) and 2% increase for industrial (textile based).
- Electric Fund rates increased 8%.
- Administrative expenditures to the General Fund remained at \$275,000.
- Purchase for power increased approximately \$212,000.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City of Lincolnton'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 Lincolnton's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

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 \$3,745,223, while total fund balance reached \$4,621,243. The City currently has an available fund balance of 38.3 percent of General Fund expenditures while total fund balance represents 47.2 percent of that same amount.

At June 30, 2014, the governmental funds of the City of Lincoln reported a combined fund balance of \$5,004,630, with a net decrease in fund balance of \$164,776. Included in this change in fund balance are the following increases (decreases):

General Fund:	
General Fund	\$(178,588)
Special Revenue Funds:	
Occupancy Tax Fund	<u>3,690</u>
	<u>\$(174,898)</u>

In an effort to maintain the existing tax rate and lessen the burden on taxpayers, City Counsel opted to utilize general fund balance to help cover operating costs. The fund balance was approximately 32%, which is well above the 8% minimum requirement. All revenue sources will be evaluated in next year's budget in conjunction with projected operating costs.

General Fund Budgetary Highlights. During the year there was a \$714,000 decrease in appropriations between the original and final budget. Following are the main components of the decrease:

- \$540,000 decrease in grant revenues and grant expenditures.
- \$475,000 decrease in solid waste fees due to the cancellation of the recycling contract.
- \$181,900 increase in miscellaneous receipts due to flood damage.

Due to economic and market declines during the year, revenues were anticipated to decline. The decrease was due to anticipated revenues not being received.

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

- Total government expenditures were approximately \$916,364 less than budgeted mainly due to an overall controlling of cost in all departments.
- Public works operating expenditures and public safety expenditures were approximately \$191,677 and \$216,846, respectively, less than budgeted due to the delay of projects and decrease in employee costs due to job position vacancies.

Proprietary Funds. The City of Lincoln'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 \$7,132,293, and unrestricted net position for the Electric Fund amounted to \$3,333,665. The total change in net position for both funds was \$2,460,342 and \$56,100, respectively. The change in net position in the Water and Sewer Fund is a result of capital contributions and the increase in the Electric Fund is a result of an increase in charges for services.

Capital Asset and Debt Administration

Capital Assets. The City of Lincoln's investment in capital assets for its governmental and business type activities as of June 30, 2014, totals \$52,634,322 (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, equipment and infrastructure of approximately \$458,500.
- The Electric Fund had approximately \$39,600 in current year additions for a substation.
- The Water and Sewer Fund had approximately \$1,958,500 of new additions, with \$1,674,500 for the airport sewer line.

City of Lincolnton's Capital Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ 8,180,388	\$ 8,180,388	\$ 105,820	\$ 105,820	\$ 8,286,208	\$ 8,286,208
Buildings and improvements	6,220,551	6,395,813	9,006,466	9,359,982	15,227,017	15,755,795
Distribution systems	207,695	216,913	23,168,584	22,548,141	23,376,279	22,765,054
Infrastructure	3,433,667	3,644,298	-	-	3,433,667	3,644,298
Vehicles and equipment	842,648	923,627	1,426,781	1,559,817	2,269,429	2,483,444
Construction in progress	29,121	19,620	12,600	55,538	41,721	75,158
Total	\$18,914,071	\$19,380,660	\$33,720,251	\$33,629,297	\$52,634,322	\$53,009,957

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

Long-term Debt. As of June 30, 2014, the City of Lincolnton had total bonded debt outstanding of \$10,750,000. The City's bonded debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

City of Lincolnton's Outstanding Debt						
	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ -	\$ -	\$10,750,000	\$12,040,000	\$10,750,000	\$12,040,000
Loans payable	-	67,134	6,133,193	6,740,040	6,133,193	6,807,173
Total	\$ -	\$67,134	\$16,883,193	\$18,780,040	\$16,883,193	\$18,847,173

The City of Lincolnton's total debt decreased by \$1,963,980 (10.42%) 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 City of Lincolnton is \$70,586,445. The City has no bonds authorized but un-issued at June 30, 2014.

Additional information regarding the City of Lincolnton's long-term debt can be found in note II.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.
- Water and sewer infrastructure was completed for another industrial park near the airport, making it possible to move forward with future developments.
- The City of Lincolnton and Lincoln County entered into a wholesale water purchase agreement that will provide much needed water to County customers and revenues to the City operations. The agreement is very beneficial and improves the efficiency and cost effectiveness for governmental services.
- Numerous small businesses opened in Lincolnton, including Popeye's Harvest Moon Grill, Cackie-Jacks Consignments, Ingle Builders, Live N Joy Counseling Services and Game Swap. In addition, national retailer Ross "Dress for Less" and grocery chain Ingle's plan to open this fall.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities: Property taxes are expected to remain stable from amounts budgeted in the prior year. Grant revenue is expected to lead the increase in budgeted revenues. The City's general fund budgeted revenues are approximately \$11,206,492, which reflects an increase from the prior year.

The City has appropriated to use \$1,547,057 of fund balance.

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

Budgeted expenditures compared with the 2014 actual expenditures in the General Fund are expected to increase 14.47%. The largest increase is in general government.

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 increased 4% for non textile based and 2% for textile based. Electric rates increased 5.2%. Rate increases are effective on the July 1, 2014 billing.

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, NC 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, NC 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, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business - type Activities	Total	City of Lincolnton ABC Board
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,714,605	\$10,068,699	\$13,783,305	\$ 288,766
Taxes receivable, net	232,741	-	232,741	-
Accounts receivable, net	469,292	1,418,492	1,887,784	-
Due from other government agencies	183,341	-	183,341	-
Due from component unit	33,319	-	33,319	-
Internal balances	(150,000)	150,000	-	-
Inventories	134,268	361,279	495,547	132,421
Prepaid items	55,321	85,603	140,924	10,346
Total current assets	<u>4,672,887</u>	<u>12,084,074</u>	<u>16,756,961</u>	<u>431,533</u>
Noncurrent assets:				
Restricted cash	<u>832,908</u>	<u>331,371</u>	<u>1,164,279</u>	<u>-</u>
Capital assets:				
Land and nondepreciable assets	8,209,509	118,420	8,327,929	425,000
Other capital assets, net of accumulated depreciation	<u>10,704,562</u>	<u>33,601,831</u>	<u>44,306,393</u>	<u>1,231,594</u>
Total capital assets	<u>18,914,071</u>	<u>33,720,251</u>	<u>52,634,322</u>	<u>1,656,594</u>
Total assets	<u>24,419,866</u>	<u>46,135,696</u>	<u>70,555,562</u>	<u>2,088,127</u>
Deferred Outflows of Resources				
Unamortized loss on refunding	<u>-</u>	<u>508,430</u>	<u>508,430</u>	<u>-</u>
Liabilities				
Accounts payable and accrued liabilities	262,092	1,004,929	1,267,021	196,126
Customer deposits	-	331,371	331,371	-
Unearned revenues	6,035	-	6,035	-
Current portion of long-term liabilities	<u>209,733</u>	<u>2,032,614</u>	<u>2,242,347</u>	<u>-</u>
Total current liabilities	<u>477,860</u>	<u>3,368,914</u>	<u>3,846,774</u>	<u>196,126</u>
Long-term liabilities				
Due in more than one year	<u>1,911,234</u>	<u>15,463,766</u>	<u>17,375,000</u>	<u>-</u>
Total liabilities	<u>2,389,094</u>	<u>18,832,680</u>	<u>21,221,774</u>	<u>196,126</u>
Deferred Inflows of Resources				
Prepaid taxes	297	-	297	-
Unamortized bond refunding charges	<u>-</u>	<u>156,908</u>	<u>156,908</u>	<u>-</u>
Total deferred inflows of resources	<u>297</u>	<u>156,908</u>	<u>157,205</u>	<u>-</u>
Net Position				
Net investment in capital assets	18,914,071	17,188,580	36,102,650	1,656,594
Restricted for:				
Working capital	-	-	-	62,267
Stabilization by State Statute	686,430	-	686,430	-
Streets	833,430	-	833,430	-
Economic development	383,388	-	383,388	-
Unrestricted	<u>1,213,155</u>	<u>10,465,958</u>	<u>11,679,114</u>	<u>173,140</u>
Total net position	<u>\$ 22,030,474</u>	<u>\$27,654,538</u>	<u>\$49,685,012</u>	<u>\$ 1,892,001</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, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	Total	
Functions/Programs	Expenses							
Primary Government:								
Governmental activities:								
General government	\$ 2,025,069	\$ -	\$ -	\$ -	\$ (2,025,069)	\$ -	\$ (2,025,069)	\$ -
Public safety	4,663,422	156,785	-	-	(4,501,157)	-	(4,501,157)	-
Public works	1,488,646	314,559	-	-	(1,174,088)	-	(1,174,088)	-
Economic and physical development	497,450	86,090	-	-	(402,980)	-	(402,980)	-
Environmental protection	1,067,913	71,766	-	-	(996,147)	-	(996,147)	-
Cultural and recreational	718,794	91,302	-	-	(627,491)	-	(627,491)	-
Interest on long-term debt	5,428	-	-	-	(5,428)	-	(5,428)	-
Total governmental activities	10,466,722	176,928	557,434	-	(9,732,360)	-	(9,732,360)	-
Business-type activities:								
Water and sewer	7,230,713	8,380,928	-	1,674,563	-	2,824,777	2,824,777	-
Electric	7,601,547	7,677,848	-	-	-	76,301	76,301	-
Total business-type activities	14,832,261	16,058,777	-	1,674,563	-	2,901,078	2,901,078	-
Total primary government	\$25,298,983	\$ 16,235,705	\$ 557,434	\$ 1,674,563	(9,732,360)	2,901,078	(6,831,281)	-
Component Unit:								
City of Lincolnton ABC Board	\$ 1,666,293	\$ 1,618,933	\$ -	\$ -	-	-	-	(47,360)
Total component unit	\$ 1,666,293	\$ 1,618,933	\$ -	\$ -	-	-	-	(47,360)

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

Page 2 of 2, cont.

Statement of Activities
For the Year Ended June 30, 2014

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Lincolnton ABC Board
General revenues:				
Ad valorem taxes	\$ 4,849,278	\$ -	\$ 4,849,278	\$ -
Local option sales tax	2,264,938	-	2,264,938	-
Franchise tax	808,761	-	808,761	-
Other taxes and licenses	276,169	-	276,169	-
Unrestricted investment earnings	1,916	9,233	11,148	7,360
Miscellaneous	320,657	236	320,893	-
Transfers	394,105	(394,105)	-	-
Total general revenues and transfers	8,915,824	(384,637)	8,531,188	7,360
Changes in net position	(816,535)	2,516,442	1,699,906	(40,000)
Net position - beginning	22,847,010	25,138,096	47,985,106	1,932,001
Net position - ending	\$ 22,030,474	\$27,654,538	\$49,685,012	\$ 1,892,001

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2014**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Non-Major</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,331,217	\$ 383,388	\$ 3,714,605
Taxes receivable, net	232,741	-	232,741
Accounts receivable, net	469,292	-	469,292
Due from government agencies	183,341	-	183,341
Due from component unit	33,319	-	33,319
Inventories	134,268	-	134,268
Prepaid items	55,321	-	55,321
Restricted cash	<u>832,908</u>	<u>-</u>	<u>832,908</u>
Total assets	<u>\$ 5,272,407</u>	<u>\$ 383,388</u>	<u>\$ 5,655,795</u>
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 262,092	\$ -	\$ 262,092
Due to other funds	150,000	-	150,000
Unearned revenues	6,035	-	6,035
Total liabilities	<u>418,127</u>	<u>-</u>	<u>418,127</u>
<u>Deferred Inflows of Resources</u>			
Property taxes receivable	232,741	-	232,741
Prepaid taxes	297	-	297
Total deferred inflows of resources	<u>233,038</u>	<u>-</u>	<u>233,038</u>
<u>Fund Balances</u>			
Nonspendable:			
Inventories	134,268	-	134,268
Prepaid expenditures	55,321	-	55,321
Restricted:			
Stabilization by State Statute	686,430	-	686,430
Streets - Powell Bill	833,430	-	833,430
Economic development	-	383,128	383,128
Assigned:			
Subsequent year's expenditures	1,547,057	260	1,547,317
Unassigned	<u>1,364,736</u>	<u>-</u>	<u>1,364,736</u>
Total fund balances	<u>4,621,243</u>	<u>383,388</u>	<u>5,004,630</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,272,407</u>	<u>\$ 383,388</u>	<u>\$ 5,655,795</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, 2014**

Total Fund Balance, Governmental Funds \$ 5,004,630

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	\$ 38,247,389	
Accumulated depreciation	<u>(19,333,318)</u>	18,914,071

Liabilities for earned revenues considered deferred inflows of
resources in the fund statements.

Property taxes receivable	232,741
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Long-term liabilities used in governmental activities are not
financial uses and therefore are not reported in the funds.

Compensated absences	(306,547)
Other post employment benefits	(1,542,253)
Law enforcement officers' separation allowance	<u>(272,168)</u>

Net position of governmental activities \$ 22,030,474

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, 2014**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Non-Major</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 4,905,832	\$ -	\$ 4,905,832
Other taxes and licenses	25,521	-	25,521
Unrestricted intergovernmental revenues	3,379,348	85,636	3,464,983
Restricted intergovernmental revenues	418,009	-	418,009
Permits and fees	25,768	-	25,768
Sales and services	166,235	-	166,235
Investment earnings	1,916	455	2,370
Miscellaneous	304,501	-	304,501
Total revenues	<u>9,227,129</u>	<u>86,090</u>	<u>9,313,219</u>
Expenditures:			
General government	1,392,411	-	1,392,411
Public safety	4,599,355	-	4,599,355
Public works	1,553,660	-	1,553,660
Economic and physical development	409,460	82,400	491,860
Environmental protection	980,682	-	980,682
Cultural and recreational	781,570	-	781,570
Debt service:			
Principal retirement	67,134	-	67,134
Interest and other charges	5,428	-	5,428
Total expenditures	<u>9,789,700</u>	<u>82,400</u>	<u>9,872,100</u>
Revenues over (under) expenditures	<u>(562,571)</u>	<u>3,690</u>	<u>(558,881)</u>
Other Financing Sources (Uses):			
Transfers - in	394,105	-	394,105
Total other financing sources (uses)	<u>394,105</u>	<u>-</u>	<u>394,105</u>
Net changes in fund balances	(168,466)	3,690	(164,776)
Fund balances, July 1	4,799,831	379,698	5,179,529
Increase (decrease) in inventory	<u>(10,122)</u>	<u>-</u>	<u>(10,122)</u>
Fund balances, June 30	<u>\$ 4,621,243</u>	<u>\$ 383,388</u>	<u>\$ 5,004,630</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, 2014**

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

Net change in fund balances - total governmental funds	\$ (164,776)
Change in fund balance due to change in reserve for inventory	(10,122)

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	468,034
Depreciation expense	(934,039)
Gain (loss) on sale of assets	4,664
Proceeds from sale of fixed assets	(5,247)

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	(56,554)
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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.

Principal payments on long-term debt	67,134
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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	14,625
Other post employment benefits	(199,565)
Net pension obligation	(689)

Change in net position of governmental activities	<u>\$ (816,535)</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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 4,660,000	\$ 4,660,000	\$ 4,905,832	\$ 245,832
Other taxes and licenses	22,900	22,900	25,521	2,621
Unrestricted intergovernmental revenues	3,291,000	3,257,650	3,379,348	121,698
Restricted intergovernmental revenues	929,500	396,750	418,009	21,259
Permits and fees	19,900	16,800	25,768	8,968
Sales and services	596,000	104,600	166,235	61,635
Investment earnings	3,300	1,900	1,916	16
Miscellaneous	60,300	239,300	304,501	65,201
Total revenues	<u>9,582,900</u>	<u>8,699,900</u>	<u>9,227,129</u>	<u>527,229</u>
Expenditures:				
General government	1,749,766	1,555,266	1,392,411	162,855
Public safety	4,839,201	4,816,201	4,599,355	216,846
Public works	1,599,587	1,745,337	1,553,660	191,677
Economic and physical development	1,066,160	474,410	409,460	64,950
Environmental protection	1,272,258	1,056,758	980,682	76,076
Cultural and recreational	670,522	835,522	781,570	53,952
Debt service:				
Principal retirement	217,135	217,135	67,134	150,001
Interest and other charges	5,435	5,435	5,428	7
Total expenditures	<u>11,420,064</u>	<u>10,706,064</u>	<u>9,789,700</u>	<u>916,364</u>
Revenues over (under) expenditures	<u>(1,837,164)</u>	<u>(2,006,164)</u>	<u>(562,571)</u>	<u>1,443,593</u>
Other Financing Sources (Uses):				
Appropriated fund balance	1,443,059	1,612,059	-	(1,612,059)
Transfers in	394,105	394,105	394,105	-
Total other financing sources (uses)	<u>1,837,164</u>	<u>2,006,164</u>	<u>394,105</u>	<u>(1,612,059)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(168,466)	<u>\$ (168,466)</u>
Fund balance, July 1			4,799,831	
Increase (decrease) in reserve for inventory			(10,122)	
Fund balance, June 30			<u>\$ 4,621,243</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, 2014**

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 6,945,999	\$ 3,122,701	\$ 10,068,699
Accounts receivable	787,984	630,508	1,418,492
Due from other funds	-	150,000	150,000
Inventories	166,357	194,922	361,279
Prepaid expenses	80,090	5,513	85,603
Total current assets	<u>7,980,431</u>	<u>4,103,643</u>	<u>12,084,074</u>
Noncurrent assets:			
Restricted cash and cash equivalents	91,534	239,837	331,371
Capital assets, net of accumulated depreciation	32,659,280	1,060,971	33,720,251
Total noncurrent assets	<u>32,750,814</u>	<u>1,300,808</u>	<u>34,051,622</u>
Total assets	<u>40,731,245</u>	<u>5,404,451</u>	<u>46,135,696</u>
Deferred Outflows of Resources			
Unamortized loss on refunding	<u>508,430</u>	<u>-</u>	<u>508,430</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	295,109	709,821	1,004,929
Customer deposits	91,534	239,837	331,371
Bonds payable - current	1,345,000	-	1,345,000
Loans payable - current	624,263	-	624,263
Accrued compensated absences	56,030	7,320	63,351
Total current liabilities	<u>2,411,936</u>	<u>956,978</u>	<u>3,368,914</u>
Noncurrent liabilities:			
Bonds payable	9,405,000	-	9,405,000
Loans payable	5,508,930	-	5,508,930
Other post retirement benefits liability	454,697	40,383	495,081
Accrued compensated absences	42,301	12,454	54,755
Total noncurrent liabilities	<u>15,410,929</u>	<u>52,837</u>	<u>15,463,766</u>
Total liabilities	<u>17,822,865</u>	<u>1,009,815</u>	<u>18,832,680</u>
Deferred Inflows of Resources			
Unamortized bond refunding charges	<u>156,908</u>	<u>-</u>	<u>156,908</u>
Net Position			
Net investment in capital assets	16,127,609	1,060,971	17,188,580
Unrestricted	7,132,293	3,333,665	10,465,958
Total net position	<u>\$ 23,259,902</u>	<u>\$ 4,394,636</u>	<u>\$ 27,654,538</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, 2014**

	Business-type Activities Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Operating Revenues:			
Electricity sales	\$ -	\$ 6,526,386	\$ 6,526,386
Water sales	3,423,517	-	3,423,517
Sewer charges	4,736,579	-	4,736,579
Water and sewer taps	10,050	-	10,050
Electricity - municipal operations	-	728,082	728,082
Other operating revenues	210,783	423,380	634,163
Total operating revenues	<u>8,380,928</u>	<u>7,677,848</u>	<u>16,058,777</u>
Operating Expenses:			
Electrical operations	-	1,064,318	1,064,318
Electrical power purchases	-	6,165,880	6,165,880
Water treatment plant	1,781,424	-	1,781,424
Water and sewer distribution maintenance	1,454,570	-	1,454,570
Waste treatment plant	1,466,691	-	1,466,691
Administrative	-	275,000	275,000
Depreciation	1,767,812	96,349	1,864,162
Total operating expenses	<u>6,470,497</u>	<u>7,601,547</u>	<u>14,072,045</u>
Operating income (loss)	<u>1,910,431</u>	<u>76,301</u>	<u>1,986,732</u>
Nonoperating Revenues (Expenses):			
Investment earnings	3,459	5,774	9,233
Gain (loss) on disposal of capital assets	236	-	236
Interest on long-term debt	(760,216)	-	(760,216)
Total nonoperating revenues (expenses)	<u>(756,521)</u>	<u>5,774</u>	<u>(750,747)</u>
Income (loss) before transfers and capital contributions	1,153,910	82,075	1,235,984
Transfers (to) from other funds	-	-	-
General Fund-payment in lieu of taxes	(368,130)	(25,975)	(394,105)
Capital contributions	1,674,563	-	1,674,563
Changes in net position	2,460,342	56,100	2,516,442
Total net position - beginning	<u>20,799,559</u>	<u>4,338,537</u>	<u>25,138,096</u>
Total net position - ending	<u>\$ 23,259,902</u>	<u>\$ 4,394,636</u>	<u>\$ 27,654,538</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, 2014**

	Business-type Activities		
	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Cash Flows From Operating Activities:			
Cash received from customers	\$8,348,767	\$7,613,806	\$ 15,962,573
Customer deposits received	13,294	6,890	20,184
Cash paid for goods and services	(2,701,727)	(7,030,621)	(9,732,348)
Cash paid to or on behalf of employees for services	<u>(1,857,235)</u>	<u>(410,330)</u>	<u>(2,267,565)</u>
Net cash provided (used) by operating activities	<u>3,803,099</u>	<u>179,745</u>	<u>3,982,844</u>
Cash Flows From Non-Capital Financing Activities:			
Repayment from General Fund	-	150,000	150,000
Transfers - in (out)	<u>(368,130)</u>	<u>(25,975)</u>	<u>(394,105)</u>
Net cash provided (used) by non-capital financing activities	<u>(368,130)</u>	<u>124,025</u>	<u>(244,105)</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(240,973)	(39,579)	(280,552)
Proceeds from sale of capital assets	236	-	236
Principal paid on long-term debt	(1,896,847)	-	(1,896,847)
Interest paid on long-term debt	<u>(712,387)</u>	<u>-</u>	<u>(712,387)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,849,971)</u>	<u>(39,579)</u>	<u>(2,889,550)</u>
Cash Flows From Investing Activities:			
Investment earnings	<u>3,459</u>	<u>5,774</u>	<u>9,233</u>
Net cash provided (used) by investing activities	<u>3,459</u>	<u>5,774</u>	<u>9,233</u>
Net increase (decrease) in cash and cash equivalents	588,457	269,965	858,422
Cash and cash equivalents at beginning of year	<u>6,449,076</u>	<u>3,092,572</u>	<u>9,541,648</u>
Cash and cash equivalents at end of year	<u>\$7,037,533</u>	<u>\$3,362,538</u>	<u>\$10,400,069</u>

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

Page 2 of 2, cont.

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014**

	Business-type Activities		
	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities:			
Operating income (loss)	\$1,910,431	\$ 76,301	\$ 1,986,732
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,767,812	96,349	1,864,161
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(32,161)	(64,042)	(96,203)
(Increase) decrease in inventory	10,842	7,380	18,222
(Increase) decrease in prepaid expense	(2,845)	(224)	(3,069)
Increase (decrease) in accounts payable and other accrued liabilities	74,910	53,508	128,418
Increase (decrease) in other post retirement benefits	57,053	6,910	63,963
Increase (decrease) in accrued vacation pay	3,763	(3,327)	436
Increase (decrease) in customer deposits	13,294	6,890	20,184
Net cash provided (used) by operating activities	<u>\$3,803,099</u>	<u>\$ 179,745</u>	<u>\$ 3,982,844</u>
Supplemental Schedule of Non Cash Financing Activities:			
Amortization of loss on refunded debt	<u>\$ 73,508</u>	<u>\$ -</u>	<u>\$ 73,508</u>
Amortization on premium on refunded debt	<u>\$ (22,686)</u>	<u>\$ -</u>	<u>\$ (22,686)</u>
Amortization on prepaid insurance on bond refunding	<u>\$ 8,508</u>	<u>\$ -</u>	<u>\$ 8,508</u>
Acquisition of capital assets through capital contributions	<u>\$1,674,563</u>	<u>\$ -</u>	<u>\$ 1,674,563</u>

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

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, 2014

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 unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is 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, NC 28092.

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.

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.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2014

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 non-major governmental funds:

Special Revenue Funds. The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one Special Revenue Fund: the Occupancy Tax Fund. The Occupancy Tax Fund is used to account for the collection of local occupancy tax which is to be used for tourism related purposes.

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, 2014

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. Nonexchange 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 nonoperating 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 nonoperating 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, 2014

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. 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, Special Revenue (Occupancy Tax) Fund, and Enterprise Funds. 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. During the year, several immaterial amendments to the original budget were necessary.

The budget ordinance must be adopted by July 1 of the fiscal year or the governing 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 and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board 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 and the ABC Board 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 and the ABC Board are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, 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
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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. Therefore, all cash and investments of the City are essentially demand deposits and are considered 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.

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. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

City of Lincolnton Restricted Cash	
Governmental activities	
General Fund	
Streets	<u>\$ 832,908</u>
Business-type activities	
Water and sewer fund	
Customer deposits	91,534
Electric fund	
Customer deposits	<u>239,837</u>
Total business-type activities	<u>331,371</u>
Total restricted cash	<u><u>\$1,164,279</u></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, 2013. 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
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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 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. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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
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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, an unamortized loss on a bond defeasance for Water and Sewer Refunding bonds. 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 unamortized bond refunding charges.

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

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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
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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.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that 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, 2014**

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. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City and the ABC Board 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 and the ABC Board'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 and the ABC Board, these deposits are considered to be held by the City's and the ABC Board'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, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board 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 and the ABC Board 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, 2014, the City's deposits had a carrying amount of \$4,916,927 and a bank balance of \$5,228,201. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$4,978,201 in interest-bearing deposits were covered by collateral held under the pooling method. At June 30, 2014, the City's petty cash fund totaled \$1,150.

At June 30, 2014, the ABC Board had a carrying amount of \$285,966 and a bank balance of \$286,323. Of the bank balance, \$250,000 was covered by federal depository insurance. At June 30, 2014, the ABC Board had cash on hand of \$2,800.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

2. Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust Cash Portfolio	<u>\$10,029,507</u>	N/A	AAAm

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 NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard and Poor's as of June 30, 2014.

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>\$ 85,000</u>
Enterprise Funds:	
Water and Sewer Fund	198,736
Electric Fund	<u>115,200</u>
Total enterprise funds	<u>313,936</u>
Total	<u>\$398,936</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

4. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2014, 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	\$ 8,180,388	\$ -	\$ -	\$ 8,180,388
Construction in progress	<u>19,620</u>	<u>123,939</u>	<u>114,438</u>	<u>29,121</u>
Total capital assets not being depreciated	<u>8,200,008</u>	<u>\$ 123,939</u>	<u>\$114,438</u>	<u>8,209,509</u>
Capital assets being depreciated:				
Building	7,552,013	\$ 125,860	\$ 55,632	7,622,241
Other improvements	2,375,050	47,726	15,820	2,406,956
Plant and distribution systems	239,075	-	-	239,075
Furniture and equipment	1,697,740	50,386	60,395	1,687,731
Vehicles and motorized equipment	4,552,440	120,123	73,656	4,598,907
Infrastructure	<u>13,368,531</u>	<u>114,438</u>	-	<u>13,482,969</u>
Total capital assets being depreciated	<u>29,784,849</u>	<u>\$ 458,533</u>	<u>\$205,503</u>	<u>30,037,879</u>
Less accumulated depreciated for:				
Building	2,613,824	\$ 237,478	\$ 55,400	2,795,902
Other improvements	917,426	110,786	15,468	1,012,744
Plant and distribution systems	22,162	9,218	-	31,380
Furniture and equipment	1,243,184	87,102	60,395	1,269,891
Vehicles and motorized equipment	4,083,369	164,386	73,656	4,174,099
Infrastructure	<u>9,724,233</u>	<u>325,069</u>	-	<u>10,049,302</u>
Total accumulated depreciation	<u>18,604,198</u>	<u>\$ 934,039</u>	<u>\$204,919</u>	<u>19,333,318</u>
Total capital assets being depreciated, net	<u>11,180,651</u>			<u>10,704,561</u>
Governmental activity capital assets, net	<u>\$19,380,660</u>			<u>\$18,914,071</u>

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

General government	\$ 634,444
Public safety	116,889
Public works	78,822
Economic and physical development	628
Environmental protection	61,131
Cultural and recreational	<u>42,125</u>
Total depreciation expense	<u>\$ 934,039</u>

CITY OF LINCOLN, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2014

	<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	<u>42,938</u>	<u>-</u>	<u>42,938</u>	<u>-</u>
Total capital assets not being depreciated	<u>138,538</u>	<u>\$ -</u>	<u>\$42,938</u>	<u>95,600</u>
Capital assets being depreciated:				
Building and improvements	13,702,040	\$ 17,189	\$ -	13,719,229
Plant and distribution systems	44,231,726	1,740,431	-	45,972,157
Furniture and equipment	7,442,606	195,080	6,337	7,631,349
Vehicles	<u>367,206</u>	<u>5,774</u>	<u>-</u>	<u>372,980</u>
Total capital assets being depreciated	<u>65,743,578</u>	<u>\$1,958,474</u>	<u>\$ 6,337</u>	<u>67,695,715</u>
Less accumulated depreciation for:				
Building and improvements	4,897,837	\$ 333,148	\$ -	5,230,985
Plant and distribution systems	22,162,723	1,117,442	-	23,280,165
Furniture and equipment	5,968,868	305,506	6,336	6,268,038
Vehicles	<u>341,132</u>	<u>11,716</u>	<u>-</u>	<u>352,848</u>
Total accumulated depreciation	<u>33,370,560</u>	<u>\$1,767,812</u>	<u>\$ 6,336</u>	<u>35,132,036</u>
Total capital assets being depreciated, net	<u>32,373,018</u>			<u>32,659,279</u>
Water and Sewer Fund capital assets, net	<u>32,511,556</u>			<u>32,659,279</u>
Electric Fund:				
Capital assets not being depreciated:				
Land	10,220	\$ -	\$ -	10,220
Construction in progress	<u>12,600</u>	<u>-</u>	<u>-</u>	<u>12,600</u>
Total capital assets not being depreciated	<u>22,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>22,820</u>
Capital assets being depreciated:				
Building and improvements	775,989	\$ -	\$ -	775,989
Plant and distribution systems	3,222,515	39,579	-	3,262,094
Furniture and equipment	117,520	-	-	117,520
Vehicles	<u>523,047</u>	<u>-</u>	<u>-</u>	<u>523,047</u>
Total capital assets being depreciated	<u>4,639,071</u>	<u>\$ 39,579</u>	<u>\$ -</u>	<u>4,678,650</u>
Less accumulated depreciation for:				
Building and improvements	220,210	\$ 37,557	\$ -	257,767
Plant and distribution systems	2,743,377	42,125	-	2,785,502
Furniture and equipment	74,423	4,557	-	78,980
Vehicles	<u>506,139</u>	<u>12,110</u>	<u>-</u>	<u>518,249</u>
Total accumulated depreciation	<u>3,544,149</u>	<u>\$ 96,349</u>	<u>\$ -</u>	<u>3,640,498</u>
Total capital assets being depreciated, net	<u>1,094,922</u>			<u>1,038,152</u>
Electric Fund capital assets, net	<u>1,117,741</u>			<u>1,060,972</u>
Business-type activities capital assets, net	<u>\$33,629,297</u>			<u>\$33,720,251</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

The City has active construction projects as of June 30, 2014. At year-end, the City's commitments with contractors are as follows:

	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
South Flint St. Crossing Upgrade	\$ 9,121	\$ 4,561
Main St. and Generals Blvd. Intersection	20,000	581,250
SCADA - Phase II	<u>12,600</u>	<u>7,400</u>
Total	<u>\$41,721</u>	<u>\$593,211</u>

Discretely Presented Component Unit:

Activity for the City of Lincolnnton ABC Board for the year ended June 30, 2014 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	1,334,566	\$ -	\$ -	1,334,566
Improvements	5,700	-	-	5,700
Office equipment	137,196	-	-	137,196
Store equipment	<u>172</u>	-	-	<u>172</u>
Total capital assets being depreciated	<u>1,477,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,477,634</u>
Less accumulated depreciation for:				
Building	117,132	\$34,633	-	151,765
Improvements	1,615	570	-	2,185
Office equipment	69,418	22,500	-	91,918
Store equipment	<u>172</u>	-	-	<u>172</u>
Total accumulated depreciation	<u>188,337</u>	<u>\$57,703</u>	<u>\$ -</u>	<u>246,040</u>
Total capital assets being depreciated, net	<u>1,289,297</u>			<u>1,231,594</u>
ABC Board capital assets, net	<u>\$1,714,297</u>			<u>\$1,656,594</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Payables at the government-wide level at June 30, 2014 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total</u>
Governmental activities:					
General	\$ 81,421	\$180,671	\$ -	\$ -	\$ 262,092
Other governmental	-	-	-	-	-
Total governmental activities	<u>81,421</u>	<u>180,671</u>	<u>-</u>	<u>-</u>	<u>262,092</u>
Business-type activities:					
Water and Sewer	143,067	45,202	106,840	-	295,109
Electric	<u>682,017</u>	<u>10,992</u>	<u>-</u>	<u>16,812</u>	<u>709,821</u>
Total business-type activities	<u>825,084</u>	<u>56,194</u>	<u>106,840</u>	<u>16,812</u>	<u>1,004,929</u>
Total	<u>\$906,505</u>	<u>\$236,864</u>	<u>\$106,840</u>	<u>\$16,812</u>	<u>\$1,267,021</u>

2. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description - The City of Lincolnton and the ABC Board contribute to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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. The State's CAFR 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 - Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28%, respectively, of annual covered payroll. The contribution requirements of members and of the City are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$443,242, \$408,635, and \$426,504, respectively. The contributions made by the City equaled the required contributions for each year.

A separate report was not issued for the plan.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
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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. 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 law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Terminated plan members entitled to but not receiving benefits	-
Active plan members	<u>31</u>
Total	<u>37</u>

A separate report was not issued for the plan.

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.

Method Used to Value Investments - No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
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The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The amortization method used was the level dollar closed. The plan has a remaining amortization period of 17 years. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25%-7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. Market value is used to determine the actuarial value of assets.

Annual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 76,169
Interest on net pension obligation	13,574
Adjustment to annual required contribution	<u>(22,118)</u>
Annual pension cost	67,625
Contributions made	<u>66,936</u>
Increase (decrease) in net pension obligation	689
Net pension obligation, beginning of year	<u>271,479</u>
Net pension obligation, end of year	<u><u>\$272,168</u></u>

3 Year Trend Information

For Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2012	\$61,341	110.06%	\$272,305
2013	\$63,775	101.30%	\$271,479
2014	\$67,625	98.98%	\$272,168

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$831,721. The covered payroll (annual payroll of active employees covered by the plan) was \$1,246,793, and the ratio of the UAAL to the covered payroll was 66.71%.

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 are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2014

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (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. Contributions for the year ended June 30, 2014 were \$126,844, which consisted of \$65,501 from the City and \$61,343 from the law enforcement officers.

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 Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who 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. The Firemen's 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 Firemen's 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, or by calling (919) 981-5454.

Funding Policy - Plan members are required to contribute \$120 per year to the Fund, which is paid by the City. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute any additional funds to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

A separate report was not issued for the plan.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

e. Other Postemployment 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 (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 at the City's group rates. Currently, thirty (30) retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2014, the City made payments for post-employment health benefit premiums of \$277,797. The City participates in a self-funded risk-financing pool administered by the North Carolina League of Municipalities.

Membership of the HCB Plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	30
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	125
Active employees-Law Enforcement Officers	<u>31</u>
Total	<u>186</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.

The current ARC rate is 10.75% of annual covered payroll. For the current year, the City contributed \$277,797 or 4.61% of annual covered payroll. The City obtains healthcare coverage through a self funded risk-financing pool administered by the North Carolina League of Municipalities. 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.

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**Notes to the Financial Statements
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Summary of Significant Accounting Policies - Postemployment 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 annual required contribution of the employer (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	\$ 538,152
Interest on net OPEB obligation	70,952
Adjustment to annual required contribution	<u>(67,781)</u>
Annual OPEB cost (expense)	541,323
Contributions made	<u>(277,797)</u>
Increase (decrease) in net OPEB obligation	263,526
Net OPEB obligation, beginning of year	<u>1,773,807</u>
Net OPEB obligation, end of year	<u><u>\$ 2,037,333</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

3 Year Trend Information			
<u>For Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$525,305	39.4%	\$1,468,970
2013	\$558,689	45.4%	\$1,773,807
2014	\$541,323	51.3%	\$2,037,333

Funded Status and Funding Progress - As of December 31, 2013, 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 \$7,847,877. The covered payroll (annual payroll of active employees covered by the plan) was \$6,031,272, and the ratio of the UAAL to the covered payroll was 130.1%. 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

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements

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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, 2013 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, 2013 was 30 years.

The ABC Board has not elected to provide other postemployment benefits to employees.

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
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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.

For the fiscal year ended June 30, 2014, the City made contributions to the State for death benefits of \$0. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>Fiscal Year Contributions Resume</u>
less than 10	1	2014
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The City of Lincolnton will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources is the deferred amount for loss of defeasance of debt.

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

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
General Fund:		
Prepaid taxes	\$ 297	\$297
Taxes receivable	<u>232,741</u>	<u>-</u>
	<u>\$233,038</u>	<u>\$297</u>

4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The City participates in two self-funding risk financing pools administered by the North Carolina League of Municipalities. Through these pools the City has worker's compensation coverage of up to statutory limits and unlimited lifetime limit on employee health coverage. The pools are reinsured for annual employee health claims in excess of \$500,000.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2014

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.

5. Long-Term Obligations

a. 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. 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.

Revolving loans payable consist of the following individual issues at June 30, 2014

\$1,355,575 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 2.87% through 2021	\$ 540,923
\$10,000,000 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 2.87% through 2023	<u>5,592,270</u>
	<u>\$6,133,193</u>

b. Revenue Bond

Revenue bonds of \$23,130,000 that were originally issued in December, 1996 and refunded in October 2005 for \$19,790,000 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 \$19,790,000 in water and sewer system revenue bonds issued in October 2005. 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.

CITY OF LINCOLN TON, NORTH CAROLINA

**Notes to the Financial Statements
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Bonds payable consists of the following individual issue at June 30, 2014:

\$19,790,000, 2005 revenue bonds with principal installments due annually in May of \$1,806,219 to \$1,811,619 through 2021; with semiannual interest payments due in May and November at rates from 3.5% to 5.0% \$10,750,000

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>
Business-type activities:								
2015	\$ -	\$ -	\$ 624,263	\$ 176,023	\$ 1,345,000	\$ 465,019	\$ 1,969,263	\$ 641,041
2016	-	-	642,180	158,106	1,395,000	411,219	2,037,180	569,325
2017	-	-	660,610	139,676	1,465,000	341,469	2,125,610	481,144
2018	-	-	679,570	120,716	1,540,000	268,219	2,219,570	388,935
2019	-	-	699,073	101,213	1,605,000	206,619	2,304,073	307,831
2020-2023	-	-	<u>2,827,496</u>	<u>200,854</u>	<u>3,400,000</u>	<u>216,156</u>	<u>6,227,496</u>	<u>417,011</u>
Total business-type	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,133,193</u>	<u>\$ 896,588</u>	<u>\$10,750,000</u>	<u>\$1,908,700</u>	<u>\$16,883,193</u>	<u>\$2,805,288</u>

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 the 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, 2014, is as follows:

	<u>Revenue Bond Only</u>	<u>All Debt</u>
Operating revenues	\$8,380,928	\$8,380,928
Operating expenses*	<u>4,702,685</u>	<u>4,702,685</u>
Operating income	3,678,243	3,678,243
Nonoperating revenues (expenses)**	3,695	3,695
15% of prior year unrestricted net assets	<u>999,855</u>	<u>-</u>
Income available for debt	<u>\$4,681,793</u>	<u>\$3,681,938</u>
Debt service, principal and interest paid	\$1,800,249	\$2,597,632
Debt service coverage	260%	142%

*Per rate covenants, this does not include the depreciation expense of \$1,767,812.

**Per rate covenants, this does not include interest payments of \$760,216.

Per rate covenants, this calculation does not include PILOT (payment in lieu of taxes) paid of \$368,130.

At June 30, 2014, the City's legal debt margin is \$70,586,445.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
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c. Advance Refunding

The City issued \$19,790,000 of revenue refunding bonds to provide resources to purchase United States Treasury Note - State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt services payments of \$19,025,000 of Water and Sewer revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type activities of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$765,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the refunded debt. The advance refunding was undertaken to reduce future debt service payments by \$1,053,533 over the next 16 years due to a lower interest rate on the refunded revenue bonds. This resulted in an accounting loss of \$1,145,500, which will be amortized over the new debt's life. The City obtained an economic gain (difference between the present values of the old and new debt service payments) of \$776,769. On June 30, 2014, \$0- of bonds outstanding are considered defeased.

Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Governmental activities:					
Compensated absences	\$ 321,172	\$ 213,025	\$ 227,650	\$ 306,547	\$ 209,733
Net pension obligation	271,479	67,625	66,936	272,168	-
Other postemployment benefits	1,342,688	428,945	229,381	1,542,252	-
Loans payable	<u>67,134</u>	<u>-</u>	<u>67,134</u>	<u>-</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 2,002,473</u>	<u>\$ 709,595</u>	<u>\$ 591,101</u>	<u>\$ 2,120,967</u>	<u>\$ 209,733</u>
Business-type activities:					
Compensated absences	\$ 117,668	\$ 63,079	\$ 62,641	\$ 118,106	\$ 63,351
Other postemployment benefits	431,119	112,078	48,116	495,081	-
Revenue bonds	12,040,000	-	1,290,000	10,750,000	1,345,000
Revolving loans	<u>6,740,040</u>	<u>-</u>	<u>606,847</u>	<u>6,133,193</u>	<u>624,263</u>
Business-type activities long-term liabilities	<u>\$ 19,328,827</u>	<u>\$ 175,157</u>	<u>\$ 2,007,604</u>	<u>\$ 17,496,380</u>	<u>\$ 2,032,614</u>

The liability for compensated absences, net pension obligation and other postemployment benefits for the governmental activities typically has been liquidated in the General Fund.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

C. Interfund Balances and Activity

Balances Due To/From Other Funds

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Receivable</u>	<u>Payable Fund</u>	
Electric Fund	General Fund	<u>\$150,000</u>

During the year ended June 30, 2005, the Electric Fund transferred \$1,500,000 to the General Fund to be repaid in the annual equalized payments of principal of \$150,000 together with all accrued interest at a rate of 1.5% per annum on the first day of May beginning in 2006 through May 2015. The \$1,500,000 interfund loan was used to partially fund the \$4,200,000 project that reconstructed and enlarged the City Hall/Fire Station Complex.

Transfers To/From Other Funds

The composition of transfers as of June 30, 2014 is as follows:

	<u>Transfers In</u>		
	<u>General Fund</u>	<u>Electric Rate Stabilization Fund</u>	<u>Total</u>
<u>Transfer Out</u>			
Water and Sewer Fund	\$368,130	\$ -	\$368,130
Electric Fund	<u>25,975</u>	<u>25,000</u>	<u>50,975</u>
Total	<u>\$394,105</u>	<u>\$25,000</u>	<u>\$419,105</u>

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, 2014, 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.

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

D. Component Unit Receivables and Payables

The composition of component unit balances as of June 30, 2014 was as follows:

	<u>Receivable</u>	<u>Payable</u>
Primary Government	\$33,319	\$ -
Component Unit - City of Lincolnton ABC Board	<u>-</u>	<u>33,319</u>
Total	<u>\$33,319</u>	<u>\$33,319</u>

E. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2014, the City of Lincolnton has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$5,724 for the 1 volunteer fireman and the 15 employed firemen who perform firefighting duties for the City's fire department. The volunteers and 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 \$5,132 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, 2014. 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.

F. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$18,914,071	\$ 33,720,251
Less: long-term debt	-	(16,883,193)
unamortized bond refunding charges	-	(156,908)
Add: Unamortized loss on refunding	-	508,430
	<u>\$18,914,071</u>	<u>\$ 17,188,580</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Notes to the Financial Statements
June 30, 2014**

G. 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	\$4,621,243
Less:	
Inventories	134,268
Prepaid	55,321
Stabilization by State Statute	686,430
Streets-Powell Bill	833,430
Appropriated Fund Balance in 2015 budget	1,547,057
Remaining Fund Balance	1,364,736

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>
	\$512	\$-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, 2014 were \$6,165,880.

The City, in conjunction with nine counties and seventy-four other municipalities established the Centralina Council of Governments (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 \$2,517 to the Council during the fiscal year ended June 30, 2014.

CITY OF LINCOLNTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2014

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 \$165,549 to the Airport during the fiscal year ended June 30, 2014. 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, 2014. Complete financial statements for the Airport can be obtained from Lincoln County administrative offices at 115 West Main Street, Lincolnton, NC 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, 2014, the City reported revenues and expenditures for the payments of \$5,132 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, 2014. 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, NC 28092.

VII. 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, 2014**

VIII. Significant Effects of Subsequent Events

Management has evaluated subsequent events through November 17, 2014, 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, no circumstances occurred that require recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

This section contains additional information required by generally accepted accounting principles

- **Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.**
 - **Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.**
 - **Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.**
 - **Schedule of Funding Progress for the Other Postemployment Benefits.**
 - **Schedule of Employer Contributions for the Other Postemployment Benefits.**
 - **Notes to the Required Schedules for the Other Postemployment Benefits.**
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CITY OF LINCOLNTON, NORTH CAROLINA

**Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a)/c
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12-31-04	\$ -	\$498,087	\$498,087	0%	\$ 997,100	49.95%
12-31-05	-	433,462	433,462	0%	1,023,896	42.33%
12-31-06	-	467,359	467,359	0%	1,186,979	39.37%
12-31-07	-	564,990	564,990	0%	1,059,126	53.34%
12-31-08	-	603,347	603,347	0%	1,151,305	52.41%
12-31-09	-	799,775	799,775	0%	1,208,384	66.19%
12-31-10	-	597,843	597,843	0%	1,221,571	48.94%
12-31-11	-	669,998	669,998	0%	1,175,985	56.97%
12-31-12	-	767,812	767,812	0%	1,233,949	62.22%
12-31-13	-	831,721	831,721	0%	1,246,793	66.71%

CITY OF LINCOLNTON, NORTH CAROLINA

**Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2005	\$44,011	4.56%
2006	49,774	4.90%
2007	43,820	4.12%
2008	48,621	3.95%
2009	53,374	5.04%
2010	59,566	5.17%
2011	71,809	5.94%
2012	64,029	5.24%
2013	67,106	5.71%
2014	76,169	6.17%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation.

Valuation date	12/31/13
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.25 - 7.85%
Includes inflation at	3.00%
Cost-of-living adjustments	N/A

CITY OF LINCOLNTON, NORTH CAROLINA

**Other Postemployment 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%

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 Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions**

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$539,675	9.26%
2011	\$529,260	8.82%
2012	\$523,248	8.74%
2013	\$556,063	9.00%
2014	\$538,152	9.20%

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	12/31/13
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	2019
*Includes inflation at	3.00%

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.

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CITY OF LINCOLN, NORTH CAROLINA

**General Fund
Balance Sheets
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,331,217	\$ 3,634,741
Taxes receivable, net	232,741	289,295
Accounts receivable, net	469,292	477,727
Due from governmental agencies	183,341	145,379
Due from component unit	33,319	12,582
Inventories	134,268	144,390
Prepaid items	55,321	53,022
Restricted cash	832,908	904,975
Total assets	<u>\$ 5,272,407</u>	<u>\$ 5,662,112</u>
<u>Liabilities</u>		
Accounts payable and other accrued liabilities	\$ 262,092	\$ 266,567
Due to other funds	150,000	300,000
Unearned revenues	6,035	6,160
Total liabilities	<u>418,127</u>	<u>572,727</u>
<u>Deferred Inflows of Resources</u>		
Property taxes receivable	232,741	289,295
Prepaid taxes	297	259
Total deferred inflows of resources	<u>233,038</u>	<u>289,554</u>
<u>Fund Balances</u>		
Non Spendable:		
Inventories	134,268	144,390
Prepaid expenditures	55,321	53,022
Restricted:		
Stabilization by State statute	686,430	635,842
Streets	833,430	905,325
Assigned:		
Subsequent year's expenditures	1,547,057	1,443,059
Unassigned	<u>1,364,736</u>	<u>1,618,193</u>
Total fund balances	<u>4,621,243</u>	<u>4,799,831</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,272,407</u>	<u>\$ 5,662,112</u>

CITY OF LINCOLNTON, NORTH CAROLINA

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**General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013)**

	2014		Variance Positive (Negative)	2013 Actual
	Budget	Actual		
Revenues:				
Ad valorem taxes:				
Current year	\$ 4,530,000	\$4,751,510	\$ 221,510	\$4,569,453
Prior years	100,000	117,734	17,734	85,435
Interest and penalties	30,000	36,588	6,588	25,217
Total	4,660,000	4,905,832	245,832	4,680,104
Other taxes and licenses:				
Other taxes	22,900	25,521	2,621	27,210
Unrestricted intergovernmental revenues:				
Local option sales tax	2,220,000	2,264,938	44,938	2,173,528
Payment in lieu of taxes	22,650	22,651	1	24,732
Hold harmless distribution	64,000	66,169	2,169	96,389
Utility franchise tax	764,000	808,761	44,761	868,442
Beer and wine tax	43,000	45,873	2,873	42,462
ABC profit distribution	85,000	113,319	28,319	57,582
Other	59,000	57,636	(1,364)	56,798
Total	3,257,650	3,379,348	121,698	3,319,933
Restricted intergovernmental revenues:				
Powell Bill street aid allocation	308,200	314,080	5,880	311,610
Powell Bill investment earnings	200	238	38	611
Other Powell Bill receipts	-	1,906	1,906	179
Controlled substance tax	5,000	11,477	6,477	8,643
ABC revenue for law enforcement	30,000	30,000	-	20,000
On-behalf of payments-Fire and Rescue	4,600	10,855	6,255	14,626
Federal, state and local grants	48,750	49,453	703	412,987
Total	396,750	418,009	21,259	768,655

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

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**General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013)

	2014		Variance Positive (Negative)	2013 Actual
	Budget	Actual		
Revenues (continued):				
Permits and fees:				
Zoning fees	\$ 7,700	\$ 8,380	\$ 680	\$ 8,585
Online convenience fees	5,000	11,908	6,908	-
Other fees	4,100	5,480	1,380	4,429
Total	16,800	25,768	8,968	13,014
Sales and services:				
Cemetery lot sales	20,000	27,300	7,300	16,783
Refuse/solid waste fees	-	44,466	44,466	-
Recreation fees and concessions	82,100	91,302	9,202	96,676
Other	2,500	3,166	666	2,218
Total	104,600	166,235	61,635	115,676
Investment earnings	1,900	1,916	16	3,990
Miscellaneous:				
Sale of property	12,600	6,522	(6,078)	30,499
Other	226,700	297,979	71,279	62,050
Total	239,300	304,501	65,201	92,549
Total revenues	8,699,900	9,227,129	527,229	9,021,132

cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013)

	<u>2014</u>		<u>Variance Positive (Negative)</u>	<u>2013 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Expenditures:				
General government:				
Governing body				
Salaries and employee benefits	\$ 335,200	\$ 320,473	\$ 14,727	\$ 252,782
Other operating expenditures	497,918	451,275	46,643	385,819
Tax collection fees	159,500	147,395	12,105	135,110
Capital outlay	41,000	40,177	823	10,737
Interdepartmental charges	<u>(177,292)</u>	<u>(177,292)</u>	<u>-</u>	<u>(177,292)</u>
	<u>856,326</u>	<u>782,029</u>	<u>74,297</u>	<u>607,157</u>
Administrative				
Salaries and employee benefits	477,400	458,534	18,866	501,866
Other operating expenditures	96,900	68,462	28,438	73,429
Capital outlay	5,000	-	5,000	-
Interdepartmental charges	<u>(169,172)</u>	<u>(169,172)</u>	<u>-</u>	<u>(169,172)</u>
	<u>410,128</u>	<u>357,823</u>	<u>52,305</u>	<u>406,123</u>
Finance				
Salaries and employee benefits	582,700	565,163	17,537	542,266
Other operating expenditures	81,300	62,584	18,716	56,929
Capital outlay	-	-	-	11,283
Interdepartmental charges	<u>(375,188)</u>	<u>(375,188)</u>	<u>-</u>	<u>(375,188)</u>
	<u>288,812</u>	<u>252,559</u>	<u>36,253</u>	<u>235,290</u>
Total general government	<u>1,555,266</u>	<u>1,392,411</u>	<u>162,855</u>	<u>1,248,570</u>
Public safety:				
Police				
Salaries and employee benefits	2,472,100	2,404,167	67,934	2,295,963
Other operating expenditures	350,901	305,846	45,055	291,753
Capital outlay	<u>114,450</u>	<u>111,685</u>	<u>2,765</u>	<u>153,343</u>
	<u>2,937,451</u>	<u>2,821,698</u>	<u>115,753</u>	<u>2,741,059</u>

cont.

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013)

	2014		Variance Positive (Negative)	2013 Actual
	<u>Budget</u>	<u>Actual</u>		
Expenditures (continued):				
Fire				
Salaries and employee benefits	\$ 1,661,250	\$1,595,425	\$ 65,825	\$1,558,006
Other operating expenditures	<u>217,500</u>	<u>182,232</u>	<u>35,268</u>	<u>188,480</u>
	<u>1,878,750</u>	<u>1,777,657</u>	<u>101,093</u>	<u>1,746,485</u>
Total public safety	<u>4,816,201</u>	<u>4,599,355</u>	<u>216,846</u>	<u>4,487,544</u>
Public works:				
General and administrative				
Salaries and employee benefits	226,300	222,173	4,127	217,323
Operating expenditures	80,453	60,508	19,945	62,140
Interdepartmental charges	<u>(135,185)</u>	<u>(135,185)</u>	-	<u>(135,185)</u>
	<u>171,568</u>	<u>147,496</u>	<u>24,072</u>	<u>144,278</u>
Street maintenance				
Salaries and employee benefits	591,950	605,276	(13,326)	593,742
Operating expenditures	271,922	163,252	108,670	148,203
Capital outlay	59,700	54,541	5,159	143,357
Interdepartmental charges	<u>(139,103)</u>	<u>(139,103)</u>	-	<u>(139,103)</u>
	<u>784,469</u>	<u>683,966</u>	<u>100,503</u>	<u>746,199</u>
Powell Bill assistance				
Operating expenditures	<u>420,000</u>	<u>388,118</u>	<u>31,882</u>	<u>324,214</u>
Fleet maintenance				
Salaries and employee benefits	179,775	175,058	4,717	164,518
Operating expenditures	37,095	32,276	4,819	27,537
Capital outlay	6,000	5,267	733	-
Interdepartmental charges	<u>(44,070)</u>	<u>(44,070)</u>	-	<u>(44,070)</u>
	<u>178,800</u>	<u>168,532</u>	<u>10,268</u>	<u>147,985</u>
Airport operation	<u>190,500</u>	<u>165,549</u>	<u>24,952</u>	<u>204,000</u>
Total public works	<u>1,745,337</u>	<u>1,553,660</u>	<u>191,677</u>	<u>1,566,676</u>

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013)

	2014		Variance Positive (Negative)	2013 Actual
	Budget	Actual		
Expenditures (continued):				
Economic and physical development:				
Business and community development				
Salaries and employee benefits	\$ 128,000	\$ 124,098	\$ 3,902	\$ 123,522
Operating expenditures	84,100	51,045	33,055	64,256
	<u>212,100</u>	<u>175,143</u>	<u>36,957</u>	<u>187,777</u>
Planning and zoning				
Salaries and employee benefits	214,100	208,808	5,292	209,672
Operating expenditures	50,200	27,999	22,201	31,303
Capital outlay	8,000	7,500	500	389,468
Interdepartmental charges	(9,990)	(9,990)	-	(9,990)
	<u>262,310</u>	<u>234,317</u>	<u>27,993</u>	<u>620,453</u>
Total economic and physical development	<u>474,410</u>	<u>409,460</u>	<u>64,950</u>	<u>808,231</u>
Environmental protection:				
Solid waste				
Salaries and employee benefits	612,250	592,029	20,221	577,316
Recycling contract	-	-	-	89,645
Operating expenditures	223,122	186,380	36,742	193,824
Capital outlay	-	-	-	24,681
	<u>835,372</u>	<u>778,408</u>	<u>56,964</u>	<u>885,466</u>
Cemetery				
Salaries and employee benefits	172,000	170,154	1,846	149,643
Operating expenditures	39,886	22,661	17,225	30,662
Capital outlay	9,500	9,459	41	-
	<u>221,386</u>	<u>202,274</u>	<u>19,112</u>	<u>180,305</u>
Total environmental protection	<u>1,056,758</u>	<u>980,682</u>	<u>76,076</u>	<u>1,065,771</u>
Cultural and recreational:				
Salaries and employee benefits	391,840	370,994	20,846	390,516
Operating expenditures	320,644	287,610	33,034	214,046
Capital outlay	123,038	122,966	72	6,310
Total cultural and recreational	<u>835,522</u>	<u>781,570</u>	<u>53,952</u>	<u>610,871</u>

General Fund
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013)

	<u>2014</u>		<u>Variance Positive (Negative)</u>	<u>2013 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Expenditures (continued):				
Debt service:				
Principal retirement	\$ 217,135	\$ 67,134	\$ 150,001	\$ 97,658
Interest and other charges	5,435	5,428	7	11,190
Total debt service	<u>222,570</u>	<u>72,562</u>	<u>150,008</u>	<u>108,849</u>
Total expenditures	<u>10,706,064</u>	<u>9,789,700</u>	<u>916,364</u>	<u>9,896,512</u>
Revenues over (under) expenditures	<u>(2,006,164)</u>	<u>(562,571)</u>	<u>1,443,593</u>	<u>(875,380)</u>
Other Financing Sources (Uses):				
Appropriated fund balance	1,612,059	-	(1,612,059)	-
Transfers (to) from other funds				
Water and Sewer Fund	368,130	368,130	-	366,160
Electric Fund	25,975	25,975	-	24,540
Total other financing sources (uses)	<u>2,006,164</u>	<u>394,105</u>	<u>(1,612,059)</u>	<u>390,700</u>
Revenues and other financing sources over (under) expenditures and other financing uses and extraordinary item	<u>\$ -</u>	(168,466)	<u>\$ (168,466)</u>	(484,680)
Fund balances, July 1		4,799,831		5,289,900
Increase (decrease) in reserve for inventory		<u>(10,122)</u>		<u>(5,389)</u>
Fund balances, June 30		<u>\$4,621,243</u>		<u>\$4,799,831</u>

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**GOVERNMENTAL ACTIVITIES
SPECIAL REVENUE FUNDS**

NON-MAJOR FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for proceeds of specific revenue sources (other than special assessments of major capital projects) that are legally restricted to expenditures for specific purposes.

***Occupancy Tax Fund* - This fund is used to account for occupancy tax revenue to be used for tourism related purposes.**

CITY OF LINCOLNTON, NORTH CAROLINA

Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	<u>Special Revenue Fund Occupancy Tax Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 383,388
Total assets	<u>\$ 383,388</u>
<u>Liabilities and Fund Balances</u>	
Accounts payable and accrued liabilities	\$ -
Fund balances:	
Restricted - Economic development	383,128
Assigned - Subsequent year's expenditures	<u>260</u>
Total fund balances	<u>383,388</u>
Total liabilities and fund balances	<u>\$ 383,388</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2014**

	Special Revenue Fund Occupancy Tax Fund
Revenues:	
Unrestricted intergovernmental revenues	\$ 85,636
Investment earnings	455
Total revenues	<u>86,090</u>
Expenditures:	
General government	<u>82,400</u>
Total expenditures	<u>82,400</u>
Revenues over (under) expenditures	3,690
Fund balances, July 1	<u>379,698</u>
Fund balances, June 30	<u>\$ 383,388</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Special Revenue Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual - Occupancy Tax Fund
 For the Year Ended June 30, 2014
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)**

	<u>2014</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2013 Actual</u>
Revenues:				
Unrestricted intergovernmental:				
Local occupancy tax	\$ 72,100	\$ 85,636	\$ 13,536	\$ 78,832
Investment earnings	<u>450</u>	<u>455</u>	<u>5</u>	<u>628</u>
Total revenues	<u>72,550</u>	<u>86,090</u>	<u>13,540</u>	<u>79,461</u>
Expenditures:				
Other operating expenditures	<u>89,400</u>	<u>82,400</u>	<u>7,000</u>	<u>94,600</u>
Total expenditures	<u>89,400</u>	<u>82,400</u>	<u>7,000</u>	<u>94,600</u>
Revenues over (under) expenditures	(16,850)	3,690	20,540	(15,139)
Other Financing Sources (Uses):				
Appropriated fund balance	<u>16,850</u>	<u>-</u>	<u>(16,850)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	3,690	<u>\$ 3,690</u>	(15,139)
Fund balance, July 1		<u>379,698</u>		<u>394,837</u>
Fund balance, June 30		<u>\$ 383,388</u>		<u>\$ 379,698</u>

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 Wastewater 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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 6,945,999	\$ 6,370,836
Accounts receivable	787,984	755,823
Inventories	166,357	177,199
Prepaid expenses	80,090	85,753
Total current assets	<u>7,980,431</u>	<u>7,389,611</u>
Noncurrent assets:		
Restricted cash and cash equivalents	91,534	78,240
Capital assets, net of accumulated depreciation	<u>32,659,280</u>	<u>32,511,556</u>
Total assets	<u>40,731,245</u>	<u>39,979,407</u>
<u>Deferred Outflows of Resources</u>		
Unamortized loss on refunding	<u>508,430</u>	<u>581,938</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued liabilities	295,109	231,702
Customer deposits	91,534	78,240
Bonds payable - current	1,345,000	1,290,000
Loans payable - current	624,263	606,847
Accrued compensated absences	56,030	58,431
Total current liabilities	<u>2,411,936</u>	<u>2,265,219</u>
Noncurrent liabilities:		
Bonds payable	9,405,000	10,750,000
Loans payable	5,508,930	6,133,193
Other post employment benefits liability	454,697	397,644
Accrued compensated absences	42,301	36,137
Total noncurrent liabilities	<u>15,410,929</u>	<u>17,316,973</u>
Total liabilities	<u>17,822,865</u>	<u>19,582,192</u>
<u>Deferred Infows of Resources</u>		
Unamortized bond refunding charges	<u>156,908</u>	<u>179,594</u>
<u>Net Position</u>		
Net investment in capital assets	16,127,609	14,133,861
Unrestricted	<u>7,132,293</u>	<u>6,665,698</u>
Total net position	<u>\$ 23,259,902</u>	<u>\$ 20,799,559</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water charges	\$ 3,423,517	\$ 3,446,636
Sewer charges	4,736,579	4,763,231
Water and sewer taps	10,050	17,850
Other operating revenues	<u>210,783</u>	<u>156,533</u>
Total operating revenues	<u>8,380,928</u>	<u>8,384,249</u>
Operating Expenses:		
Water treatment plant	1,781,424	1,699,426
Water and sewer distribution maintenance	1,454,570	1,373,583
Waste treatment plant	1,466,691	1,510,066
Depreciation	<u>1,767,812</u>	<u>1,855,744</u>
Total operating expenses	<u>6,470,497</u>	<u>6,438,818</u>
Operating income (loss)	<u>1,910,431</u>	<u>1,945,431</u>
Nonoperating Revenues (Expenses):		
Investment earnings	3,459	5,825
Gain (loss) on disposition of capital assets	236	(906)
Interest on long-term debt	<u>(760,216)</u>	<u>(827,061)</u>
Total nonoperating revenues (expenses)	<u>(756,521)</u>	<u>(822,142)</u>
Income (loss) before transfers and capital contributions	1,153,910	1,123,289
Transfer to General Fund-payment in lieu of taxes	(368,130)	(366,160)
Capital contributions	<u>1,674,563</u>	<u>-</u>
Change in net position	2,460,342	757,129
Total net position -beginning	<u>20,799,559</u>	<u>20,042,430</u>
Total net position - ending	<u>\$ 23,259,902</u>	<u>\$ 20,799,559</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Water and Sewer Fund
For the Year Ended June 30, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)**

	2014		Variance Positive (Negative)	2013 Actual
	Budget	Actual		
Revenues:				
Operating revenues:				
Water charges	\$ 3,290,000	\$ 3,423,517	\$ 133,517	\$ 3,446,636
Sewer charges	4,530,000	4,736,579	206,579	4,763,231
Water and sewer taps	6,950	10,050	3,100	17,850
Other	188,900	210,783	21,883	156,533
Total operating revenues	<u>8,015,850</u>	<u>8,380,928</u>	<u>365,078</u>	<u>8,384,249</u>
Nonoperating revenues:				
Investment earnings	3,500	3,459	(41)	5,825
Total nonoperating revenues	<u>3,500</u>	<u>3,459</u>	<u>(41)</u>	<u>5,825</u>
Total revenues	<u>8,019,350</u>	<u>8,384,387</u>	<u>365,037</u>	<u>8,390,074</u>
Expenditures:				
Operating expenditures:				
Water treatment plant				
Salaries and employee benefits	653,325	621,824	31,501	569,305
Chemicals	196,740	122,311	74,429	133,674
Electricity	331,880	318,799	13,081	299,013
Water service contract	132,000	119,816	12,184	115,741
Administrative	240,000	240,000	-	250,000
Repairs and maintenance	79,500	72,634	6,866	51,561
Other operating expenditures	298,035	261,619	36,416	260,278
	<u>1,931,480</u>	<u>1,757,004</u>	<u>174,476</u>	<u>1,679,573</u>
Water and sewer distribution maintenance				
Salaries and employee benefits	730,850	705,807	25,043	642,631
Supplies	163,300	127,313	35,987	154,891
Administrative	321,000	321,000	-	300,000
Repairs and maintenance	163,900	124,232	39,668	113,947
Other operating expenditures	192,086	143,045	49,041	131,604
	<u>1,571,136</u>	<u>1,421,398</u>	<u>149,738</u>	<u>1,343,073</u>
Waste treatment plant				
Salaries and employee benefits	574,445	529,602	44,843	529,111
Sludge removal	272,000	174,868	97,132	219,091
Electricity	259,092	259,092	-	239,900
Administrative	214,000	214,000	-	225,000
Repairs and maintenance	72,000	60,172	11,828	41,128
Other operating expenditures	423,105	214,890	208,215	242,495
	<u>1,814,642</u>	<u>1,452,624</u>	<u>362,018</u>	<u>1,496,725</u>

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, 2014

(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	<u>2014</u>		<u>Variance</u>	<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
Total operating expenditures	\$ 5,317,258	\$ 4,631,026	\$ 686,232	\$ 4,519,370
Debt service:				
Principal retirement	1,896,850	1,896,847	3	1,829,916
Interest and fees	712,465	712,389	76	778,818
Total debt service	<u>2,609,315</u>	<u>2,609,236</u>	<u>79</u>	<u>2,608,734</u>
Capital outlay:				
Water treatment plant	71,000	59,635	11,365	42,719
Water and sewer distribution maintenance	2,108,563	1,855,901	252,662	58,325
Waste treatment plant	77,000	-	77,000	101,995
Total capital outlay	<u>2,256,563</u>	<u>1,915,536</u>	<u>341,027</u>	<u>203,038</u>
Total expenditures	<u>10,183,136</u>	<u>9,155,798</u>	<u>1,027,338</u>	<u>7,331,143</u>
Revenues over (under) expenditures	<u>(2,163,786)</u>	<u>(771,410)</u>	<u>1,392,376</u>	<u>1,058,931</u>
Other Financing Sources (Uses):				
Appropriated fund balance	857,353	-	(857,353)	-
Transfer-General Fund-payment in lieu of taxes	(368,130)	(368,130)	-	(366,160)
Capital contributions	1,674,563	1,674,563	1	-
Gain (loss) on disposition of capital assets	-	236	236	(906)
Total other financing sources	<u>2,163,786</u>	<u>1,306,668</u>	<u>(857,117)</u>	<u>(367,066)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>535,258</u>	<u>\$ 535,258</u>	<u>691,865</u>
Reconciliation From Budgetary Basis (Modified Accrual) to Full Accrual:				
Increase (decrease) in inventory		(10,842)		(6,793)
(Increase) decrease in accrued vacation pay		(3,764)		(1,684)
(Increase) decrease in other post employment benefits		(57,054)		(55,227)
Cost of expenditures that were capitalized		1,915,536		203,038
Payment of debt principal		1,896,847		1,829,916
(Increase) decrease in accrued interest		11,503		11,088
Bond refunding expenses		(59,330)		(59,330)
Depreciation		<u>(1,767,812)</u>		<u>(1,855,744)</u>
Change in net position		<u>\$ 2,460,342</u>		<u>\$ 757,129</u>

CITY OF LINCOLNTON, NORTH CAROLINA

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**Statements of Cash Flows
Water and Sewer Fund
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Cash received from customers and users	\$ 8,348,767	\$ 8,457,730
Customer deposits received	13,294	3,818
Cash paid for goods and services	(2,701,727)	(2,776,406)
Cash paid to or on behalf of employees for services	(1,857,235)	(1,741,046)
Net cash provided (used) by operating activities	<u>3,803,099</u>	<u>3,944,096</u>
Cash Flows From Non-Capital Financing Activities:		
Transfers - in (out)	<u>(368,130)</u>	<u>(366,160)</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(240,973)	(203,038)
Proceeds from sale of capital assets	236	42,185
Principal paid on long-term debt	(1,896,847)	(1,829,916)
Interest paid on long-term debt	(712,387)	(778,819)
Net cash provided (used) by capital and related financing activities	<u>(2,849,971)</u>	<u>(2,769,588)</u>
Cash Flows From Investing Activities:		
Investment earnings	<u>3,459</u>	<u>5,825</u>
Net cash provided (used) by investing activities	<u>3,459</u>	<u>5,825</u>
Net increase (decrease) in cash and cash equivalents	588,457	814,173
Cash and cash equivalents at beginning of year	<u>6,449,076</u>	<u>5,634,903</u>
Cash and cash equivalents at end of year	<u>\$ 7,037,533</u>	<u>\$ 6,449,076</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 1,910,431	\$ 1,945,431
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,767,812	1,855,744
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(32,161)	73,478
(Increase) decrease in inventory	10,842	6,793
(Increase) decrease in prepaid expense	(2,845)	9,293
Increase (decrease) in accounts payable and other accrued liabilities	74,910	(7,374)
Increase (decrease) in other post retirement benefits	57,053	55,228
Increase (decrease) in accrued vacation pay	3,763	1,685
Increase (decrease) in customer deposits	<u>13,294</u>	<u>3,818</u>
Net cash provided (used) by operating activities	<u>\$ 3,803,099</u>	<u>\$ 3,944,096</u>

cont.

CITY OF LINCOLNTON, NORTH CAROLINA

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Statements of Cash Flows
Water and Sewer Fund
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Supplemental Schedule of Non Cash Financing Activities:		
Amortization of loss on refunded debt	<u>\$ 73,508</u>	<u>\$ 73,508</u>
Amortization of premium on refunded debt	<u>\$ (22,686)</u>	<u>\$ (22,685)</u>
Amortization on prepaid insurance on bond refunding	<u>\$ 8,508</u>	<u>\$ 8,508</u>
Acquisition of capital assets through capital contributions	<u>\$ 1,674,563</u>	<u>\$ -</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Statements of Net Position
Electric Fund
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$3,122,701	\$2,859,625
Accounts receivable	630,508	566,469
Due from other funds	150,000	150,000
Inventories	194,922	202,302
Prepaid expenses	<u>5,513</u>	<u>5,289</u>
Total current assets	4,103,643	3,783,685
Noncurrent assets:		
Restricted cash and cash equivalents	239,837	232,947
Due from other funds	-	150,000
Capital assets, net of accumulated depreciation	<u>1,060,971</u>	<u>1,117,741</u>
Total assets	<u>5,404,451</u>	<u>5,284,373</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued liabilities	709,821	656,313
Customer deposits	239,837	232,947
Accrued compensated absences	<u>7,320</u>	<u>5,062</u>
Total current liabilities	<u>956,978</u>	<u>894,322</u>
Noncurrent liabilities:		
Other post employment benefits liability	40,383	33,476
Accrued compensated absences	<u>12,454</u>	<u>18,039</u>
Total noncurrent liabilities	<u>52,837</u>	<u>51,514</u>
Total liabilities	<u>1,009,815</u>	<u>945,836</u>
<u>Net Position</u>		
Net investment in capital assets	1,060,971	1,117,741
Unrestricted	<u>3,333,665</u>	<u>3,220,795</u>
Total net position	<u>\$4,394,636</u>	<u>\$4,338,537</u>

CITY OF LINCOLNTON, NORTH CAROLINA**Statements of Revenues, Expenses and Changes in Net Position
Electric Fund
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Electric sales	\$ 6,526,386	\$ 6,107,469
Electricity - municipal operations	728,082	668,865
Other operating revenues	<u>423,380</u>	<u>427,732</u>
Total operating revenues	<u>7,677,848</u>	<u>7,204,066</u>
Operating Expenses:		
Electrical operations	1,064,318	1,007,015
Electrical power purchases	6,165,880	5,953,852
Administrative	275,000	275,000
Depreciation	<u>96,349</u>	<u>115,215</u>
Total operating expenses	<u>7,601,547</u>	<u>7,351,083</u>
Operating income (loss)	<u>76,301</u>	<u>(147,017)</u>
Nonoperating Revenues (Expenses);		
Investment earnings	<u>5,774</u>	<u>8,918</u>
Total nonoperating revenues (expenses)	<u>5,774</u>	<u>8,918</u>
Income (loss) before transfers	82,075	(138,099)
Transfer to the General Fund-payment in lieu of taxes	<u>(25,975)</u>	<u>(24,540)</u>
Change in net position	56,099	(162,639)
Total net position - beginning	<u>4,338,537</u>	<u>4,501,175</u>
Total net position - ending	<u>\$ 4,394,636</u>	<u>\$ 4,338,537</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, 2014
(With Comparative Actual Amounts for the Year Ended June 30, 2013)**

	<u>2014</u>		<u>Variance</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u>	<u>2013</u>
			<u>(Negative)</u>	<u>Actual</u>
Revenues:				
Operating revenues:				
Electricity sales	\$6,262,285	\$6,526,386	\$ 264,101	\$6,107,469
Electricity - municipal operations	728,082	728,082	-	668,865
Other operating revenues	<u>394,160</u>	<u>423,380</u>	<u>29,220</u>	<u>427,732</u>
Total operating revenues	<u>7,384,527</u>	<u>7,677,848</u>	<u>293,321</u>	<u>7,204,066</u>
Nonoperating revenues:				
Investment earnings	<u>5,750</u>	<u>5,774</u>	<u>24</u>	<u>8,918</u>
Total revenues	<u>7,390,277</u>	<u>7,683,622</u>	<u>293,345</u>	<u>7,212,984</u>
Expenditures:				
Salaries and employee benefits	436,850	414,022	22,828	430,120
Electrical power purchases	6,319,470	6,165,880	153,590	5,953,852
Administrative	275,000	275,000	-	275,000
Repairs and maintenance	99,780	86,276	13,504	83,630
Other operating expenditures	600,470	553,059	47,411	516,008
Capital outlay	<u>45,000</u>	<u>39,579</u>	<u>5,421</u>	<u>12,600</u>
Total operating expenditures	<u>7,776,570</u>	<u>7,533,816</u>	<u>242,754</u>	<u>7,271,210</u>
Revenues over (under) expenditures	<u>(386,293)</u>	<u>149,806</u>	<u>536,099</u>	<u>(58,227)</u>
Other Financing Sources (Uses):				
Appropriated fund balance	287,268	-	(287,268)	-
Proceeds from borrowing	150,000	-	(150,000)	-
Transfers from (to):				
General Fund-payment in lieu of taxes	(25,975)	(25,975)	-	(24,540)
Rate Stabilization Fund	<u>(25,000)</u>	<u>(25,000)</u>	-	<u>(25,000)</u>
Total other financing sources (uses)	<u>386,293</u>	<u>(50,975)</u>	<u>(437,268)</u>	<u>(49,540)</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, 2014

(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014		Variance	
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u>	2013
			<u>(Negative)</u>	<u>Actual</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	\$ 98,831	<u>\$ 98,831</u>	\$ (107,767)
Reconciliation From Budgetary Basis				
(Modified Accrual) to Full Accrual:				
Transfer to Rate Stabilization Fund		25,000		25,000
Increase (decrease) in inventory		(7,380)		28,290
(Increase) decrease in accrued vacation pay		3,327		(1,009)
(Increase) decrease in other post retirement benefits		(6,908)		(4,538)
Cost of expenditures that were capitalized		39,579		12,600
Depreciation		<u>(96,349)</u>		<u>(115,215)</u>
Changes in net position		<u>\$ 56,099</u>		<u>\$ (162,639)</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Statements of Cash Flows
Electric Fund**

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Cash received from customers and users	\$ 7,613,806	\$ 7,193,708
Customer deposits received	6,890	12,065
Cash paid for goods and services	(7,030,621)	(6,818,884)
Cash paid to or on behalf of employees for services	<u>(410,330)</u>	<u>(430,122)</u>
Net cash provided (used) by operating activities	<u>179,745</u>	<u>(43,233)</u>
 Cash Flows From Non-Capital Financing Activities:		
Repayment from General Fund	150,000	150,000
Transfers - in (out)	<u>(25,975)</u>	<u>(24,540)</u>
Net cash provided (used) by non-capital financing activities	<u>124,025</u>	<u>125,460</u>
 Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	<u>(39,579)</u>	<u>(12,600)</u>
Net cash provided (used) by capital and related financing activities	<u>(39,579)</u>	<u>(12,600)</u>
 Cash Flows From Investing Activities:		
Investment earnings	<u>5,774</u>	<u>8,918</u>
Net cash provided (used) by investing activities	<u>5,774</u>	<u>8,918</u>
 Net increase (decrease) in cash and cash equivalents	269,965	78,545
Cash and cash equivalents at beginning of year	<u>3,092,572</u>	<u>3,014,027</u>
 Cash and cash equivalents at end of year	<u>\$ 3,362,538</u>	<u>\$ 3,092,572</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 76,301	\$ (147,017)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	96,349	115,215
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(64,042)	(10,358)
(Increase) decrease in inventory	7,380	(28,290)
(Increase) decrease in prepaid expense	(224)	2,523
Increase (decrease) in accounts payable and other accrued liabilities	53,508	7,084
Increase (decrease) in accrued vacation pay	(3,327)	1,010
Increase (decrease) in other post retirement benefits	6,910	4,535
Increase (decrease) in customer deposits	<u>6,890</u>	<u>12,065</u>
 Net cash provided (used) by operating activities	<u>\$ 179,745</u>	<u>\$ (43,233)</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, 2014

	<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	650,000	625,000	25,000	650,000
Electric Fund	<u>(650,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>625,000</u>	<u>25,000</u>	<u>650,000</u>
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ 625,000</u>	<u>\$ 25,000</u>	<u>\$ 650,000</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**
-
-

CITY OF LINCOLNTON, NORTH CAROLINA

**Schedule of Ad Valorem Taxes Receivable
June 30, 2014**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013 - 2014	\$ -	\$4,941,052	\$4,819,616	\$ 121,436
2012 - 2013	137,049	-	84,991	52,058
2011 - 2012	55,348	-	24,057	31,291
2010 - 2011	28,168	-	5,101	23,067
2003 - 2010	16,765	-	784	15,981
2008 - 2009	17,129	-	499	16,630
2007 - 2008	17,316	-	407	16,909
2006 - 2007	17,307	-	549	16,758
2005 - 2006	14,746	-	568	14,178
2004 - 2005	10,505	-	1,073	9,432
2003 - 2004	9,765	-	9,765	-
Total	<u>\$ 324,098</u>	<u>\$4,941,052</u>	<u>\$4,947,410</u>	317,741
Less allowance for uncollectibles				<u>(85,000)</u>
Balance				<u>\$ 232,741</u>
 Reconcilement With Revenue:				
Taxes - Ad valorem - General Fund				\$ 4,905,832
Adjustments, releases and discounts				68,401
Taxes written off				9,765
Interest collected				<u>(36,588)</u>
Total collections and credits				<u>\$ 4,947,410</u>

CITY OF LINCOLNTON, NORTH CAROLINA

**Analysis of Current Tax Levy
June 30, 2014**

	City Wide		Total Levy		
	Property		Total	Property	Registered
	<u>Valuation</u>	<u>Rate</u>	<u>Levy</u>	<u>Excluding</u> <u>Registered</u> <u>Motor</u> <u>Vehicles</u>	<u>Registered</u> <u>Motor</u> <u>Vehicles</u>
Original levy:					
Property taxes at current year's rate	\$ 791,400,178	0.56	\$ 4,431,841	\$ 4,431,841	\$ -
Motor vehicles taxed at current year rate	<u>90,197,250</u>	0.56	<u>505,105</u>	<u>-</u>	<u>505,105</u>
Total	<u>881,597,428</u>		<u>4,936,946</u>	<u>4,431,841</u>	<u>505,105</u>
Discoveries:					
Current year taxes	3,251,981		18,211	17,051	1,160
Adjustments	<u>(2,518,846)</u>		<u>(14,105)</u>	<u>(1,270)</u>	<u>(12,835)</u>
Total	<u>733,135</u>		<u>4,106</u>	<u>15,781</u>	<u>(11,675)</u>
Total property valuation	<u>\$ 882,330,563</u>				
Net levy			4,941,052	4,447,622	493,430
Less uncollected taxes at June 30, 2014			<u>(121,436)</u>	<u>(99,096)</u>	<u>(22,340)</u>
Current year's taxes collected			<u>\$ 4,819,616</u>	<u>\$ 4,348,526</u>	<u>\$ 471,090</u>
Current levy collection percentage			<u>97.54%</u>	<u>97.77%</u>	<u>95.47%</u>

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STATISTICAL SECTION

(Unaudited)

This part of the City of Lincolnnton'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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Governmental Activities:										
Net investment in capital assets	\$20,926,014	\$21,089,389	\$20,981,810	\$20,987,519	\$20,760,706	\$20,342,099	\$20,210,351	\$19,493,069	\$19,313,526	\$18,914,071
Restricted	1,065,832	1,084,279	1,241,024	1,299,143	1,338,407	1,302,773	1,864,473	1,912,469	1,876,915	1,903,248
Unrestricted	4,234,002	4,065,795	3,972,524	4,749,473	4,311,861	4,687,937	2,897,027	2,329,895	1,656,570	1,213,155
Total governmental activities net position	26,225,848	26,239,464	26,195,359	27,036,135	26,410,974	26,332,809	24,971,852	23,735,434	22,847,010	22,030,474
Business-type Activities:										
Net investment in capital assets	14,809,019	15,822,692	15,225,894	15,432,757	15,580,344	15,321,964	15,584,724	15,270,921	15,251,603	17,188,580
Unrestricted	9,261,874	9,640,507	10,593,657	10,769,631	10,146,582	9,432,418	9,310,193	9,272,685	9,886,493	10,465,958
Total business-type activities net position	24,070,893	25,463,199	25,819,551	26,202,388	25,726,926	24,754,382	24,894,916	24,543,606	25,138,096	27,654,538
Primary Government:										
Net investment in capital assets	35,735,033	36,912,081	36,207,704	36,420,276	36,341,050	35,664,063	35,795,075	34,763,990	34,565,129	36,102,650
Restricted	1,065,832	1,084,279	1,241,024	1,299,143	1,338,407	1,302,773	1,864,473	1,912,469	1,876,915	1,903,248
Unrestricted	13,495,876	13,706,302	14,566,181	15,519,104	14,458,443	14,120,355	12,207,220	11,602,580	11,543,063	11,679,114
Total primary government net position	\$50,296,740	\$51,702,663	\$52,014,909	\$53,238,523	\$52,137,901	\$51,087,192	\$49,866,769	\$48,279,040	\$47,985,106	\$49,685,012

CITY OF LINCOLNTON, NORTH CAROLINA

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Expenses:										
Governmental activities:										
General government	\$ 1,479,157	\$ 1,909,910	\$ 1,930,014	\$ 2,011,281	\$ 2,005,540	\$ 2,030,667	\$ 1,810,131	\$ 1,880,470	\$ 1,898,069	\$ 2,025,069
Public safety	3,343,633	3,660,282	3,812,228	3,955,603	4,268,681	4,445,229	4,510,132	4,773,082	4,586,096	4,663,422
Public works	1,630,273	1,103,629	1,021,948	1,335,245	1,545,041	1,422,754	1,460,931	1,312,549	1,530,196	1,488,646
Economic and physical development	395,665	411,415	414,345	395,563	485,736	431,472	430,681	532,931	531,028	497,450
Environmental protection	942,839	1,013,276	1,010,268	978,261	1,088,088	1,131,470	1,198,004	1,194,004	1,133,471	1,067,913
Cultural and recreational	-	-	8,555	547,857	626,197	637,700	662,228	667,510	673,215	718,794
Interest on long-term debt	-	23,452	38,151	46,994	39,451	31,710	23,762	16,973	11,190	5,428
Total governmental activities	<u>7,791,567</u>	<u>8,121,964</u>	<u>8,235,509</u>	<u>9,270,805</u>	<u>10,038,734</u>	<u>10,131,001</u>	<u>10,095,868</u>	<u>10,377,520</u>	<u>10,363,265</u>	<u>10,466,722</u>
Business-type activities:										
Interest on long-term debt	1,389,048	754,218	1,212,090	1,164,787	1,106,711	1,053,796	983,268	911,725	827,061	760,216
Water and sewer	5,753,025	5,840,385	5,783,918	5,952,991	5,944,608	5,998,337	6,095,894	6,420,997	6,438,818	6,470,498
Electric	5,618,371	5,880,297	6,049,454	6,381,703	6,628,371	6,850,392	7,248,183	7,341,177	7,351,083	7,601,547
Total business-type activities	<u>12,760,444</u>	<u>12,474,900</u>	<u>13,045,462</u>	<u>13,499,480</u>	<u>13,679,690</u>	<u>13,902,524</u>	<u>14,327,344</u>	<u>14,673,899</u>	<u>14,616,961</u>	<u>14,832,261</u>
Total expenses	<u>\$20,552,011</u>	<u>\$20,596,865</u>	<u>\$21,280,972</u>	<u>\$22,770,286</u>	<u>\$23,738,424</u>	<u>\$24,033,525</u>	<u>\$24,423,213</u>	<u>\$25,051,419</u>	<u>\$24,980,226</u>	<u>\$25,298,983</u>
Program Revenues:										
Governmental activities:										
Charges for services:										
Environmental protection	\$ 46,811	\$ 31,620	\$ 45,211	\$ 56,315	\$ 46,604	\$ 63,668	\$ 14,487	\$ 40,608	\$ 19,001	\$ 71,766
Cultural and recreational	-	-	-	65,237	80,740	89,218	93,470	98,702	96,676	91,302
Other	25,309	24,588	26,537	30,536	28,371	24,533	15,555	15,638	13,014	13,860
Operating grants and contributions	419,163	811,783	569,541	599,519	491,458	454,353	434,879	644,722	617,234	557,434
Capital grants and contributions	22,793	-	35,000	9,200	18,920	40,375	-	-	305,882	-
Total governmental activities	<u>514,076</u>	<u>867,991</u>	<u>676,289</u>	<u>760,807</u>	<u>666,093</u>	<u>672,147</u>	<u>558,191</u>	<u>799,670</u>	<u>1,051,807</u>	<u>734,362</u>
Business-type activities:										
Charges for services-Water and Sewer	6,342,845	6,488,820	6,870,509	6,857,883	6,677,523	7,072,445	7,972,746	8,186,402	8,384,249	8,380,928
Charges for services-Electric	5,663,947	5,817,435	6,041,584	6,226,419	6,197,694	6,186,496	6,457,194	6,681,363	7,204,066	7,677,848
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	1,243,195	8,200	766,778	533,700	-	-	-	-	1,674,563
Total business-type activities	<u>12,006,792</u>	<u>13,549,450</u>	<u>12,920,293</u>	<u>13,851,080</u>	<u>13,408,917</u>	<u>13,258,941</u>	<u>14,429,940</u>	<u>14,867,765</u>	<u>15,588,315</u>	<u>17,733,339</u>
Total program revenues	<u>\$12,520,868</u>	<u>\$14,417,441</u>	<u>\$13,596,582</u>	<u>\$14,611,887</u>	<u>\$14,075,010</u>	<u>\$13,931,088</u>	<u>\$14,988,131</u>	<u>\$15,667,435</u>	<u>\$16,640,122</u>	<u>\$18,467,701</u>

CITY OF LINCOLNTON, NORTH CAROLINA

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net revenue (expense)										
Governmental activities	\$ (7,277,491)	\$ (7,253,973)	\$ (7,559,219)	\$ (8,509,998)	\$ (9,392,642)	\$ (9,458,855)	\$ (9,537,677)	\$ (9,577,850)	\$ (9,311,458)	\$ (9,732,360)
Business-type activities	(753,652)	1,074,550	(125,169)	351,599	(270,773)	(643,583)	102,596	193,865	971,353	2,901,078
Total net expense	<u>\$ (8,031,143)</u>	<u>\$ (6,179,423)</u>	<u>\$ (7,684,388)</u>	<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>
General Revenues										
Governmental activities:										
Ad valorem taxes	\$ 3,882,285	\$ 3,668,548	\$ 3,553,859	\$ 4,057,630	\$ 4,740,285	\$ 4,715,808	\$ 4,697,996	\$ 4,563,151	\$ 4,724,967	\$ 4,849,278
Other taxes and licenses	3,119,626	3,267,832	3,595,591	3,685,879	3,492,339	3,295,628	3,331,733	3,311,700	3,292,144	3,349,868
Unrestricted investment earnings	152,625	275,595	256,453	253,311	94,982	18,895	20,384	6,850	3,990	1,916
Other	67,759	51,336	109,211	67,288	64,875	18,759	126,607	71,951	11,235	320,657
Transfers	-	4,277	-	372,500	375,000	381,600	-	387,800	390,700	394,105
Extraordinary item	-	-	-	-	-	950,000	-	-	-	-
Total governmental activities	<u>7,222,295</u>	<u>7,267,588</u>	<u>7,515,114</u>	<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>
Business-type activities:										
Unrestricted investment earnings	166,351	322,033	476,632	403,737	170,312	41,539	38,791	21,211	14,743	9,233
Other	20,900	-	4,888	-	-	11,100	(852)	-	(906)	236
Transfers	-	(4,277)	-	(372,500)	(375,000)	(381,600)	-	(387,800)	(390,700)	(394,105)
Total business-type activities	<u>187,251</u>	<u>317,756</u>	<u>481,520</u>	<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>
Total primary government	<u>\$ 7,409,546</u>	<u>\$ 7,585,344</u>	<u>\$ 7,996,634</u>	<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>
Change in Net Position:										
Governmental activities	\$ (55,196)	\$ 13,616	\$ (44,106)	\$ (73,392)	\$ (625,160)	\$ (78,165)	\$ (1,360,957)	\$ (1,236,418)	\$ (888,422)	\$ (816,535)
Business-type activities	<u>(566,401)</u>	<u>1,392,307</u>	<u>356,352</u>	<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>
Total primary government	<u>\$ (621,597)</u>	<u>\$ 1,405,923</u>	<u>\$ 312,245</u>	<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>

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
2005	\$3,882,285	\$ 12,886	\$2,022,497	\$ 784,233	\$ 17,961	\$ -	\$ 45,763	\$ -	\$6,765,625
2006	3,668,548	14,553	2,193,438	771,097	19,702	-	46,073	-	6,713,411
2007	3,553,859	15,106	2,404,911	888,067	16,287	-	47,817	-	6,926,047
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

- (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

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CITY OF LINCOLNTON, NORTH CAROLINA

**Fund Balances, Governmental Funds-Pre GASB 54
Fiscal Years 2005 through 2010
(Modified Accrual Basis of Accounting)
(Unaudited)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund:			
Reserved	\$ 802,163	\$ 763,217	\$2,111,368
Unreserved:			
Designated	1,332,900	1,404,250	1,179,588
Undesignated	<u>2,327,245</u>	<u>2,010,267</u>	<u>1,962,986</u>
Total general fund	<u><u>\$4,462,308</u></u>	<u><u>\$4,177,734</u></u>	<u><u>\$5,253,943</u></u>
All Other Governmental Funds:			
Reserved	\$1,065,832	\$1,084,279	\$ -
Unreserved, reported in:			
Special revenue funds	115,933	175,625	245,876
Capital projects funds	<u>(140,508)</u>	<u>(52,250)</u>	<u>-</u>
Total all other governmental funds	<u><u>\$1,041,257</u></u>	<u><u>\$1,207,654</u></u>	<u><u>\$ 245,876</u></u>

The decrease in total fund balance of the General Fund for the fiscal years 2005-2006 was primarily due to the expansion of the City Hall/Fire Department complex.

The increase in reserved fund balance in the General Fund and decrease in reserved fund balance in All Other Governmental Funds for the fiscal year 2007 is due to the Powell Bill fund becoming a part of the General Fund.

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.

Fiscal Year		
<u>2008</u>	<u>2009</u>	<u>2010</u>
\$2,235,855	\$2,177,926	\$2,340,260
1,174,269	1,321,355	1,724,750
<u>2,591,581</u>	<u>2,342,762</u>	<u>2,418,046</u>
<u>\$6,001,705</u>	<u>\$5,842,043</u>	<u>\$6,483,056</u>
\$ -	\$ -	\$ -
310,725	354,768	400,207
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 310,725</u>	<u>\$ 354,768</u>	<u>\$ 400,207</u>

CITY OF LINCOLNTON, NORTH CAROLINA**Fund Balances, Governmental Funds-GASB 54****Last Four Fiscal Years****(Modified Accrual Basis of Accounting)****(Unaudited)**

	Fiscal Year			
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Fund:				
Nonspendable:				
Inventories	\$ 184,545	\$ 149,779	\$ 144,390	\$ 134,268
Prepaid expenditures	53,192	57,049	53,022	55,321
Restricted:				
Stabilization by State Statute	580,149	644,443	635,842	686,430
Streets - Powell Bill	894,846	917,139	905,325	833,430
Assigned:				
Subsequent year's expenditures	1,617,555	1,784,060	1,443,059	1,547,057
Unassigned	<u>2,184,903</u>	<u>1,737,430</u>	<u>1,618,193</u>	<u>1,364,736</u>
Total general fund	<u>\$5,515,190</u>	<u>\$5,289,900</u>	<u>\$4,799,831</u>	<u>\$4,621,242</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>
Total all other governmental funds	<u>\$ 437,278</u>	<u>\$ 394,837</u>	<u>\$ 379,698</u>	<u>\$ 383,388</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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues:										
Ad valorem taxes	\$ 3,901,449	\$ 3,663,714	\$ 3,563,728	\$ 4,010,196	\$ 4,689,312	\$ 4,754,810	\$ 4,714,523	\$ 4,573,099	\$ 4,680,104	\$ 4,905,832
Other taxes and licenses	12,886	14,553	15,106	13,373	16,667	20,831	21,614	23,774	27,210	25,521
Unrestricted intergovernmental	3,152,685	3,309,480	3,642,057	3,672,505	3,475,672	3,325,324	3,351,667	3,397,305	3,398,765	3,379,348
Restricted intergovernmental	373,218	755,583	507,968	542,492	447,063	444,202	393,331	534,113	768,655	418,009
Permits and fees	25,309	24,588	26,537	30,536	28,371	24,532	15,355	15,638	13,014	25,768
Sales and services	46,811	31,620	45,211	121,552	127,344	152,886	107,957	139,310	115,676	166,235
Investment earnings	152,625	275,595	256,452	245,488	93,334	18,895	20,384	8,060	4,618	1,916
Miscellaneous	70,957	53,467	167,673	77,180	86,514	40,759	126,607	71,951	92,549	304,501
Total revenues	7,735,940	8,128,601	8,224,733	8,713,322	8,964,277	8,782,239	8,751,438	8,763,250	9,100,592	9,227,129
Expenditures:										
General government	1,455,532	1,474,039	1,467,509	1,361,069	1,318,593	1,400,247	1,188,057	1,165,808	1,248,570	1,392,411
Public safety	3,318,876	3,960,987	4,339,712	3,805,788	4,008,254	4,191,610	4,332,145	4,485,885	4,487,544	4,599,355
Public works	1,110,833	1,139,767	956,444	1,577,621	1,582,187	1,404,132	1,800,117	1,359,972	1,566,676	1,553,660
Economic and physical development	3,519,050	991,086	937,086	440,533	479,530	457,145	473,906	565,131	902,831	409,460
Environmental protection	870,776	944,643	956,462	940,604	1,203,912	1,171,102	1,098,170	1,102,472	1,065,771	980,682
Cultural and recreational	-	-	8,423	738,143	718,722	593,233	638,588	593,648	610,871	781,570
Debt service:										
Principal	-	4,680	83,717	140,690	145,982	151,474	151,540	94,126	97,658	67,134
Interest	-	23,452	38,151	46,994	39,451	31,710	23,762	16,973	11,190	5,428
Total expenditures	10,275,065	8,538,654	8,787,504	9,051,441	9,496,650	9,400,652	9,706,284	9,384,015	9,991,112	9,789,700
Revenues over (under) expenditures	(2,539,125)	(410,053)	(562,771)	(338,119)	(532,353)	(618,412)	(954,846)	(620,765)	(890,520)	(562,571)

cont.

CITY OF LINCOLN, NORTH CAROLINA

Page 2 of 2, cont.

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

(Unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Other Financing Sources (Uses):										
Transfers in	\$ 2,925,539	\$ 322,675	\$ 454,861	\$ 372,500	\$ 375,000	\$ 381,600	\$ -	\$ 387,800	\$ 390,700	\$ 394,105
Transfers out	(2,925,539)	(318,398)	(454,861)	-	-	-	-	-	-	-
Capital contributions	22,793	-	-	-	-	-	-	-	-	-
Proceeds from borrowing	-	308,000	629,000	-	-	-	-	-	-	-
Extraordinary item	-	-	-	-	-	950,000	-	-	-	-
Total other financing sources (uses)	<u>22,793</u>	<u>312,277</u>	<u>629,000</u>	<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>
Net change in fund balances	<u>\$ (2,516,332)</u>	<u>\$ (97,776)</u>	<u>\$ 66,229</u>	<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>
Debt service as a percentage of non-capital project expenditures	0.0%	0.3%	1.7%	2.3%	2.1%	2.1%	2.0%	1.2%	1.2%	0.8%

CITY OF LINCOLNTON, NORTH CAROLINA

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

Fiscal Year	Assessed Value (1)			Public Service Companies	Total	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)							
2005 (2)	\$ 538,005,439	\$169,839,291	\$ 25,474,193	\$ 733,318,923	\$	0.56	14.6%	\$ 741,550,129	98.89%
2006	543,859,597	147,186,231	23,622,777	714,668,605		0.56	(2.5)%	744,756,779	95.96%
2007	551,411,731	142,286,755	18,614,222	712,312,708		0.56	(0.3)%	790,843,464	90.07%
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%

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
City of Lincolnton	0.51	0.51	0.51	0.56	0.56	0.56	0.56	0.56	0.56	0.56
Special Revenue Recreation Fund (1)	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	<u>0.56</u>									
Lincoln County	<u>0.62</u>	<u>0.61</u>	<u>0.61</u>	<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>
Special District: East Lincoln Water and Sewer District	<u>0.1300</u>	<u>0.1100</u>	<u>0.1100</u>	<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>
Fire Districts:										
Alexis	0.0500	0.0650	0.0850	0.1450	0.1142	0.1050	0.1100	0.1100	0.1100	0.1100
Boger City	0.0500	0.0500	0.0500	0.0700	0.0700	0.0700	0.0750	0.0925	0.0925	0.0925
Crouse	0.0500	0.0500	0.0600	0.0600	0.0600	0.0600	0.0600	0.0609	0.0609	0.0609
Denver	0.0450	0.0500	0.0790	0.1150	0.0981	0.0968	0.0968	0.1099	0.1099	0.1099
East Lincoln	0.0450	0.0600	0.0650	0.0650	0.0606	0.0606	0.0606	0.0680	0.0785	0.0850
Howards Creek	0.0500	0.0500	0.0500	0.0500	0.0700	0.1000	0.1000	0.1050	0.1050	0.1150
North Brook	0.0500	0.0500	0.0500	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0800
North 321	0.0350	0.0350	0.0350	0.0350	0.0350	0.0350	0.0350	0.0350	0.0350	0.0400
Pumpkin Center	0.0500	0.0500	0.0650	0.1000	0.0951	0.0951	0.0951	0.0951	0.0951	0.1242
South Fork	0.0500	0.0500	0.0500	0.0500	0.0776	0.0910	0.0910	0.0910	0.0910	0.1236
Union	<u>0.0500</u>	<u>0.0500</u>	<u>0.0650</u>	<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>0.53</u>	<u>0.56</u>	<u>0.65</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>

Other Tax Data:

(1) Effective July 1, 2007, Parks and Recreation became a department of the City of Lincolnton. 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 LINCOLN, NORTH CAROLINA

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

	2014				2005			
	<u>Type of Enterprise</u>	<u>Total Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Total Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	
Wal-Mart Real Estate Business	Real Estate	\$ 14,434,595	1	1.70	\$ -	-	-	
T & T Investments	Real Estate	11,580,318	2	1.37	7,840,967	5	1.22	
Lowe's Home Centers, Inc.	Retail	11,238,486	3	1.33	-	-	-	
Bell South Telephone Company	Utility	8,464,593	4	1.00	17,591,787	1	2.75	
Colonial Village of Linc, LLC	Apts/Real Estate	6,964,393	5	0.82	-	-	-	
Lincoln General, LLC	Real Estate	6,259,765	6	0.74	-	-	-	
SMV Lincoln, LLC	Real Estate	5,901,194	7	0.70	-	-	-	
The Oaks Apartments	Apts/Real Estate	5,866,124	8	0.69	-	-	-	
Duke Energy Corp	Utility	5,517,740	9	0.65	-	-	-	
Carillon Assisted Living	Assisted Living	5,462,682	10	0.64	-	-	-	
Cochrane Furniture Co.	Manufacturing	-	-	-	10,983,560	3	1.71	
Mohican Mills, Inc.	Textile	-	-	-	7,695,437	6	1.20	
Robert Bosch Tool	Manufacturing	-	-	-	10,291,366	4	1.61	
McMurray Fabrics	Textile	-	-	-	5,699,740	8	0.89	
Inland Mart Limited Partnership	Real Estate	-	-	-	6,302,566	7	0.98	
RSI	Manufacturing	-	-	-	14,633,497	2	2.28	
Edens & Avant Financing	Real Estate	-	-	-	5,330,856	9	0.83	
Leucadia, Inc.	Real Estate	-	-	-	4,753,634	10	0.74	
Totals		<u>\$ 81,689,890</u>		<u>9.64</u>	<u>\$ 91,123,410</u>		<u>14.21</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)
2005	\$ 4,202,975	\$ 4,086,834	97.2	\$ 106,709	\$ 4,193,543	99.8	\$ 9,432
2006	4,021,005	3,901,452	97.0	105,375	4,006,827	99.6	14,178
2007	4,002,140	3,900,388	97.5	84,994	3,985,382	99.6	16,758
2008	4,053,489	3,945,454	97.3	91,126	4,036,580	99.6	16,909
2009	4,771,612	4,632,981	97.1	122,001	4,754,982	99.7	16,630
2010	4,752,808	4,649,531	97.8	87,296	4,736,827	99.7	15,981
2011	4,751,351	4,636,451	97.6	91,833	4,728,284	99.5	23,067
2012	4,609,731	4,483,921	97.3	94,519	4,578,440	99.3	31,291
2013	4,756,670	4,619,621	97.1	84,991	4,704,612	98.9	52,058
2014	4,941,052	4,819,616	97.5	-	4,819,616	97.5	121,436

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			
2005	\$ -	\$ 19,845,000	\$ 10,260,873	\$ 30,105,873	12.21%	\$ 2,886
2006	303,320	19,705,000	10,060,873	30,069,193	11.51%	2,842
2007	848,603	18,740,000	9,810,873	29,399,476	10.17%	2,724
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	6.47%	2,159
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

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 LINCOLN, NORTH CAROLINA

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

<u>Fiscal Year</u>	<u>Population(1)</u>	<u>Total Assessed Value</u>	<u>Gross Bonded Debt</u>	<u>Less: Debt Payable From Enterprise Revenues</u>	<u>Total General Bonded Debt</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
2005	10,431	\$ 733,318,923	\$ 19,845,000	\$ 19,845,000	\$ -	-	\$ -
2006	10,582	714,668,605	19,705,000	19,705,000	-	-	-
2007	10,791	712,312,708	18,740,000	18,740,000	-	-	-
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	-	-	-

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

CITY OF LINCOLNTON, NORTH CAROLINA

**Direct and Overlapping Government Activities Debt
June 30, 2014
(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	\$ 82,050,000	10.17%	\$ 8,344,485
Subtotal, overlapping debt			<u>8,344,485</u>
City of Lincolnton direct debt			<u>-</u>
Total direct and overlapping debt			<u>\$ 8,344,485</u>

Note: The percentage of overlapping debt is based on the June 30, 2014 assessed valuation of the County of Lincoln of \$8,338,911,741 as compared to the June 30, 2014 assessed valuation for the City of Lincolnton of \$882,330,563.

CITY OF LINCOLNNTON, NORTH CAROLINA

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Assessed value of taxable property	\$733,318,923	\$714,668,605	\$712,312,708	\$722,592,452	\$850,974,756	\$847,294,199	\$845,344,889	\$822,276,880	\$848,635,981	\$882,330,563
Debt limit, 8% of assessed value (statutory limitation)	\$ 58,665,514	\$ 57,173,488	\$ 56,985,017	\$ 57,807,396	\$ 68,077,980	\$ 67,783,536	\$ 67,627,591	\$ 65,782,150	\$ 67,890,878	\$ 70,586,445
Debt applicable to limit:										
General obligation bonds	-	-	-	-	-	-	-	-	-	-
Less: Amount set aside for repayment of general obligation debt	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ 58,665,514	\$ 57,173,488	\$ 56,985,017	\$ 57,807,396	\$ 68,077,980	\$ 67,783,536	\$ 67,627,591	\$ 65,782,150	\$ 67,890,878	\$ 70,586,445
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 LINCOLN, NORTH CAROLINA

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

Fiscal Year	Revenue Available for		Less		Income Available for		Total		Interest	Coverage
	Debt Service	Expenses	Debt Service	Expenses	Debt Service	Debt Service	Principal	Debt Service		
2005	\$ 6,424,749	\$ 3,761,632	\$ 2,663,117	\$ 2,274,048	\$ 885,000	\$ 1,389,048				1.17
2006	6,653,827	4,159,472	2,494,355	1,805,355	1,105,000	700,355				1.38
2007	6,870,509	3,815,781	3,054,728	2,347,733	1,215,000	1,132,733				1.30
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

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)
2005	10,431	\$ 246,537	\$ 23,635	37.4	11,477	5.9
2006	10,582	261,291	24,692	37.6	11,738	5.3
2007	10,791	289,037	26,785	37.8	11,963	5.1
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

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

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 LINCOLN, NORTH CAROLINA

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

Employer	2014			2005		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Lincoln County Schools	1,700	1	4.27%	1,386	1	3.89%
Lincoln County Government	750	2	1.88%	482	5	1.35%
The Timken Company	750	3	1.88%	639	2	1.79%
Wal-Mart Stores, Inc.	730	4	1.83%	315	9	0.88%
Lincoln Medical Center	720	5	1.81%	467	7	1.31%
RSI Home Products	570	6	1.43%	500	3	1.40%
Julius Blum, Inc.	370	7	0.93%	410	8	1.15%
Actavis Corp	330	8	0.83%	-	-	-
Lowes	270	9	0.68%	-	-	-
Mohican Mills	240	10	0.60%	500	4	1.40%
State of North Carolina	-	-	-	241	10	0.68%
Robert Bosch Tool Company	-	-	-	476	6	1.34%
Total	6,430		16.14%	5,416		15.19%
Total Civilian Labor Force	39,810			35,607		

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Government										
City Manager	2	3	3	3	3	3	3	3	3	3
Human resources	3	3	4	4	4	4	4	4	4	4
Finance	9	9	9	9	9	9	9	9	9	9
Public Safety										
Police										
Officers	24	26	31	26	29	31	30	27	30	31
Civilians	5	5	5	5	5	5	5	5	5	5
Fire										
Firefighters and officers	19	19	18	20	21	21	21	24	21	22
Civilians	1	1	1	1	1	1	1	1	1	1
Public Works										
Public works										
Street	3	3	3	3	3	3	3	3	3	3
Equipment services	11	11	11	11	12	12	13	12	12	12
Environmental Protection										
Solid waste	3	3	3	3	3	3	3	3	3	3
General services-cemetery	12	13	12	10	13	13	13	13	12	12
Economic and Physical Development										
Planning and zoning	3	3	3	3	3	3	3	3	3	2
Business and community development	2	2	2	2	2	2	2	2	2	2
Cultural and Recreational (1)										
Parks and recreation	-	-	-	5	5	5	5	5	5	5
Water and Sewer										
Water treatment plant	10	9	9	10	10	10	9	10	9	9
Distribution and collection	11	12	11	11	11	12	12	12	11	13
Waste water treatment plant	9	9	9	9	9	9	9	9	8	8
Electric	<u>6</u>	<u>6</u>	<u>6</u>	<u>7</u>	<u>7</u>	<u>6</u>	<u>6</u>	<u>5</u>	<u>7</u>	<u>7</u>
Total	<u>136</u>	<u>140</u>	<u>143</u>	<u>144</u>	<u>153</u>	<u>155</u>	<u>154</u>	<u>153</u>	<u>150</u>	<u>153</u>

Source: Finance Department's payroll records.

(1) New department effective July 1, 2007

CITY OF LINCOLN, NORTH CAROLINA

Operating Indicators By Function
Last Ten Fiscal Years
(Unaudited)

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public Safety										
Police										
Physical arrests	762	710	1,899	1,867	1,986	1,836	1,448	1,580	1,588	1,500
Parking violations	208	652	380	150	400	243	82	63	74	68
Traffic violations	351	662	3,066	2,779	1,274	1,339	798	707	1,183	1,366
Fire										
Number of calls answered	668	778	839	1,128	1,753	1,802	1,975	1,983	2,013	2,016
Inspections	322	417	502	572	312	636	698	615	598	526
Public Works - Highways and streets										
Street resurfacing (miles)	3.51	1.45	1.49	1.55	1.48	0.92	0.82	0.22	0.95	0.98
Potholes repaired (1)	-	-	32	39	30	30	29	37	41	39
Environmental Protection										
Refuse collected (tons/day)	36.65	37.51	34.06	37.36	32.44	32.39	33.08	29.98	31.13	31.01
Recyclables collected (tons/day)	1.33	1.11	1.21	1.13	0.82	0.95	0.99	2.62	0.82	0.89
Cultural and Recreational (2)										
Youth sports participants	-	-	-	191	362	494	584	698	932	1,075
Youth camps/clinics participants	-	-	-	182	268	261	301	286	235	170
Open gym participants	-	-	-	5,747	9,738	10,139	12,511	12,703	13,118	4,072
Swimming pool participants	-	-	-	12,050	12,268	12,167	12,404	12,467	11,672	6,826
Other programs participants	-	-	-	1,324	1,833	4,029	3,440	5,015	5,196	4,125
Special events	-	-	-	11	12	16	22	26	26	13
Special events participants	-	-	-	4,568	5,587	6,613	5,992	7,399	7,935	4,456
Recreation program participants	-	-	-	24,062	30,056	33,703	35,232	38,568	39,088	20,724
Facility and ball field rentals	-	-	-	892	2,142	2,681	2,682	2,848	2,587	727

CITY OF LINCOLNTON, NORTH CAROLINA

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water										
New connections	41	39	36	42	32	16	12	20	12	9
Water main breaks	38	25	31	45	33	27	31	42	21	20
Average daily consumption (thousands of gallons)	3,130	2,880	3,700	3,407	2,868	2,890	3,000	2,810	3,000	3,000
Wastewater										
New connections	53	23	32	36	44	19	5	19	9	7
Average daily sewage treatment (thousands of gallons)	2,940	2,620	3,050	2,711	2,467	2,588	2,390	2,390	2,357	2,650
Electric										
New connections	14	8	6	16	16	13	4	6	9	5

Sources: Various City departments.

Note: Indicators are not available for general government function.

(1) First year of reporting.

(2) New City department effective July 1, 2007.

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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public Safety										
Police										
Stations	1	1	2	2	2	2	2	2	2	2
Patrol units	22	22	22	22	22	24	25	25	25	25
Fire stations	1	1	1	1	1	2	2	2	2	2
Public Works - Highways and streets										
Streets (miles)	58.67	58.80	58.80	58.80	58.80	58.65	60.03	60.03	59.90	59.90
Streetlights	955	957	957	957	979	979	979	979	981	981
Traffic signals	15	15	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 (1)	-	-	-	-	-	-	-	-	-	-
Number of parks	-	-	-	3	3	3	3	3	3	3
Park acreage	-	-	-	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
Park trail mileage	-	-	-	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Number of greenways	-	-	-	1	1	1	1	1	1	1
Greenway mileage	-	-	-	1	1	1	1	1	1.70	1.70
Number of ball fields	-	-	-	5	5	5	5	5	5	5
Number of soccer fields	-	-	-	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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water										
Water mains (miles)	260	261	261	260	260	260	260	260	260	260
Fire hydrants	683	707	707	709	709	717	717	717	717	717
Maximum daily capacity (thousands of gallons)	-	-	-	-	-	-	-	-	-	-
Sewer	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Sanitary sewers (miles)	224	225	225	224	225.75	225.75	225.75	225.75	225.75	229.00
Storm sewers (miles)(2)	-	-	-	-	-	-	-	-	-	-
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	74.5	74.5	74.5	75.0	76.0	76.0	76.0

Sources: Various city departments.

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

(1) New City department effective July 1, 2007.

(2) 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential	245.4	253.1	253.8	252.0	239.6	232.5	222.8	217.1	216.9	210.8
Industrial	607.0	576.0	621.0	598.4	464.6	1.8	2.6	3.7	3.9	4.9
Industrial/Textile (1)	-	-	-	-	-	412.4	422.3	418.6	438.6	363.6
Commerical	159.4	230.2	236.9	223.3	157.2	147.1	155.1	148.1	148.0	111.1
Institutional (3)	-	-	-	-	-	-	-	-	-	33.2
Other Local Governments (2)	-	-	-	-	-	12.2	13.2	77.4	63.6	65.7
Military	-	-	-	-	-	-	-	-	-	-
Government	33.3	35.2	36.1	34.4	37.0	35.8	20.7	8.4	10.4	9.5
Total	1,045.1	1,094.5	1,147.8	1,108.1	898.4	841.8	836.7	873.3	881.4	798.8
Total direct rate per 1,000 gallons	\$ 2.58	\$ 2.56	\$ 2.59	\$ 2.68	\$ 3.14	\$ 3.59	\$ 3.92	\$ 3.88	\$ 3.99	\$ 4.31

Source: City of Lincolnton, Utility Billing Office

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

(2) 2010-First year of segregating Other Local Governments into a separate category.

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

CITY OF LINCOLN, NORTH CAROLINA

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

Type of Customer	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential	179.2	183.9	184.5	182.8	174.6	171.6	163.2	161.3	161.6	158.9
Industrial	583.2	570.7	600.6	587.5	479.1	45.1	52.9	56.4	55.5	54.7
Industrial/Textile (1)	-	-	-	-	-	391.8	405.5	380.5	415.5	350.0
Commerical	133.3	139.2	152.4	129.7	127.0	130.8	132.6	125.1	128.5	99.3
Institutional (2)	-	-	-	-	-	-	-	-	-	30.0
Military	-	-	-	-	-	-	-	-	-	-
Government	33.2	35.2	36.1	32.9	34.6	34.7	19.6	7.8	9.3	8.7
Total	<u>928.9</u>	<u>929.0</u>	<u>973.6</u>	<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>
Total direct rate per 1,000 gallons	<u>\$ 4.03</u>	<u>\$ 4.10</u>	<u>\$ 4.14</u>	<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>

Source: City of Lincoln, 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>	<u>Water</u>		<u>Sewer</u>	
	<u>Monthly Base Rate</u>	<u>Rate per 1,000 Gallons</u>	<u>Monthly Base Rate</u>	<u>Rate per 1,000 Gallons</u>
2005	\$ 8.55	2.30	\$ 12.80	3.81
2006	\$ 8.55	2.30	\$ 12.80	3.81
2007	\$ 8.89	2.39	\$ 13.31	3.96
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

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

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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**

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**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
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 unit, each major fund, and the aggregate remaining fund information of City of Lincolnton, North Carolina as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Lincolnton, North Carolina's basic financial statements, and have issued our report thereon dated November 17, 2014.

Internal Control over Financial Reporting

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

Lowdermilk Church & Co.

Morganton, North Carolina
November 17, 2014