

**Town of Davidson,
North Carolina**

Audited Financial Statements

For the Fiscal Year Ended June 30, 2017

Town Board

John Woods, Mayor
Beth Cashion, Mayor Pro Tem
Stacey Anderson
Jim Fuller
Rodney Graham
Brian Jenest

Administrative and Financial Staff

James E. Justice, Town Manager
Pieter C. Swart, III, CPA, Finance Director

TOWN OF DAVIDSON, NORTH CAROLINA

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Board of Commissioners
Town of Davidson, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davidson, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement 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, each major fund, and the aggregate remaining fund information of the Town of Davidson, North Carolina as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 61 through 62 and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and the Total Pension Liability as a Percentage of Covered Payroll on pages 63 through 64, be presented to supplement the basic financial statements. Such information, although not a required 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Davidson, North Carolina's basic financial statements. The combining and individual fund statements, budgetary schedules, and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund 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 by us. In our opinion, based on our audit and the procedures performed as described above, the combining and individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017 on our consideration of Town of Davidson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Davidson's internal control over financial reporting and compliance.



Rowell, Craven & Short P.A.
Charlotte, North Carolina
November 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

Financial Highlights

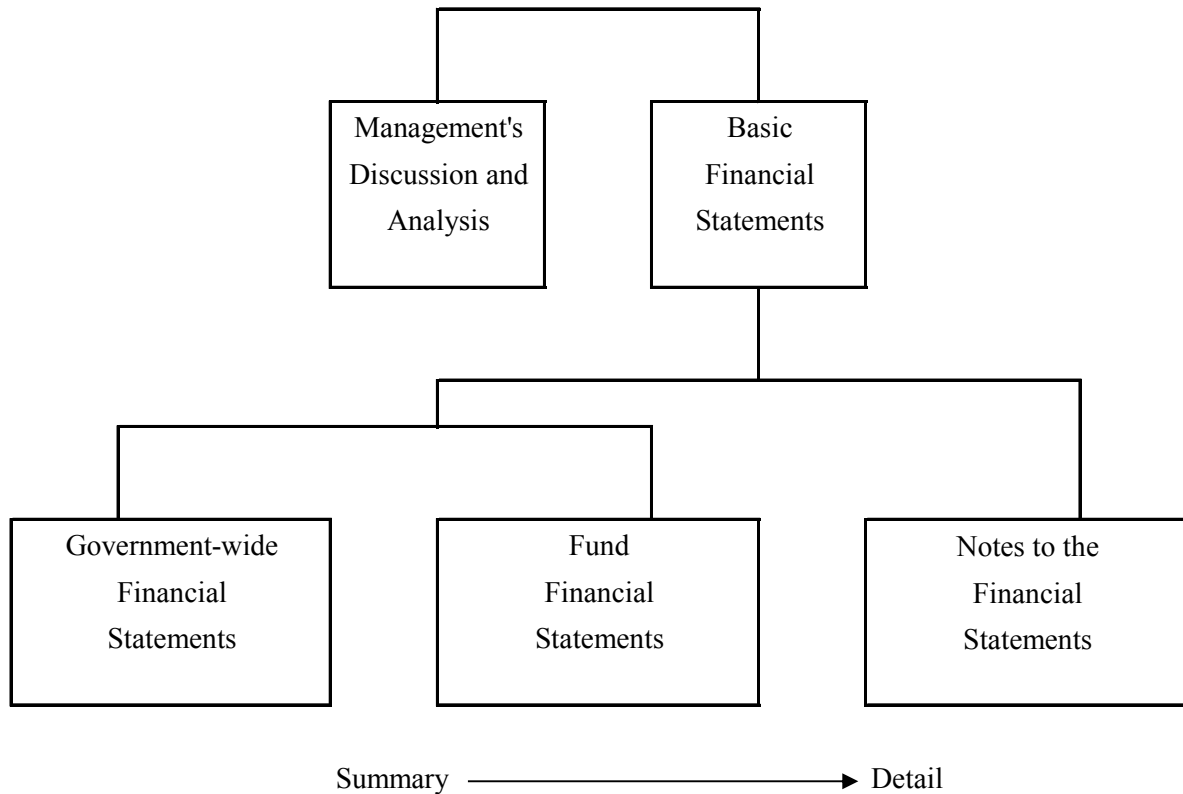
- The assets and deferred outflows of resources of the Town of Davidson exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$24,073,208 (*net position*).
- The government's total net position increased by \$1,569,433, primarily due to increases in the governmental-type activities net position.
- As of the close of the current fiscal year, the Town of Davidson's governmental funds reported combined ending fund balances of \$12,475,170, with a net change of \$1,877,023 in fund balance. Approximately 17.58 percent of this total amount or \$2,193,651 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,352,238 or 82.09 percent of total general fund expenditures for the fiscal year.
- The Town of Davidson's total debt increased by \$2,723,722 (60.66%) during the current fiscal year. The key factors relative to this increase in the General Fund were new borrowings for the construction of the fire station and the purchase of a street sweeper and increases in the pension liabilities for the LGERS and the LEOSA plans.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Davidson's basic financial statements. The Town'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 Town 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 Town of Davidson.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements; and 4) the fiduciary 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 Town'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 Town'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 Town's financial status as a whole.

Government-wide Financial Statements - Continued

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town'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 Town'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 Town'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 Town charges customers to provide. These include the solid waste and storm-water services offered by the Town of Davidson. The Town has no component units; however does participate in a Joint Agency with the Town of Mooresville. (See Notes to the Financial Statements, page 58).

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town'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 Town of Davidson, 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 Town's budget ordinance. All of the funds of Town of Davidson 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 Town'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 Town'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 Town of Davidson 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 Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town 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 – Town of Davidson has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Davidson uses enterprise funds to account for its solid waste and storm-water services activities. These funds are the same as those functions shown in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Town of Davidson has one fiduciary fund, which is an agency fund.

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 26 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Davidson’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 60 of this report.

Interdependence with Other Entities – Town of Davidson depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to 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

Town of Davidson’s Net Position

Figure 2

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|---------------|-----------------------------|------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 13,301,574 | \$ 11,004,160 | \$ 386,585 | \$ 281,409 | \$ 13,688,159 | \$ 11,285,569 |
| Capital assets | 17,496,457 | 16,015,739 | - | - | 17,496,457 | 16,015,739 |
| Deferred outflows of resources | 912,447 | 172,792 | - | - | 912,447 | 172,792 |
| Total assets | 31,710,478 | 27,192,691 | 386,585 | 281,409 | 32,097,063 | 27,301,308 |
| Long-term liabilities | | | | | | |
| outstanding | 5,252,737 | 3,640,779 | - | - | 5,252,737 | 3,640,779 |
| Other liabilities | 2,721,204 | 1,171,222 | - | - | 2,721,204 | 1,171,222 |
| Deferred inflows of resources | 49,914 | 92,696 | - | - | 49,914 | 92,696 |
| Total liabilities and deferred inflows of resources | 8,023,855 | 4,904,697 | - | - | 8,023,855 | 4,904,697 |
| Net position: | | | | | | |
| Net investment in capital assets | 15,084,273 | 14,009,240 | - | - | 15,084,273 | 14,009,240 |
| Restricted | 2,994,101 | 1,584,840 | - | - | 2,994,101 | 1,584,840 |
| Unrestricted | 5,608,249 | 6,628,286 | 386,585 | 281,409 | 5,994,834 | 6,909,695 |
| Total net position | \$ 23,686,623 | \$ 22,222,366 | \$ 386,585 | \$ 281,409 | \$ 24,073,208 | \$ 22,503,775 |

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 Town of Davidson exceeded liabilities and deferred inflows of resources by \$24,073,208 as of June 30, 2017. The Town's net position increased \$1,569,433 for the fiscal year ended June 30, 2017. However, the largest portion (62.66%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Davidson uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Davidson's investment in its 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 Town of Davidson's net position, \$2,994,101, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,994,834 is unrestricted.

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

- Overall, General Fund revenues exceeded expenses by over \$1.4 million. (*See Figure 3.*)
- Actual revenues exceeded budgeted by over \$500,000. (*See Exhibit 5.*)
- Actual expenditures were under budget by nearly \$2.4 million due to cost saving measures and continued attention to finding reductions in spending. (*See Exhibit 5.*)

Town of Davidson's Changes in Net Position
Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------|-----------------------------|------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 405,093 | \$ 372,506 | \$ 998,333 | \$ 923,827 | \$ 1,403,426 | \$ 1,296,333 |
| Operating grants and contributions | 583,171 | 528,896 | - | - | 583,171 | 528,896 |
| Capital grants and contributions | 125,800 | 273,094 | - | - | 125,800 | 273,094 |
| General revenues: | | | | | | |
| Property taxes | 6,568,586 | 6,369,779 | - | - | 6,568,586 | 6,369,779 |
| Other taxes | 3,725,621 | 3,459,190 | - | - | 3,725,621 | 3,459,190 |
| Grants and contributions not restricted to specific programs | - | - | - | - | - | - |
| Other | 120,987 | 104,496 | - | - | 120,987 | 104,496 |
| Total revenues | 11,529,258 | 11,107,961 | 998,333 | 923,827 | 12,527,591 | 12,031,788 |
| Expenses: | | | | | | |
| General government | 1,593,065 | 1,548,261 | - | - | 1,593,065 | 1,548,261 |
| Public safety | 3,100,972 | 2,568,775 | - | - | 3,100,972 | 2,568,775 |
| Transportation | 1,820,831 | 1,205,097 | - | - | 1,820,831 | 1,205,097 |
| Economic development | 1,990,469 | 2,011,453 | - | - | 1,990,469 | 2,011,453 |
| Environmental protection | - | - | - | - | - | - |
| Culture and recreation | 1,353,292 | 1,370,548 | - | - | 1,353,292 | 1,370,548 |
| Interest on long-term debt | 268,218 | 161,242 | - | - | 268,218 | 161,242 |
| Solid Waste | - | - | 693,681 | 665,303 | 693,681 | 665,303 |
| Stormwater | - | - | 137,630 | 214,787 | 137,630 | 214,787 |
| Total expenses | 10,126,847 | 8,865,376 | 831,311 | 880,090 | 10,958,158 | 9,745,466 |
| Increase(decrease) in net position before transfers | 1,402,411 | 2,242,585 | 167,022 | 43,737 | 1,569,433 | 2,286,322 |
| Transfers | 61,846 | - | (61,846) | - | - | - |
| Increase(decrease) in net position | 1,464,257 | 2,242,585 | 105,176 | 43,737 | 1,569,433 | 2,286,322 |
| Net position, July 1 (consolidated) | 22,287,994 | 20,045,409 | 181,293 | 137,556 | 22,469,287 | 20,182,965 |
| Net position, beginning, restated | 22,222,366 | 20,045,409 | 281,409 | 137,556 | 22,503,775 | 20,182,965 |
| Net position, June 30 | \$ 23,686,623 | \$ 22,287,994 | \$ 386,585 | \$ 181,293 | \$ 24,073,208 | \$ 22,469,287 |

Governmental Activities. Governmental activities increased the Town's net position by \$1,464,257, thereby accounting for 93.3 percent of the total growth in the net position of the Town of Davidson. Key elements of this increase are as follows:

- Ad Valorem Tax revenues remained steady, while consumption-based tax revenue increased.

- Total revenues exceeded total expenses by \$1,402,411 due to cost saving measures and continued attention to finding reductions in expenses.

Business-type Activities. Business-type activities increased the Town's net position by \$105,176 accounting for 6.7 percent of the total growth in the government's net position.

Key elements of this increase are as follows:

- Fee revenues were evaluated and revised for fiscal year 2016 to align revenue with actual expenditures; fee revenues were evaluated for fiscal year 2017 but did not require revision.

Financial Analysis of the Town Funds

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

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

The general fund is the chief operating fund of the Town of Davidson. At the end of the current fiscal year, the Town of Davidson's fund balance available in the General Fund was \$7,352,238, while total fund balance reached \$10,539,723. The governing body of the Town of Davidson has adopted a minimum fund balance policy that instructs management to conduct business in such a manner that the unassigned fund balance be no less than 35 percent of budgeted general fund expenditures in the next fiscal year. The purpose of a minimum fund balance policy is to have an adequate balance of general funds in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 82.09% of general fund expenditures, while total fund balance represents 106.58% of the same amount.

At June 30, 2017, the governmental funds of Town of Davidson reported a combined fund balance of \$12,475,170 with a net increase in fund balance of \$1,877,023. Included in this change in fund balance are an increase in fund balance of \$681,341 in the General Fund and an increase of \$1,195,682 in special revenue and capital project funds.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were adjusted to reflect:

- A grant received for the Arts Project Fund.
- Award of Home Consortium pass-through funds for inclusive housing construction.

Expenditures were adjusted to reflect:

- New projects funded from unassigned fund balance and installment financing
- Offsets to changes in revenue above
- Improvements and repairs to parks and streets

Revenues were more than the budgeted amounts primarily because the Town's conservative revenue projections were exceeded in most revenue categories. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The Town of Davidson's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Solid Waste Fund at the end of the fiscal year amounted to \$246,343, and for the Storm Water Fund amounted to \$140,242. The total change in net position for the Solid Waste Fund and the Storm Water Fund was \$18,655 and \$86,521, respectively. The increase in the net position of the solid waste fund was due primarily to a renegotiation of the waste collection services contract. The storm water fee structure was evaluated in fiscal year 2014 and an increase to rates was approved for fiscal year 2015.

Capital Asset and Debt Administration

Capital Assets. The Town of Davidson's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$17,496,457 (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 additions:

- Purchase of vehicles and equipment in the governmental activities; Elgin Street Sweeper (\$224,635); a Chevy Tahoe for the fire department (\$46,875); Asphalt Double Drum Roller (\$16,207); 3 Ford Explorers for the police department (\$114,725); Thermal Imaging Cameras for the fire department (\$18,750); Recycle compactor (\$19,690).
- Crane Street Property purchased for \$25,978.
- Also in the governmental activities, Other Capital Improvements include playground equipment for Parham Park (\$5,616) and boardroom upgrades (\$19,298).
- Other capital improvements include installation of sidewalks at Apollinaire, Armour and Spring Streets (\$160,482); Improvements to Wildcat Trail (\$16,930); Stormwater improvements on Armour Street (\$9,575); Remove/Replace Curbing on Rollingdale (\$7,310).

Capital assets consist of:

- Land and other non-depreciable assets of \$5,652,114.
- Other capital assets (net of depreciation of \$6,544,754) total \$11,844,343.

**Town of Davidson's Capital Assets
Net of Depreciation**

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|----------------------|-----------------------------|-------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 4,285,963 | \$ 4,259,985 | \$ - | \$ - | \$ 4,285,963 | \$ 4,259,985 |
| Buildings and systems | 3,470,267 | \$ 3,372,684 | - | - | 3,470,267 | 3,372,684 |
| Improvements other than buildings | 7,053,752 | 7,070,269 | | | 7,053,752 | 7,070,269 |
| Machinery and equipment | 742,285 | 492,791 | - | - | 742,285 | 492,791 |
| Computers and Computer software | 42,958 | 33,058 | - | - | - | - |
| | | | | | 42,958 | 33,058 |
| Vehicles and motorized equipment | 535,081 | 639,593 | - | - | 535,081 | 639,593 |
| Construction in progress | 1,366,151 | 147,359 | - | - | 1,366,151 | 147,359 |
| Total | \$ 17,496,457 | \$ 16,015,739 | \$ - | \$ - | \$ 17,496,457 | \$ 16,015,739 |

Additional information on the Town's capital assets can be found in Note III.A.5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2017, the Town of Davidson had total debt outstanding of \$7,237,311. Of this total amount, \$174,405 is due Town employees for compensated absences and \$1,804,351 is due to Town of Mooresville under the amended joint agency agreement described in Note VII, beginning on page 58 of this report. In addition, \$1,417,136 relates to the obligation for the LGERS pension plan and Law Enforcement Officers Special Separation Allowance, described in detail in Note III.B.3, beginning on page 44 of this report.

**Town of Davidson's Outstanding Debt
Construction Loan and Installment Purchases**

Figure 5

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|-------------|-----------------------------|------|-------------|-------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Installment financing - Fire Station #2 | \$2,000,000 | \$ - | \$ - | \$ - | \$2,000,000 | \$ - |
| Installment financing | 1,841,419 | 2,065,328 | - | - | 1,841,419 | 2,065,328 |
| Total | \$3,841,419 | \$2,065,328 | \$ - | \$ - | \$3,841,419 | \$2,065,328 |

Town of Davidson's Outstanding Debt

The Town of Davidson's total debt increased by \$2,732,722 (60.67%).

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 that government's boundaries. The legal debt margin for Town of Davidson is \$150,245,189. The Town has no bonds authorized but un-issued at June 30, 2017.

Additional information regarding Town of Davidson's long-term debt can be found in Note III.B.4 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town of Davidson:

- The Town of Davidson's unemployment rate is unavailable due to its small population; however, it does fall in Mecklenburg County which has an unemployment rate of 4.0% as of June 2017 as compared to the rate for the State of North Carolina of 4.2% according to the North Carolina Department of Commerce.
- The Town continues to fund a joint industrial park with the neighboring towns of Huntersville and Cornelius to help bring a better balance to our 81% residential/19% commercial tax base.
- Working within the economic development plan approved by the Board the Town strives to leverage assets in areas of investment and reposition the Town within the regional economy.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities:

- Property taxes and revenues are expected to increase 3.1% over the fiscal year 2017 budget.
- Sales tax distributions are expected to increase by 5.4% over the fiscal year 2017 budget.
- Total General Fund revenues and expenditures are expected to increase 5.4%.

Business – type Activities:

- User fees were put in place for collection of solid waste and storm water management in fiscal year 2010, and these funds were established as proprietary funds for the 2011 – 2012 fiscal year. The Town will carefully monitor the collection of fees to support the operations of the enterprise funds.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Davidson, PO Box 579, Davidson NC 28036. You may also visit our website at www.townofdavidson.org or send an e-mail to pswart@townofdavidson.org for more information.

BASIC FINANCIAL STATEMENTS

TOWN OF DAVIDSON, NORTH CAROLINA

Statement of Net Position
June 30, 2017

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets: | | | |
| Unrestricted cash and cash equivalents | \$ 10,791,730 | \$ - | \$ 10,791,730 |
| Taxes receivable | 89,774 | 14,555 | 104,329 |
| Due from other governments | 475,334 | - | 475,334 |
| Prepaid items | 24,560 | - | 24,560 |
| Internal balances | (372,030) | 372,030 | - |
| Notes receivable | 49,895 | - | 49,895 |
| Restricted cash and cash equivalents | 2,242,311 | - | 2,242,311 |
| Total current assets | <u>13,301,574</u> | <u>386,585</u> | <u>13,688,159</u> |
| Capital assets | | | |
| Land, non-depreciable improvements, and construction in progress | 5,652,114 | - | 5,652,114 |
| Other capital assets, net of depreciation | 11,844,343 | - | 11,844,343 |
| Total capital assets | <u>17,496,457</u> | <u>-</u> | <u>17,496,457</u> |
| Total assets | <u>30,798,031</u> | <u>386,585</u> | <u>31,184,616</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 664,072 | | 664,072 |
| Benefit payments and expenses - LEOSSA | 32,783 | | 32,783 |
| Contributions to pension plan in current fiscal year | 215,592 | - | 215,592 |
| Total deferred outflows of resources | <u>912,447</u> | <u>-</u> | <u>912,447</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 532,030 | - | 532,030 |
| Accounts payable to be paid from restricted cash | 204,600 | | 204,600 |
| Current portion of long-term liabilities | 567,438 | - | 567,438 |
| Total current liabilities | <u>1,304,068</u> | <u>-</u> | <u>1,304,068</u> |
| Long-term liabilities: | | | |
| Net pension liability | 1,014,902 | | 1,014,902 |
| Total pension liability - Separation Allowance | 402,234 | | 402,234 |
| Due in more than one year | 5,252,737 | - | 5,252,737 |
| Total liabilities | <u>7,973,941</u> | <u>-</u> | <u>7,973,941</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 49,914 | - | 49,914 |
| Total deferred inflows of resources | <u>49,914</u> | <u>-</u> | <u>49,914</u> |
| NET POSITION | | | |
| Net investment in capital assets | 15,084,273 | - | 15,084,273 |
| Restricted for: | | | |
| Stabilization by state statue | 956,390 | - | 956,390 |
| Streets - Powell Bill | 813,076 | - | 813,076 |
| Construction of fire station | 1,224,635 | | 1,224,635 |
| Unrestricted | 5,608,249 | 386,585 | 5,994,834 |
| Total net position | <u>\$ 23,686,623</u> | <u>\$ 386,585</u> | <u>\$ 24,073,208</u> |

TOWN OF DAVIDSON, NORTH CAROLINA

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

| Functions/Programs | Expenses | Program Revenues | | |
|-----------------------------------|----------------------|--|---|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| <i>Governmental Activities:</i> | | | | |
| Public safety | \$ 3,100,972 | \$ 60,668 | \$ 140,928 | \$ - |
| Economic and physical development | 1,990,469 | 41,806 | 104 | - |
| General government | 1,593,065 | 48,180 | - | - |
| Cultural and recreational | 1,353,292 | 254,439 | 108,229 | 5,000 |
| Transportation | 1,820,831 | - | 325,385 | 120,800 |
| Environmental protection | - | - | 8,525 | - |
| Interest on long-term debt | 268,218 | - | - | - |
| Total governmental activities | 10,126,847 | 405,093 | 583,171 | 125,800 |
| <i>Business-type activities:</i> | | | | |
| Solid Waste Fund | 693,681 | 754,492 | - | - |
| Stormwater Fund | 137,630 | 243,841 | - | - |
| Total business-type activities | 831,311 | 998,333 | - | - |
| Total primary government | <u>\$ 10,958,158</u> | <u>\$ 1,403,426</u> | <u>\$ 583,171</u> | <u>\$ 125,800</u> |
| | | General revenues: | | |
| | | Taxes | | |
| | | Property taxes levied for general purposes | | |
| | | Other taxes | | |
| | | Unrestricted investment earnings | | |
| | | Miscellaneous | | |
| | | Gain on sale of assets | | |
| | | Total general revenues, not including transfers: | | |
| | | Transfers | | |
| | | Total general revenues and transfers | | |
| | | Change in net position | | |
| | | Net position, beginning, previously reported | | |
| | | Restatement, prior period adjustment | | |
| | | Restatement, LEOSSA | | |
| | | Net position, beginning, restated | | |
| | | Net position, ending | | |

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

Exhibit 2

| Net (Expense) Revenues and Changes in Net Position Primary Government | | |
|--|-------------------------------------|-----------------------|
| Governmental Activities | Business Type Activities | Total |
| \$ (2,899,376) | \$ - | \$ (2,899,376) |
| (1,948,559) | - | (1,948,559) |
| (1,544,885) | - | (1,544,885) |
| (985,624) | - | (985,624) |
| (1,374,646) | - | (1,374,646) |
| 8,525 | - | 8,525 |
| (268,218) | - | (268,218) |
| <u>(9,012,783)</u> | <u>-</u> | <u>(9,012,783)</u> |
| - | 60,811 | 60,811 |
| - | 106,211 | 106,211 |
| - | 167,022 | 167,022 |
| <u>\$ (9,012,783)</u> | <u>\$ 167,022</u> | <u>\$ (8,845,761)</u> |
| 6,568,586 | - | 6,568,586 |
| 3,725,621 | - | 3,725,621 |
| 60,427 | - | 60,427 |
| 58,798 | - | 58,798 |
| 1,762 | - | 1,762 |
| 10,415,194 | - | 10,415,194 |
| 61,846 | (61,846) | - |
| 10,477,040 | (61,846) | 10,415,194 |
| 1,464,257 | 105,176 | 1,569,433 |
| 22,287,994 | 281,409 | 22,569,403 |
| 58,829 | - | 58,829 |
| (124,457) | - | (124,457) |
| 22,222,366 | 281,409 | 22,503,775 |
| <u>\$ 23,686,623</u> | <u>\$ 386,585</u> | <u>\$ 24,073,208</u> |

TOWN OF DAVIDSON, NORTH CAROLINA

Balance Sheet
Governmental Funds
June 30, 2017

| | Major Funds | | Total Non-Major Funds | Total Governmental Funds |
|--|----------------------|------------------------------------|-----------------------|--------------------------|
| | General Fund | MI Connection Capital Project Fund | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 9,087,084 | \$ 1,000,000 | \$ 704,646 | \$ 10,791,730 |
| Restricted cash | 813,076 | - | 1,429,235 | 2,242,311 |
| Taxes receivable | 89,774 | - | | 89,774 |
| Due from other governments | 475,334 | | | 475,334 |
| Prepaid expenses | 24,560 | - | | 24,560 |
| Notes receivable | 49,895 | | | 49,895 |
| Total assets | <u>\$ 10,539,723</u> | <u>\$ 1,000,000</u> | <u>\$ 2,133,881</u> | <u>\$ 13,673,604</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | 532,030 | - | - | 532,030 |
| Accounts payable to be paid from restricted cash | - | | 204,600 | 204,600 |
| Due to other funds | 372,030 | - | | 372,030 |
| Total liabilities | <u>904,060</u> | <u>-</u> | <u>204,600</u> | <u>1,108,660</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property taxes receivable | 89,774 | - | - | 89,774 |
| Total deferred inflows of resources | <u>89,774</u> | <u>-</u> | <u>-</u> | <u>89,774</u> |
| FUND BALANCES | | | | |
| Restricted | | | | |
| Stabilization by state statute | 956,390 | - | - | 956,390 |
| Streets - Powell Bill | 813,076 | - | - | 813,076 |
| Construction of fire station | - | | 1,224,635 | 1,224,635 |
| Committed | | | | |
| Community Parks Reserve Funds | 399,625 | | - | 399,625 |
| Special projects | - | 1,000,000 | 704,646 | 1,704,646 |
| Unspendable | | | | |
| Prepaid expenses | 24,560 | - | - | 24,560 |
| Assigned | | | | |
| Subsequent year's expenditures | - | - | - | - |
| Unassigned | 7,352,238 | - | - | 7,352,238 |
| Total fund balances | <u>9,545,889</u> | <u>1,000,000</u> | <u>1,929,281</u> | <u>12,475,170</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 10,539,723</u> | <u>\$ 1,000,000</u> | <u>\$ 2,133,881</u> | |

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

TOWN OF DAVIDSON, NORTH CAROLINA

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

| | | |
|--|--------------------|-----------------------------|
| Total fund balances | | \$ 12,475,170 |
| Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds statement. | | |
| Gross capital assets at historical cost | \$ 24,041,212 | |
| Accumulated depreciation | <u>(6,544,755)</u> | 17,496,457 |
| Deferred outflows of resources related to pensions are not reported in the funds | | 912,447 |
| Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds statement. Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year. | | (7,237,311) |
| Liabilities for earned revenues considered deferred inflows of resources. | | 89,774 |
| Deferred inflows of resources related to pensions are not reported in the funds | | (49,914) |
| Net position of governmental activities | | <u><u>\$ 23,686,623</u></u> |

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

TOWN OF DAVIDSON, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2017

| | Major Funds | | Total Non-Major Funds | Total Governmental Funds |
|--|--------------|--|-----------------------------|--------------------------------|
| | General Fund | MI Connection Capital Project Fund | | |
| REVENUES | | | | |
| Ad valorem taxes | \$ 6,577,416 | \$ - | \$ - | \$ 6,577,416 |
| Other taxes and licenses | 472,853 | - | - | 472,853 |
| Unrestricted intergovernmental | 3,252,767 | - | - | 3,252,767 |
| Restricted intergovernmental | 454,783 | - | - | 454,783 |
| Permits and fees | 58,006 | - | - | 58,006 |
| Sales and services | 332,088 | - | - | 332,088 |
| Investment earnings | 60,427 | - | - | 60,427 |
| Miscellaneous | 135,059 | - | 192,929 | 327,988 |
| Total revenues | 11,343,399 | - | 192,929 | 11,536,328 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | 3,209,570 | - | 909,063 | 4,118,633 |
| Transportation | 1,398,137 | - | 378,961 | 1,777,098 |
| General government | 1,601,096 | - | - | 1,601,096 |
| Culture and recreation | 1,263,336 | - | 47,978 | 1,311,314 |
| Economic and physical development | 769,673 | 1,000,000 | 374,786 | 2,144,459 |
| Debt Service: | | | | |
| Principal retirement | 446,538 | - | - | 446,538 |
| Interest and other charges | 268,218 | - | - | 268,218 |
| Total expenditures | 8,956,568 | 1,000,000 | 1,710,788 | 11,667,356 |
| Excess (deficiency) of revenues over expenditures | 2,386,831 | (1,000,000) | (1,517,859) | (131,028) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from debt | - | - | 2,000,000 | 2,000,000 |
| Proceeds from disposal of assets | 8,051 | - | - | 8,051 |
| Transfers (to)/from other funds | (1,713,541) | 1,000,000 | 713,541 | - |
| Total other financing sources | (1,705,490) | 1,000,000 | 2,713,541 | 2,008,051 |
| Net change in fund balance | 681,341 | - | 1,195,682 | 1,877,023 |
| Fund balance, beginning | 8,864,548 | 1,000,000 | 733,599 | 10,598,147 |
| Fund balance, end of year | \$ 9,545,889 | \$ 1,000,000 | \$ 1,929,281 | \$ 12,475,170 |

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

TOWN OF DAVIDSON, NORTH CAROLINA

**Exhibit 4
Continued**

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

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

| | |
|---|-------------|
| Net changes in fund balances - total governmental funds | \$1,877,023 |
|---|-------------|

Governmental funds report capital outlays as expenditures. However, in 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 expenditures which were capitalized | 2,196,549 | |
| Loss on disposals | (6,289) | |
| Depreciation expense for governmental assets | (720,262) | 1,469,998 |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities | | 766,361 |
| Benefit payments paid and administrative expense for the LEOSA are not included on the Statement of Activities | | 32,783 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | |
|--|---------|
| Change in unavailable revenue for tax revenues | (8,829) |
|--|---------|

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 governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | | |
|--------------------------------------|-------------|-------------|
| New long-term debt issued | (2,222,629) | |
| Principal payments on long-term debt | 446,538 | (1,776,091) |

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

| | | |
|--|-----------|-------------|
| Compensated absences | 41,916 | |
| MI Connection obligation | (31,445) | |
| Pension expense | 59,643 | |
| Net pension obligation | (967,102) | (896,988) |
| Total changes in net position of governmental activities | | \$1,464,257 |

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

TOWN OF DAVIDSON, NORTH CAROLINA

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
Governmental Funds
June 30, 2017

| General Fund | | | | |
|--|--------------------|-----------------|-------------------|--|
| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget- Positive (Negative) |
| Revenues: | | | | |
| Ad valorem taxes | \$ 6,574,010 | \$ 6,574,010 | \$ 6,577,416 | \$ 3,406 |
| Other taxes and licenses | 354,500 | 354,500 | 472,853 | 118,353 |
| Unrestricted intergovernmental | 3,088,500 | 3,088,500 | 3,252,767 | 164,267 |
| Restricted intergovernmental | 450,923 | 450,923 | 454,783 | 3,860 |
| Permits and fees | 49,800 | 49,800 | 58,006 | 8,206 |
| Sales and services | 236,304 | 236,304 | 332,088 | 95,784 |
| Investment earnings | 10,000 | 10,000 | 60,427 | 50,427 |
| Miscellaneous | 75,500 | 75,755 | 135,059 | 59,304 |
| Total revenues | 10,839,537 | 10,839,792 | 11,343,399 | 503,607 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 3,051,178 | 3,390,686 | 3,209,570 | 181,116 |
| Transportation | 1,897,713 | 2,738,747 | 1,398,137 | 1,340,610 |
| General government | 1,686,521 | 2,039,681 | 1,601,096 | 438,585 |
| Culture and recreation | 1,369,273 | 1,563,646 | 1,263,336 | 300,310 |
| Economic and physical development | 923,499 | 897,680 | 769,673 | 128,007 |
| Debt service: | | | | |
| Principal retirement | 415,013 | 422,689 | 446,538 | (23,849) |
| Interest and other charges | 152,867 | 268,218 | 268,218 | - |
| Contingency | 136,442 | 2,942 | - | 2,942 |
| Total expenditures | 9,632,506 | 11,324,289 | 8,956,568 | 2,367,721 |
| Revenues over (under) expenditures | 1,207,031 | (484,497) | 2,386,831 | 2,871,328 |
| Other financing sources (uses): | | | | |
| Proceeds from disposal of assets | 10,000 | 10,000 | 8,051 | (1,949) |
| Transfers to other funds | (1,240,257) | (1,240,257) | (1,713,541) | (473,284) |
| Total other financing sources (uses) | (1,240,257) | (1,230,257) | (1,705,490) | (475,233) |
| Fund balance appropriated | 33,226 | 1,714,754 | - | (1,714,754) |
| Net change in fund balance | \$ - | \$ - | 681,341 | \$ 681,341 |
| Fund balance, beginning | | | 8,864,548 | |
| Fund balance, end of year | | | \$ 9,545,889 | |

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

TOWN OF DAVIDSON, NORTH CAROLINA

Statement of Net Position
Proprietary Funds
June 30, 2017

| | Proprietary Funds | | |
|---------------------------|-------------------|----------------|------------|
| | Major Fund | Non-Major Fund | Total |
| | Solid Waste | Stormwater | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - |
| Accounts receivable, net | 14,555 | - | 14,555 |
| Due from other funds | 254,254 | 117,776 | 372,030 |
| Total current assets | 268,809 | 117,776 | 386,585 |
| | | | |
| Total assets | \$ 268,809 | \$ 117,776 | \$ 386,585 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | - | - | - |
| Total current liabilities | \$ - | \$ - | \$ - |
| | | | |
| NET POSITION | | | |
| Unrestricted | 268,809 | 117,776 | 386,585 |
| Total net position | \$ 268,809 | \$ 117,776 | \$ 386,585 |

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

TOWN OF DAVIDSON, NORTH CAROLINA

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

| | Proprietary Funds | | |
|--|--------------------------|-----------------------|-------------------|
| | Major Fund | Non-Major Fund | |
| | Solid Waste | Stormwater | Total |
| OPERATING REVENUES | | | |
| Solid waste management fee | \$ 754,492 | \$ - | \$ 754,492 |
| Stormwater management fee | - | 243,841 | 243,841 |
| Total operating revenues | <u>754,492</u> | <u>243,841</u> | <u>998,333</u> |
| OPERATING EXPENSES | | | |
| Operations | <u>693,681</u> | <u>137,630</u> | <u>831,311</u> |
| Total operating expenses | <u>693,681</u> | <u>137,630</u> | <u>831,311</u> |
| Operating income | <u>60,811</u> | <u>106,211</u> | <u>167,022</u> |
| NON-OPERATING EXPENSES | | | |
| Investment earnings | <u>-</u> | <u>-</u> | <u>-</u> |
| Total non-operating expenses | <u>-</u> | <u>-</u> | <u>-</u> |
| Income (loss) before contributions and transfers | <u>60,811</u> | <u>106,211</u> | <u>167,022</u> |
| Transfers to other funds | <u>(42,156)</u> | <u>(19,690)</u> | <u>(61,846)</u> |
| Change in net position | 18,655 | 86,521 | 105,176 |
| Total net position, beginning | <u>227,688</u> | <u>53,721</u> | <u>281,409</u> |
| Total net position, ending | <u>\$ 246,343</u> | <u>\$ 140,242</u> | <u>\$ 386,585</u> |

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

TOWN OF DAVIDSON, NORTH CAROLINA

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

| | Proprietary Funds | | |
|---|-------------------|----------------|--------------|
| | Major Fund | Non-Major Fund | Total |
| | Solid Waste | Stormwater | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 752,796 | \$ 243,841 | \$ 996,637 |
| Cash paid for goods and services | (693,681) | (137,630) | (831,311) |
| Net cash provided (used) by operating activities | 59,115 | 106,211 | 165,326 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | |
| Net due to (from) General Fund | (59,115) | (106,211) | \$ (165,326) |
| Net increase (decrease) in cash and cash equivalents | - | 0 | - |
| Balances, beginning | - | - | - |
| Balances, ending | \$ - | \$ - | \$ - |

| | Proprietary Funds | | |
|--|-------------------|----------------|------------|
| | Major Fund | Non-Major Fund | Total |
| | Solid Waste | Stormwater | |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 60,811 | \$ 106,211 | \$ 167,022 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | |
| Change in assets and liabilities | | | |
| (Increase) decrease in accounts receivable | (1,696) | - | (1,696) |
| Increase (decrease) in accounts payable | - | - | - |
| Total adjustments | (1,696) | - | (1,696) |
| Net cash provided (used) by operating activities | \$ 59,115 | \$ 106,211 | \$ 165,326 |

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

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Davidson 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 Town of Davidson is a municipal corporation that is governed by an elected mayor and five commissioners. As required by generally accepted accounting principles, these financial statements present the Town which has no component units.

B. Basis of Presentation

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental, proprietary and fiduciary* - 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 non-major 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. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, various other taxes and licenses and State grants. The primary expenditures are for public safety and street maintenance and construction.

MI Connection Capital Project Fund. This fund is used to account for the operations of the Town's share of MI Connection.

The Town reports the following non-major governmental funds:

Special Revenue Funds. These funds are used to account for funds that are restricted for use for a particular purpose. The Town's two Special Revenue Funds: Affordable Housing Program, and Public Art Project.

Capital Project Funds. These funds are used to account for the construction, improvements and repairs for various projects within Town limits. The Town has five Capital Project Funds: Bradford Street Project, Fire Station Project, Potts-Sloan-Beaty Corridor Project, Parks/Greenway Project and Public Facilities Project.

The Town reports the following major enterprise fund:

Solid Waste Fund. This fund is used to account for the Town's solid waste operations.

The Town reports the following non-major enterprise fund:

Storm-water Fund. The fund is used to account for the Town's storm-water operations.

C. Measurement Focus and Basis of Accounting

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

Government-wide, Proprietary Fund and Fiduciary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town 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.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town 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 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 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.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Davidson because the tax is levied by Mecklenburg County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of grant agreements, the Town 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 positions available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Special Revenue Funds and Capital Projects Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations within a fund by more than 10 percent of the function that is being reduced. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the Town made in board-designated official depositories and are secured as required by State Law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 Town 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 non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity (Continued)

3. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136.41.4.

The Town adopted a capital project ordinance for the planning and construction of a fire station and secured tax-exempt financing during the fiscal year ended June 30, 2017. The unspent loan proceeds are classified as restricted cash because it can be expended only for the construction of the fire station.

Town of Davidson Restricted Cash

Governmental Activities

General Fund

| | | |
|-----------------|-----------------------|----------------------------|
| | Streets | \$ 813,076 |
| Non-Major Funds | | |
| | Unspent loan proceeds | <u>1,429,235</u> |
| | Total Restricted Cash | <u><u>\$ 2,242,311</u></u> |

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town 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 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016.

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. No allowance for doubtful accounts was required at June 30, 2017.

6. Prepaid Items

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.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity (Continued)

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 costs are \$5,000 for the following: land, buildings, and improvements, infrastructure, furniture and equipment, computers and computer software, and vehicles. 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.

The Town has elected not to adopt retroactive capitalization of general infrastructure assets acquired prior to July 1, 2003, pursuant to GASB 34. 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:

| Asset Class | Estimated Useful Lives |
|----------------------------------|---------------------------|
| Buildings | 75 |
| Other improvements | 15-75 |
| Vehicles and motorized equipment | 5-15 |
| Equipment | 3-10 |
| Computers | 3-5 |
| Computer software | 3-5 |

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 consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town of Davidson has two items that meet this criterion - contributions made to the pension plan in the 2017 fiscal year and pension deferrals for the 2017 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town of Davidson has two items that meet the criterion for this category – property taxes receivable and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity (Continued)

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town 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 Town's sick leave policy provides 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 the Town does not have 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 are classified as investment 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:

Non Spendable 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.

Prepaid Expenditures – portion of fund balance that is not an available resource because it represents prepaid expenditures that are not in spendable form.

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)].

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity (Continued)

11. Net Position/Fund Balances (Continued)

Restricted Fund Balance (continued)

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.

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

Committed pursuant to the Community Parks Reserve Funds – portion of fund balance that has been committed to the community parks.

Committed to Non-major funds – portion of fund balance that has been committed to special projects in non-major funds.

Committed to MI Connection – portion of fund balance that has been committed to fund MI Connection.

Assigned fund balance – portion of fund balance that Town of Davidson intends to use for specific purposes.

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; however, the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within departments, not to exceed 10% of the appropriated monies in the departments.

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

The Finance Officer uses resources in the following hierarchy; bond proceeds, federal funds, state funds, local non-town funds, town 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 Town of Davidson adopted a minimum fund balance policy for the general fund which instructs management to conduct business in such a manner that the unassigned fund balance should not be less than 35 percent of general fund expenditures in the following fiscal year.

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred inflows of Resources, and Fund Equity (Continued)

12. Pensions

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

13. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

14. Total Governmental Fund Columns

In the accompanying financial statements, the "Total Governmental Funds" columns are not the equivalent of consolidated totals and do not represent consolidated financial information. These columns are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with accounting principles generally accepted in the United States of America. Inter-fund eliminations have not been made in the aggregation of this data. However, the reconciliations to net position are reflective of inter-fund eliminations and reflect financial position.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Non-Compliance with North Carolina General Statutes

None

B. Deficit Fund Balance or Net Position of Individual Funds

None

C. Excess of Expenditures over Appropriations

None

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town of Davidson 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 Town's agents in the unit's name. 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 Town, these deposits are considered to be held by the Town's agent in their name. 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 Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization and 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 Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$1,613,207 and a bank balance of \$1,681,660. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered under the pooling method. At June 30, 2017, the Town's petty cash fund totaled \$1,150.

2. Investments

At June 30, 2017, the Town of Davidson's investment balances were as follows:

| Investments by Type | Valuation Measurement Method | Book Value at 6/30/2017 | Maturity | Rating |
|---|------------------------------------|----------------------------|-----------|---------|
| NC Capital Management Trust - Government Portfolio | Amortized Cost | \$ 3,790,200 | N/A | AAAm |
| NC Capital Management Trust - Term Portfolio | Fair Value Level I | 7,629,483 | .09 years | Unrated |
| Total | | \$11,419,683 | | |

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

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds

Interest Rate Risk: The Town does not have a formal investment policy regarding interest rate risk. The Finance Director has authority to use the Government and the Term investment portfolios.

Credit Risk: The Town does not have a formal policy regarding credit risk, but has internal management procedures that limits the Town'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 Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2017. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

3. Note Receivable

In 1999 the Town entered into an agreement to make loans of up to \$250,000 to a non-profit corporation which acquires homes for resale to low income families. Monthly interest payments are made to the Town with the principal due in full upon resale of the house. This agreement was amended in May 2010 to reduce the loans available from \$250,000 to \$50,000. The agreement provides for loans to be repaid in 1 to 4 years based on the nonprofit's projection of when the house will be sold. At June 30, 2017, the Town had one loan outstanding for \$49,895, with an annual interest rate of 2.51%. The loan is due in full on February 23, 2019.

4. Lease Income

In July 1991, the Town entered into a lease agreement with a local nonprofit organization for a building that the Town is leasing. The Agreement calls for rent payment of \$1 per year in relation to said property. In December 2009, this agreement was extended until June 30, 2019.

In 1995, the Town entered into a 50-year lease agreement to lease a building to Mecklenburg County Public Library System for a base rent of an amount sufficient to amortize improvement costs, to be reduced to \$1 when fully amortized. Costs are fully amortized and base rent is \$1 per year. In addition the agreement calls for annual rental payments of \$1,500 for the duration of the contract.

In February 2008, the Town entered a lease agreement to lease a building to a local theatre group for a base rent of \$25,600 for the first year and scheduled increases to \$26,184 per year for the following four years and \$27,504 until the end of the lease in February 2018. The lease contains two options to extend for an additional five years each, with an increase of 5%. Lease income received for the year ended June 30, 2017 was \$27,504.

In June 2015, the Town entered into a lease agreement to lease land to a local restaurant for a base rent of \$2,400 annually and adjusted annually for changes in the Consumer Price Index for all urban consumers, food and beverage average. The lease expires in June 2025. Lease income was received during the fiscal year ended June 30, 2017 was \$2,300.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds

A. Assets

5. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | (Decreases) Transfers | Ending Balance |
|--|----------------------|-------------------|--------------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 4,259,985 | \$ 25,978 | \$ - | \$ 4,285,963 |
| Construction in Progress | 219,947 | 1,208,069 | 61,865 | 1,366,151 |
| Total capital assets not being depreciated | 4,479,932 | 1,234,047 | 61,865 | 5,652,114 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,615,745 | 194,275 | - | 4,810,020 |
| Other improvements | 8,401,338 | 246,842 | - | 8,648,180 |
| Equipment | 1,260,470 | 323,461 | (55,262) | 1,528,669 |
| Computers | 40,284 | - | - | 40,284 |
| Computer software | 29,938 | 28,786 | - | 58,724 |
| Vehicles and motorized equipment | 3,216,188 | 169,138 | (82,105) | 3,303,221 |
| Total capital assets being depreciated | 17,563,963 | 962,502 | (137,367) | 18,389,098 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,243,061 | 96,692 | - | 1,339,753 |
| Other improvements | 1,331,069 | 263,359 | - | 1,594,428 |
| Equipment | 767,681 | 67,675 | (48,972) | 786,384 |
| Computers | 23,244 | 8,057 | - | 31,301 |
| Computer software | 13,920 | 10,829 | - | 24,749 |
| Vehicles and motorized equipment | 2,576,595 | 273,650 | (82,105) | 2,768,140 |
| Total accumulated depreciation | 5,955,570 | 720,262 | (131,077) | 6,544,755 |
| Total capital assets being depreciated, net | 11,608,393 | | | 11,844,343 |
| Governmental activity capital assets, net | \$ 16,088,325 | | | \$ 17,496,457 |
| General government | | \$ 67,930 | | |
| Public safety | | 216,445 | | |
| Transportation | | 348,944 | | |
| Economic and physical development | | 12,393 | | |
| Culture and recreation | | 74,550 | | |
| Total depreciation expense | | <u>\$ 720,262</u> | | |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

Construction Commitments

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

| Project | Project Authorization | Actual | | Total Spent-to-date | Remaining Commitment |
|-------------------|--------------------------|-------------------|---------------------|------------------------|-------------------------|
| | | Prior Years | Current Year | | |
| Potts Sloan Beaty | \$ 233,000 | \$ 111,265 | \$ 5,385 | \$ 116,650 | \$ 116,350 |
| Fire Station | 2,150,000 | 80,586 | 909,062 | 989,648 | 1,160,352 |
| Public Facilities | 241,000 | - | 210,583 | 210,583 | 30,417 |
| Total | <u>\$ 2,624,000</u> | <u>\$ 191,851</u> | <u>\$ 1,125,030</u> | <u>\$ 1,316,881</u> | <u>\$ 1,307,119</u> |

A. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters).

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Davidson employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Davidson's contractually required contribution rate for the year ended June 30, 2017, was 8.00% of compensation for law enforcement officers and 7.38% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Davidson were \$215,592 for the year ended June 30, 2017.

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

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

At June 30, 2017, the Town reported a liability of \$1,014,902 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015.

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

The total pension liability was then rolled forward to the measurement date of June 30, 2016, utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.04782%, which was an increase of 0.004% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$276,199. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 19,068 | \$ 35,562 |
| Changes of assumptions | 69,513 | - |
| Net difference between projected and actual earnings on pension plan investments | 561,112 | - |
| Changes in proportion and differences between Town of Davidson contributions and proportionate share of contributions | 14,379 | 6,375 |
| Town of Davidson contributions subsequent to the measurement date | 215,592 | - |
| Total | <u>\$ 879,664</u> | <u>\$ 41,937</u> |

\$215,592 reported as deferred outflows of resources related to pensions resulting from Town of Davidson contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|-------------------|
| 2018 | \$ 97,638 |
| 2019 | 97,655 |
| 2020 | 265,118 |
| 2021 | 161,724 |
| 2022 | - |
| Thereafter | - |
| | <u>\$ 622,135</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

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

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

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

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

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

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

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

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

| | <u>1% Decrease (6.25%)</u> | <u>Discount Rate (7.25%)</u> | <u>1% Increase (8.25%)</u> |
|---|---------------------------------------|---|---------------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 2,408,833 | \$ 1,014,902 | \$ (149,415) |

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

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of Davidson administers a public employee retirement system (the “*Separation Allowance*”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent 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 increase in salary or retirement allowances that may be authorized by the General Assembly. Article 12 D 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 Town are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance’s membership consisted of:

| | |
|--|------------------|
| Retirees receiving benefits. | 2 |
| Terminated plan members entitled to but not yet receiving benefits | - |
| Active plan members | <u>15</u> |
| Total | <u><u>17</u></u> |

2. Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

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

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

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

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

4. *Contributions.*

The Town 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. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$32,604 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$402,234. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$32,382.

| | Deferred Outflows of | Deferred Inflows of |
|--|---------------------------------|--------------------------------|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | 7,797 |
| Town benefit payments and plan administrative expense made subsequent to the measurement date | 32,783 | - |
| Total | <u>\$ 32,783</u> | <u>\$ 7,797</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

IV. Detail Notes on All Funds (Continued)

C. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|------------|
| 2018 | \$ (1,425) |
| 2019 | (1,425) |
| 2020 | (1,425) |
| 2021 | (1,425) |
| 2022 | (1,425) |
| Thereafter | (672) |

Sensitivity of the Town's total pension liability to changes in the discount rate.

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

| | 1% Decrease (2.86%) | Discount Rate (3.86%) | 1% Increase (4.86%) |
|-------------------------|--------------------------------|----------------------------------|--------------------------------|
| Total pension liability | \$ 434,953 | \$ 402,234 | \$ 372,070 |

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance**

| | |
|--|--------------------------|
| Total Pension Liability as of December 31, 2015 | \$ 410,433 |
| Service Cost | 19,557 |
| Interest on the total pension liability | 14,070 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | |
| in the measurement of the total pension liability | - |
| Changes of assumptions or other inputs | (9,222) |
| Benefit payments | (32,604) |
| Other changes | - |
| Total Pension Liability as of December 31, 2016 | <u><u>\$ 402,234</u></u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

V. Detail Notes on All Funds (Continued)

D. Liabilities (Continued)

3. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town 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 Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The State's CAFR includes financial statements and required supplementary information for the pension trust fund financial statements for the Internal Revenue Code 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 Town 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, 2017 were \$106,026, which consisted of \$54,085 from the Town and \$51,941 from the law enforcement officers.

The Town has elected to contribute to the Supplemental Retirement Insurance Plan for non-law enforcement employees. Contributions for the year ended June 30, 2017 were \$176,166 which consisted of \$74,117 from the Town and \$102,050 from general employees.

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

Plan Description. The State of North Carolina contributes, on behalf of the Town of Davidson, to the Firefighter's and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter'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 Firefighter'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.

e. Other Employment Benefits

The Town 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 the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established by the State. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

IV. Detail Notes on All Funds (Continued)

C. Liabilities (Continued)

2. Deferred Outflows and Inflows of Resources

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

| Source | Amount |
|---|------------|
| <i>Local Government Employees Retirement Plan:</i> | |
| Contributions to pension plan in current fiscal year | \$ 215,592 |
| Differences between expected and actual experience | 19,068 |
| Changes of assumptions | 69,513 |
| Net difference between projected and actual | 561,112 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 14,379 |
| <i>Law Enforcement Officers' Special Separation Allowance:</i> | |
| Benefit payments made and administrative expenses for LOESSA | 32,783 |
| Differences between expected and actual experience | - |
| Changes of assumptions | - |
| | \$ 912,447 |

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

| Source | Statement of Net Position | General Fund Balance Sheet |
|---|---------------------------------|-------------------------------|
| Prepaid taxes (General Fund) | \$ - | \$ - |
| Property taxes receivable (General Fund) | | 89,774 |
| <i>Local Government Employees Retirement Plan:</i> | | |
| Differences between expected and actual experience | 35,562 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 6,375 | |
| <i>Law Enforcement Officers' Special Separation Allowance:</i> | | |
| Changes of assumptions | 7,797 | |
| | \$ 49,734 | \$ 89,774 |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

Detail Notes on All Funds (Continued)

D. Liabilities (Continued)

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial companies for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the board of Trustees can be obtained by contacting the Risk Management Services Department of NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town 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 Town of Davidson does not carry flood insurance, as they are not in a designated flood zone.

In accordance with G.S. 159-29, the Town's employees that have access to one hundred dollars (\$100) or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$75,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations

a. Operating Lease

1. In October 1997, the Town entered into a 25 year lease agreement for land and improvements referred to as the Beaver Dam Lease. The following is a schedule of minimum lease payments required under the lease:

| <u>Year Ending June 30,</u> | |
|-----------------------------|-------------------------|
| 2018 | \$ 9,940 |
| 2019 | 9,940 |
| 2020 | 9,940 |
| 2021 | 9,940 |
| 2022 | 9,940 |
| 2023 | 4,570 |
| Total | <u><u>\$ 54,270</u></u> |

Lease expense for the land and improvements was \$9,940 for the year ended June 30, 2017.

With respect to this same property and with the consent of the lessor, the Town entered into an operation and management agreement with a local organization. This agreement called for quarterly payments to the Town totaling \$10,000 per year, through December 31, 2012. The agreement was renewed and extended through the end of the lease in October 2023, with semi-annual payments of \$6,000. For the year ended June 30, 2017, \$12,000 was received by the Town with respect to this agreement.

2. In January 2006, the Town entered into a lease agreement with Mecklenburg County for 34.34 acres of land to be used as a “joint venture” park with the County. The cost of the lease to the Town was \$1. The lease remains in effect until February 1, 2105.
3. Also in 2006, the Town entered into a lease agreement with Mecklenburg County for several parcels for land which will be purchased by the County to be used in the Davidson greenway system. The cost of the lease to the Town was \$1. The lease remains in effect until 2046.

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TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes

1. In November 2012, the Town refinanced the original December 2002 \$2,000,000 seller financed loan for the purchase of the Fisher Farm property. The debt was refinanced through a financial institution in the amount of \$1,237,882. The loan agreement requires 120 monthly payments of \$10,230, plus interest through December 30, 2022. The annual interest is 2.49%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$46,936 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 122,765 | \$ 15,412 |
| 2019 | 122,765 | 12,355 |
| 2020 | 122,765 | 9,298 |
| 2021 | 122,765 | 6,241 |
| 2022 | 122,765 | 3,184 |
| Thereafter | 61,383 | 446 |
| Total | <u>\$ 675,208</u> | <u>\$ 46,936</u> |

2. In November 2012, the Town entered into a loan modification agreement to the original March 2008 loan with a bank. The original loan totaling \$540,000 was for the purchase a pumper fire truck. The loan modification agreement amended the original agreement, including the payments and the interest rate. The modification agreement requires 11 semi-annual payments of \$30,585, including interest through March 2018. The annual interest rate is 1.7%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$798 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 60,372 | \$ 798 |
| Total | <u>\$ 60,372</u> | <u>\$ 798</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

3. In November 2012, the Town entered into a loan modification agreement to the original January 2008 loan with a bank. The original loan totaling \$625,000 was for the purchase of the Armour Street Theater building. The loan modification agreement amended the original agreement, including the payments and the interest rate. The modification agreement requires 31 semi-annual payments of \$15,625 plus interest through January 2028. The annual interest rate is 3.21%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$63,447 of interest are as follows:

| Year Ending June 30 | Governmental Activities | |
|---------------------|-------------------------|------------------|
| | Principal | Interest |
| 2018 | \$ 31,250 | \$ 10,784 |
| 2019 | 31,250 | 9,780 |
| 2020 | 31,250 | 8,777 |
| 2021 | 31,250 | 7,774 |
| 2022 | 31,250 | 6,771 |
| Thereafter | 187,500 | 19,561 |
| Total | <u>\$ 343,750</u> | <u>\$ 63,447</u> |

4. In November 2005, the Town obtained a \$1,614,000 loan from a bank to finance street construction. The loan agreement requires 30 semi-annual payments of \$53,800, plus interest through November 2020. The annual interest rate is 3.81%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$28,697 of interest are as follows:

| Year Ending June 30 | Governmental Activities | |
|---------------------|-------------------------|------------------|
| | Principal | Interest |
| 2018 | \$ 107,600 | \$ 13,324 |
| 2019 | 107,600 | 9,224 |
| 2020 | 107,600 | 5,124 |
| 2021 | 53,800 | 1,025 |
| Total | <u>\$ 376,600</u> | <u>\$ 28,697</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

5. In May 2013, the Town obtained a \$67,500 loan from a bank to purchase a dump truck. The loan agreement requires 5 annual payments of \$14,213, including interest through May 2018. The annual interest rate is 1.74%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$243 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 13,970 | \$ 243 |
| Total | <u>\$ 13,970</u> | <u>\$ 243</u> |

6. In August 2012, the Town obtained a \$160,000 loan from a bank to purchase breathing apparatus equipment for the fire department. The loan agreement requires 14 semi-annual payments of \$12,264, including interest through August 2019. The annual interest rate is 1.91%.

Annual debt service payments of installment financing as of June 30, 2017, including \$1,719 of interest, are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 23,501 | \$ 1,027 |
| 2019 | 23,952 | 576 |
| 2020 | 12,148 | 116 |
| Total | <u>\$ 59,601</u> | <u>\$ 1,719</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

7. In September 2014, the Town obtained a \$55,194 loan from a bank to purchase a mini-excavator. The loan agreement requires 10 semi-annual payments of \$5,842, including interest through September 2020. The annual interest rate is 2.09%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$894 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 11,149 | \$ 534 |
| 2019 | 11,384 | 300 |
| 2020 | 5,781 | 60 |
| Total | <u>\$ 28,314</u> | <u>\$ 894</u> |

8. In January 2016, the Town obtained a \$114,474 loan from a bank to purchase a dump truck. The loan agreement requires 10 semi-annual payments of \$12,099, including interest through January 2021. The annual interest rate is 2.04%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$6,519 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 22,426 | \$ 1,773 |
| 2019 | 22,885 | 1,313 |
| 2020 | 23,355 | 844 |
| 2021 | 23,833 | 365 |
| Total | <u>\$ 92,499</u> | <u>\$ 4,295</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

9. In September 2016, the Town obtained a \$222,629 loan from a bank to purchase a street sweeper. The loan agreement requires 7 annual payments of \$33,830, including interest through May 2023. The annual interest rate is 1.75%.

Annual debt service payments of the installment financing as of June 30, 2017, including \$11,875 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 30,485 | \$ 3,344 |
| 2019 | 31,019 | 2,811 |
| 2020 | 31,562 | 2,268 |
| 2021 | 32,114 | 1,716 |
| 2022 | 32,676 | 1,154 |
| Thereafter | 33,248 | 582 |
| Total | <u>\$ 191,104</u> | <u>\$ 11,875</u> |

10. In October 2016, the Town obtained a construction loan for \$2,000,000 through a local bank for the construction of a fire station. The loan agreement requires 2 payments of interest only beginning May 1, 2017 and 13 annual payments thereafter, including interest of 2.290%. At June 30, 2017, the Town had drawn down \$570,892 of the loan to pay for ongoing construction costs. The remaining amount of the unspent funds of \$1,429,235, which includes interest received on the funds, is available for ongoing construction costs of the fire station.

Annual debt service payments of the installment financing as of June 30, 2017, including \$391,079 of interest are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ - | \$ 45,800 |
| 2019 | 153,000 | 45,800 |
| 2020 | 153,000 | 42,296 |
| 2021 | 154,000 | 38,793 |
| 2022 | 154,000 | 35,266 |
| Thereafter | 1,386,000 | 158,697 |
| Total | <u>\$ 2,000,000</u> | <u>\$ 366,652</u> |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

c. Changes in Long-Term Liabilities

| | Balance July 01, 2016 | Increases | Decreases | Balance June 30, 2017 | Current Portion of Balance |
|-------------------------------|--------------------------|--------------|------------|--------------------------|-------------------------------|
| Governmental Activities: | | | | | |
| Installment notes | \$ 2,065,328 | \$ 222,629 | \$ 446,538 | \$ 1,841,419 | \$ 393,033 |
| Fire Station #2 | - | 2,000,000 | - | 2,000,000 | - |
| Due to other governments | 1,772,906 | 31,445 | - | 1,804,351 | - |
| Compensated absences | 216,321 | - | 41,916 | 174,405 | 174,405 |
| Net pension obligation (LGRS) | 196,662 | 818,240 | - | 1,014,902 | - |
| Net pension obligation (LEO) | 253,372 | 148,862 | - | 402,234 | - |
| Governmental Activity: | | | | | |
| Long-term liabilities | \$ 4,504,589 | \$ 3,221,176 | \$ 488,454 | \$ 7,237,311 | \$ 567,438 |

Compensated absences typically have been liquidated in the General Fund.

C. Inter-fund Balances and Activity

1. Balances due to/from other funds at June 30, 2017, consist of the following:

Due from the General Fund for its activity allocation to:

| | Receivable | Payable |
|-----------------|------------|------------|
| Stormwater Fund | \$ - | \$ 117,776 |
| Solid WasteFund | - | 254,254 |
| Total | \$ - | \$ 372,030 |

The inter-fund balances resulted from a time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017*

III. Detail Notes on All Funds (Continued)

C. Inter-fund Balances and Activity (Continued)

2. Transfers (to)/from other funds at June 30, 2017, consist of the following:

| | |
|--|------------------------------|
| From the General Fund to the Public Art Project Special Revenue Fund | \$ (40,200) |
| From the General Fund to the MI Connection Capital Project Fund | (1,000,000) |
| From the General Fund to the Parks/Greenway Capital Project Fund | (130,000) |
| From the General Fund to the Fire Station Capital Project Fund | (102,284) |
| From the General Fund to the Public Facilities Capital Project Fund | (441,257) |
| | <u><u>\$ (1,713,741)</u></u> |

The Town makes transfers between funds in order to facilitate operations of the various funds.

3. Net Investment in Capital Assets

| | |
|----------------------------------|-----------------------------|
| Capital Assets | \$ 17,496,457 |
| Less: Installment notes | 1,841,419 |
| Less: Spent Loan Proceeds | 570,765 |
| Net Investment in capital assets | <u><u>\$ 15,084,273</u></u> |

4. Fund Balance

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

| | |
|---|---------------------|
| <i>Total fund balance-General Fund</i> | <i>\$ 9,545,889</i> |
| Less: | |
| Stabilization by state statute | 956,390 |
| Prepaid items | 24,560 |
| Streets - Powell Bill | 813,076 |
| Committed for Community Parks Reserve Funds | 399,625 |
| Appropriated Fund Balance in 2018 Budget | - |
| Unassigned | \$ 7,352,238 |

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

III. Detail Notes on All Funds (Continued)

C. Inter-fund Balances and Activity (Continued)

4. Fund Balance (Continued)

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

| Encumbrances | General Fund | Proprietary Fund | Non-Major Funds |
|--------------|--------------|------------------|-----------------|
| | \$ 431,161 | \$ 51,850 | \$ 1,464,725 |

D. Prior Period Adjustment

During the fiscal year ended June 30, 2017, the Town determined that certain construction in progress expenses that were subject to capitalization in the General Fund as of June 30, 2016, on a full accrual basis of accounting, had been charged to expense. Therefore, an adjustment to beginning net position has been recorded to account for failure to capitalize those expenses, the net effect of which increased beginning net position by \$58,229. These expenses were properly accounted for in the modified accrual statements, therefore the beginning fund balance was not affected.

IV. Related Party Transactions

A town employee leases a house located in a town park and is obligated to pay rent of \$400 per month beginning August 1, 2016 and ending July 31, 2017. The agreement may be renewed for an additional twelve months and continue doing so as agreeable to the Town. In the event the resident is no longer employed by the Town, the agreement will automatically terminate, and the resident has 30 days to vacate the premises.

V. Commitments

- A. The Town entered into a contract with a local fire department for fire service and protection to an area within Town limits, within a five mile radius of the local fire station and more than five miles from the Town's fire department. The Town shall pay, on an annual basis, an amount equal to the approved district tax rate based upon the value of the property on March 1 that is located within the service area. As of June 30, 2017, the agreement converted to a month-to-month basis until the opening of Davidson's Fire Station #2.
- B. The Town has entered a contract for solid waste and recycling collection with a company. This agreement is in effect until September 2017.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

VI. Inter-local Agreements

- A. The Town has entered an inter-local agreement with two neighboring towns for industrial and business park development. The Town has agreed to reimburse the lead town for certain debt service payments. The Town has no ownership of the land nor are they a named party with respect to the financing associated with the land. Pursuant to this agreement, the Town was obligated for \$40,000 plus interest each year through 2019. For the year ended June 30, 2017, the Town paid \$170,536, which paid this obligation in full. The Town was also obligated for debt of \$600,000 plus interest of \$244,130 for infrastructure improvements to the park. For the year ended June 30, 2017, the Town paid \$50,436 with respect to this section of the agreement. In exchange for the Town's participation in the agreement, the Town will receive a percentage of the park tax revenues and proceeds from the sale of any property in the development. This inter-local agreement is in effect until 2045. Should the Town elect out of the agreement, they will be liable for their remaining share of the debt service. In addition, they will be liable for any unpaid operating expenses incurred or contracted for through the date of the withdrawal.
- B. The Town entered an inter-local agreement with two neighboring towns to fund a local non-profit, Visit Lake Norman, for the purpose of promoting the Lake Norman area. The agreement calls for funding in the amount equal to 28% of the occupancy tax collected from the preceding fiscal year and 25% of prepared food tax collected in the preceding fiscal year. This inter-local agreement is in effect until June 30, 2020, with automatic renewals of five years. For the year ended June 30, 2017, the Town paid \$106,705 with respect to this agreement.
- C. The Town entered another inter-local agreement with three neighboring towns to create a regional transportation commission. The towns agreed to share the cost of funding this commission. The commission terminated on June 30, 2017, but was re-formed in 2017. For the year ended June 30, 2017, the Town paid \$9,531 with respect to this agreement.
- D. The Town has entered another inter-local agreement with neighboring towns to share cost with respect to a local park. The agreement can be terminated at the end of any fiscal year upon one month written notice. For the year ended June 30, 2017, the Town paid \$42,161 with respect to this agreement.
- E. In July 2011, the Town entered an inter-local agreement with the City of Charlotte for animal control services. This agreement is in effect for one year and shall automatically renew for four additional one-year periods. For the year ended June 30, 2017, the Town paid \$9,378 with respect to this agreement.
- F. The Town has entered into another inter-local agreement with Mecklenburg County to provide fire service and protection in the North Star fire district, which is the Town's extra territorial jurisdiction (ETJ). For the year ended June 30, 2017, Mecklenburg County paid the Town \$120,000 with respect to this agreement.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

VII. Joint Agency

In August of 2007, the Town entered an asset purchase agreement with a local telecommunications company for the purchase of its assets. Pursuant to the agreement, the Town of Mooresville purchased the assets of the telecommunications company. The Towns of Mooresville and Davidson then entered a joint agency agreement pursuant to the General Statutes of North Carolina to form an organization to own, upgrade, manage and operate this telecommunications system. This agency operates as MI Connection Communications System (MIC).

During the fiscal year ended June 30, 2008, the Town of Mooresville agreed to enter into an installment finance contract for \$80,000,000 on behalf of the parties and the joint agency to finance the acquisition of, improvement to and operation of the telecommunications system. During the year ended June 30, 2016, the Town of Mooresville refunded this financing contract in order to obtain more favorable interest rates (from floating rates of 4% to 5% to floating rates from 2% to 5%). The financing contract agreement between MIC and the Town of Mooresville was modified to mirror the new debt service requirements for the Town of Mooresville. The contract matures in September 2032.

During the year ended June 30, 2010, Mooresville entered into an additional installment financing contract of \$12,550,000 on behalf of MIC. During the year ended June 30, 2016, the Town of Mooresville entered into a rate modification agreement for the aforementioned installment financing contract to lower the applicable interest rate from 6.24% to 2.28%. As a result of the modification, the financing contract between MIC and the Town of Mooresville was modified to mirror the new debt service requirements for the Town of Mooresville. The contract matures in March 2023.

The audited financial statements of MIC indicate that the agency incurred a change in net position of \$667,603 for the year ended June 30, 2017. The Agency has a deficit net position balance of \$6,346,162 as of June 30, 2017.

The parties acknowledge that to the extent that revenues and assets of the system are not adequate to pay operating costs of the system, the parties agree to the extent of their financial interest, to provide the joint agency funds necessary to operate the system. For the year ended June 30, 2017, the Town funded \$1,000,000 with respect to this clause. Effective June 30, 2012, the inter-local agreement was amended so that the financial interest of the Town is 30%. Under the amended agreement, the Town of Davidson shall contribute \$1,000,000 annually and to the extent that the annual contribution exceeds its financial interest, such excess shall be paid to the Town of Mooresville, until such a time that the Town of Mooresville has recovered its contributions in excess of its financial interest. As of June 30, 2017, the Town of Mooresville has contributed \$1,804,351 in excess of its financial interest, and per the agency agreement, this is an obligation of the Town of Davidson. The MIC audit report has been issued and copies can be obtained from James Justice, Town Manager of the Town of Davidson.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2017

VIII. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several 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 would be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Other

The Town is subject to the authority of various federal and state regulatory agencies. No provision has been made in these financial statements for any sanctions which could be imposed if the Town were found to be in noncompliance or violation of regulations promulgated by the agencies.

Lawsuits

The Town may be subject to various lawsuits. In the opinion of the Town's management and the Town's attorney, the ultimate effect of any of these legal matters will not have a material effect on the Town's financial position.

IX. Change in Accounting Principles/Restatement

The Town implemented governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$124,457.

X. Date of Management's Review

The Town of Davidson has evaluated all subsequent events through November 10, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

| |
|--|
| This section contains additional information required by generally accepted accounting principles. |
|--|

- Town of Davidson's Proportionate Share of Net Pension Liability (Asset)
- Town of Davidson's Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

TOWN OF DAVIDSON, NORTH CAROLINA

Town of Davidson's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years*

Local Governmental Employees' Retirement System

| | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|
| Town of Davidson's proportion of the net pension liability (asset) (%) | 0.04782% | 0.04382% | 0.04000% | 0.04% |
| Town of Davidson's proportion of the net pension liability (asset) (\$) | \$ 1,014,902 | \$ 196,662 | \$ (258,191) | \$ 491,797 |
| Town of Davidson's covered-employee payroll | \$ 2,540,221 | \$ 2,313,254 | \$ 2,287,848 | \$ 2,157,964 |
| Town of Davidson's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 39.95% | 8.50% | (11.29%) | 22.79% |
| Plan fiduciary net position as a percentage of the total pension liability** | 91.47% | 98.09% | 102.64% | 94.35% |

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

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

TOWN OF DAVIDSON, NORTH CAROLINA

***Town of Davidson's Contributions
Required Supplementary Information
Last Four Fiscal Years***

Local Governmental Employees' Retirement System

| | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ 215,592 | \$ 176,144 | \$ 171,010 | \$ 167,198 |
| Contributions in relation to the contractually required contribution | 215,592 | 176,144 | 171,010 | \$ 167,198 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Town of Davidson's covered-employee payroll | \$ 2,616,841 | \$ 2,540,221 | \$ 2,313,254 | \$ 2,287,848 |
| Contributions as a percentage of covered-employee payroll | 8.24% | 6.93% | 7.39% | 7.31% |

TOWN OF DAVIDSON, NORTH CAROLINA

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

| | 2017 |
|---|-------------------|
| Beginning Balance | \$ 410,433 |
| Service Cost | 19,557 |
| Interest on the total pension liability | 14,070 |
| Changes of benefit terms | - |
| Differences between expected and actual experience in the measurement of the total pension liability | - |
| Changes of assumptions or other inputs | (9,222) |
| Benefit payments | (32,604) |
| Other changes | - |
| Ending balance of the total pension liability | \$ 402,234 |

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

TOWN OF DAVIDSON, NORTH CAROLINA

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

| | 2017 |
|--|-------------|
| Total pension liability | \$ 402,234 |
| Covered payroll | 842,962 |
| Total pension liability as a percentage of covered employee payroll | 47.72% |

Notes to the schedules:

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

SUPPLEMENTAL STATEMENTS

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 1
Page 1 of 5

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

| | Budget | Actual | Variance Positive (Negative) |
|--|--------------|--------------|------------------------------------|
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Ad valorem taxes | \$ 6,059,275 | \$ 6,135,350 | \$ 76,075 |
| Ad valorem taxes - Motor vehicles | 489,735 | 421,576 | (68,159) |
| Penalties and interest | 25,000 | 20,490 | (4,510) |
| Total | 6,574,010 | 6,577,416 | 3,406 |
| Other taxes and licenses: | | | |
| Motor vehicle fees | 168,300 | 265,524 | |
| Occupancy taxes | 185,000 | 205,696 | 20,696 |
| Vehicle rental tax | - | 328 | |
| Animal taxes | 1,200 | 1,305 | 105 |
| Total | 354,500 | 472,853 | 118,353 |
| Unrestricted intergovernmental: | | | |
| Local option sales taxes | 1,662,000 | 1,671,029 | 9,029 |
| Payments in lieu of taxes | 161,500 | 239,000 | 77,500 |
| Telecommunications sales taxes | 105,000 | 100,789 | (4,211) |
| Utility and cable TV franchise taxes | 770,000 | 803,147 | 33,147 |
| Food and beverage tax | 237,000 | 274,563 | 37,563 |
| Piped natural gas sales tax | - | 0 | - |
| Beer and wine tax | 57,000 | 57,446 | 446 |
| Sales tax refund | - | - | - |
| ABC profit distribution | 96,000 | 106,793 | 10,793 |
| Total | 3,088,500 | 3,252,767 | 164,267 |
| Restricted intergovernmental: | | | |
| Safe Route to School Grant | - | - | - |
| Public Safety Grant | - | - | - |
| Solid waste disposal tax | 7,600 | 8,525 | 925 |
| Powell Bill allocation | 318,323 | 325,385 | 7,062 |
| Substance abuse | - | 873 | 873 |
| Contributions from Mecklenburg County Fire | 120,000 | 120,000 | - |
| Other state grants | 5,000 | - | (5,000) |
| Total | 450,923 | 454,783 | 3,860 |
| Permits and fees: | | | |
| Zoning fees | 23,500 | 26,806 | 3,306 |
| Other permits | 500 | 450 | (50) |
| Business registration fee | 800 | 1,280 | 480 |
| First responder income | 25,000 | 29,470 | 4,470 |
| Total | 49,800 | 58,006 | 8,206 |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 1

Page 2 of 5

General Fund

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

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------|-------------------|-------------------|---|
| Sales and service: | | | |
| Rental income | 7,200 | 8,474 | 1,274 |
| Parking violations | 20,000 | 31,198 | 11,198 |
| Other facility revenue | 49,404 | 49,835 | 431 |
| Recreation program revenue | 149,000 | 195,571 | 46,571 |
| Recreation facility revenue | 700 | 560 | (140) |
| Cemetery revenue | 10,000 | 46,450 | 36,450 |
| Total | <u>236,304</u> | <u>332,088</u> | <u>95,784</u> |
| Investment earnings | <u>10,000</u> | <u>60,427</u> | <u>50,427</u> |
| Miscellaneous | | | |
| Donations - fire department | - | 9,600 | 9,600 |
| Donations - police | 10,255 | 200 | (10,055) |
| Donations - arts | - | 40,000 | 40,000 |
| Transit planning | 15,000 | 15,000 | - |
| Other | 50,500 | 70,259 | 19,759 |
| Total | <u>75,755</u> | <u>135,059</u> | <u>59,304</u> |
| Total revenues | <u>10,839,792</u> | <u>11,343,399</u> | <u>503,607</u> |
| Expenditures: | | | |
| General government: | | | |
| <i>Governing board:</i> | | | |
| Salaries and employee benefits | | 38,859 | |
| Contracted services | | 24,966 | |
| Other operating expenditures | | 38,876 | |
| Total | <u>128,898</u> | <u>102,701</u> | <u>26,197</u> |
| <i>Administration:</i> | | | |
| Salaries and employee benefits | | 782,256 | |
| Contracted services | | 165,064 | |
| Capital outlay | | - | |
| Other operating expenditures | | 187,492 | |
| Total | <u>1,246,004</u> | <u>1,134,812</u> | <u>111,192</u> |
| <i>Legal:</i> | | | |
| Salaries and employee benefits | | 99,992 | |
| Contracted services | | 26,699 | |
| Other operating expenditures | | 5,496 | |
| Total | <u>138,079</u> | <u>132,187</u> | <u>5,892</u> |

TOWN OF DAVIDSON, NORTH CAROLINA

*Statement 1
Page 3 of 5*

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

| | Budget | Actual | Variance Positive (Negative) |
|---------------------------------|-----------|-----------|------------------------------------|
| <i>Public buildings:</i> | | | |
| Contracted services | | 14,963 | |
| Capital outlay | | 38,964 | |
| Other operating expenditures | | 177,469 | |
| Total | 526,700 | 231,396 | 295,304 |
| Total general government | 2,039,681 | 1,601,096 | 438,585 |
| <i>Public safety:</i> | | | |
| <i>Police:</i> | | | |
| Salaries and employee benefits | | 1,480,494 | |
| Contracted services | | 132,732 | |
| Vehicle maintenance | | 25,917 | |
| Other operating expenditures | | 214,362 | |
| Capital outlay | | 138,507 | |
| Total | 2,129,697 | 1,992,012 | 137,685 |
| <i>Fire:</i> | | | |
| Salaries and employee benefits | | 755,993 | |
| Contracted services | | 91,490 | |
| Vehicle maintenance | | 36,704 | |
| Capital outlay | | 176,126 | |
| Other operating expenditures | | 157,245 | |
| Total | 1,260,989 | 1,217,558 | - |
| Total public safety | 3,390,686 | 3,209,570 | 137,685 |
| <i>Transportation:</i> | | | |
| <i>Streets and highways:</i> | | | |
| Salaries and employee benefits | | 397,711 | |
| Vehicle maintenance | | 7,507 | |
| Street lights | | 151,482 | |
| Contracted services | | 199,130 | |
| Other operating expenditures | | 188,934 | |
| Capital Outlay | | 436,818 | |
| Total | 1,920,424 | 1,381,582 | 538,842 |
| <i>Powell Bill - streets:</i> | | | |
| Street and sidewalk maintenance | | 4,055 | |
| Contracted services | | 12,500 | |
| Other operating expenditures | | - | |
| Total | 818,323 | 16,555 | 801,768 |

TOWN OF DAVIDSON, NORTH CAROLINA

*Statement 1
Page 4 of 5*

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

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|---------------|---------------|---|
| Economic and physical development: | | | |
| <i>Planning:</i> | | | |
| Salaries and employee benefits | | 391,211 | |
| Contracted services | | 12,003 | |
| Capital outlay | | - | |
| Other operating expenditures | | 16,092 | |
| Total | 522,004 | 419,306 | 102,698 |
| <i>Economic and community development:</i> | | | |
| Salaries and employee benefits | | 90,258 | |
| Contracted services | | 103,431 | |
| Other operating expenditures | | 106,678 | |
| Total | 325,676 | 300,367 | 25,309 |
| <i>Contributions:</i> | | | |
| Other service agencies | | 50,000 | |
| Total | 50,000 | 50,000 | - |
| Total economic and physical development | 897,680 | 769,673 | 128,007 |
| Cultural and recreation: | | | |
| <i>Travel and tourism:</i> | | | |
| Salaries and employee benefits | | 100,476 | |
| Contracted services | | 118,096 | |
| Capital outlay | | 833 | |
| Other operating expenditures | | 110,476 | |
| Total | 331,551 | 329,881 | 1,670 |
| <i>Recreation:</i> | | | |
| Salaries and employee benefits | | 221,188 | |
| Contracted services | | 135,561 | |
| Other operating expenditures | | 41,328 | |
| Capital outlay | | 9,750 | |
| Total | 427,155 | 407,827 | 19,328 |

TOWN OF DAVIDSON, NORTH CAROLINA

*Statement 1
Page 5 of 5*

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

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--------------------------------------|--------------------|---------------------|---|
| <i>Parks:</i> | | | |
| Salaries and employee benefits | | 270,426 | |
| Contracted services | | 119,369 | |
| Other operating expenditures | | 135,833 | |
| Capital outlay | | 0 | |
| Total | <u>804,940</u> | <u>525,628</u> | <u>279,312</u> |
| Total cultural and recreation | <u>1,563,646</u> | <u>1,263,336</u> | <u>300,310</u> |
| Debt service: | | | |
| Principal | | 446,538 | |
| Interest and other charges | | 268,218 | |
| Total debt service | <u>690,907</u> | <u>714,756</u> | <u>(23,849)</u> |
| Contingency | <u>2,942</u> | | <u>2,942</u> |
| Total expenditures | <u>11,324,289</u> | <u>8,956,568</u> | <u>2,324,290</u> |
| Revenues over (under) expenditures | <u>(484,497)</u> | <u>2,386,831</u> | <u>2,827,897</u> |
| Other Financing Sources (Uses) | | | |
| Proceeds from debt | - | - | - |
| Proceeds from disposal of assets | 10,000 | 8,051 | (1,949) |
| Transfers to other funds | <u>(1,240,257)</u> | <u>(1,713,541)</u> | <u>473,284</u> |
| Total other financing sources (uses) | <u>(1,230,257)</u> | <u>(1,705,490)</u> | <u>471,335</u> |
| Fund balance appropriated | <u>1,714,754</u> | - | <u>1,714,754</u> |
| Net change in fund balance | <u>\$ -</u> | <u>681,341</u> | <u>\$ 681,341</u> |
| Fund balance, beginning | | <u>8,864,548</u> | |
| Fund balance, end of year | | <u>\$ 9,545,889</u> | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 2

Capital Project Fund – MI Connection
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Expenditures | | | | | |
| Economic and physical development | 6,500,000 | 4,000,000 | 1,000,000 | 5,000,000 | 1,500,000 |
| Total expenditures | 6,500,000 | 4,000,000 | 1,000,000 | 5,000,000 | 1,500,000 |
| Revenues over (under) expenditures | (6,500,000) | (4,000,000) | (1,000,000) | (5,000,000) | 1,500,000 |
| Other financing sources and uses | | | | | |
| Transfers from General Fund | 6,500,000 | 5,000,000 | 1,000,000 | 6,000,000 | (500,000) |
| Total other financing sources | 6,500,000 | 5,000,000 | 1,000,000 | 6,000,000 | (500,000) |
| Net change in fund balance | \$ - | \$ 1,000,000 | - | \$ 1,000,000 | \$ 1,000,000 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 1,000,000 | | |
| Fund balance, end of year | | | \$ 1,000,000 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 3

***Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017***

| | Special Revenue Funds | | Capital Project Funds | | | | | Total Non-Major |
|--|----------------------------------|--------------------------|-------------------------------|----------------------------|---|-------------------------------|-------------------------------|-------------------------------|
| | Affordable Housing Program | Public Art Project | Bradford Street Project | Fire Station Project | Potts-Sloan- Beaty Corridor Project | Parks/ Greenway Project | Public Facility Project | Governmental Funds |
| Assets | | | | | | | | |
| Cash | \$ 138,115 | \$ 61,104 | \$ - | \$ 1,429,235 | \$ 116,350 | \$ 158,603 | \$ 230,474 | \$ 2,133,881 |
| Due from General Fund | - | - | - | - | - | - | - | - |
| Total assets | <u>\$ 138,115</u> | <u>\$ 61,104</u> | <u>\$ -</u> | <u>\$ 1,429,235</u> | <u>\$ 116,350</u> | <u>\$ 158,603</u> | <u>\$ 230,474</u> | <u>\$ 2,133,881</u> |
| Liabilities and Fund Balances | | | | | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ 204,600 | \$ - | \$ - | \$ - | \$ 204,600 |
| Due to General Fund | - | - | - | - | - | - | - | - |
| Total liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 204,600</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 204,600</u> |
| Fund balances: | | | | | | | | |
| Committed for special projects | \$ 138,115 | \$ 61,104 | \$ - | \$ 1,224,635 | \$ 116,350 | \$ 158,603 | \$ 230,474 | \$ 1,929,281 |
| Total fund balances | <u>\$ 138,115</u> | <u>\$ 61,104</u> | <u>\$ -</u> | <u>\$ 1,224,635</u> | <u>\$ 116,350</u> | <u>\$ 158,603</u> | <u>\$ 230,474</u> | <u>\$ 1,929,281</u> |
| Total liabilities and fund balances | <u>\$ 138,115</u> | <u>\$ 61,104</u> | <u>\$ -</u> | <u>\$ 1,429,235</u> | <u>\$ 116,350</u> | <u>\$ 158,603</u> | <u>\$ 230,474</u> | <u>\$ 2,133,881</u> |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 4

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2017**

| | Special Revenue Funds | | Capital Project Funds | | | | | Total Non-Major Governmental Funds |
|---------------------------------------|----------------------------------|--------------------------|-------------------------------|----------------------------|---|-------------------------------|-------------------------------|---|
| | Affordable Housing Program | Public Art Project | Bradford Street Project | Fire Station Project | Potts-Sloan- Beaty Corridor Project | Parks/ Greenway Project | Public Facility Project | |
| Revenues | | | | | | | | |
| Restricted intergovernmental | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Miscellaneous | 67,129 | 5,000 | 120,800 | - | - | - | - | 192,929 |
| Total revenues | 67,129 | 5,000 | 120,800 | - | - | - | - | 192,929 |
| Expenditures | | | | | | | | |
| Public safety | - | - | - | 909,063 | - | - | - | 909,063 |
| Transportation | - | - | 373,576 | - | 5,385 | - | - | 378,961 |
| Economic and physical development | 164,203 | - | - | - | - | - | 210,583 | 374,786 |
| Cultural and recreational | - | 12,211 | - | - | - | 35,767 | - | 47,978 |
| Total expenditures | 164,203 | 12,211 | 373,576 | 909,063 | 5,385 | 35,767 | 210,583 | 1,710,788 |
| Revenues over (under) expenditures | (97,074) | (7,211) | (252,776) | (909,063) | (5,385) | (35,767) | (210,583) | (1,517,859) |
| Other Financing Sources (Uses) | | | | | | | | |
| Loan Proceeds | | | | 2,000,000 | | | | |
| Transfers from (to) General Fund | - | 40,200 | - | 102,284 | - | 130,000 | 441,057 | 713,541 |
| Net change in fund balance | (97,074) | 32,989 | (252,776) | 1,193,221 | (5,385) | 94,233 | 230,474 | 1,195,682 |
| Fund balances: | | | | | | | | |
| Beginning of year | 235,189 | 28,115 | 252,776 | 31,414 | 121,735 | 64,370 | - | 733,599 |
| End of year | \$ 138,115 | \$ 61,104 | \$ - | \$ 1,224,635 | \$ 116,350 | \$ 158,603 | \$ 230,474 | \$ 1,929,281 |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 5

Special Revenue Fund – Affordable Housing Program
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | | | | | |
| Contributions - restricted | \$ 172,000 | \$ 274,010 | \$ 67,129 | \$ 341,139 | \$ 169,139 |
| Total revenues | 172,000 | 274,010 | 67,129 | 341,139 | 169,139 |
| Expenditures | | | | | |
| Economic and physical development | 703,575 | 492,213 | 164,203 | 656,416 | 47,159 |
| Total expenditures | 703,575 | 492,213 | 164,203 | 656,416 | 47,159 |
| Revenues over (under) expenditures | (531,575) | (218,203) | (97,074) | (315,277) | 216,298 |
| Other financing sources and uses | | | | | |
| Proceeds from sale of other asset | 135,495 | 135,495 | - | 135,495 | - |
| Transfers from (to) General Fund | 301,227 | 296,142 | - | 296,142 | (5,085) |
| Total other financing sources | 436,722 | 431,637 | - | 431,637 | (5,085) |
| Fund balance appropriated | 94,853 | - | - | - | (94,853) |
| Net change in fund balance | \$ - | \$ 213,434 | (97,074) | \$ 116,360 | \$ 116,360 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 235,189 | | |
| Fund balance, end of year | | | \$ 138,115 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 6

Special Revenue Fund – Public Art Project
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | | | | | |
| Contributions - restricted | \$ 169,967 | \$ 155,667 | \$ 5,000 | \$ 160,667 | \$ (9,300) |
| Expenditures | | | | | |
| Cultural and recreational | 236,630 | 226,216 | 12,211 | 238,427 | (1,797) |
| Total expenditures | 236,630 | 226,216 | 12,211 | 238,427 | (1,797) |
| Revenues over (under) expenditures | (66,663) | (70,549) | (7,211) | (77,760) | (11,097) |
| Other financing sources and uses | | | | | |
| Transfers from General Fund | 66,663 | 98,663 | 40,200 | 138,863 | 72,200 |
| Total other financing sources | 66,663 | 98,663 | 40,200 | 138,863 | 72,200 |
| Net change in fund balance | \$ - | \$ 28,114 | 32,989 | \$ 61,103 | \$ 61,103 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 28,115 | | |
| Fund balance, end of year | | | \$ 61,104 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 7

Capital Project Fund – Bradford Street
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | | | | | |
| Contributions | \$ 700,000 | \$ 595,600 | \$ 120,800 | \$ 716,400 | \$ 16,400 |
| Expenditures | | | | | |
| Streets and highways | 700,000 | 342,824 | 373,576 | 716,400 | (16,400) |
| Total expenditures | 700,000 | 342,824 | 373,576 | 716,400 | (16,400) |
| Revenues over (under) expenditures | - | 252,776 | (252,776) | - | - |
| Other financing sources and uses | | | | | |
| Transfers from General Fund | - | - | - | - | - |
| Total other financing sources | - | - | - | - | - |
| Net change in fund balance | \$ - | \$ 252,776 | (252,776) | \$ - | \$ - |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 252,776 | | |
| Fund balance, end of year | | | \$ - | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 8

Capital Project Fund – Fire Station
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Expenditures | | | | | |
| Public safety | 2,150,000 | 80,586 | 909,063 | 989,649 | 1,160,351 |
| Total expenditures | 2,150,000 | 80,586 | 909,063 | 989,649 | 1,160,351 |
| Revenues over (under) expenditures | (2,150,000) | (80,586) | (909,063) | (989,649) | 1,160,351 |
| Other financing sources and uses | | | | | |
| Loan Proceeds | 2,000,000 | - | 2,000,000 | 2,000,000 | - |
| Transfers from General Fund | 150,000 | 112,000 | 102,284 | 214,284 | 64,284 |
| Total other financing sources | 2,150,000 | 112,000 | 2,102,284 | 214,284 | 64,284 |
| Net change in fund balance | \$ - | \$ 31,414 | 1,193,221 | \$ (775,365) | \$ 1,224,635 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 31,414 | | |
| Fund balance, end of year | | | \$ 1,224,635 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 9

***Capital Project Fund – Potts-Sloan-Beaty Corridor
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017***

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Expenditures | | | | | |
| Streets and highways | 233,000 | 111,265 | 5,385 | 116,650 | 116,350 |
| Total expenditures | 233,000 | 111,265 | 5,385 | 116,650 | 116,350 |
| Revenues over (under) expenditures | (233,000) | (111,265) | (5,385) | (116,650) | 116,350 |
| Other financing sources and uses | | | | | |
| Transfers from General Fund | 233,000 | 233,000 | - | 233,000 | - |
| Total other financing sources | 233,000 | 233,000 | - | 233,000 | - |
| Net change in fund balance | \$ - | \$ 121,735 | (5,385) | \$ 116,350 | \$ 116,350 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 121,735 | | |
| Fund balance, end of year | | | \$ 116,350 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 10

Capital Project Fund – Parks/Greenway
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Expenditures | | | | | |
| Cultural and recreation | 550,000 | 50,130 | 35,767 | 85,897 | 464,103 |
| Total expenditures | 550,000 | 50,130 | 35,767 | 85,897 | 464,103 |
| Revenues over (under) expenditures | (550,000) | (50,130) | (35,767) | (85,897) | 464,103 |
| Other financing sources and uses | | | | | |
| Transfers from General Fund | 550,000 | 114,500 | 130,000 | 244,500 | (305,500) |
| Total other financing sources | 550,000 | 114,500 | 130,000 | 244,500 | (305,500) |
| Net change in fund balance | \$ - | \$ 64,370 | 94,233 | \$ 158,603 | \$ 158,603 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | 64,370 | | |
| Fund balance, end of year | | | \$ 158,603 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 11

Capital Project Fund – Public Facilities
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2017

| | Project Authorization | Prior Years | Actual Current Year | Total To Date | Variance Positive (Negative) |
|---|--------------------------|----------------|---------------------------|------------------|------------------------------------|
| Revenues | \$ - | \$ - | \$ - | \$ - | \$ - |
| Expenditures | | | | | |
| Economic and physical development | 241,000 | - | 210,583 | 210,583 | 30,417 |
| Total expenditures | 241,000 | - | 210,583 | 210,583 | 30,417 |
| Revenues over (under) expenditures | (241,000) | - | (210,583) | (210,583) | (30,417) |
| Other financing sources and uses | | | | | |
| Transfers from General Fund | 241,000 | - | 441,057 | 441,057 | 200,057 |
| Total other financing sources | 241,000 | - | 441,057 | 441,057 | 200,057 |
| Net change in fund balance | \$ - | \$ - | 230,474 | \$ 230,474 | \$ 169,640 |
| Fund balances: | | | | | |
| Fund balance, beginning of year | | | - | | |
| Fund balance, end of year | | | \$ 230,474 | | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 12

Solid Waste Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2017

| | Budget | Actual | Variance Positive (Negative) |
|--|-------------------|-------------------|------------------------------------|
| Operating Revenues | | | |
| Solid waste management fee | \$ - | \$ 754,492 | \$ - |
| Total revenue | <u>\$ 682,300</u> | <u>\$ 754,492</u> | <u>\$ 72,192</u> |
| Expenditures | | | |
| Administration: | | | |
| Administrative | | - | |
| Solid waste operations: | | | |
| Contracted services | | 713,371 | |
| Total | | <u>713,371</u> | |
| Total expenditures | <u>682,300</u> | <u>713,371</u> | <u>(31,071)</u> |
| Revenues over (under) expenditures | <u>-</u> | <u>41,121</u> | <u>41,121</u> |
| Other Financing Sources (Uses) | | | |
| Transfer to General Fund | <u>-</u> | <u>-</u> | <u>-</u> |
| Revenues over (under) expenditures and other financing sources (uses) | <u>\$ -</u> | 41,121 | <u>\$ 41,121</u> |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | |
| Reconciling items: | | | |
| Capital outlay | | - | |
| Depreciation | | - | |
| Principal retirement | | - | |
| Total reconciling items | | <u>-</u> | |
| Change in net position | | <u>\$ 41,121</u> | |

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 13

Storm-water Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2017

| | Budget | Actual | Variance Positive (Negative) |
|--|-------------------|-------------------|------------------------------------|
| Operating Revenues | | | |
| Stormwater management fee | \$ - | \$ 243,841 | \$ - |
| Total revenue | <u>\$ 229,920</u> | <u>\$ 243,841</u> | <u>\$ 13,921</u> |
| Expenditures | | | |
| Administration: | | | |
| Administrative | | <u>-</u> | |
| Stormwater operations: | | | |
| Contracted services | | <u>143,950</u> | |
| Total | | <u>143,950</u> | |
| Total expenditures | <u>250,698</u> | <u>143,950</u> | <u>106,748</u> |
| Revenues over (under) expenditures | <u>(20,778)</u> | <u>99,891</u> | <u>120,669</u> |
| Other Financing Sources (Uses) | | | |
| Loan Proceeds | <u>-</u> | <u>222,629</u> | <u>-</u> |
| Appropriated fund balance | <u>20,778</u> | <u>33,830</u> | <u>13,052</u> |
| Revenues over (under) expenditures and other financing sources (uses) | <u>\$ -</u> | <u>288,690</u> | <u>\$ 288,690</u> |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | |
| Reconciling items: | | | |
| Capital outlay | | (224,635) | |
| Depreciation | | - | |
| Principal retirement | | <u>-</u> | |
| Total reconciling items | | <u>(224,635)</u> | |
| Change in net position | | <u>\$ 64,055</u> | |

OTHER SCHEDULES

This section contains additional information required on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

TOWN OF DAVIDSON, NORTH CAROLINA

Schedule 1

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

| | Uncollected Balance June 30, 2016 | Additions | Collections and Credits | Uncollected Balance June 30, 2017 |
|-------------|---|---------------------|----------------------------|---|
| 2016 - 2017 | \$ - | \$ 6,573,227 | \$ 6,552,701 | \$ 20,526 |
| 2015 - 2016 | 25,989 | - | 14,663 | 11,326 |
| 2014 - 2015 | 11,325 | - | 1,152 | 10,173 |
| 2013 - 2014 | 11,079 | - | 919 | 10,160 |
| 2012 - 2013 | 13,656 | - | 4,494 | 9,162 |
| 2011 - 2012 | 9,110 | - | 3,194 | 5,916 |
| 2010 - 2011 | 8,401 | 151 | - | 8,552 |
| 2009 - 2010 | 5,619 | - | 135 | 5,484 |
| 2008 - 2009 | 4,977 | - | 925 | 4,052 |
| 2007 - 2008 | 4,532 | - | 109 | 4,423 |
| 2006 - 2007 | 3,915 | - | 3,915 | - |
| | <u>\$ 98,603</u> | <u>\$ 6,573,378</u> | <u>\$ 6,582,207</u> | <u>\$ 89,774</u> |

Reconcilement with revenues:

| | |
|---------------------------------|--------------|
| Ad Valorem Taxes - General Fund | \$ 6,577,416 |
|---------------------------------|--------------|

Reconciling items:

| | |
|------------------------------------|---------------------|
| Interest collected | (17,593) |
| Statutory write off | 3,915 |
| Property valuation appeals refunds | 18,469 |
| Total collections and credits | <u>\$ 6,582,207</u> |

TOWN OF DAVIDSON, NORTH CAROLINA

Schedule 2

***Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2017***

| | Town-wide | | | Total Levy | |
|--|-------------------------|-------|---------------------|--|---------------------------------|
| | Property Valuation | Rate | Amount of Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original levy: | | | | | |
| Property taxed at current year's rate | \$ 1,878,064,857 | 0.350 | \$ 6,573,227 | \$ 6,151,652 | \$ 421,575 |
| Total property valuation | <u>\$ 1,878,064,857</u> | | | | |
| Net levy | | | 6,573,227 | 6,151,652 | 421,575 |
| Less, uncollected tax at June 30, 2017 | | | <u>(20,526)</u> | <u>(19,947)</u> | <u>(579)</u> |
| Current year's taxes collected | | | <u>\$ 6,552,701</u> | <u>\$ 6,131,705</u> | <u>\$ 420,996</u> |
| Current levy collection percentage | | | <u>99.69%</u> | <u>99.68%</u> | <u>99.86%</u> |

| |
|---------------------------|
| COMPLIANCE SECTION |
|---------------------------|

**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**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Davidson, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Davidson, North Carolina as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Davidson's basic financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Davidson's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Davidson's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Davidson's financial statements are free of 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 our testing of internal control and compliance and the result of that testing, and to provide an opinion on the effectiveness of the entity's internal control on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rowell, Craven & Short, P.A.
Charlotte, North Carolina
November 10, 2017