

**Town of Davidson,
North Carolina**

Audited Financial Statements

For the Fiscal Year Ended June 30, 2018

Town Board

Rusty Knox, Mayor
Jim Fuller, Mayor Pro Tem
Jane Campbell
Matthew Fort
Autumn Rierson Michael
David Sitton

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, 2018, 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, 2018, 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 63 through 64 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 65 through 66, 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, 2018 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.

Rowell, Craven & Short P.A.
Charlotte, North Carolina
November 10, 2018

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, 2018. 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

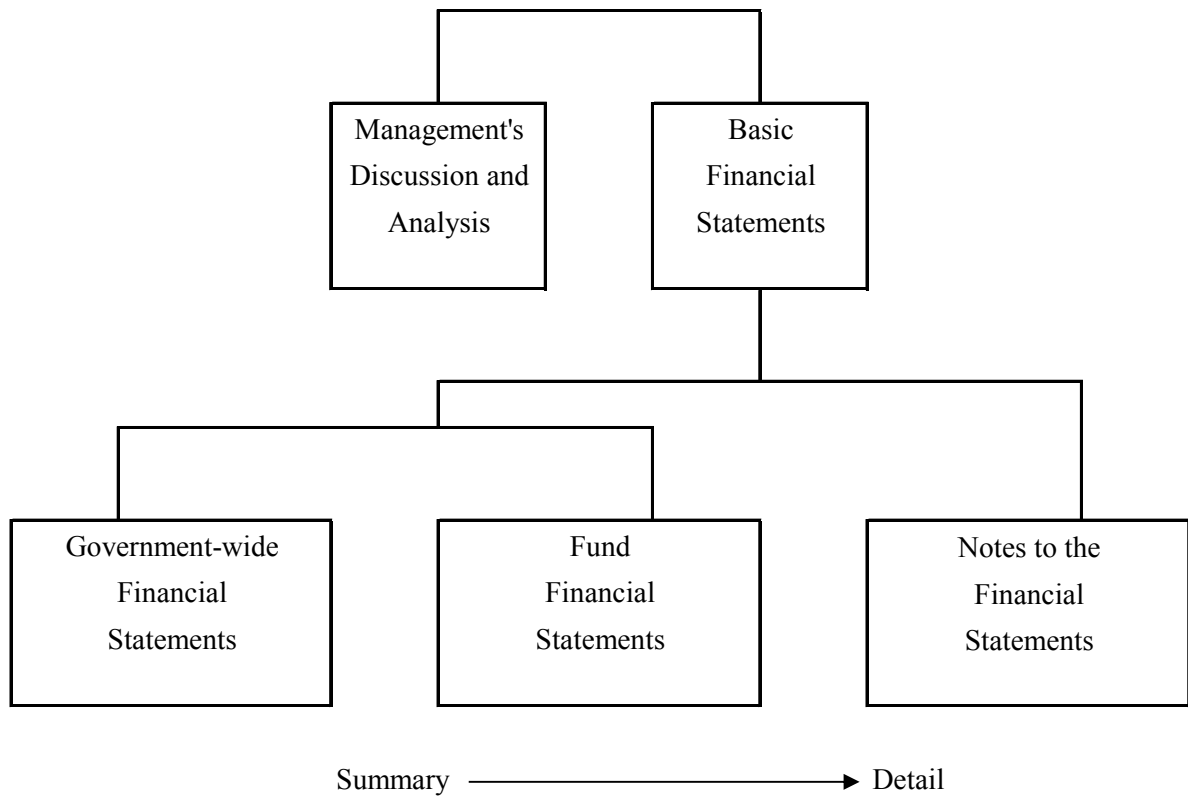
- The assets and deferred outflows of resources of the Town of Davidson exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$26,621,713 (*net position*).
- The government's total net position increased by \$2,548,505, primarily due to increases in the governmental-type 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 \$12,916,357, with a net change of \$441,187 in fund balance. Approximately 45.68 percent of this total amount or \$5,900,062 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,016,295 or 60.98 percent of total general fund expenditures for the fiscal year.
- The Town of Davidson's total long-term liabilities decreased by \$70,284 (.97%) during the current fiscal year. The key factors relative to this decrease in the General Fund were decreased LGERS pension liability.

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 60 through 61).

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.

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 25 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 63 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 14,118,479	\$ 13,301,754	\$ 653,283	\$ 386,585	\$ 14,771,762	\$ 13,688,339
Capital assets	19,509,766	17,496,457	-	-	19,509,766	17,496,457
Deferred outflows of resources	656,277	912,447	-	-	656,277	912,447
Total assets	34,284,522	31,710,658	653,283	386,585	34,937,805	32,097,243
Long-term liabilities						
outstanding	4,958,201	5,252,737	-	-	4,958,201	5,252,737
Other liabilities	3,349,920	2,721,204	-	-	3,349,920	2,721,204
Deferred inflows of resources	7,971	49,914	-	-	7,971	49,914
Total liabilities and deferred inflows of resources	8,316,092	8,023,855	-	-	8,316,092	8,023,855
Net position:						
Net investment in capital assets	15,612,627	15,084,273	-	-	15,612,627	15,084,273
Restricted	2,184,567	2,994,101	-	-	2,184,567	2,994,101
Unrestricted	8,171,236	5,608,249	653,283	386,585	8,824,519	5,994,834
Total net position	\$ 25,968,430	\$ 23,686,623	\$ 653,283	\$ 386,585	\$ 26,621,713	\$ 24,073,208

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 \$26,621,713 as of June 30, 2018. The Town's net position increased \$2,548,505 for the fiscal year ended June 30, 2018. However, the largest portion (58.65%) 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, \$2,184,567, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,171,236 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 \$2.2 million. (*See Figure 3.*)
- Actual revenues exceeded budgeted by nearly \$1.2 million. (*See Exhibit 5.*)
- Actual expenditures were under budget by over \$2.8 million due to cost saving measures and continued attention to finding reductions in spending below budgeted amounts. (*See Exhibit 5.*)

Town of Davidson's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 465,122	\$ 405,093	\$ 1,036,189	\$ 998,333	\$ 1,501,311	\$ 1,403,426
Operating grants and contributions	1,776,943	583,171	-	-	1,776,943	583,171
Capital grants and contributions	37,174	125,800	-	-	37,174	125,800
General revenues:						
Property taxes	6,988,785	6,568,586	-	-	6,988,785	6,568,586
Other taxes	4,202,886	3,725,621	-	-	4,202,886	3,725,621
Grants and contributions not restricted to specific programs	-	-	91,817	-	91,817	-
Other	631,144	120,987	-	-	631,144	120,987
Total revenues	14,102,054	11,529,258	1,128,006	998,333	15,230,060	12,527,591
Expenses:						
General government	1,724,821	1,593,065	-	-	1,724,821	1,593,065
Public safety	3,750,099	3,100,972	-	-	3,750,099	3,100,972
Transportation	2,839,845	1,820,831	-	-	2,839,845	1,820,831
Economic development	1,958,876	1,990,469	-	-	1,958,876	1,990,469
Environmental protection	9,772	-	-	-	9,772	-
Culture and recreation	1,434,754	1,353,292	-	-	1,434,754	1,353,292
Interest on long-term debt	142,847	268,218	-	-	142,847	268,218
Solid Waste	-	-	720,272	693,681	720,272	693,681
Stormwater	-	-	100,269	137,630	100,269	137,630
Total expenses	11,861,014	10,126,847	820,541	831,311	12,681,555	10,958,158
Increase(decrease) in net position before transfers	2,241,040	1,402,411	307,465	167,022	2,548,505	1,569,433
Transfers	40,767	61,846	(40,767)	(61,846)	-	-
Increase(decrease) in net position	2,281,807	1,464,257	266,698	105,176	2,548,505	1,569,433
Net position, July 1 (consolidated)	23,686,623	22,222,366	386,585	281,409	24,073,208	22,503,775
Net position, June 30	\$ 25,968,430	\$ 23,686,623	\$ 653,283	\$ 386,585	\$ 26,621,713	\$ 24,073,208

Governmental Activities. Governmental activities increased the Town's net position by \$2,281,807, thereby accounting for 89.5 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 increased 6.7% over the prior fiscal year, while consumption-based tax revenue increased 14.1%.
- Total revenues exceeded total expenses by \$2,241,040 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 \$266,698 accounting for 10.5 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 2015 to align revenue with actual expenditures; fee revenues were evaluated for fiscal year 2018 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 \$7,016,295, while total fund balance reached \$9,259,638. 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 60.98% of general fund expenditures, while total fund balance represents 80.48% of the same amount.

At June 30, 2018, the governmental funds of Town of Davidson reported a combined fund balance of \$12,916,357 with a net increase in fund balance of \$441,187. Included in this change in fund balance are a decrease in fund balance of \$286,251 in the General Fund and an increase of \$727,438 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 and a SAFER grant for the Fire Department
- Award of Home Consortium pass-through funds for inclusive housing construction
- Donations received for Fire Station #2
- Appropriations of fund balance

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
- Costs of building and equipping Fire Station #2, a fire tanker apparatus and a fire pumper apparatus

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 \$336,029, and for the Storm Water Fund amounted to \$317,254. The total change in net position for the Solid Waste Fund and the Storm Water Fund was \$67,221 and \$199,477, 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, 2018, totals \$19,509,766 (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:

- Fire Station #2 was completed (\$2,146,041).
- Purchase of vehicles and equipment in the governmental activities – 2 Ford Explorers for the Police Department (\$76,678); a Tanker Fire Apparatus for the Fire Department (\$337,000); and a sidewalk grinder for the Public Works Department (\$6,629).
- Sloan Street Property purchased (\$52,677).
- Other capital improvements include installation of sidewalks (\$134,950).

Capital assets consist of:

- Land and other non-depreciable assets of \$5,676,229.
- Other capital assets (net of depreciation of \$6,829,815) total \$13,833,537.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,253,740	\$ 4,285,963	\$ -	\$ -	\$ 4,253,740	\$ 4,285,963
Buildings and systems	5,512,334	\$ 3,470,267	-	-	5,512,334	3,470,267
Improvements other than buildings	6,913,945	7,053,752			6,913,945	7,053,752
Machinery and equipment	669,490	742,285	-	-	669,490	742,285
Computers and Computer software	25,331	42,958	-	-	-	-
					25,331	42,958
Vehicles and motorized equipment	712,437	535,081	-	-	712,437	535,081
Construction in progress	1,422,489	1,366,151	-	-	1,422,489	1,366,151
Total	\$ 19,509,766	\$ 17,496,457	\$ -	\$ -	\$ 19,509,766	\$ 17,496,457

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, 2018, the Town of Davidson had total debt outstanding of \$5,670,180. Of this total amount, \$1,773,041 is due to Town of Mooresville under the amended joint agency agreement described in Note VII, beginning on page 58 of this report. The Town of Davidson's outstanding debt increased by \$24,410 (.43%) due to increased installment debt.

Long-term Liabilities. In addition to its long-term debt, the Town of Davidson is liable for long-term liabilities of \$1,496,847. Of this total amount, \$256,669 is due Town employees for compensated absences. The remaining amount of \$1,240,178 relates to the obligation for the LGERS pension plan and Law Enforcement Officers Special Separation Allowance described in detail in Note III.B.1 beginning on page 37 of this report. The Town of Davidson's other long-term liabilities decreased by \$94,694 (5.95%) due, primarily, to a decrease in LGERS pension liability.

Town of Davidson's Outstanding Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment financing	\$3,897,139	\$2,000,000	\$ -	\$ -	\$3,897,139	\$2,000,000
Due to other governments	1,773,041	1,804,351	-	-	1,773,041	1,804,351
Total	\$5,670,180	\$3,804,351	\$ -	\$ -	\$5,670,180	\$3,804,351

Town of Davidson's Outstanding Debt

During the fiscal year ended June 30, 2018, voters approved the issuance of \$15,000,000 of general obligation bonds which remained un-issued at June 30, 2018.

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 \$159,457,022.

Additional information regarding Town of Davidson's long-term debt and liabilities 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 2018 as compared to the rate for the State of North Carolina of 4.3% 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, 2019

Governmental Activities:

- Property taxes and revenues are expected to increase 3.1% over the fiscal year 2018 budget.
- Sales tax distributions are expected to increase by 5.4% over the fiscal year 2018 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Unrestricted cash and cash equivalents	\$ 13,680,635	\$ -	\$ 13,680,635
Taxes receivable	61,028	4,080	65,108
Due from other governments	831,708	-	831,708
Prepaid items	13,270	-	13,270
Internal balances	(649,203)	649,203	-
Notes receivable	49,895	-	49,895
Restricted cash and cash equivalents	131,146	-	131,146
Total current assets	<u>14,118,479</u>	<u>653,283</u>	<u>14,771,762</u>
Capital assets			
Land, non-depreciable improvements, and construction in progress	5,676,229	-	5,676,229
Other capital assets, net of depreciation	13,833,537	-	13,833,537
Total capital assets	<u>19,509,766</u>	<u>-</u>	<u>19,509,766</u>
Total assets	<u>33,628,245</u>	<u>653,283</u>	<u>34,281,528</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	337,146		337,146
Deferred outflows related to pensions - LEOSSA	41,497		41,497
Benefit payments and expenses - LEOSSA	32,784		32,784
Contributions to pension plan in current fiscal year	244,850	-	244,850
Total deferred outflows of resources	<u>656,277</u>	<u>-</u>	<u>656,277</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,141,094	-	1,141,094
Current portion of long-term liabilities	968,648	-	968,648
Total current liabilities	<u>2,109,742</u>	<u>-</u>	<u>2,109,742</u>
Long-term liabilities:			
Net pension liability	777,612		777,612
Total pension liability - Separation Allowance	462,566		462,566
Due in more than one year	4,958,201	-	4,958,201
Total liabilities	<u>8,308,121</u>	<u>-</u>	<u>8,308,121</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	7,971	-	7,971
Total deferred inflows of resources	<u>7,971</u>	<u>-</u>	<u>7,971</u>
NET POSITION			
Net investment in capital assets	15,612,627	-	15,612,627
Restricted for:			
Stabilization by state statue	2,053,421	-	2,053,421
Streets - Powell Bill	31,924	-	31,924
Construction of fire station	99,222		99,222
Unrestricted	8,171,236	653,283	8,824,519
Total net position	<u>\$ 25,968,430</u>	<u>\$ 653,283</u>	<u>\$ 26,621,713</u>

TOWN OF DAVIDSON, NORTH CAROLINA

Statement of Activities For the Fiscal Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
<i>Governmental Activities:</i>				
Public safety	\$ 3,750,099	\$ 53,557	\$ 305,792	\$ 32,174
Economic and physical development	1,958,876	47,433	0	-
General government	1,724,821	9,980	84,936	-
Cultural and recreational	1,434,754	354,152	1,054,003	5,000
Transportation	2,839,845	-	332,212	0
Environmental protection	9,772	-	0	-
Interest on long-term debt	142,847	-	-	-
Total governmental activities	11,861,014	465,122	1,776,943	37,174
<i>Business-type activities:</i>				
Solid Waste Fund	720,272	787,493	-	-
Stormwater Fund	100,269	248,696	91,817	-
Total business-type activities	820,541	1,036,189	91,817	-
Total primary government	\$ 12,681,555	\$ 1,501,311	\$ 1,868,760	\$ 37,174
		General revenues:		
		Taxes		
		Property taxes levied for general purposes		
		Other taxes		
		Unrestricted investment earnings		
		Miscellaneous		
		Insurance recoveries		
		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		
		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
\$ (3,358,576)	\$ -	\$ (3,358,576)
(1,911,443)	-	(1,911,443)
(1,629,905)	-	(1,629,905)
(21,599)	-	(21,599)
(2,507,633)	-	(2,507,633)
(9,772)	-	(9,772)
(142,847)	-	(142,847)
<u>(9,581,775)</u>	<u>-</u>	<u>(9,581,775)</u>
-	67,221	67,221
-	240,244	240,244
-	307,465	307,465
<u>\$ (9,581,775)</u>	<u>\$ 307,465</u>	<u>\$ (9,274,310)</u>
6,988,785	-	6,988,785
4,202,886	-	4,202,886
173,228	-	173,228
96,183	-	96,183
344,883	-	344,883
16,850	-	16,850
11,822,815	-	11,822,815
40,767	(40,767)	-
11,863,582	(40,767)	11,822,815
2,281,807	266,698	2,548,505
23,686,623	386,585	24,073,208
<u>\$ 25,968,430</u>	<u>\$ 653,283</u>	<u>\$ 26,621,713</u>

TOWN OF DAVIDSON, NORTH CAROLINA

Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds			
	General Fund	MI Connection Capital Project Fund	Total Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,123,138	\$ 1,000,000	\$ 2,557,497	\$ 13,680,635
Restricted cash	31,924	-	99,222	131,146
Taxes receivable	61,028	-		61,028
Due from other governments	831,708			831,708
Prepaid items	13,270	-		13,270
Notes receivable	49,895			49,895
Total assets	\$ 11,110,963	\$ 1,000,000	\$ 2,656,719	\$ 14,767,682
LIABILITIES				
Accounts payable and accrued liabilities	1,141,094	-		1,141,094
Accounts payable to be paid from restricted cash	-			-
Due to other funds	649,203	-	-	649,203
Total liabilities	1,790,297	-	-	1,790,297
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	61,028	-	-	61,028
Total deferred inflows of resources	61,028	-	-	61,028
FUND BALANCES				
Restricted				
Stabilization by state statute	2,053,421	-	-	2,053,421
Streets - Powell Bill	31,924	-	-	31,924
Construction of fire station	-		99,222	99,222
Committed				
Specified purposes (Note V)	130,628	-	-	130,628
Special projects	-	1,000,000	2,557,497	3,557,497
Unspendable				
Prepaid items	13,270	-	-	13,270
Assigned				
Subsequent year's expenditures	14,100	-	-	14,100
Unassigned	7,016,295	-	-	7,016,295
Total fund balances	9,259,638	1,000,000	2,656,719	12,916,357
Total liabilities, deferred inflows of resources and fund balances	\$ 11,110,963	\$ 1,000,000	\$ 2,656,719	

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
For the fiscal year ended June 30, 2018***

Total fund balances		\$ 12,916,357
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	\$ 26,339,581	
Accumulated depreciation	<u>(6,829,815)</u>	19,509,766
Deferred outflows of resources related to pensions are not reported in the funds		656,277
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.		(7,167,027)
Liabilities for earned revenues considered deferred inflows of resources.		61,028
Deferred inflows of resources related to pensions are not reported in the funds		(7,971)
Net position of governmental activities		<u><u>\$ 25,968,430</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
For the Fiscal Year Ended June 30, 2018

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General Fund	MI Connection Capital Project Fund		
REVENUES				
Ad valorem taxes	\$ 7,017,530	\$ -	\$ -	\$ 7,017,530
Other taxes	192,135	-	-	192,135
Unrestricted intergovernmental	3,822,826	-	-	3,822,826
Restricted intergovernmental	682,684	-	-	682,684
Permits and fees	250,751	-	-	250,751
Sales and services	387,294	-	-	387,294
Investment earnings	173,228	-	-	173,228
Miscellaneous	173,117	-	1,053,713	1,226,830
Total revenues	12,699,565	-	1,053,713	13,753,278
EXPENDITURES				
Current:				
Public safety	4,352,571	-	1,171,477	5,524,048
Transportation	2,702,460	-	17,150	2,719,610
General government	1,649,853	-	-	1,649,853
Culture and recreation	1,512,113	-	21,688	1,533,801
Economic and physical development	755,990	1,000,000	437,224	2,193,214
Debt Service:				
Principal retirement	423,518	-	-	423,518
Interest and other charges	109,021	-	-	109,021
Total expenditures	11,505,526	1,000,000	1,647,539	14,153,065
Excess (deficiency) of revenues over expenditures	1,194,039	(1,000,000)	(593,826)	(399,787)
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	479,241	-	-	479,241
Proceeds from insurance claims	344,883	-	-	344,883
Proceeds from disposal of assets	16,850	-	-	16,850
Transfers (to)/from other funds	(2,321,264)	1,000,000	1,321,264	-
Total other financing sources	(1,480,290)	1,000,000	1,321,264	840,974
Net change in fund balance	(286,251)	-	727,438	441,187
Fund balance, beginning	9,545,889	1,000,000	1,929,281	12,475,170
Fund balance, end of year	\$ 9,259,638	\$ 1,000,000	\$ 2,656,719	\$ 12,916,357

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, 2018***

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

Net changes in fund balances - total governmental funds	\$ 441,187
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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	2,811,013	
Contribution of land	(83,900)	
Contribution to Special Revenue Fund	(1,000)	
Depreciation expense for governmental assets	<u>(712,803)</u>	2,013,310
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		244,850
Benefit payments paid and administrative expense for the LEOSA are not included on the Statement of Activities		74,281

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	(28,745)
--	----------

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	(479,238)	
Principal payments on long-term debt	454,828	(24,410)

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	(82,264)	
MI Connection obligation	-	
Pension expense	(271,265)	
Net pension obligation	<u>(85,137)</u>	(438,665)
Total changes in net position of governmental activities		<u><u>\$2,281,807</u></u>

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
For the Fiscal Year Ended June 30, 2018**

	General Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 6,769,726	\$ 6,769,726	\$ 7,017,530	\$ 247,804
Other taxes	371,126	186,200	192,135	5,935
Unrestricted intergovernmental	3,210,408	3,240,408	3,822,826	582,418
Restricted intergovernmental	624,167	815,631	682,684	(132,947)
Permits and fees	49,800	234,726	250,751	16,025
Sales and services	249,400	249,400	387,294	137,894
Investment earnings	30,000	30,000	173,228	143,228
Miscellaneous	78,700	201,159	173,117	(28,042)
Total revenues	11,383,327	11,727,250	12,699,565	972,315
Expenditures:				
Current:				
Public safety	3,537,588	4,952,337	4,352,571	599,766
Transportation	1,796,704	3,031,298	2,702,460	328,838
General government	1,725,420	2,737,930	1,649,853	1,088,077
Culture and recreation	1,546,536	2,203,084	1,512,113	690,971
Economic and physical development	837,489	886,900	755,990	130,910
Debt service:				
Principal retirement	423,518	423,518	423,518	-
Interest and other charges	109,022	109,022	109,021	1
Contingency	76,850	36,850	-	36,850
Total expenditures	10,053,127	14,380,939	11,505,526	2,875,413
Revenues over (under) expenditures	1,330,200	(2,653,689)	1,194,039	3,847,728
Other financing sources (uses):				
Proceeds from insurance claims	-	344,500	344,883	383
Proceeds from disposal of assets	10,000	25,000	16,850	(8,150)
Transfers to other funds	(1,340,200)	(1,340,200)	(2,321,264)	(981,064)
Total other financing sources (uses)	(1,330,200)	(491,212)	(1,480,290)	(989,078)
Fund balance appropriated	-	3,144,901	-	(3,144,901)
Net change in fund balance	\$ -	\$ -	(286,251)	\$ (286,251)
Fund balance, beginning			9,545,889	
Fund balance, end of year			\$ 9,259,638	

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, 2018

	<div>Major Fund</div> <div>Solid Waste</div>	<div>Proprietary Funds</div> <div>Non-Major Fund</div> <div>Stormwater</div>	<div>Total</div>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable, net	4,080	-	4,080
Due from other funds	331,949	317,254	649,203
Total current assets	336,029	317,254	653,283
Total assets	\$ 336,029	\$ 317,254	\$ 653,283
LIABILITIES			
Current liabilities:			
Accounts payable	-	-	-
Total current liabilities	\$ -	\$ -	\$ -
NET POSITION			
Unrestricted	336,029	317,254	653,283
Total net position	\$ 336,029	\$ 317,254	\$ 653,283

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, 2018

	Proprietary Funds		
	Major Fund	Non-Major Fund	
	Solid Waste	Stormwater	Total
OPERATING REVENUES			
Solid waste management fee	\$ 787,493	\$ -	\$ 787,493
Stormwater management fee	-	248,696	248,696
Total operating revenues	787,493	248,696	1,036,189
OPERATING EXPENSES			
Operations	720,272	100,269	820,541
Total operating expenses	720,272	100,269	820,541
Income (loss) before contributions and transfers	67,221	148,427	215,648
Grant proceeds	-	91,817	91,817
Transfers to other funds	-	(40,767)	(40,767)
Change in net position	67,221	199,477	266,698
Total net position, beginning	268,808	117,777	386,585
Total net position, ending	\$ 336,029	\$ 317,254	653,283

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, 2018

	Proprietary Funds		
	Major Fund	Non-Major Fund	Total
	Solid Waste	Stormwater	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 797,967	\$ 248,696	\$ 1,046,663
Cash paid for goods and services	(720,272)	(100,269)	(820,541)
Net cash provided (used) by operating activities	77,695	148,427	226,122
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Grant revenue	-	91,817	
Net due to (from) General Fund	(77,695)	(240,244)	(317,939)
Net increase (decrease) in cash and cash equivalents	-	-	-
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)	\$ 67,221	\$ 148,427	\$ 215,648
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Change in assets and liabilities			
(Increase) decrease in accounts receivable	10,474	-	10,474
Increase (decrease) in accounts payable	-	-	-
Total adjustments	10,474	-	10,474
Net cash provided (used) by operating activities	\$ 77,695	\$ 148,427	\$ 226,122

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018. 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	\$ 31,924
Non-Major Funds		
	Unspent loan proceeds	<u>99,222</u>
	Total Restricted Cash	<u>\$ 131,146</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, 2017.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. No allowance for doubtful accounts was required at June 30, 2018.

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, 2018

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 acquisition 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	40-75
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 2018 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.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

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 Items – 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, 2018

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 specified purposes – portion of fund balance that has been committed for specified purposes. See Note V.C.

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, 2018

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, 2018

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, 2018, the Town's deposits had a carrying amount of \$332,493 and a bank balance of \$521,113. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered under the pooling method. At June 30, 2018, the Town's petty cash fund totaled \$1,000.

2. Investments

At June 30, 2018, the Town of Davidson's investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2018	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 5,736,051	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level I	7,742,337	.09 years	Unrated
Total		\$13,478,388		

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, 2018

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, 2018. 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, 2018, 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 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%. The tenant exercised the option to extend the lease for 5 years until the end of the lease in February 2023 with an increase in rent to \$28,879. Lease income received for the year ended June 30, 2018 was \$28,879.

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 received during the fiscal year ended June 30, 2018 was \$2,400.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds

A. Assets

5. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	(Decreases) Transfers	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,285,963	\$ 52,677	\$ 84,900	\$ 4,253,740
Construction in Progress	1,366,151	1,029,092	972,754	1,422,489
Total capital assets not being depreciated	5,652,114	1,081,769	1,057,654	5,676,229
Capital assets being depreciated:				
Buildings	4,810,020	2,146,041	-	6,956,061
Other improvements	8,648,180	134,950	-	8,783,130
Equipment	1,528,669	6,629	-	1,535,298
Computers	40,284	-	-	40,284
Computer software	58,724	-	-	58,724
Vehicles and motorized equipment	3,303,221	414,377	427,743	3,289,855
Total capital assets being depreciated	18,389,098	2,701,997	427,743	20,663,352
Less accumulated depreciation for:				
Buildings	1,339,753	103,974	-	1,443,727
Other improvements	1,594,428	274,757	-	1,869,185
Equipment	786,384	79,424	-	865,808
Computers	31,301	11,745	-	43,046
Computer software	24,749	5,882	-	30,631
Vehicles and motorized equipment	2,768,140	237,021	427,743	2,577,418
Total accumulated depreciation	6,544,755	712,803	427,743	6,829,815
Total capital assets being depreciated, net	11,844,343			13,833,537
Governmental activity capital assets, net	\$ 17,496,457			\$ 19,509,766

General government	\$ 106,803
Public safety	167,490
Transportation	351,109
Economic and physical development	12,393
Culture and recreation	75,008
Total depreciation expense	<u>\$ 712,803</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

Construction Commitments

The Town has active construction projects as of June 30, 2018. 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	\$ 116,650	\$ 17,150	\$ 133,800	\$ 99,200
Fire Station	2,260,348	989,649	1,171,477	2,161,126	99,222
Public Facilities	1,466,000	210,583	334,514	545,097	920,903
Total	<u>\$ 3,959,348</u>	<u>\$ 1,316,882</u>	<u>\$ 1,523,141</u>	<u>\$ 2,840,023</u>	<u>\$ 1,119,325</u>

B. 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).

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

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, 2018, was 8.25% of compensation for law enforcement officers and 7.59% 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 \$244,850 for the year ended June 30, 2018.

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, 2018, the Town reported a liability of \$777,612 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016.

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

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, 2017, 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, 2017, the Town's proportion was .05090%, which was an increase of 0.00308% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$271,265. At June 30, 2018, 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	\$ 44,798	\$ 22,012
Changes of assumptions	111,054	-
Net difference between projected and actual earnings on pension plan investments	188,805	-
Changes in proportion and differences between Town of Davidson contributions and proportionate share of contributions	10,640	4,115
Town of Davidson contributions subsequent to the measurement date	244,850	-
Total	<u>\$ 600,147</u>	<u>\$ 26,127</u>

\$244,850 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 46,446
2020	225,053
2021	114,888
2022	(57,217)
2023	-
Thereafter	-
	<u>\$ 329,170</u>

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

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, 2016 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 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>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, 2018

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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 2,334,406	\$ 777,612	\$ (521,821)

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.

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

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>17</u>
Total	<u>19</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, 2016 valuation. The total pension liability in the December 31, 2016 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, 2018

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.13 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, 2017.

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, 2018, the Town reported a total pension liability of \$462,566. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$43,822.

	Deferred Outflows of	Deferred Inflows of
Differences between expected and actual experience	\$ 24,911	\$ -
Changes of assumptions	22,958	6,372
Town benefit payments and plan administrative expense made subsequent to the measurement date	32,784	-
Total	<u>\$ 80,653</u>	<u>\$ 6,372</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

\$32,604 paid as benefits came due and \$180 of administrative expenses subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	\$	8,404
2020		8,404
2021		8,404
2022		8,404
2023		7,881
Thereafter		-

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 3.13%, 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 (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current rate.

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Total pension liability	\$ 500,161	\$ 462,566	\$ 427,794

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

	2018	2017
Beginning Balance	\$ 402,234	\$ 410,433
Service Cost	20,341	19,557
Interest on the total pension liability	14,897	14,070
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	30,026	-
Changes of assumptions or other inputs	27,672	(9,222)
Benefit payments	(32,604)	(32,604)
Other changes	-	-
Ending balance of the total pension liability	\$ 462,566	\$ 402,234

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources Related to Pensions

Following is information related to the proportionate share and pension expense for all pension plans.

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 271,265	\$ 43,822	\$ 315,087
Pension Liability	777,612	462,566	1,240,178
Proportionate share of the net pension liability	0.05090%	N/A	
Deferred Outflows of Resources			
Differences between expected and actual experience	44,798	24,911	69,709
Changes of Assumptions	111,054	22,958	134,012
Net difference between projected and actual earnings on plan investments	188,805	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	10,060	-	10,060
Benefit payments and administrative costs paid subsequent to the measurement date	244,850	32,784	277,634
Deferred Inflows of Resources			
Differences between expected and actual experience	22,012	-	22,012
Changes of Assumptions	-	6,372	6,372
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	4,115	-	4,115

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. 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, 2018 were \$101,350, which consisted of \$53,346 from the Town and \$48,004 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, 2018 were \$228,527 which consisted of \$89,520 from the Town and \$139,007 from general employees.

e. 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.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Firefighter's and Rescue Squad Workers' Pension Fund (continued)

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.

f. 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, 2018*

III. Detail Notes on All Funds (Continued)

B. 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	\$ 244,850
Differences between expected and actual experience	44,798
Changes of assumptions	111,054
Net difference between projected and actual	188,805
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,060
<i>Law Enforcement Officers' Special Separation Allowance:</i>	
Benefit payments made and administrative expenses for LOESSA	32,784
Differences between expected and actual experience	24,911
Changes of assumptions	22,958
	\$ 680,220

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)		61,028
<i>Local Government Employees Retirement Plan:</i>		
Differences between expected and actual experience	22,012	
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,115	
<i>Law Enforcement Officers' Special Separation Allowance:</i>		
Changes of assumptions	6,372	
	\$ 32,499	\$ 61,028

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TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

B. 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 fire apparatus and equipment is insured by VFIS. All other 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, 2018

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:

Lease	
<u>Year Ending June 30,</u>	
2019	\$ 9,940
2020	9,940
2021	9,940
2022	9,940
2023	4,570
Total	<u>\$ 44,330</u>

Lease expense for the land and improvements was \$9,940 for the year ended June 30, 2018.

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, 2018, \$12,000 in cash and in-kind services 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.

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

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, 2018, including \$31,524 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 122,765	\$ 12,355
2020	122,765	9,298
2021	122,765	6,241
2022	122,765	3,184
2023	61,383	446
Total	<u>\$ 552,443</u>	<u>\$ 31,524</u>

2. 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, 2018, including \$52,663 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 31,250	\$ 9,780
2020	31,250	8,777
2021	31,250	7,774
2022	31,250	6,771
2023	31,250	5,768
Thereafter	156,250	13,793
Total	<u>\$ 312,500</u>	<u>\$ 52,663</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

3. 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, 2018, including \$15,373 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 107,600	\$ 9,224
2020	107,600	5,124
2021	53,800	1,025
Total	<u>\$ 269,000</u>	<u>\$ 15,373</u>

4. 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, 2018, including \$692 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 23,952	\$ 576
2020	12,148	116
Total	<u>\$ 36,100</u>	<u>\$ 692</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

5. 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, 2018, including \$360 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 11,384	\$ 300
2020	5,781	60
Total	<u>\$ 17,165</u>	<u>\$ 360</u>

6. 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, 2018, including \$2,522 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 22,885	\$ 1,313
2020	23,355	844
2021	23,833	365
Total	<u>\$ 70,073</u>	<u>\$ 2,522</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

7. 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, 2018, including \$8,531 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 31,019	\$ 2,811
2020	31,562	2,268
2021	32,114	1,716
2022	32,676	1,154
2023	33,248	582
Total	<u>\$ 160,619</u>	<u>\$ 8,531</u>

8. 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, 2018, 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, 2018, including \$320,852 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 153,000	\$ 45,800
2020	153,000	42,296
2021	154,000	38,793
2022	154,000	35,266
2023	154,000	31,739
Thereafter	1,232,000	126,958
Total	<u>\$ 2,000,000</u>	<u>\$ 320,852</u>

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TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

b. Installment Notes (Continued)

9. In October 2017, the Town obtained a \$194,750 loan from a bank to purchase police and fire radios. The loan agreement requires 7 annual payments of \$30,328, including interest through October 2024. The annual interest rate is 2.23%.

Annual debt service payments of the installment financing as of June 30, 2018, including \$17,569 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 26,178	\$ 4,150
2020	26,569	3,759
2021	27,162	3,167
2022	27,767	2,561
2023	28,387	1,942
Thereafter	58,687	1,990
Total	<u>\$ 194,750</u>	<u>\$ 17,569</u>

10. In March 2018, the Town obtained a \$284,488 loan from a bank to purchase a tanker apparatus for the fire department. The loan agreement requires 10 annual payments of \$33,066, including interest through January 2028. The annual interest rate is 3.16%.

Annual debt service payments of the installment financing as of June 30, 2018, including \$46,167 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 28,945	\$ 4,120
2020	24,991	8,075
2021	25,780	7,285
2022	26,595	6,471
2023	27,435	5,630
Thereafter	150,742	14,586
	<u>\$ 284,488</u>	<u>\$ 46,167</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

III. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

c. Changes in Long-Term Liabilities

	Balance July 01, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion of Balance
Governmental Activities:					
Installment notes	\$ 1,841,419	\$ 479,238	\$ 423,518	\$ 1,897,139	\$ 558,979
Fire Station #2	2,000,000	-	-	2,000,000	153,000
Due to other governments	1,804,351	-	31,310	1,773,041	-
Compensated absences	174,405	82,264	-	256,669	256,669
Net pension obligation (LGERS)	1,014,902	-	237,290	777,612	-
Net pension obligation (LEO)	402,234	92,936	32,604	462,566	-
Governmental Activity:					
Long-term liabilities	<u>\$ 7,237,311</u>	<u>\$ 654,438</u>	<u>\$ 724,722</u>	<u>\$ 7,167,027</u>	<u>\$ 968,648</u>

Compensated absences typically have been liquidated in the General Fund. Amounts due to Town of Mooresville (Due to other governments) will be repaid per the joint agency agreement, details of which are found in Note VII.

d. General Obligation Bonds

At June 30, 2018, the Town of Davidson had bonds authorized but unissued of \$15,000,000 and a legal debt margin of \$159,457,022.

C. Inter-fund Balances and Activity

1. Balances due to/from other funds at June 30, 2018, consist of the following:

Due from the General Fund for its activity allocation to:

	Receivable	Payable
Stormwater Fund	\$ -	\$ 317,254
Solid WasteFund	-	331,949
Total	<u>\$ -</u>	<u>\$ 649,203</u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

III. Detail Notes on All Funds (Continued)

C. Inter-fund Balances and Activity (Continued)

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.

2. Transfers (to)/from other funds at June 30, 2018, 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	(10,000)
From the General Fund to the Fire Station Capital Project Fund	(46,064)
From the General Fund to the Public Facilities Capital Project Fund	(1,225,000)
	<u><u>\$ (2,321,264)</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	\$ 19,509,766
Less: Installment notes	3,897,139
Net Investment in capital assets	<u><u>\$ 15,612,627</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>\$ 9,259,638</i>
Less:	
Stabilization by state statute	2,053,421
Prepaid items	13,270
Construction of fire station	-
Streets - Powell Bill	31,924
Committed for Community Parks Reserve Funds	130,628
Appropriated Fund Balance in 2019 Budget	14,100
Unassigned	<u><u>\$ 7,016,295</u></u>

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

*Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018*

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
	\$ 1,171,818	\$ 162,622	\$ 50,000

IV. Related Party Transactions

A town employee leased a house located in a town park and was obligated to pay rent of \$350 per month beginning July 15, 2017 and ending January 1, 2018. The agreement was renewed for an additional three months and was vacant for the remainder of the fiscal year.

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 in June 2018.
- B. The Town had entered into a contract for solid waste and recycling collection with a company, which expired June 30, 2018. The Town entered into a new agreement with a separate contractor beginning July 1, 2018.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

V. Commitments (Continued)

- C. For the fiscal year ended June 30, 2018, the Town decided to set aside amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. These amounts are reported as Committed, in addition to the Special Projects, on the Balance Sheet (Exhibit 3). A summary of the specific purposes and amounts are as follows:

<u>Purpose</u>	<u>Amount</u>
Payment-in-Lieu - Traffic Calming	\$ 23,423
Payment-in-Lieu - Multi-use Path	53,400
Payment-in-Lieu - RPA Open Space	18,615
Stormwater Mitigation Fees	8,913
Parham Park from Developer	7,500
Police Department - Lost Elderly Search Training	5,000
Police Department - Officer Relief Fund Donation	13,777
	<u>\$ 130,628</u>

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, 2018, the Town paid \$49,800 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, 2018, the Town paid \$117,030 with respect to this agreement.

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

VI. Inter-local Agreements (Continued)

- 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, 2018, but was re-formed in 2017 with the participants being Iredell County, Mooresville, Statesville and Davidson. For the year ended June 30, 2018, the Town paid \$10,315 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, 2018, the Town paid \$31,400 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, 2018, the Town paid \$8,011 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, 2018, Mecklenburg County paid the Town \$240,000 with respect to this agreement.

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 formerly operated as MI Connection Communications System (MIC), but it rebranded itself during fiscal year ended June 30, 2018 and now operates as Continuum.

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, 2017, the Town of Mooresville refinanced 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 Continuum 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, 2017, 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%.

-Continued-

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2018

VII. Joint Agency (Continued)

As a result of the modification, the financing contract between Continuum 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 Continuum indicate that the agency incurred a change in net position of \$202,297 for the year ended June 30, 2018. The Agency has a deficit net position balance of \$6,143,865 as of June 30, 2018.

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, 2018, 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, 2018, the Town of Mooresville has contributed \$1,773,041 in excess of its financial interest, and per the agency agreement, this is an obligation of the Town of Davidson. The Continuum audit report has been issued and copies can be obtained from James Justice, Town Manager of the Town of Davidson.

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.

TOWN OF DAVIDSON, NORTH CAROLINA

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

IX. **Date of Management's Review**

The Town of Davidson has evaluated all subsequent events through November 10, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

<p>This section contains additional information required by generally accepted accounting principles.</p>

- 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 Five Fiscal Years****

Local Governmental Employees' Retirement System

	2018	2017	2016	2015	2014
Town of Davidson's proportion of the net pension liability (asset) (%)	0.05090%	0.04782%	0.04382%	0.04000%	0.04%
Town of Davidson's proportion of the net pension liability (asset) (\$)	\$ 777,612	\$ 1,014,902	\$ 196,662	\$ (258,191)	\$ 491,797
Town of Davidson's covered payroll	\$ 2,616,841	\$ 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 payroll	29.72%	39.95%	8.50%	(11.29%)	22.79%
Plan fiduciary net position as a percentage of the total pension liability**	94.16%	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.

Note: Amounts for additional fiscal years up to ten years will be displayed as they become available.

TOWN OF DAVIDSON, NORTH CAROLINA

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

Local Governmental Employees' Retirement System

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 244,850	\$ 215,592	\$ 176,144	\$ 171,010	\$ 167,198
Contributions in relation to the contractually required contribution	244,850	215,592	176,144	171,010	167,198
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Davidson's covered payroll	\$ 3,132,503	\$ 2,616,841	\$ 2,540,221	\$ 2,313,254	\$ 2,287,848
Contributions as a percentage of covered payroll	7.82%	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, 2018**

	2018	2017
Beginning Balance	\$ 402,234	\$ 410,433
Service Cost	20,341	19,557
Interest on the total pension liability	14,897	14,070
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	30,026	-
Changes of assumptions or other inputs	27,672	(9,222)
Benefit payments	(32,604)	(32,604)
Other changes	-	-
Ending balance of the total pension liability	\$ 462,566	\$ 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, 2018**

	2018	2017
Total pension liability	\$ 462,566	\$ 402,234
Covered payroll	1,046,719	842,962
Total pension liability as a percentage of covered employee payroll	44.19%	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, 2018

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Ad valorem taxes	\$ 6,244,777	\$ 6,473,394	\$ 228,617
Ad valorem taxes - Motor vehicles	499,949	524,721	24,772
Penalties and interest	25,000	19,415	(5,585)
Total	6,769,726	7,017,530	247,804
Other taxes:			
Occupancy taxes	185,000	191,371	6,371
Vehicle rental tax	-	144	144
Animal taxes	1,200	620	(580)
Total	186,200	192,135	5,935
Unrestricted intergovernmental:			
Local option sales taxes	1,751,000	1,849,329	98,329
Payments in lieu of taxes	194,000	384,938	190,938
Telecommunications sales taxes	99,000	114,002	15,002
Utility and cable TV franchise taxes	804,615	1,003,879	199,264
Food and beverage tax	237,000	293,556	56,556
Beer and wine tax	54,793	55,964	1,171
Sales tax refund	-	-	-
ABC profit distribution	100,000	121,158	21,158
Total	3,240,408	3,822,826	582,418
Restricted intergovernmental:			
Solid waste disposal tax	9,167	(9,772)	(18,939)
Powell Bill allocation	325,000	332,212	7,212
Substance abuse	-	3,134	3,134
Contributions from Mecklenburg County Fire	240,000	240,000	-
Other grants	241,464	117,110	(124,354)
Total	815,631	682,684	(132,947)
Permits and fees:			
Motor vehicle fees	184,926	187,923	2,997
Zoning fees	23,500	32,433	8,933
Other permits	500	600	100
Business registration fee	800	880	80
First responder income	25,000	28,915	3,915
Total	234,726	250,751	16,025

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 1

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General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

Sales and service:			
Rental income	7,200	6,600	(600)
Parking violations	20,000	24,642	4,642
Other facility revenue	48,200	38,852	(9,348)
Recreation program revenue	163,500	306,542	143,042
Recreation facility revenue	500	2,158	1,658
Cemetery revenue	10,000	8,500	(1,500)
Total	249,400	387,294	137,894
Investment earnings	30,000	173,228	143,228
Miscellaneous			
Donations - fire department	122,459	43,882	(78,577)
Donations - police	-	18,777	18,777
Donations - arts	-	-	-
Transit planning	15,000	15,000	-
Other	63,700	95,458	31,758
Total	201,159	173,117	(28,042)
Total revenues	11,727,250	12,699,565	972,315

Expenditures:

General government:

Governing board:

Salaries and employee benefits	37,831		
Contracted services	24,115		
Other operating expenditures	43,078		
Total	117,365	105,024	12,341

Administration:

Salaries and employee benefits	815,554		
Contracted services	137,553		
Capital outlay	-		
Other operating expenditures	215,990		
Total	1,262,279	1,169,097	93,182

Legal:

Salaries and employee benefits	110,926		
Contracted services	28,982		
Other operating expenditures	6,928		
Total	152,286	146,836	5,450

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, 2018**

	Budget	Actual	Variance Positive (Negative)
<i>Public buildings:</i>			
Contracted services		28,225	
Capital outlay		52,577	
Other operating expenditures		148,094	
Total	1,206,000	228,896	977,104
Total general government	2,737,930	1,649,853	1,088,077
<i>Public safety:</i>			
<i>Police:</i>			
Salaries and employee benefits		1,637,441	
Contracted services		82,382	
Vehicle maintenance		33,442	
Other operating expenditures		173,514	
Capital outlay		239,674	
Total	2,423,201	2,166,453	256,748
<i>Fire:</i>			
Salaries and employee benefits		1,061,488	
Contracted services		103,470	
Vehicle maintenance		31,462	
Capital outlay		701,516	
Other operating expenditures		288,182	
Total	2,529,136	2,186,118	343,018
Total public safety	4,952,337	4,352,571	599,766
<i>Transportation:</i>			
<i>Streets and highways:</i>			
Salaries and employee benefits		391,266	
Vehicle maintenance		12,382	
Street lights		153,846	
Contracted services		192,114	
Other operating expenditures		227,354	
Capital Outlay		605,875	
Total	1,906,298	1,582,837	323,461
<i>Powell Bill - streets:</i>			
Street and sidewalk maintenance		1,119,623	
Contracted services		0	
Other operating expenditures		-	
Total	1,125,000	1,119,623	5,377
Total transportation	3,031,298	2,702,460	328,838

TOWN OF DAVIDSON, NORTH CAROLINA

*Statement 1
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**General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Economic and physical development:			
<i>Planning:</i>			
Salaries and employee benefits		420,662	
Contracted services		66,321	
Capital outlay		-	
Other operating expenditures		14,083	
Total	<u>612,000</u>	<u>501,066</u>	<u>110,934</u>
<i>Economic and community development:</i>			
Salaries and employee benefits		48,379	
Contracted services		45,097	
Other operating expenditures		111,448	
Total	<u>224,900</u>	<u>204,924</u>	<u>19,976</u>
<i>Contributions:</i>			
Other service agencies		50,000	
Total	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total economic and physical development	<u>886,900</u>	<u>755,990</u>	<u>130,910</u>
Cultural and recreation:			
<i>Travel and tourism:</i>			
Salaries and employee benefits		71,928	
Contracted services		135,592	
Capital outlay		-	
Other operating expenditures		154,435	
Total	<u>375,012</u>	<u>361,955</u>	<u>13,057</u>
<i>Recreation:</i>			
Salaries and employee benefits		232,463	
Contracted services		201,655	
Other operating expenditures		37,544	
Capital outlay		-	
Total	<u>487,041</u>	<u>471,662</u>	<u>15,379</u>

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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<i>Parks:</i>			
Salaries and employee benefits		269,934	
Contracted services		264,946	
Other operating expenditures		143,616	
Capital outlay		-	
Total	<u>1,341,031</u>	<u>678,496</u>	<u>662,535</u>
Total cultural and recreation	<u>2,203,084</u>	<u>1,512,113</u>	<u>690,971</u>
Debt service:			
Principal		423,518	
Interest and other charges		109,021	
Total debt service	<u>532,540</u>	<u>532,539</u>	<u>1</u>
Contingency	<u>36,850</u>		<u>36,850</u>
Total expenditures	<u>14,380,939</u>	<u>11,505,526</u>	<u>2,875,413</u>
Revenues over (under) expenditures	(2,653,689)	1,194,039	3,847,728
Other Financing Sources (Uses)			
Proceeds from debt	479,488	479,241	247
Proceeds from insurance claims	344,500	344,883	(383)
Proceeds from disposal of assets	25,000	16,850	(8,150)
Transfers to other funds	<u>(1,340,200)</u>	<u>(2,321,264)</u>	<u>981,064</u>
Total other financing sources (uses)	<u>(491,212)</u>	<u>(1,480,290)</u>	<u>972,779</u>
Fund balance appropriated	<u>3,144,901</u>	-	<u>3,144,901</u>
Net change in fund balance	<u>\$ -</u>	<u>(286,251)</u>	<u>\$ (286,251)</u>
Fund balance, beginning		<u>9,545,889</u>	
Fund balance, end of year		<u>\$ 9,259,638</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, 2018

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Economic and physical development	6,500,000	5,000,000	968,690	5,968,690	531,310
Total expenditures	6,500,000	5,000,000	968,690	5,968,690	531,310
Revenues over (under) expenditures	(6,500,000)	(5,000,000)	(968,690)	(5,968,690)	531,310
Other financing sources and uses					
Transfers from General Fund	6,500,000	6,000,000	968,690	6,968,690	468,690
Total other financing sources	6,500,000	6,000,000	968,690	6,968,690	468,690
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, 2018***

	Special Revenue Funds		Capital Project Funds					
	Affordable Housing Program	Public Art Project	Bradford Street Project	Fire Station Project	Potts-Sloan- Beaty Corridor Project	Parks/ Greenway Project	Public Facility Project	Total Non-Major Governmental Funds
Assets								
Cash	\$ 1,084,118	\$ 105,812	\$ -	\$ 99,222	\$ 99,200	\$ 147,407	\$ 1,120,960	\$ 2,656,719
Due from General Fund	-	-	-	-	-	-	-	-
 Total assets	<u>\$ 1,084,118</u>	<u>\$ 105,812</u>	<u>\$ -</u>	<u>\$ 99,222</u>	<u>\$ 99,200</u>	<u>\$ 147,407</u>	<u>\$ 1,120,960</u>	<u>\$ 2,656,719</u>
 Liabilities and Fund Balances								
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to General Fund	-	-	-	-	-	-	-	-
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
 Fund balances:								
Committed for special projects	\$ 1,084,118	\$ 105,812	\$ -	\$ 99,222	\$ 99,200	\$ 147,407	\$ 1,120,960	\$ 2,656,719
Total fund balances	<u>\$ 1,084,118</u>	<u>\$ 105,812</u>	<u>\$ -</u>	<u>\$ 99,222</u>	<u>\$ 99,200</u>	<u>\$ 147,407</u>	<u>\$ 1,120,960</u>	<u>\$ 2,656,719</u>
 Total liabilities and fund balances	<u>\$ 1,084,118</u>	<u>\$ 105,812</u>	<u>\$ -</u>	<u>\$ 99,222</u>	<u>\$ 99,200</u>	<u>\$ 147,407</u>	<u>\$ 1,120,960</u>	<u>\$ 2,656,719</u>

TOWN OF DAVIDSON, NORTH CAROLINA

Statement 4

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the fiscal year ended June 30, 2018**

	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	1,048,713	5,000	-	-	-	-	-	1,053,713
Total revenues	1,048,713	5,000	-	-	-	-	-	1,053,713
Expenditures								
Public safety	-	-	-	1,171,477	-	-	-	1,171,477
Transportation	-	-	-	-	17,150	-	-	17,150
Economic and physical development	102,710	-	-	-	-	-	334,514	437,224
Cultural and recreational	-	492	-	-	-	21,196	-	21,688
Total expenditures	102,710	492	-	1,171,477	17,150	21,196	334,514	1,647,539
Revenues over (under) expenditures	946,003	4,508	-	(1,171,477)	(17,150)	(21,196)	(334,514)	(593,826)
Other Financing Sources (Uses)								
Loan Proceeds				-				
Transfers from (to) General Fund	-	40,200	-	46,064	-	10,000	1,225,000	1,321,264
Net change in fund balance	946,003	44,708	-	(1,125,413)	(17,150)	(11,196)	890,486	727,438
Fund balances:								
Beginning of year	138,115	61,104	-	1,224,635	116,350	158,603	230,474	1,929,281
End of year	\$ 1,084,118	\$ 105,812	\$ -	\$ 99,222	\$ 99,200	\$ 147,407	\$ 1,120,960	\$ 2,656,719

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, 2018***

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues					
Contributions - restricted	\$ 172,000	\$ 274,010	\$ 1,047,988	\$ 1,321,998	\$ 1,149,998
Total revenues	172,000	274,010	1,047,988	1,321,998	1,149,998
Expenditures					
Economic and physical development	703,575	492,213	102,559	594,772	108,803
Total expenditures	703,575	492,213	102,559	594,772	108,803
Revenues over (under) expenditures	(531,575)	(218,203)	945,429	727,226	1,258,801
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	945,429	\$ 1,158,863	\$ 1,158,863
Fund balances:					
Fund balance, beginning of year			235,189		
Fund balance, end of year			<u>\$ 1,180,618</u>		

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, 2018

	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	492	226,708	9,922
Total expenditures	236,630	226,216	492	226,708	9,922
Revenues over (under) expenditures	(66,663)	(70,549)	4,508	(66,041)	622
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	44,708	\$ 72,822	\$ 72,822
Fund balances:					
Fund balance, beginning of year			61,104		
Fund balance, end of year			\$ 105,812		

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, 2018

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues					
Contributions	\$ 700,000	\$ 595,600	\$ -	\$ 595,600	\$ (104,400)
Expenditures					
Streets and highways	700,000	342,824	-	342,824	357,176
Total expenditures	700,000	342,824	-	342,824	357,176
Revenues over (under) expenditures	-	252,776	-	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	\$ 252,776
Fund balances:					
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

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, 2018

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Public safety	2,150,000	80,586	1,171,477	1,252,063	897,937
Total expenditures	2,150,000	80,586	1,171,477	1,252,063	897,937
Revenues over (under) expenditures	(2,150,000)	(80,586)	(1,171,477)	(1,252,063)	897,937
Other financing sources and uses					
Loan Proceeds	2,000,000	-	-	2,000,000	-
Transfers from General Fund	150,000	112,000	46,064	158,064	8,064
Total other financing sources	2,150,000	112,000	46,064	158,064	8,064
Net change in fund balance	\$ -	\$ 31,414	(1,125,413)	\$(1,093,999)	\$ 906,001
Fund balances:					
Fund balance, beginning of year			1,224,635		
Fund balance, end of year			\$ 99,222		

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, 2018

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Streets and highways	233,000	116,650	17,150	133,800	99,200
Total expenditures	233,000	116,650	17,150	133,800	99,200
Revenues over (under) expenditures	(233,000)	(116,650)	(17,150)	(133,800)	99,200
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	\$ -	\$ 116,350	(17,150)	\$ 99,200	\$ 99,200
Fund balances:					
Fund balance, beginning of year			116,350		
Fund balance, end of year			\$ 99,200		

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, 2018

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Cultural and recreation	550,000	85,897	21,196	107,093	442,907
Total expenditures	550,000	85,897	21,196	107,093	442,907
Revenues over (under) expenditures	(550,000)	(85,897)	(21,196)	(107,093)	442,907
Other financing sources and uses					
Transfers from General Fund	550,000	244,500	10,000	254,500	(295,500)
Total other financing sources	550,000	244,500	10,000	254,500	(295,500)
Net change in fund balance	\$ -	\$ 158,603	(11,196)	\$ 147,407	\$ 147,407
Fund balances:					
Fund balance, beginning of year			158,603		
Fund balance, end of year			\$ 147,407		

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, 2018

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Positive (Negative)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Economic and physical development	241,000	-	334,514	334,514	(93,514)
Total expenditures	241,000	-	334,514	334,514	(93,514)
Revenues over (under) expenditures	(241,000)	-	(334,514)	(334,514)	93,514
Other financing sources and uses					
Transfers from General Fund	241,000	-	1,225,000	1,225,000	984,000
Total other financing sources	241,000	-	1,225,000	1,225,000	984,000
Net change in fund balance	\$ -	\$ -	890,486	\$ 890,486	\$ 1,077,514
Fund balances:					
Fund balance, beginning of year			230,474		
Fund balance, end of year			<u>\$ 1,120,960</u>		

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, 2018

	Budget	Actual	Variance Positive (Negative)
Operating Revenues			
Solid waste management fee	\$ -	\$ 787,493	\$ -
Total revenue	<u>746,520</u>	<u>787,493</u>	<u>40,973</u>
Expenditures			
Administration:			
Administrative		-	
Solid waste operations:			
Contracted services		720,272	
Total	746,520	<u>720,272</u>	
Total expenditures	<u>746,520</u>	<u>720,272</u>	<u>26,248</u>
Revenues over (under) expenditures	-	67,221	67,221
Other Financing Sources (Uses)			
Transfer to General Fund	-	-	-
Revenues over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ 67,221</u>	<u>\$ 67,221</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>\$ 67,221</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, 2018

	Budget	Actual	Variance Positive (Negative)
Operating Revenues			
Stormwater management fee	\$ -	\$ 248,696	\$ -
Grants		91,817	
Total revenue	<u>309,817</u>	<u>340,513</u>	<u>30,696</u>
Expenditures			
Administration:			
Administrative		-	
Stormwater operations:			
Contracted services		107,206	
Total		<u>107,206</u>	
Total expenditures	<u>314,310</u>	<u>107,206</u>	<u>207,104</u>
Revenues over (under) expenditures	<u>(4,493)</u>	<u>233,307</u>	<u>237,800</u>
Other Financing Sources (Uses)			
Debt service	<u>33,830</u>	<u>(33,830)</u>	<u>-</u>
Appropriated fund balance	<u>38,323</u>	<u>-</u>	<u>(38,323)</u>
Revenues over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ 199,477</u>	<u>\$ 199,477</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		6,937	
Transfers to general fund		(40,767)	
Interest paid		3,344	
Principal retirement		30,486	
Total reconciling items		<u>-</u>	
Change in net position		<u>\$ 199,477</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, 2018***

	Uncollected Balance June 30, 2017	Additions	Collections and Credits	Uncollected Balance June 30, 2018
2017 - 2018	\$ -	\$ 6,976,245	\$ 6,964,097	\$ 12,148
2016 - 2017	20,526	-	12,442	8,084
2015 - 2016	11,326	-	5,861	5,465
2014 - 2015	10,173	-	3,819	6,354
2013 - 2014	10,160	-	5,691	4,469
2012 - 2013	9,162	-	2,702	6,460
2011 - 2012	5,916	-	2,054	3,862
2010 - 2011	8,552	-	1,698	6,854
2009 - 2010	5,484	-	1,628	3,856
2008 - 2009	4,052	-	574	3,478
2007 - 2008	4,423	-	4,423	-
	<u>\$ 89,774</u>	<u>\$ 6,976,245</u>	<u>\$ 7,004,991</u>	<u>\$ 61,028</u>

Reconciliation with revenues:

Ad Valorem Taxes - General Fund	\$ 7,017,530
Reconciling items:	
Interest collected	(19,415)
Statutory write off	4,423
Property valuation appeals refunds	2,453
Total collections and credits	<u>\$ 7,004,991</u>

TOWN OF DAVIDSON, NORTH CAROLINA

Schedule 2

*Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2018*

	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	\$ 1,994,353,160	0.35	\$ 6,980,236	\$ 6,455,515	\$ 524,721
Discoveries	73,544,883	0.35	257,407	257,407	-
Releases	(74,685,274)	0.35	(261,398)	(261,398)	-
Total property valuation	<u>\$ 1,993,212,769</u>				
Net levy			6,976,245	6,451,524	524,721
Less, uncollected tax at June 30, 2018			<u>12,148</u>	<u>12,148</u>	<u>-</u>
Current year's taxes collected			<u>\$ 6,964,097</u>	<u>\$ 6,439,376</u>	<u>\$ 524,721</u>
Current levy collection percentage			<u>99.83%</u>	<u>99.81%</u>	<u>100.00%</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, 2018, 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, 2018.

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.

Rowell, Craven & Short, P.A.
Charlotte, North Carolina
November 10, 2018