

Town of Davidson,
North Carolina

Financial Statements

June 30, 2009

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June 30, 2009**

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FINANCIAL SECTION

TINSLEY & TERRY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental 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, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Davidson's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Davidson, North Carolina as of June 30, 2009, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2009 on our consideration of Town of Davidson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Davidson, North Carolina. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tinsley & Terry CPAs, PA

Cornelius, North Carolina
November 24, 2009

Management Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Davidson, we offer readers of the Town of Davidson's financial statements this narrative overview and analysis of the financial activities of the Town of Davidson for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town of Davidson's financial statements, which follow this narrative.

Financial Highlights

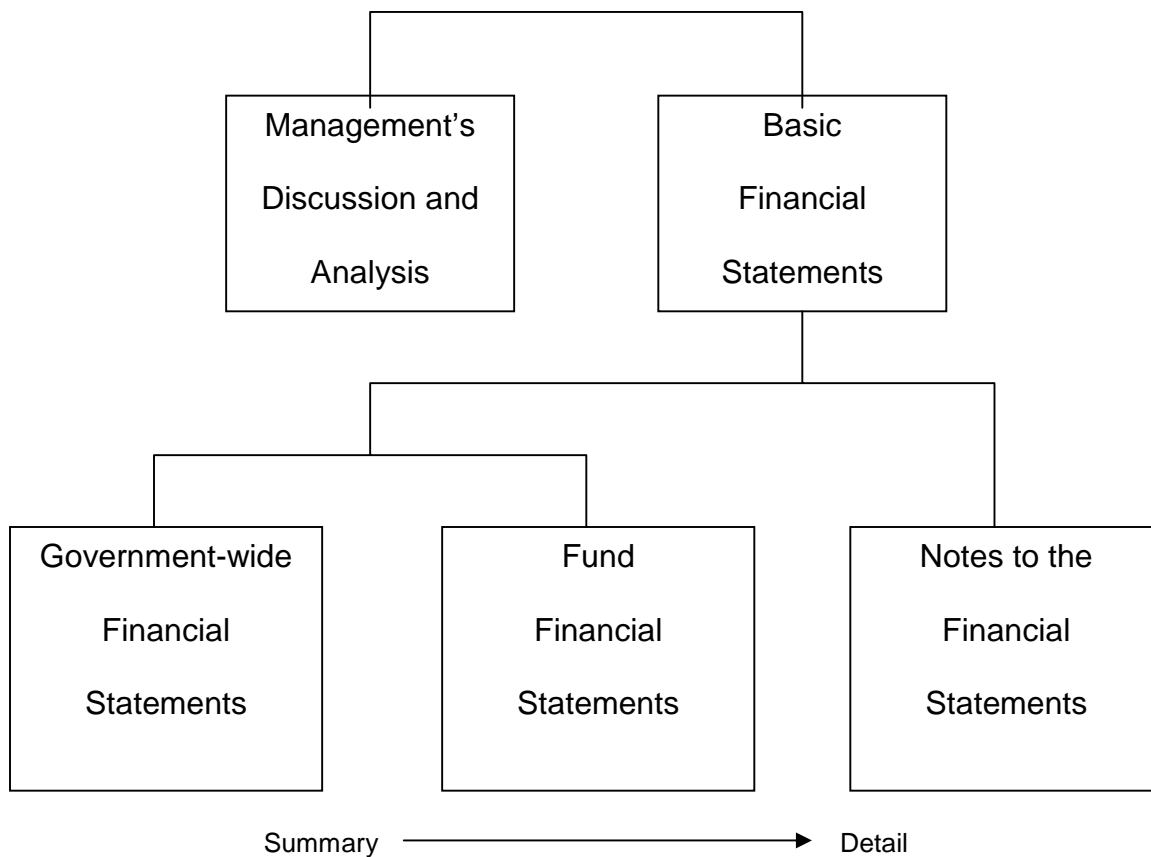
- The assets of the Town of Davidson *exceeded* its liabilities at the close of the fiscal year by \$ 11,061,153. (*net assets*).
- The government's total net assets *increased* by \$ 863,315 primarily due to *decreases* in the *governmental type* activities net assets.
- As of the close of the current fiscal year, the Town of Davidson's governmental funds reported combined ending fund balances of \$ 4,485,833 an *increase* of \$718,238 in comparison with the prior year. Approximately 69.0 percent of this total amount, or \$ 3,095,084, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 3,095,084, or 39.6 percent of total general fund expenditures for the fiscal year.
- The Town of Davidson's total debt *decreased* by \$ 352,741 (6.1 %) during the current fiscal year. The key factor in this decrease was that no additional debt was issued during the fiscal year.
- The Town of Davidson maintained its A1 bond rating for the 14th consecutive year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the 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 of Davidson's financial status.

The next statements (*Exhibits 3 through 5*) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison 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.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements reflect governmental activities, including public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. Other NC municipalities may engage in business-type activities that are funded by user charges and fees. These activities are accounted for in proprietary funds. The Town of Davidson does not have any proprietary funds.

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.

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* that 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 Assets 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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 are on Pages 8 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 26 of this report.

The Town of Davidson’s Net Assets
Figure 2

	Governmental Activities		Total	
	2008	2009	2008	2009
Current and other assets	\$ 4,195,221	\$ 4,960,860	\$ 4,195,221	\$ 4,960,860
Capital assets	12,011,688	11,783,835	12,011,688	11,783,835
Total assets	<u>16,206,909</u>	<u>16,744,695</u>	<u>16,206,909</u>	<u>16,744,695</u>
Long-term liabilities outstanding	5,081,887	4,664,922	5,081,887	4,664,922
Other liabilities	927,184	1,018,620	927,184	1,018,620
Total liabilities	<u>6,009,071</u>	<u>5,683,542</u>	<u>6,009,071</u>	<u>5,683,542</u>
Net assets:				
Invested in capital assets, net of related debt	6,523,194	6,693,038	6,523,194	6,693,038
Restricted	327,692	106,926	327,692	106,926
Unrestricted	3,346,952	4,261,189	3,346,952	4,261,189
Total net assets	<u>\$ 10,197,838</u>	<u>\$ 11,061,153</u>	<u>\$ 10,197,838</u>	<u>\$ 11,061,153</u>

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the Town of Davidson exceeded liabilities by \$ 11,061,153 as of June 30, 2009. The Town of Davidson’s net assets *increased* by \$ 863,315 for the fiscal year ended June 30, 2009. However, the largest portion (60.5%) reflects the Town’s investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. 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 assets \$ 140,759 (1.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,261,189 is unrestricted.

Several particular aspects of the Town of Davidson’s financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.35%, which is above the statewide average of 97.96%
- Collection of special assessments
- Increased property tax revenue of 16%
- Increase motor vehicle fees of approximately 57%
- Increase in occupancy tax of approximately 292%
- Increase in utilities franchise tax of approximately 9%
- Increase in recreation program fees of approximately 13%

Town of Davidson Changes in Net Assets
Figure 3

	Governmental		Total	Total
	Activities			
	2008	2009	2008	2009
Revenues:				
Program revenues:				
Charges for services	\$ 664,602	\$ 580,634	\$ 664,602	\$ 580,634
Operating grants and contributions	532,362	696,269	532,362	696,269
Capital grants and contributions	-	106,497	-	106,497
General revenues:				
Property taxes	4,125,145	4,799,292	4,125,145	4,799,292
Other taxes	1,995,451	2,054,555	1,995,451	2,054,555
Grants and contributions not restricted to specific programs	522,080	-	522,080	-
Other	-	277,812	-	277,812
Total revenues	<u>7,839,640</u>	<u>8,515,059</u>	<u>7,839,640</u>	<u>8,515,059</u>
Expenses:				
General government	1,232,089	1,238,431	1,232,089	1,238,431
Public Safety	2,009,241	2,104,978	2,009,241	2,104,978
Highways/streets	859,298	1,202,164	859,298	1,202,164
Environmental protection	1,130,365	743,080	1,130,365	743,080
Economic development	667,285	942,617	667,285	942,617
Culture and recreation	1,001,083	1,190,165	1,001,083	1,190,165
Interest on long-term debt	192,060	230,309	192,060	230,309
Total expenses	<u>7,091,421</u>	<u>7,651,744</u>	<u>7,091,421</u>	<u>7,651,744</u>
Increase in net assets before transfers	748,219	863,315	748,219	863,315
Transfers	-	-	-	-
Increase in net assets	748,219	863,315	748,219	863,315
Net assets, July 1	<u>9,449,619</u>	<u>10,197,838</u>	<u>9,449,619</u>	<u>10,197,838</u>
Net assets, June 30	<u>\$ 10,197,838</u>	<u>\$ 11,061,153</u>	<u>\$ 10,197,838</u>	<u>\$ 11,061,153</u>

Governmental activities. Governmental activities increased the Town's net assets by \$ 863,315 , thereby accounting for 7.8% of the total growth in the net assets of the Town of Davidson. Key elements of this increase are as follows:

- Suspension of major capital spending
- Revenue exceeding mid-year projections

Financial Analysis of the Town of Davidson's 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. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Davidson. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$ 3,095,084, while total fund balance reached \$ 4,485,833. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39.3 percent of total General Fund expenditures, while total fund balance represents 56.9 percent of that same amount.

At June 30, 2009, the governmental funds of the Town of Davidson reported a combined fund balance of \$ 4,485,833, a 19.1 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Special Revenue 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.

Revenue budget amendments were made to reflect:

- Capital lease purchase proceeds for copiers, \$ 139,975
- Contribution for construction of pedestrian cross walk, \$ 37,100

Expenditure budget amendments were made to reflect:

- Reduction in General Fund expenditures of \$ 479,967

Capital Asset and Debt Administration

Capital Assets. The Town of Davidson's investment in capital assets for its governmental activities as of June 30, 2009, totals \$ 11,783,835 (net of accumulated depreciation). These assets include land, buildings, equipment, vehicles and motorized equipment, traffic roundabouts, greenways, and other improvements.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Copiers

Capital Assets consist of:

- Land and non-depreciable assets of \$ 3,189,829
- Other capital assets, net of depreciation of \$ 8,594,006

**Town of Davidson's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Total	
	2008	2009	2008	2009
Land	\$ 3,189,829	\$ 3,189,829	\$ 3,189,829	\$ 3,189,829
Buildings and systems	3,516,957	3,467,937	3,516,957	3,467,937
Improvements other than buildings	4,011,716	3,926,880	4,011,716	3,926,880
Machinery and equipment	231,148	330,955	231,148	330,955
Computers	31,832	25,831	31,832	25,831
Infrastructure	-	-	-	-
Vehicles and motorized equipment	1,030,206	842,403	1,030,206	842,403
Construction in progress	-	-	-	-
Total	12,011,688	11,783,835	12,011,688	11,783,835

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

Long-term Debt. As of June 30, 2009, the Town of Davidson had total debt outstanding of \$ 5,401,322

The Town of Davidson's total debt decreased by \$ 352,741 (6.1%) during the past fiscal year, primarily due to pay down of a bank loan and lease purchases.

Additional information regarding the Town of Davidson's long-term debt can be found in note III, Item B beginning on page 25 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.

- Tax base grew by 12.5%, compared to 1% last year, reflecting additional commercial and residential development near I-77 Exit 30.
- We continue to fund a joint industrial park with our Huntersville and Cornelius neighbors. This will help bring balance to our 80% residential, 20% commercial tax base.

Budget Highlights for the Fiscal Year Ending June 30, 2010

Governmental Activities:

- \$ 314,000 purchase of property along Beaty Street that is adjacent to town-owned land. Possible future uses include economic development and/or additional park land.
- Completion of a two-year effort to develop a Comprehensive Plan for the town, \$25,000
- Designation as a NC Main Street community
- Major street resurfacing project, \$ 768,030
- Preliminary design and site selection for the town's second fire station, \$38,000

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 Leamon B. Brice, Town Manager, Post Office Box 579, Davidson, NC 28036 (704) 892-7591, lbrice@ci.davidson.nc.us.

Basic Financial Statements

Town of Davidson, North Carolina
Statement of Net Assets
June 30, 2009

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,111,124	\$ 4,111,124
Taxes receivables (net)	192,808	192,808
Due from other governments	461,579	461,579
Notes receivable	193,036	193,036
Inventories	2,313	2,313
Total current assets	<u>4,960,860</u>	<u>4,960,860</u>
Capital assets (Note 1):		
Land, non-depreciable improvements, and construction in progress	3,189,829	3,189,829
Other capital assets, net of depreciation	8,594,006	8,594,006
Total capital assets	<u>11,783,835</u>	<u>11,783,835</u>
Total assets	<u>\$ 16,744,695</u>	<u>\$ 16,744,695</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 282,220	\$ 282,220
Long-term liabilities:		
Due within one year	736,400	736,400
Due in more than one year	4,664,922	4,664,922
Total liabilities	<u>5,683,542</u>	<u>5,683,542</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,693,038	6,693,038
Restricted for:		
Transportation	106,926	106,926
Unrestricted	4,261,189	4,261,189
Total net assets	<u>\$ 11,061,153</u>	<u>\$ 11,061,153</u>

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

**Town of Davidson, North Carolina
Statement of Activities
For the Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,238,431	\$ 9,400	\$ 3,465	\$ -
Public safety	2,104,978	59,367	117,644	-
Transportation	1,202,164	-	509,660	-
Economic and physical	942,617	139,362	25,000	106,497
Environmental protection	743,080	-	-	-
Cultural and recreation	1,190,165	372,505	40,500	-
Interest on long-term debt	230,309	-	-	-
Total governmental activities (See Note 1)	<u>7,651,744</u>	<u>580,634</u>	<u>696,269</u>	<u>106,497</u>
Total primary government	<u>\$ 7,651,744</u>	<u>\$ 580,634</u>	<u>\$ 696,269</u>	<u>\$ 106,497</u>

General revenues:

Taxes:

Property taxes, levied for general purpose

Other taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues, special items, and transfers

Change in net assets

Net assets-beginning

Net assets-ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Total
\$ (1,225,566)	\$ (1,225,566)
(1,927,967)	(1,927,967)
(692,504)	(692,504)
(671,758)	(671,758)
(743,080)	(743,080)
(777,160)	(777,160)
(230,309)	(230,309)
<u>(6,268,344)</u>	<u>(6,268,344)</u>
<u>(6,268,344)</u>	<u>(6,268,344)</u>
4,799,292	4,799,292
2,054,555	2,054,555
71,996	71,996
205,816	205,816
<u>7,131,659</u>	<u>7,131,658</u>
863,315	863,315
10,197,838	10,197,838
<u>\$ 11,061,153</u>	<u>\$ 11,061,153</u>

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

Exhibit 3

Town of Davidson, North Carolina
 Balance Sheet
 Governmental Funds
 June 30, 2009

	Major Funds General	Total Non- Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,111,124	\$ -	\$ 4,111,124
Receivables, net:			
Taxes	192,808	-	192,808
Notes receivable	193,036	-	193,036
Due from other funds	-	-	-
Due from other governments	461,579	-	461,579
Inventories	2,313	-	2,313
Total assets	<u>\$ 4,960,860</u>	<u>\$ -</u>	<u>\$ 4,960,860</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	282,220	-	282,220
Due to other funds	-	-	-
Deferred revenue	192,808	-	192,808
Total liabilities	<u>475,028</u>	<u>-</u>	<u>475,028</u>
FUND BALANCES:			
Reserved for:			
Inventories	2,313	-	2,313
Law enforcement separation allowance	140,759	-	140,759
State statute	654,615	-	654,615
Streets-Powell bill	106,926	-	106,926
Unreserved, General Fund			
Designated for subsequent year	56,964	-	56,964
Designated for adequate public facilities	429,172	-	429,172
Undesignated	3,095,084	-	3,095,084
Undesignated, Special Revenue Fund	-	-	-
Total fund balances	<u>4,485,833</u>	<u>-</u>	<u>4,485,833</u>
Total liabilities and fund balances	<u>\$ 4,960,861</u>	<u>\$ -</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,783,835
Some liabilities, including debt and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(5,401,323)
Liabilities for earned but deferred revenues in fund statements.	192,808
Net assets of governmental activities:	<u>\$ 11,061,153</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 Year Ended June 30, 2009

	Major Funds		Total
	General Fund	Total Non- Major Funds	Governmental Funds
REVENUES			
Ad valorem taxes	\$ 4,779,102	\$ -	\$ 4,779,102
Other taxes and licenses	98,720	-	98,720
Unrestricted intergovernmental	1,955,835	-	1,955,835
Restricted intergovernmental	727,840	-	727,840
Permits and fees	193,568	-	193,568
Sales and services	387,066	-	387,066
Investment earnings	71,996	-	71,996
Miscellaneous	142,482	-	142,482
Total revenues	8,356,609	-	8,356,609
EXPENDITURES			
Current:			
General government	1,292,956	-	1,292,956
Public safety	1,895,389	-	1,895,389
Transportation	1,150,074	-	1,150,074
Economic and physical development	839,281	51,175	890,456
Environmental protection	743,080	-	743,080
Cultural and recreation	1,125,675	50,996	1,176,671
Debt service:			
Principal	537,493	-	537,493
Interest and other charges	230,309	-	230,309
Non departmental	-	-	-
Total expenditures	7,814,257	102,171	7,916,428
Excess (deficiency) of revenues over expenditures	542,352	(102,171)	440,181
OTHER FINANCING SOURCES (USES)			
Sale of capital asset	138,262	-	138,262
Loan proceeds	139,795	-	139,795
Transfers (to)/from other funds	(73,307)	73,307	-
Total other financing sources (uses)	204,750	73,307	278,057
Net change in fund balance	747,102	(28,864)	718,238
Fund balances-beginning	3,738,731	28,864	3,767,595
Fund balances-ending	\$ 4,485,833	\$ -	\$ 4,485,833

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

Exhibit 4
(continued)

Town of Davidson, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2009

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

Net changes in fund balances - total governmental funds	\$ 718,238
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 depreciation exceeded capital outlays in the current period.	(227,853)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred revenue for tax revenues	20,190
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.	397,698
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(24,589)
Net pension obligation	(20,369)
Total changes in net assets of governmental activities	\$ 863,315

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 Year Ended June 30, 2009

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 4,806,656	\$ 4,777,336	\$ 4,779,102	\$ 1,766
Other taxes and licenses	-	98,710	98,720	10
Unrestricted intergovernmental	1,922,000	1,955,796	1,955,835	39
Restricted intergovernmental	403,800	852,730	727,840	(124,890)
Permits and fees	-	193,526	193,568	42
Sales and services	333,700	353,110	387,066	33,956
Investment earnings	125,000	71,990	71,996	6
Miscellaneous	123,396	183,682	142,482	(41,200)
Total revenues	<u>7,714,552</u>	<u>8,486,880</u>	<u>8,356,609</u>	<u>(130,269)</u>
Expenditures:				
Current:				
General government	1,293,337	1,307,834	1,292,956	14,879
Public safety	2,990,623	2,693,588	1,895,389	798,200
Transportation	1,361,323	1,150,213	1,150,074	139
Environmental protection	718,450	743,090	743,080	10
Economic and physical development	1,022,081	955,232	839,281	115,951
Cultural and recreation	1,385,702	1,125,849	1,125,675	174
Debt service:				
Principal retirement	-	587,187	537,493	49,694
Interest and other charges	-	230,309	230,309	-
Nondepartmental	-	-	-	-
Total expenditures	<u>8,771,516</u>	<u>8,793,302</u>	<u>7,814,257</u>	<u>979,045</u>
Revenues over (under) expenditures	<u>(1,056,964)</u>	<u>(306,422)</u>	<u>542,352</u>	<u>848,776</u>
Other financing sources (uses):				
Sale of capital asset	-	138,260	138,262	-
Loan proceeds	1,000,000	139,795	139,795	-
Transfers to other funds	-	(73,307)	(73,307)	-
Total other financing sources (uses)	<u>1,000,000</u>	<u>204,748</u>	<u>204,750</u>	<u>-</u>
Fund balance appropriated	<u>56,964</u>	<u>101,674</u>	<u>-</u>	<u>(101,674)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>747,102</u>	<u>\$ 747,102</u>
Fund balances, beginning of year			<u>3,738,731</u>	
Fund balances, end of year			<u>\$ 4,485,833</u>	

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, 2009

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 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 assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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*– are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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, Federal and State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town reports the following non-major governmental funds:

Special Revenue Funds. These funds are used to account grant funds that are restricted for use for a particular purpose. The Town has three Special Revenue Funds: Community Center Project, Affordable Housing Project and Armour Street Project.

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.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

I. Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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.

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 revenues are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes

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 60 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 January 1, 1993, 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, Mecklenburg County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Davidson. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Mecklenburg County from March 2008 through February 2009 apply to the fiscal year ended June 30, 2009. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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. 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 assets 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, 2009

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. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Special Revenue 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 object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town are 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 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 Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

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

2. Cash and Cash Equivalents

The 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.

3. 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 6. These taxes are based on the assessed values as of January 1, 2008.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

I. Summary of Significant Accounting Policies (Continued)

4. 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, 2009.

5. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

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.

6. 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, improvements, infrastructure; furniture and equipment; and vehicles. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The Town as a Phase III government has opted 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	75
Computer equipment	3-5
Furniture and equipment	3-10
Other improvements	15-20
Vehicles	5-15

7. 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 assets.

8. 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.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

I. Summary of Significant Accounting Policies (Continued)

The Town's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave, accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

9. Net Assets/Fund Balances

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent 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.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved by State statute - portion of fund balance, in addition to reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for Law Enforcement Separation Allowance – portion of fund balance that is not available for appropriation because it represents the balance of the law enforcement separation fund required at year end per the actuarial study.

Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2009-2010 budget ordinance.

Designated for adequate public facilities - portion of fund balance that has been designated to adhere to adequate public facilities in conjunction with the Town's capital improvement plan.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

I. Summary of Significant Accounting Policies (Continued)

10. 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.

11. 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. Interfund eliminations have not been made in the aggregation of this data. However, the reconciliations to net assets are reflective of interfund eliminations and reflect financial position.

II. Stewardship, Compliance, and Accountability

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

None

1. Noncompliance with North Carolina General Statutes

None

2. Contractual Violations

None

B. Deficit Fund Balance or Net Assets of Individual Funds

None

C. Excess of Expenditures over Appropriations

None

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town 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.

**Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

III. Detail Notes on All Funds (Continued)

Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents 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 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 city complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2009, the Town's deposits had a carrying amount of \$95,596 and a bank balance of \$128,171. All of the bank balance was covered by federal depository insurance. At June 30, 2009, the Town's petty cash fund totaled \$200.

2. Investments

At June 30, 2009, the Town's investments were as follows:

Investment Type	Fair Value	Maturity	Rating
US Treasury Notes	\$ 114,235	May 15, 2013	AAA
NC Capital Management Trust-Cash Portfolio	<u>3,901,093</u>	.80 years	AAAm
Total	<u>\$ 4,015,328</u>		

Interest rate risk

The Town does not have a formal investment policy.

Credit Risk

The Town has no formal policy regarding credit risk. The Town's investment in the US Treasury Notes is rated AAA by Standard and Poor's and Aaa by Moody Investors Service. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2009.

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. The agreement provides for loans to be repaid in 1 to 4 years based on the non-profit's projection of when the house will be sold. At June 30, 2009, the Town had four loans outstanding aggregating \$193,036, with annual interest rates from 2.38% to 5.32 %.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

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 \$1,500 a year plus an amount to cover the Town's installment financing obligation. The Town will receive \$71,936 per year for the next year and \$36,718 in two years. The lease income for the remaining thirty two years of the lease will be \$1 per year.

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 \$26,184 per year for the following four years. The lease contains two options to extend for additional five years each. Lease income received for the year ended June 30, 2009 was \$31,880.

5. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2009, was as follows:

Governmental Activities	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 3,189,289	\$ -	\$ -	\$ 3,189,829
Total capital assets not being depreciated	<u>3,189,829</u>	<u>-</u>	<u>-</u>	<u>3,189,829</u>
Capital assets being depreciated by type:				
Buildings	4,144,828	27,266	-	4,172,094
Other improvements	4,329,345	-	-	4,329,345
Equipment	1,053,783	139,795	-	1,193,578
Computers	230,592	-	-	230,592
Vehicles and motorized equipment	2,629,717	-	-	2,629,717
Total capital assets being depreciated	<u>12,388,265</u>	<u>\$ 167,061</u>	<u>\$ -</u>	<u>12,555,326</u>
Less accumulated depreciation by type:				
Buildings	627,871	76,286	-	704,157
Other improvements	317,629	84,836	-	402,465
Equipment	822,635	39,988	-	862,623
Computers	198,760	6,001	-	204,761
Vehicles and motorized equipment	1,599,511	187,803	-	1,787,314
Total accumulated depreciation	<u>3,566,406</u>	<u>\$ 394,914</u>	<u>\$ -</u>	<u>3,961,320</u>
Total capital assets being depreciated, net	<u>8,821,859</u>			<u>8,594,006</u>
Governmental activity capital assets, net	<u>\$ 12,011,688</u>			<u>\$ 11,783,835</u>
Depreciation expense by function:				
General government		\$ 60,682		
Public safety		189,221		
Transportation		52,090		
Economic development		52,161		
Cultural & recreational		40,760		
		<u>\$ 394,914</u>		

**Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

III. Detail Notes on All Funds (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Davidson contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.32% and 7.38%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Davidson are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2009, 2008 and 2007 were \$161,280, \$159,283, and \$140,432, respectively. The contributions made by the Town equaled the required contributions for each year.

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. 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 increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2008, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	15
Total	15

A separate report was not issued for the plan.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

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.

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

3. *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.

The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

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

Employer annual required contribution	\$ 19,000
Interest on net pension obligation	8,728
Adjustment to annual required contribution	(7,360)
Annual pension cost	20,368
Contributions made	-
Increase in net pension obligation	20,368
Net pension obligation beginning of year	120,391
Net pension obligation end of year	\$ 140,759

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 19,132	0.00%	\$ 103,814
2008	16,577	0.00%	120,391
2009	20,368	0.00%	140,759

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

4. *Funded Status and Funding Progress*

As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$137,461. The covered payroll (annual payroll of active employees covered by the plan) was \$828,614 and the ratio of the UAAL to the covered payroll was 16.59 %.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2009 were \$76,900 which consisted of \$43,568 from the Town and \$33,332 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, 2009 were \$87,247, which consisted of \$39,879 from the Town and \$47,368 from the non law enforcement employees.

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

Plan Description. The State of North Carolina contributes, on behalf of the Town of Davidson, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers 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. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributed \$799 to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

e. Other Employment Benefits

The Town has also 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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually 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.

2. Deferred / Unearned Revenues

The balance in deferred revenues at year-end is composed of the following elements:

	Deferred <u>Revenue</u>
Taxes receivable (General Fund)	<u>\$192,808</u>

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 \$2 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 up to a \$5 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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 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 \$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, 2009

III. Detail Notes on All Funds (Continued)

4. Long-Term Obligations

a. Operating Leases

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

<u>Year ending June 30,</u>	
2010	\$ 9,940
2011	9,940
2012	9,940
2013	9,940
2014	9,940
2015-2019	49,700
2020-2022	<u>33,133</u>
Total	<u>\$ 132,533</u>

Lease expense for the land and improvements was \$9,940 for the year ended June 30, 2009.

In June 1999, the Town entered into a ten year lease of development rights from a local property owner. Under the terms of the agreement, the property owner will refrain from developing or subdividing the property during the lease term in exchange for annual lease payments of \$5,377 from the Town. Lease expense for the development rights was \$5,377 for the year ended June 30, 2009.

In March 2007, the Town entered into a 3 year lease agreement for office space for the Parks and Recreation Department. This lease agreement contains two renewal options for 2 additional years. The following is a schedule of minimum lease payments required under the lease:

<u>Year ending June 30,</u>	
2010	\$ 41,850
2011	<u>6,975</u>
	<u>\$ 48,825</u>

Lease expense for the office space was \$40,500 for the year ended June 30, 2009.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

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.

Also in 2006, the Town entered in to a lease agreement with Mecklenburg County for several parcels of 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.

b. Capital Lease

The Town has entered into an agreement to lease five police cars. The lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the date of their inception. Title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under the capital lease at June 30, 2009:

<u>Class of property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	<u>\$ 190,210</u>	<u>\$ 63,403</u>	<u>\$ 126,807</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 35,000
2011	35,000
2012	35,000
2013	<u>35,000</u>
Total minimum lease payments	140,000
Less amount representing interest	<u>19,626</u>
Present value of minimum lease payments	<u>\$ 120,374</u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

The Town has entered into an agreement to a copier machine. The lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the date of their inception. Title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under the capital lease at June 30, 2009:

<u>Class of property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Copier	<u>\$ 139,795</u>	<u>\$ 16,309</u>	<u>\$ 123,486</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 32,712
2011	32,712
2012	32,712
2013	32,712
2014	<u>16,357</u>
Total minimum lease payments	147,205
Less amount representing interest	<u>19,480</u>
Present value of minimum lease payments	<u>\$ 127,725</u>

c. Installment Financing

- In August 2003, the Town refinanced an original 1995 installment financing agreement with a bank to purchase a library. The original amount of the loan was \$729,300; the amount refinanced was \$446,959. The new agreement requires 15 semi-annual payments of \$35,218 including interest through October 2010. The annual interest rate is 4.8%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$4,875 of interest, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 66,386	\$ 4,050
2011	<u>34,364</u>	<u>825</u>
Total	<u>\$ 100,750</u>	<u>\$ 4,875</u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

2. In September 2003, the Town refinanced the original 1999 loan from a bank to construct street improvements. The original loan was for \$1,325,000, the amount refinanced was \$1,103,449. The new loan agreement requires 23 semi annual payments of \$61,420 through October 13, 2014. The annual interest rate is 4.45%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$83,179 of interest are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 98,744	\$ 25,660
2011	103,187	21,217
2012	107,830	16,574
2013	112,682	11,722
2014	117,752	6,652
2015	62,424	1,354
Total	<u>\$ 602,619</u>	<u>\$ 83,179</u>

3. In December 2002, the Town obtained \$2,000,000 in seller financed loans on the purchase of land. The loan agreement requires 240 monthly payments of \$12,859 through December 30, 2022. The annual interest rate is 4.69%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$542,264 of interest are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 83,812	\$ 70,496
2011	87,828	66,479
2012	92,038	62,571
2013	96,448	57,860
2014	101,070	53,239
2015-2019	582,815	188,727
2020-2023	497,187	42,892
Total	<u>\$1,541,198</u>	<u>\$ 542,264</u>

4. In March 2008, the Town obtained a \$540,000 loan from a bank to purchase a pumper fire truck. The loan agreement requires 20 semi-annual payments of \$ 31,857 through March 2018. The annual interest rate is 3.260%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$79,915 of interest are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 48,014	\$ 15,700
2011	49,592	14,122
2012	51,222	12,492
2013	52,905	10,809
2014	54,644	9,070
2015-2018	237,135	17,722
Total	<u>\$ 493,512</u>	<u>\$ 79,915</u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

III. Detail Notes on All Funds (Continued)

5. In January 2008, the Town obtained a \$625,000 loan from a bank to purchase a building. The loan agreement requires 40 semi-annual payments of \$15,625 plus interest through January, 2028. The annual interest rate is 4.19%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$242,561 of interest are as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 31,250	\$ 24,551
2011	31,250	23,241
2012	31,250	21,932
2013	31,250	20,623
2014	31,250	19,313
2015-2019	156,250	76,926
2020-2024	156,250	44,191
2025-2028	125,000	11,784
Total	<u>\$ 593,750</u>	<u>\$ 242,561</u>

6. In August 2005, the Town obtained a \$625,000 loan from a bank to repair streets. The loan agreement requires 16 semi-annual principle payments of \$39,063 plus interest through September, 2012. The annual interest rate is 3.6%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$19,688 of interest are as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 78,125	\$ 9,141
2011	78,125	6,328
2012	78,125	3,516
2013	39,063	703
Total	<u>\$ 273,438</u>	<u>\$ 19,688</u>

7. 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, including interest through November 2020. The annual interest rate is 3.81%.

Annual debt service payments of the installment financing as of June 30, 2009, including \$282,868 of interest are as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 107,600	\$ 46,120
2011	107,600	42,020
2012	107,600	37,921
2013	107,600	33,821
2014	107,600	29,721
2015-2019	538,000	87,116
2020-2021	161,400	6,149
Total	<u>\$1,237,400</u>	<u>\$ 282,868</u>

**Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

III. Detail Notes on All Funds (Continued)

d. Changes in Long-Term Liabilities

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Current Portion Of Balance
Governmental activities:					
Bank loan	\$ 3,557,098	\$ -	\$ 356,379	\$ 3,200,719	\$ 363,733
Promissory notes	1,621,178	-	79,980	1,541,198	83,812
Installment purchase	164,091	-	63,311	100,750	66,386
Capitalized leases	146,127	139,795	37,823	248,099	52,702
Net pension obligation	120,391	20,368	-	140,759	-
Compensated absences	<u>145,178</u>	<u>24,589</u>	<u>-</u>	<u>169,767</u>	<u>169,767</u>
Total	<u>\$ 5,754,063</u>	<u>\$ 184,752</u>	<u>\$ 537,493</u>	<u>\$ 5,401,322</u>	<u>\$ 736,400</u>

Compensated absences typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Balances Due to/from Other Funds

There were no balances due to or from funds at June 30, 2009.

During the course of the year, the following transfers occurred among funds

Transfer to the Community Center Project	\$ 23,730
Transfer to the Affordable Housing Project	<u>49,577</u>
Total transferred	<u>\$ 73,307</u>

The Town transfers funds between funds in order to facilitate the operations of the Special Revenue Funds.

IV. Related Party Transactions

The town attorney occupies a house owned by the town; in exchange for rent he is making repairs to the structure.

V. Interlocal Agreement

The Town has entered an interlocal 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 will fund \$40,000 plus interest each year through 2019. The anticipated cost with respect to this portion of the agreement is \$600,000 plus \$236,064 of interest. The Town has also agreed to pay a certain percentage of the development cost with respect to this park. The Town cannot determine what those cost may be at this time. For the year ended June 30, 2009, the Town had no payments with respect to this section of the agreement.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

V. Interlocal Agreement (Continued)

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 interlocal 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.

The Town has entered another interlocal agreement with two neighboring towns and the local visitor's bureau for funding of the bureau's mission to promote and organize events and conventions in the Lake Norman Region. The Town has pledged a portion of its tourism funds to this organization. This agreement is in effect through June 2011.

The Town has entered another interlocal agreement with three neighboring towns to create a regional transportation committee. The towns have agreed to share the cost of funding this commission. The commission is schedule to terminate in 2014.

The Town has entered another interlocal 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.

VI. Joint Agency

In August of 2007 the Town entered an asset purchase agreement with a local cable company for the purchase of its assets. Pursuant to the agreement, the Town of Mooresville purchased the assets of the cable 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 cable television system. This agency operates as MI Connection Communications System (MIC).

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 cable system. As of June 30, 2009 draws against this financing contract by MIC were 71,150,280 Subsequent to June 30, 2008, Mooresville entered into an additional installment financing contract of \$12,500,000 on behalf of MIC. As of June 30, 2009 draws against this contract by MIC were 9,018,629.

The preliminary draft of the Financial Statements of MIC indicate that the agency incurred a net loss of \$6,428,651 for the year ended June 30, 2009. The Agency has a deficit net asset balance of \$8,904,105 as of June 30, 2009.

The Parties acknowledge that to the extent that revenues and assets of the system are not adequate to pay operating cost of the system, the operating parties agree to the extent of their financial interest to provide the joint agency on timely basis any and all funds necessary to operate the system. The Town of Davidson's financial interest was computed based on the number of subscribers in the boundaries of the town to the total number of subscribers in the boundaries of Mooresville and Davidson combined. The operating agreement requires that the financial interest of the towns be audited on an annual basis. Based upon the preliminary report with respect to the agreed upon procedures Davidson's financial interest in MIC is 32.67%. There is a 96.36% probability that the error rate is less than 16% in this testing.

Once the MIC audit report has been issued, copies can be obtained from Leamon Brice, Town Manager of the Town of Davidson.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

VII. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

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 is a named part in a lawsuit whereby the plaintiff is challenging the enforceability of an Adequate Public Facility Ordinance (APFO) under state enabling legislation. The APFO is a tool used to assure public facilities maintain the level of service provided to the town prior to the proposed development. The plaintiff is seeking the release of these obligations, which are currently secured by bonds. The lawsuit does not seek damages. While any litigation contains an element of uncertainty, Town officials believe that the outcome of the lawsuit will not have a material adverse effect on the Town's financial condition or operations. The Town records the portion of APFO proceeds that have not been previously expended as a designation of fund balance.

Subsequent events

The Town has evaluated subsequent events through November 24, 2009, the date which the financial statements were available to be issued.

Subsequent to year end the town purchased land through debt acquisition of \$314,000.

Subsequent to year end the town entered into a contract for road resurfacing for \$768,030

Required
Supplementary Financial Data

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

Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.

Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.

Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.

Town of Davidson, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/98	-	\$ 64,225	\$ 64,225	0%	\$ 413,726	13.52%
12/31/99	-	65,262	65,262	0%	482,716	13.52%
12/31/00	-	96,675	96,675	0%	536,249	18.03%
12/31/01	-	73,823	73,823	0%	513,904	14.37%
12/31/02	-	76,904	76,904	0%	612,321	12.56%
12/31/03	-	91,018	91,018	0%	776,185	11.73%
12/31/04	-	115,495	115,495	0%	845,788	13.66%
12/31/05	-	102,819	102,819	0%	915,537	11.23%
12/31/06	-	92,656	92,656	0%	800,935	11.57%
12/31/07	-	132,629	132,629	0%	901,263	14.72%
12/31/08	-	137,461	137,461	0%	828,614	16.59%

Town of Davidson, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1999	\$ 7,976	0.0%
2000	9,779	0.0%
2001	10,524	0.0%
2002	13,658	0.0%
2003	12,198	0.0%
2004	13,599	0.0%
2005	20,594	0.0%
2006	17,980	0.0%
2007	15,430	0.0%
2008	19,000	0.0%
2009	19,000	0.0%

Town of Davidson, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Notes to the Required Schedules

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

Valuation date	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	22 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5-12.3%
Includes inflation at	3.75%
Cost-of living adjustments	N/A

Supplementary Statements

Town of Davidson, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Ad valorem taxes	\$ 4,386,516	\$ 4,375,699	\$ (10,817)
Automobile taxes	390,820	388,532	(2,288)
Penalties and interest	-	14,871	14,871
Total	<u>4,777,336</u>	<u>4,779,102</u>	<u>1,766</u>
Other taxes and licenses:			
Occupancy taxes	97,390	97,395	5
Animal taxes	1,320	1,325	5
Total	<u>98,710</u>	<u>98,720</u>	<u>10</u>
Unrestricted intergovernmental:			
Local option sales taxes	1,175,786	937,163	(238,623)
Payments in lieu of taxes	146,500	146,500	-
Telecommunications sales tax	-	154,274	154,274
Utility franchise tax	461,910	461,920	10
Food and beverage tax	-	84,366	84,366
Beer and wine tax	114,530	43,787	(70,743)
Storm water fees	57,070	57,075	5
ABC profit distribution	-	70,750	70,750
Total	<u>1,955,796</u>	<u>1,955,835</u>	<u>39</u>
Restricted intergovernmental:			
U.S. Department of Justice Grant	26,930	26,937	7
Solid waste refund	4,530	4,538	8
Powell Bill allocation	281,150	281,148	(2)
Road surface refund	360,720	228,512	(132,208)
Contributions from			
Home Consortium	106,490	106,497	7
Mecklenburg County Fire	72,910	80,208	7,298
Total	<u>852,730</u>	<u>727,840</u>	<u>(124,890)</u>
Permits and fees:			
Zoning fees	17,360	17,362	2
Adequate Public Facilities Ordinance	151,426	151,465	39
First responder income	24,740	24,741	1
Total	<u>193,526</u>	<u>193,568</u>	<u>42</u>

Town of Davidson, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Sales and services:			
Rental income	-	7,200	7,200
Parking violations	-	18,411	18,411
Illegal drugs	-	(50)	(50)
Other facility revenue	73,350	72,314	(1,036)
Recreation program revenue	279,760	238,539	(41,221)
Recreation facility revenue	-	41,252	41,252
Cemetery revenue	-	9,400	9,400
Total	<u>353,110</u>	<u>387,066</u>	<u>33,956</u>
Investment earnings	<u>71,990</u>	<u>71,996</u>	<u>6</u>
Miscellaneous:			
Donations/fire department	-	10,474	10,474
Donations/police	-	25	25
Donations recreation	40,500	40,500	-
Donations other	12,240	3,465	(8,775)
Donations storm water	-	-	-
Transit planning	25,000	25,000	-
Planning reimbursement	-	2,279	2,279
Cable purchase reimbursement	-	-	-
Other	105,942	60,739	(45,203)
Total	<u>183,682</u>	<u>142,482</u>	<u>(41,200)</u>
Total revenues	<u>8,486,880</u>	<u>8,356,609</u>	<u>(130,271)</u>
Expenditures:			
General government:			
Governing Board:			
Salaries and employee benefits		30,891	
Membership dues		11,468	
Other operating expenditures		36,895	
Total	<u>79,285</u>	<u>79,254</u>	<u>31</u>
Administration:			
Salaries and employee benefits		567,613	
Capital outlay		142,896	
Other operating expenditures		290,737	
Total	<u>1,016,059</u>	<u>1,001,246</u>	<u>14,813</u>
Legal:			
Contracted services	<u>72,130</u>	<u>72,124</u>	<u>6</u>
Public buildings:			
Other operating expenditures		140,332	
Total	<u>140,360</u>	<u>140,332</u>	<u>28</u>

Town of Davidson, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Total general government	<u>1,307,834</u>	<u>1,292,956</u>	<u>14,878</u>
Public safety:			
Police:			
Salaries and employee benefits		1,290,021	
Vehicle and equipment maintenance		19,525	
Other operating expenditures		171,164	
Capital outlay		-	
total	<u>1,480,818</u>	<u>1,480,710</u>	<u>108</u>
Fire:			
Salaries and employee benefits		286,389	
Vehicle and equipment maintenance		38,368	
Other operating expenditures		89,922	
Capital outlay		-	
Total	<u>1,212,770</u>	<u>414,679</u>	<u>798,091</u>
Total public safety	<u>2,693,588</u>	<u>1,895,389</u>	<u>798,199</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		296,531	
Vehicle maintenance		4,535	
Street lights		114,586	
Contracted services		62,496	
Other operating expenditures		84,745	
Capital outlay		296,998	
Total	<u>860,013</u>	<u>859,891</u>	<u>122</u>
Powell Bill - streets			
Street and sidewalk maintenance		172,829	
Contracted services		111,072	
Other operating expenditures		6,282	
Total	<u>290,200</u>	<u>290,183</u>	<u>17</u>
Total transportation	<u>1,150,213</u>	<u>1,150,074</u>	<u>139</u>

**Town of Davidson, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Environmental protection:			
Solid waste:			
Contracted services		687,472	
Other operating expenditures		55,608	
Total environmental protection	<u>743,090</u>	<u>743,080</u>	<u>10</u>
Economic and physical development			
Planning			
Salaries and employee benefits		343,246	
Other operating expenditures		241,575	
Total	<u>700,647</u>	<u>584,821</u>	<u>115,826</u>
Community Development			
Other operating expenditures		98,754	
Contracted services		45,461	
Total	<u>144,250</u>	<u>144,215</u>	<u>35</u>
Downtown Davidson			
Salaries and employee benefits		80,206	
Other operating expenditures		6,978	
Contracted services		561	
Total	<u>87,835</u>	<u>87,745</u>	<u>90</u>
Contributions			
Service agencies	<u>22,500</u>	<u>22,500</u>	<u>-</u>
Total economic and physical development	<u>955,232</u>	<u>839,281</u>	<u>115,951</u>
Cultural and recreation:			
Recreation			
Salaries and employee benefits		540,569	
Vehicle maintenance		1,545	
Other operating expenditures		487,017	
Tourism		96,544	
Capital Outlay		-	
Total cultural and recreation	<u>1,125,849</u>	<u>1,125,675</u>	<u>174</u>
Debt service:			
Principal retirement		537,493	
Interest and other charges		230,309	
Total debt service	<u>817,496</u>	<u>767,802</u>	<u>49,694</u>
Nondepartmental			
Sales tax	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>8,793,302</u>	<u>7,814,257</u>	<u>979,045</u>

Town of Davidson, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues over (under) expenditures	<u>(306,422)</u>	<u>542,352</u>	<u>848,774</u>
Other financing sources (uses):			
Sale of capital asset	138,261	138,262	-
Loan proceeds	139,795	139,795	-
Transfers to other funds	<u>(73,307)</u>	<u>(73,307)</u>	-
Total other financing sources (uses)	<u>204,749</u>	<u>204,750</u>	-
Fund balance appropriated	<u>101,673</u>	-	<u>(101,673)</u>
Net change in fund balance	<u>\$ 0</u>	747,102	\$ 747,101
Fund balances:			
Beginning of year, July 1		<u>3,738,731</u>	
End of year, June 30		<u>\$ 4,485,833</u>	

**Town of Davidson, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2009**

	Community Center Project	Affordable Housing Project	Armour Street Project	Total Nonmajor Governmental Funds
Assets				
Due from General Fund	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to General Fund	-	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:				
Reserved for special projects	-	-	-	-
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Davidson, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2009

	Community Center Project	Affordable Housing Project	Armour Street Project	Total Nonmajor Governmental Funds
Revenues:				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Economic and physical development	-	51,175	-	51,175
Cultural and recreational	23,730	-	27,266	50,996
Total expenditures	<u>23,730</u>	<u>51,175</u>	<u>27,266</u>	<u>102,171</u>
Revenues over expenditures	(23,730)	(51,175)	(27,266)	(102,171)
Other financing sources (uses):				
Loan proceeds	-	-	-	-
Transfers from other funds	23,730	49,577	-	73,307
Total other financing sources (uses)	<u>23,730</u>	<u>49,577</u>	<u>-</u>	<u>73,307</u>
Net change in fund balance	-	(1,598)	(27,266)	(28,864)
Fund balances:				
Beginning of year, July 1	-	1,598	27,266	28,864
End of year, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Davidson, North Carolina
Special Revenue Fund - Affordable Housing Project
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2009

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Economic and physical development	51,196	-	51,175	51,175	21
Total expenditures	51,196	-	51,175	51,175	21
Revenues under expenditures	(51,196)	-	(51,175)	(51,175)	21
Other financing sources (uses):					
Transfers from other funds	51,196	-	49,577	49,577	(1,619)
Total other financing sources (uses)	51,196	-	49,577	49,577	(1,619)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(1,598)	<u>\$ (1,598)</u>	<u>\$ (1,598)</u>
Fund balances:					
Beginning of year, July 1			1,598		
End of year, June 30			<u>\$ (0)</u>		

Town of Davidson, North Carolina
Special Revenue Fund - Armour Street Project
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2009

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenue:					
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Cultural and recreational	625,000	597,734	27,266	625,000	0
Total expenditures	625,000	597,734	27,266	625,000	0
Revenues under expenditures	(625,000)	(597,734)	(27,266)	(625,000)	0
Other financing sources (uses):					
Loan proceeds	625,000	625,000	-	625,000	-
Total other financing sources (uses)	625,000	625,000	-	625,000	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 27,266</u>	(27,266)	<u>\$ 0</u>	
Fund balances:					
Beginning of year, July 1			<u>27,266</u>		
End of year, June 30			<u>\$ 0</u>		

Town of Davidson, North Carolina
Special Revenue Fund - Community Center
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2009

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Design	23,730	-	23,730	23,730	-
Total expenditures	23,730	-	23,730	23,730	-
Revenues under expenditures	(23,730)	-	(23,730)	(23,730)	-
Other financing sources :					
Transfers from other funds	23,730	-	23,730	23,730	-
Total other financing sources	23,730	-	23,730	23,730	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ -</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
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2009

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2008</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2009</u>
2008-2009	\$ -	\$ 4,799,991	\$ 4,720,615	\$ 79,376
2007-2008	59,580	-	37,264	22,316
2006-2007	22,355	-	5,801	16,554
2005-2006	20,015	-	6,101	13,914
2004-2005	13,406	-	7,410	5,996
2003-2004	5,316	-	592	4,724
2002-2003	28,806	-	194	28,612
2001-2002	13,309	-	183	13,126
2000-2001	5,132	-	-	5,132
1999-2000	3,058	-	-	3,058
1998-1999	1,641	-	1,641	-
	<u>\$ 172,618</u>	<u>\$ 4,799,991</u>	<u>\$ 4,779,801</u>	<u>\$ 192,808</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 4,779,102
Reconciling items:	
Interest collected	(14,871)
Other Adjustments	15,570
Subtotal	<u>699</u>
Total collections and credits	<u>\$ 4,779,801</u>

Town of Davidson, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
For the Fiscal Year Ended June 30, 2009

	City - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,315,066,027	0.365	\$ 4,799,991	\$ 4,380,459	\$ 419,532
Total property valuation	<u>\$ 1,315,066,027</u>				
Net levy			4,799,991	4,380,459	419,532
Uncollected taxes at June 30, 2009			<u>(79,376)</u>	<u>(50,575)</u>	<u>(28,801)</u>
Current year's taxes collected			<u>\$ 4,720,615</u>	<u>\$ 4,329,884</u>	<u>\$ 390,731</u>
Current levy collection percentage			<u>98.35%</u>	<u>98.85%</u>	<u>93.13%</u>

Compliance Section

TINSLEY & TERRY
CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the financial statements of the governmental 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, 2009, which collectively comprise the Town of Davidson, North Carolina's basic financial statements and have issued our report thereon dated November 24, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Davidson, North Carolina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Davidson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency 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 misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Town of Davidson, North Carolina'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. We noted certain matters that we reported to management of the Town of Davidson in a separate letter dated November 24, 2009.

This report is intended for the information of the management, others within the organization, members of the Board of Commissioners, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Tensley & Terry, CPAs, PA
Cornelius, North Carolina
November 24, 2009