

Town of Davidson,
North Carolina

Financial Statements

June 30, 2010

Town Board

John Woods, Mayor
Laurie Venzon
Tim Dreffer
Brian Jenest
Connie Wessner
Margo Williams

Administrative and Financial Staff

Leamon Brice, Town Manager
Eric Hardy, Finance Director

**Town of Davidson, North Carolina
Table of Contents
June 30, 2010**

Exhibit		Page
	Financial Section:	
	Independent Auditor’s Report	
	Management’s Discussion and Analysis	I-VIII
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Assets	1
2	Statement of Activities	2-3
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	4
3	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5
4	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	7
	Notes to the Financial Statements	8-27
	Required Supplemental Financial Data:	
	Law Enforcement Officers’ Special Separation Allowance – Schedule of Funding Progress	28
	Law Enforcement Officers’ Special Separation Allowance – Schedule of Employer Contributions	29
	Law Enforcement Officers’ Special Separation Allowance Notes to the Required Schedules	30

Town of Davidson, North Carolina
Table of Contents
June 30, 2010

	<u>Page</u>
Individual Fund Statements and Schedules:	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	31-35
Combining Balance Sheet for Non-Major Governmental Funds	36
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance for Non-Major Governmental Funds	37
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – From Inception – Special Revenue Fund – Affordable Housing Program	38
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – From Inception – Special Revenue Fund – Book Garden Project	39
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – From Inception – Special Revenue Fund – Fire Station Project	40
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	41
Analysis of Current Tax Levy – Town-Wide Levy	42
Compliance Section:	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	

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, 2010, 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, 2010, 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 December 9, 2010 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 fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules, and other schedules 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.


Cornelius, North Carolina
December 9, 2010

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, 2010. 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

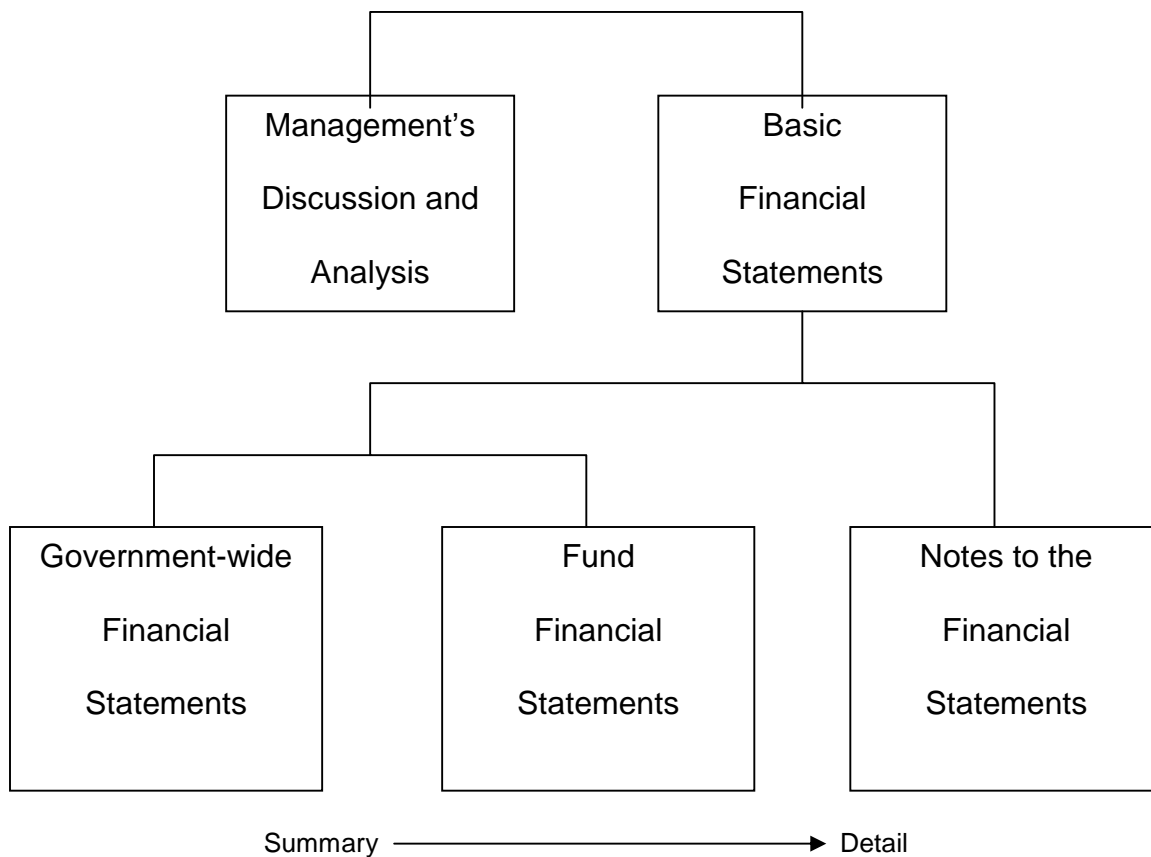
- ... The assets of the Town of Davidson *exceeded* its liabilities at the close of the fiscal year by \$ 12,232,227. (*net assets*).
- ... The government's total net assets *increased* by \$ 1,171,074 primarily due to *increases* in the *governmental type* activities net assets.
- ... As of the close of the current fiscal year, the Town of Davidson's governmental funds reported combined ending fund balances of \$ 4,732,409, an *increase* of \$ 246,576 in comparison with the prior year. Approximately 52.4 percent of this total amount, or \$ 2,478,033, is available for spending at the government's discretion (undesignated unreserved fund balance).
- ... At the end of the current fiscal year, undesignated unreserved fund balance for the General Fund was \$ 2,478,033, or 28.4 percent of total general fund expenditures for the fiscal year.
- ... The Town of Davidson's total debt *decreased* by \$ 363,160 (6.7%) during the current fiscal year. The key factor in this net decrease was general principal balance reduction.
- ... 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.

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 28 of this report.

The Town of Davidson's Net Assets
Figure 2

	Governmental			
	Activities		Total	
	2009	2010	2009	2010
Current and other assets	\$ 4,960,860	\$ 5,468,974	\$ 4,960,860	\$ 5,468,974
Capital assets	11,783,835	12,297,836	11,783,835	12,297,836
Total assets	16,744,695	17,766,810	16,744,695	17,766,810
Long-term liabilities outstanding	4,664,922	4,318,822	4,664,922	4,318,822
Other liabilities	1,018,620	1,215,761	1,018,620	1,215,761
Total liabilities	5,683,542	5,534,583	5,683,542	5,534,583
Net assets:				
Invested in capital assets, net of related debt	6,693,039	7,570,199	6,693,039	7,570,199
Restricted	106,925	214,526	106,925	214,526
Unrestricted	4,261,189	4,447,502	4,261,189	4,447,502
Total net assets	\$ 11,061,153	\$ 12,232,227	\$ 11,061,153	\$ 12,232,227

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 \$ 12,232,227 as of June 30, 2010. The Town of Davidson's net assets *increased* by \$ 1,171,074 for the fiscal year ended June 30, 2010. However, the largest portion (61.9%) 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 \$ 214,526 (1.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,447,502 is unrestricted.

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

- ... Collection of special assessments
- ... Increased property tax revenue of 7.4%
- ... Increase motor vehicle fees of approximately 38%
- ... Increase in occupancy tax of approximately 17%
- ... One time recovery of utilities franchise taxes due the town totaling \$68,675

Town of Davidson Changes in Net Assets				
Figure 3				
	Governmental			
	Activities		Total	Total
	2009	2010	2009	2010
Revenues:				
Program revenues:				
Charges for services	\$ 580,634	\$ 465,461	\$ 580,634	\$ 465,461
Operating grants and contributions	696,269	722,452	696,269	722,452
Capital grants and contributions	106,497	-	106,497	-
General revenues:				
Property taxes	4,799,292	5,288,400	4,799,292	5,288,400
Other taxes	2,054,555	2,170,596	2,054,555	2,170,596
Grants and contributions not restricted to specific programs				
Other	277,812	87,181	277,812	87,181
Total revenues	8,515,059	8,734,090	8,515,059	8,734,090
Expenses:				
General government	1,238,431	1,308,219	1,238,431	1,308,219
Public Safety	2,104,978	2,148,715	2,104,978	2,148,715
Highways/streets	1,202,164	850,588	1,202,164	850,588
Economic development	942,617	1,002,881	942,617	1,002,881
Environmental protection	743,080	864,351	743,080	864,351
Culture and recreation	1,190,165	1,172,042	1,190,165	1,172,042
Interest on long-term debt	230,309	216,220	230,309	216,220
Total expenses	7,651,744	7,563,016	7,651,744	7,563,016
Increase in net assets before transfers	863,315	1,171,074	863,315	1,171,074
Transfers	-	-	-	-
Increase in net assets	863,315	1,171,074	863,315	1,171,074
Net assets, July 1	10,197,838	11,061,153	10,197,838	11,061,153
Net assets, June 30	\$ 11,061,153	\$ 12,232,227	\$ 11,061,153	\$ 12,232,227

Governmental activities. Governmental activities increased the Town's net assets by \$ 1,171,074, thereby accounting for 100% 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 \$ 3,887,063, while total fund balance reached \$ 4,622,982. 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 44.5% of total General Fund expenditures, while total fund balance represents 53.0% of that same amount.

At June 30, 2010, the governmental funds of the Town of Davidson reported a combined fund balance of \$ 4,732,409, a 5.5% 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:

- ... Loan proceeds for land purchase, \$ 314,600
- ... Beer & Wine taxes withheld by the state of NC, \$ 28,400

Expenditure budget amendments were made to reflect:

- ... Recognition of street improvement costs not incurred as planned during FY2009, \$ 368,474
- ... Increased stormwater contract expenses offset by reimbursement by developer, \$ 29,800

Capital Asset and Debt Administration

Capital Assets. The Town of Davidson's investment in capital assets for its governmental activities as of June 30, 2010, totals \$ 12,297,836 (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 and disposals (there were no significant demolitions):

Additions:

- ... Street improvements, \$670,776

Disposals:

- ... Copiers, \$123,486 net of depreciation

Capital Assets consist of:

- ... Land and non-depreciable assets of \$ 3,504,484
- ... Other capital assets, net of depreciation of \$ 8,793,452

Town of Davidson Capital Assets (net of depreciation)				
Figure 4				
	Governmental Activities		Total	Total
	2009	2010	2009	2010
	Land	\$ 3,189,829	\$ 3,504,384	\$ 3,189,829
Buildings and systems	3,467,937	3,397,314	3,467,937	3,397,314
Improvements other than buildings	3,926,880	4,491,178	3,926,880	4,491,178
Machinery and equipment	330,955	199,841	330,955	199,841
Computers and computer software	25,831	21,689	25,831	21,689
Vehicles and motorized equipment	842,403	683,430	842,403	683,430
Construction in progress	-	-	-	-
Total	\$ 11,783,835	\$ 12,297,836	\$ 11,783,835	\$ 12,297,836

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, 2010, the Town of Davidson had total debt outstanding of \$ 5,038,162. Of this total debt amount, \$ 159,140 is due town employees for outstanding compensable absences. Additionally, \$161,321 of the town's total debt relates to an annual net obligation for the Law Enforcement Officers Separation Allowance, described in detail on Note III, Section B, Item 1 beginning on page 16 of this report. The net remaining outstanding debt is shown in Figure 5.

**Town of Davidson's Outstanding Debt
Capital Lease and Installment Financing**

Figure 5

	Governmental Activities		Total	Total
	2009	2010	2009	2010
	Capital leases	\$ 248,099	\$ 92,991	\$ 248,099
Installment financing	4,842,667	4,624,710	4,842,667	4,624,710
Total	\$ 5,090,766	\$ 4,717,701	\$ 5,090,766	\$ 4,717,701

The Town of Davidson's net remaining outstanding debt decreased by \$ 363,160 (6.7%) 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 24 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 2.7% from the prior year, reflecting continued modest commercial and residential development.
- ... 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, 2011

Governmental Activities:

- ... Contribution to jointly owned telecommunications company, \$ 2,018,640
- ... Additional funding to hire paid part-time firefighters, \$129,000
- ... Implementation of recently completed marketing study, \$20,000
- ... Parking study for village center, \$15,000

Proprietary Activities:

- ... Established separate funds to account for activities related to collection of solid waste and stormwater management

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, 2010

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,707,437	\$ 4,707,437
Taxes receivables (net)	240,144	240,144
Due from other governments	398,861	398,861
Notes receivable	49,895	49,895
Inventories	2,313	2,313
Prepaid expense	70,324	70,324
Total current assets	<u>5,468,974</u>	<u>5,468,974</u>
Capital assets (Note 1):		
Land, non-depreciable improvements, and construction in progress	3,504,384	3,504,384
Other capital assets, net of depreciation	<u>8,793,452</u>	<u>8,793,452</u>
Total capital assets	<u>12,297,836</u>	<u>12,297,836</u>
Total assets	<u>\$ 17,766,810</u>	<u>\$ 17,766,810</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 496,421	\$ 496,421
Long-term liabilities:		
Due within one year	719,340	719,340
Due in more than one year	<u>4,318,822</u>	<u>4,318,822</u>
Total liabilities	<u>5,534,583</u>	<u>5,534,583</u>
NET ASSETS		
Invested in capital assets, net of related debt	7,570,199	7,570,199
Restricted for:		
Transportation	214,526	214,526
Unrestricted	<u>4,447,502</u>	<u>4,447,502</u>
Total net assets	<u>\$ 12,232,227</u>	<u>\$ 12,232,227</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, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,308,219	\$ 16,900	\$ 15,740	\$ -
Public safety	2,148,715	76,220	103,033	-
Transportation	850,588	-	501,046	-
Economic and physical	1,002,881	14,415	53,595	-
Environmental protection	864,351	-	6,980	-
Cultural and recreation	1,172,042	357,926	42,058	-
Interest on long-term debt	216,220	-	-	-
Total governmental activities (See Note 1)	<u>7,563,016</u>	<u>465,461</u>	<u>722,452</u>	<u>-</u>
Total primary government	<u>\$ 7,563,016</u>	<u>\$ 465,461</u>	<u>\$ 722,452</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purpose
Other taxes

Unrestricted investment earnings

Miscellaneous

Loss on disposal of assets

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
\$ (1,275,579)	\$ (1,275,579)
(1,969,462)	(1,969,462)
(349,542)	(349,542)
(934,871)	(934,871)
(857,371)	(857,371)
(772,058)	(772,058)
(216,220)	(216,220)
<u>(6,375,103)</u>	<u>(6,375,103)</u>
<u>(6,375,103)</u>	<u>(6,375,103)</u>
5,288,400	5,288,400
2,170,596	2,170,596
16,898	16,898
83,482	83,482
(13,199)	(13,199)
<u>7,546,177</u>	<u>7,546,177</u>
1,171,074	1,171,074
11,061,153	11,061,153
<u>\$ 12,232,227</u>	<u>\$ 12,232,227</u>

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

**Town of Davidson, North Carolina
Balance Sheet
Governmental Funds
June 30, 2010**

	Major Funds		Total Governmental Funds
	General	Total Non- Major Funds	
ASSETS			
Cash and cash equivalents	\$ 4,595,437	\$ 112,000	\$ 4,707,437
Receivables, net:			
Taxes	240,144	-	240,144
Notes receivable	49,895	-	49,895
Due from other funds	17,573	15,000	32,573
Due from other governments	398,861	-	398,861
Inventories	2,313	-	2,313
Prepaid expense	70,324	-	70,324
Total assets	<u>\$ 5,374,547</u>	<u>\$ 127,000</u>	<u>\$ 5,501,547</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	496,421	-	496,421
Due to other funds	15,000	17,573	32,573
Deferred revenue	240,144	-	240,144
Total liabilities	<u>751,565</u>	<u>17,573</u>	<u>769,138</u>
FUND BALANCES:			
Reserved for:			
Inventories	2,313	-	2,313
State statute	519,080	-	519,080
Streets-Powell bill	214,526	-	214,526
Unreserved, General Fund			
Designated for subsequent year	804,179	-	804,179
Designated for adequate public facilities	443,530	-	443,530
Designated for Law enforcement separation allowance	161,321	-	161,321
Undesignated	2,478,033	-	2,478,033
Undesignated, Special Revenue Fund	-	109,427	109,427
Total fund balances	<u>4,622,982</u>	<u>109,427</u>	<u>4,732,409</u>
Total liabilities and fund balances	<u>\$ 5,374,547</u>	<u>\$ 127,000</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.

Gross capital assets at historical cost	16,539,171	
Accumulated depreciation	<u>4,241,335</u>	12,297,836

Some liabilities, including debt and compensated absences, are not due and payable in the current period and therefore are not reported in the funds. (5,038,162)

Liabilities for earned but deferred revenues in fund statements.	240,144
Net assets of governmental activities	<u>\$ 12,232,227</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, 2010

	Major Funds		Total
	General Fund	Total Non- Major Funds	Governmental Funds
REVENUES			
Ad valorem taxes	\$ 5,241,065	\$ -	\$ 5,241,065
Other taxes and licenses	115,500	-	115,500
Unrestricted intergovernmental	2,055,096	-	2,055,096
Restricted intergovernmental	614,087	-	614,087
Permits and fees	107,264	-	107,264
Sales and services	358,197	-	358,197
Investment earnings	16,898	-	16,898
Miscellaneous	176,838	15,000	191,838
Total revenues	<u>8,684,945</u>	<u>15,000</u>	<u>8,699,945</u>
EXPENDITURES			
Current:			
General government	1,274,473	-	1,274,473
Public safety	1,965,469	17,573	1,983,042
Transportation	1,455,298	-	1,455,298
Economic and physical development	1,238,765	26,510	1,265,275
Environmental protection	864,351	-	864,351
Cultural and recreation	1,131,906	-	1,131,906
Debt service:			
Principal	582,515	-	582,515
Interest and other charges	216,220	-	216,220
Total expenditures	<u>8,728,997</u>	<u>44,083</u>	<u>8,773,080</u>
Excess (deficiency) of revenues over expenditures	<u>(44,052)</u>	<u>(29,083)</u>	<u>(73,135)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital asset	5,711	-	5,711
Loan proceeds	314,000	-	314,000
Transfers (to)/from other funds	(138,510)	138,510	-
Total other financing sources (uses)	<u>181,201</u>	<u>138,510</u>	<u>319,711</u>
Net change in fund balance	137,149	109,427	246,576
Fund balances-beginning	4,485,833	-	4,485,833
Fund balances-ending	<u>\$ 4,622,982</u>	<u>\$ 109,427</u>	<u>\$ 4,732,409</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, 2010**

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

Net changes in fund balances - total governmental funds		\$ 246,576
---	--	------------

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

Capital outlays	1,021,901	
Depreciation	<u>(384,415)</u>	637,486

Governmental Funds do not report gains and losses on the disposal of fixed assets. However, in the Statement of Activities, the gain or loss is reported.		(18,910)
---	--	----------

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		47,335

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

New long term debt issued	(314,000)	
Principal payments on long term debt	<u>582,522</u>	268,522

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		10,627
Net pension obligation		<u>(20,562)</u>

Total changes in net assets of governmental activities		<u><u>\$ 1,171,074</u></u>
--	--	----------------------------

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, 2010

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 5,082,300	\$ 5,171,907	\$ 5,241,065	\$ 69,158
Other taxes and licenses	85,500	105,040	115,500	10,460
Unrestricted intergovernmental	1,920,300	1,976,065	2,055,096	79,031
Restricted intergovernmental	398,930	620,926	614,087	(6,839)
Permits and fees	5,000	279,952	107,264	(172,688)
Sales and services	445,400	349,976	358,197	8,221
Investment earnings	95,000	16,320	16,898	578
Miscellaneous	111,300	207,319	176,838	(30,481)
Total revenues	<u>8,143,730</u>	<u>8,727,505</u>	<u>8,684,945</u>	<u>(42,560)</u>
Expenditures:				
Current:				
General government	1,267,489	1,286,721	1,274,473	12,249
Public safety	2,229,688	1,990,601	1,965,469	25,133
Transportation	906,041	1,516,658	1,455,298	61,360
Environmental protection	822,800	883,171	864,351	18,820
Economic and physical development	996,194	1,278,607	1,238,765	39,842
Cultural and recreation	1,389,424	1,184,625	1,131,906	52,719
Debt service:				
Principal retirement	525,746	582,543	582,515	28
Interest and other charges	63,312	216,220	216,220	-
Total expenditures	<u>8,200,694</u>	<u>8,939,146</u>	<u>8,728,997</u>	<u>210,149</u>
Revenues over (under) expenditures	<u>(56,964)</u>	<u>(211,641)</u>	<u>(44,052)</u>	<u>167,589</u>
Other financing sources (uses):				
Sale of capital asset	-	4,835	5,711	876
Loan proceeds	-	314,000	314,000	-
Transfers to other funds	-	(181,089)	(138,510)	42,579
Total other financing sources (uses)	<u>-</u>	<u>137,746</u>	<u>181,201</u>	<u>43,455</u>
Fund balance appropriated	<u>56,964</u>	<u>73,895</u>	<u>-</u>	<u>(73,895)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>137,149</u>	<u>\$ 137,149</u>
Fund balances, beginning of year			4,485,833	
Fund balances, end of year			<u>\$ 4,622,982</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, 2010

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Davidson conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Statements: The statement of net 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: Fire Station Project, Affordable Housing Program and Book Garden 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, 2010

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 2009 through February 2010 apply to the fiscal year ended June 30, 2010. 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, 2010

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 within a fund by more than 10 percent of the function that is being reduced. 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, 2009.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010.

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; computers and computer software; and vehicles. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The Town 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:

Asset Class	Estimated Useful Lives
Buildings	75
Computer equipment	3-5
Computer software	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, 2010

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.

Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2010-2011 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.

Designated 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.

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, 2010

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, 2010**

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, 2010, the Town's deposits had a carrying amount of \$3,821 and a bank balance of \$41,097. All of the bank balance was covered by federal depository insurance. At June 30, 2010, the Town's petty cash fund totaled \$150.

2. Investments

At June 30, 2010, the Town's investments were as follows:

Investment Type	Fair Value	Maturity	Rating
US Treasury Notes	\$ 116,336	May 15, 2013	AAA
NC Capital Management Trust-Cash Portfolio	<u>4,587,130</u>	.80 years	AAAm
Total	<u>\$ 4,703,466</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, 2010.

3. Note Receivable

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

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

4. Lease Income

In July 1991 the town entered into a lease agreement with a local not for profit organization for a building owned by the Town. The Agreement calls for rent payment of \$ 1 per year with relation to said property. In December 2009, this agreement was extended until June 30, 2019.

In 1995, the Town entered into a 50 year lease agreement to lease a building to Mecklenburg County Public Library System for a base rent of \$1,500 a year plus an amount to cover the Town's installment financing obligation. The Town will receive \$36,718 for the next year. The lease income for the remaining thirty one 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, 2010 was \$26,184.

5. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2010, 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	\$ 3,189,829	\$ 314,555	\$ -	\$ 3,504,384
Total capital assets not being depreciated	<u>3,189,829</u>	<u>314,555</u>	<u>-</u>	<u>3,504,384</u>
Capital assets being depreciated by type:				
Buildings	4,172,094	-	-	4,172,094
Other improvements	4,329,345	670,776	24,777	4,975,344
Equipment	1,193,578	36,571	139,795	1,090,354
Computers	188,200	-	-	188,200
Computer software	42,392	-	-	42,392
Vehicles and motorized equipment	2,629,717	-	63,314	2,566,403
Total capital assets being depreciated	<u>12,555,326</u>	<u>\$ 707,347</u>	<u>\$ 227,886</u>	<u>13,034,787</u>
Less accumulated depreciation by type:				
Buildings	704,157	70,623	-	774,780
Other improvements	402,465	106,478	24,777	484,166
Equipment	862,623	44,199	16,309	890,513
Computers	167,814	-	-	167,814
Computer software	36,947	4,142	-	41,089
Vehicles and motorized equipment	1,787,314	158,973	63,314	1,882,973
Total accumulated depreciation	<u>3,961,320</u>	<u>\$ 384,415</u>	<u>\$ 104,400</u>	<u>4,241,335</u>
Total capital assets being depreciated, net	<u>8,594,006</u>			<u>8,793,452</u>
Governmental activity capital assets, net	<u>\$ 11,783,835</u>			<u>\$ 12,297,836</u>

**Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010**

III. Detail Notes on All Funds(Continued)

Depreciation expense by function:

General government	\$ 44,372
Public safety	181,681
Transportation	66,065
Economic development	52,161
Cultural & recreational	40,136
	<u>\$ 384,415</u>

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, 2010, 2009 and 2008 were \$167,370, \$161,280, and \$159,283, 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.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2009, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>18</u>
Total	<u><u>18</u></u>

A separate report was not issued for the plan.

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, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0 % 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	\$ 19,224
Interest on net pension obligation	10,205
Adjustment to annual required contribution	<u>(8,867)</u>
Annual pension cost	20,562
Contributions made	<u>-</u>
Increase in net pension obligation	20,562
Net pension obligation beginning of year	<u>140,759</u>
Net pension obligation end of year	<u><u>\$ 161,321</u></u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

3 Year Trend Information

For Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 16,577	0.00%	\$ 120,391
2009	20,368	0.00%	140,759
2010	20,562	0.00%	161,321

4. *Funded Status and Funding Progress*

As of December 31, 2009, 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 \$219,897. The covered payroll (annual payroll of active employees covered by the plan) was \$940,238 and the ratio of the UAAL to the covered payroll was 23.39 %.

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, 2010 were \$75,914 which consisted of \$31,507 from the Town and \$44,407 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, 2010 were \$97,381, which consisted of \$56,735 from the Town and \$40,646 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

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

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 \$1,759 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.

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:

	<u>Deferred</u>
	<u>Revenue</u>
Taxes receivable (General Fund)	<u>\$240,144</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.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

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.

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:

Year ending June 30,	
2011	\$ 9,940
2012	9,940
2013	9,940
2014	9,940
2015	9,940
2016-2020	49,700
2021-2022	<u>23,193</u>
Total	<u>\$ 122,593</u>

Lease expense for the land and improvements was \$9,940 for the year ended June 30, 2010.

With respect to this same property and with the consent of the lessor, the Town entered into an operation and management agreement with a local organization. This agreement calls for quarterly payments to the Town totaling \$10,000 per year thru the end of the agreement which expires on December 31, 2012. For the year ended June 30, 2010, \$4,000 was received by the Town with respect to this agreement.

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:

Year ending June 30,	
2011	<u>\$ 6,975</u>
	<u>\$ 6,975</u>

Lease expense for the office space was \$46,350 for the year ended June 30, 2010.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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 into 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.

In September 2009, The Town entered in to a lease agreement for residential space for use by the fire department. The twelve month lease expires in August 2010. The lease expense for the year ended June 30, 2010 was \$17,000. The lease obligation for the year ended 2011 is \$3,400.

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, 2010:

<u>Class of property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	\$ <u>190,210</u>	\$ <u>101,445</u>	\$ <u>88,675</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 35,000
2012	35,000
2013	<u>35,000</u>
Total minimum lease payments	105,000
Less amount representing interest	<u>12,009</u>
Present value of minimum lease payments	<u>\$ 92,991</u>

c. Installment Financing

1. 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, 2010, including \$839 of interest, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 34,380</u>	<u>\$ 839</u>
Total	<u>\$ 34,380</u>	<u>\$ 839</u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, including \$58,995 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 101,448	\$ 21,391
2012	105,970	16,870
2013	110,781	12,059
2014	115,765	7,074
2015	71,751	1,601
Total	<u>\$ 505,715</u>	<u>\$ 58,995</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, 2010, including \$471,768 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 87,828	\$ 66,479
2012	92,038	62,571
2013	96,448	57,860
2014	101,070	53,239
2015	105,914	48,395
2016-2020	610,744	160,797
2021-2023	363,344	22,427
Total	<u>\$1,457,386</u>	<u>\$ 471,768</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, 2010, including \$64,215 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 49,592	\$ 14,122
2012	51,222	12,492
2013	52,905	10,809
2014	54,644	9,070
2015	56,440	7,274
2016-2018	180,696	10,448
Total	<u>\$ 445,499</u>	<u>\$ 64,215</u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, including \$218,011 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 31,250	\$ 23,241
2012	31,250	21,932
2013	31,250	20,623
2014	31,250	19,313
2015	31,250	18,004
2016-2020	156,250	70,379
2021-2025	156,250	37,645
2026-2028	93,750	6,874
Total	<u>\$ 562,500</u>	<u>\$ 218,011</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, 2010, including \$10,548 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 78,125	\$ 6,328
2012	78,125	3,516
2013	39,063	704
Total	<u>\$ 195,313</u>	<u>\$ 10,548</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, 2010, including \$236,752 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 107,600	\$ 42,020
2012	107,600	37,921
2013	107,600	33,821
2014	107,600	29,721
2015	107,600	25,622
2016-2020	538,000	66,617
2021	53,800	1,030
Total	<u>\$1,129,800</u>	<u>\$ 236,752</u>

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

8. In August 2009, the Town obtained a \$314,000 loan from a bank to finance a land acquisition. The loan agreement requires 14 semi-annual payments of \$25,628, including interest through August 2016. The annual interest rate is 3.66%.

Annual debt service payments of the installment financing as of June 30, 2010, including \$39,041 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 40,861	\$ 10,394
2012	42,370	8,885
2013	43,935	7,320
2014	45,558	5,697
2015	47,240	4,015
2016-2017	74,153	2,730
Total	<u>\$ 294,117</u>	<u>\$ 39,041</u>

d. Changes in Long-Term Liabilities

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion of Balance
Governmental activities:					
Bank loan	\$ 3,200,719	\$ 314,000	\$ 381,775	\$ 3,132,944	\$ 408,876
Promissory notes	1,541,198	-	83,812	1,457,386	87,828
Installment purchase	100,780	-	66,400	34,380	34,380
Capitalized leases	248,099	-	155,108	92,991	29,116
Net pension obligation	140,759	20,562	-	161,321	-
Compensated absences	<u>169,767</u>	<u>-</u>	<u>10,627</u>	<u>159,140</u>	<u>159,140</u>
Total	<u>\$ 5,401,322</u>	<u>\$ 334,562</u>	<u>\$ 697,722</u>	<u>\$ 5,038,162</u>	<u>\$ 719,340</u>

Compensated absences typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Balances Due to/from Other Funds

The following were balances due to or from funds at June 30, 2010.

Due to General Fund from Fire Station Project	\$ 17,573
Due from General Fund to Book Garden Project	<u>15,000</u>
	<u>\$ 42,573</u>

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

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

III. Detail Notes on All Funds (Continued)

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

Transfer to the Fire Station Project	\$ 112,000
Transfer to the Affordable Housing Project	<u>26,510</u>
 Total transferred	 <u>\$ 138,510</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, 2010, the Town had no payments with respect to this section of the agreement.

In exchange for the Town's participation in the agreement, the Town will receive a percentage of the park tax revenues and proceeds from the sale of any property in the development. This 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 scheduled 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 telecommunications company for the purchase of its assets. Pursuant to the agreement, the Town of Mooresville purchased the assets of the telecommunications company. The Towns of Mooresville and Davidson then entered a joint agency agreement pursuant to the General Statutes of North Carolina to form an organization to own, upgrade, manage and operate this telecommunications system. This agency operates as MI Connection Communications System (MIC).

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

VI. Joint Agency (Continued)

The Town of Mooresville agreed to enter into an installment finance contract for \$80,000,000 on behalf of the parties and the Joint agency to finance the acquisition of, improvement to and operation of the telecommunications system. As of June 30, 2010, draws against this financing contract by MIC were 73,976,915. This amount includes a premium of \$410,002, which is being amortized over the life of the debt. During the year ended June 30, 2010, Mooresville entered into an additional installment financing contract of \$12,550,000 on behalf of MIC. As of June 30, 2010, draws against this contract by MIC were 12,550,000.

The audited financial statements of MIC indicate that the agency incurred a net loss of \$6,171,452 for the year ended June 30, 2010. The Agency has a deficit net asset balance of \$15,075,557 as of June 30, 2010.

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. For the year ended June 30, 2010 the Town funded \$180,189 with respect to this clause. 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 Annual Financial Interest Calculation Report "2010" dated July 22, 2010, Davidson's financial interest in MIC is 33.24% as of June 30, 2010.

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

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.

Town of Davidson, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2010

VII. Summary Disclosure of Significant Contingencies (Continued)

Subsequent events

With respect to the Joint Agency agreement noted in item VI, as of the date the financial statements were available to be issued, the Town had funded \$1,535,517 for fiscal year end June 30, 2011 operations.

The Town has evaluated subsequent events through December 9, 2010, the date which the financial statements were available to be issued.

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%
12/31/09	-	219,897	219,897	0%	940,238	23.39%

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	19,224	0.0%
2010	29,858	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	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Ad valorem taxes	\$ 4,709,990	\$ 4,813,060	\$ 103,070
Automobile taxes and fees	451,117	409,013	(42,104)
Penalties and interest	10,800	18,992	8,192
Total	<u>5,171,907</u>	<u>5,241,065</u>	<u>69,158</u>
Other taxes and licenses:			
Occupancy taxes	103,430	113,850	10,420
Animal taxes	1,610	1,650	40
Total	<u>105,040</u>	<u>115,500</u>	<u>10,460</u>
Unrestricted intergovernmental:			
Local option sales taxes	930,000	955,574	25,574
Payments in lieu of taxes	109,000	147,000	38,000
Telecommunications sales tax	156,000	149,600	(6,400)
Utility franchise tax	520,960	549,334	28,374
Food and beverage tax	84,575	84,576	1
Beer and wine tax	14,100	14,608	508
Storm water fees	108,800	101,772	(7,028)
ABC profit distribution	52,630	52,632	2
Total	<u>1,976,065</u>	<u>2,055,096</u>	<u>79,031</u>
Restricted intergovernmental:			
U.S. Department of Justice Grant	4,096	4,096	-
Solid waste refund	6,000	6,980	980
Powell Bill allocation	257,790	358,997	101,207
Road surface refund	194,500	142,049	(52,451)
Contributions from			
Home Consortium	71,040	8,595	(62,445)
Mecklenburg County Fire	87,500	93,370	5,870
Total	<u>620,926</u>	<u>614,087</u>	<u>(6,839)</u>
Permits and fees:			
Zoning fees	10,800	14,415	3,615
Adequate Public Facilities Ordinance	248,152	65,887	(182,265)
First responder income	21,000	26,962	5,962
Total	<u>279,952</u>	<u>107,264</u>	<u>(172,688)</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, 2010

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rental income	7,200	7,800	600
Parking violations	18,065	19,546	1,481
Illegal drugs	-	225	225
Other facility revenue	94,341	90,663	(3,678)
Recreation program revenue	208,345	205,520	(2,825)
Recreation facility revenue	12,725	17,543	4,818
Cemetery revenue	9,300	16,900	7,600
Total	<u>349,976</u>	<u>358,197</u>	<u>8,221</u>
Investment earnings	<u>16,320</u>	<u>16,898</u>	<u>578</u>
Miscellaneous:			
Donations/fire department	1,800	2,167	367
Donations/police	3,638	3,400	(238)
Donations recreation	18,625	27,058	8,433
Donations other	-	15,740	15,740
Donations storm water	-	-	-
Transit planning	25,000	45,000	20,000
Planning reimbursement	-	-	-
Cable purchase reimbursement	-	-	-
Other	158,256	83,473	(74,783)
Total	<u>207,319</u>	<u>176,838</u>	<u>(30,481)</u>
Total revenues	<u>8,727,505</u>	<u>8,684,945</u>	<u>(42,560)</u>
Expenditures:			
General government:			
Governing Board:			
Salaries and employee benefits		29,812	
Membership dues		10,939	
Other operating expenditures		42,052	
Total	<u>85,357</u>	<u>82,803</u>	<u>2,554</u>
Administration:			
Salaries and employee benefits		682,565	
Capital outlay		2,104	
Other operating expenditures		301,860	
Total	<u>991,293</u>	<u>986,529</u>	<u>4,764</u>
Legal:			
Salaries and employee benefits		11,126	
Contracted services		78,472	
Other operating expenditures		240	
Total	<u>90,599</u>	<u>89,838</u>	<u>761</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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public buildings:			
Contracted services		16,479	
Other operating expenditures		98,824	
Total	<u>119,472</u>	<u>115,303</u>	<u>4,169</u>
Total general government	<u>1,286,721</u>	<u>1,274,473</u>	<u>12,248</u>
Public safety:			
Police:			
Salaries and employee benefits		1,292,770	
Vehicle and equipment maintenance		24,636	
Other operating expenditures		157,088	
Capital outlay		54,347	
total	<u>1,541,024</u>	<u>1,528,841</u>	<u>12,183</u>
Fire:			
Salaries and employee benefits		246,017	
Vehicle and equipment maintenance		45,118	
Other operating expenditures		134,207	
Capital outlay		11,286	
Total	<u>449,577</u>	<u>436,628</u>	<u>12,949</u>
Total public safety	<u>1,990,601</u>	<u>1,965,469</u>	<u>25,132</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		317,039	
Vehicle and equipment maintenance		17,811	
Street lights		123,579	
Contracted services		193,911	
Other operating expenditures		85,550	
Capital outlay		558,652	
Total	<u>1,351,718</u>	<u>1,296,542</u>	<u>55,176</u>
Powell Bill - streets			
Street and sidewalk maintenance		6,181	
Contracted services		152,076	
Other operating expenditures		499	
Total	<u>164,940</u>	<u>158,756</u>	<u>6,184</u>
Total transportation	<u>1,516,658</u>	<u>1,455,298</u>	<u>61,360</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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Environmental protection:			
Contracted services solid waste		686,338	
Contracted services stormwater		178,013	
Total environmental protection	<u>883,171</u>	<u>864,351</u>	<u>18,820</u>
Economic and physical development			
Planning			
Salaries and employee benefits		358,231	
Contracted services		67,297	
Other operating expenditures		18,173	
Total	<u>447,713</u>	<u>443,701</u>	<u>4,012</u>
Community Development			
Capital outlay		314,556	
Other operating expenditures		69,758	
Contracted services		59,531	
Total	<u>474,253</u>	<u>443,845</u>	<u>30,408</u>
Downtown Davidson			
Salaries and employee benefits		79,972	
Other operating expenditures		67,862	
Contracted services		610	
Total	<u>153,866</u>	<u>148,444</u>	<u>5,422</u>
Contributions			
MI-Connections		180,189	
Other service agencies		22,586	
Total	<u>202,775</u>	<u>202,775</u>	<u>-</u>
Total economic and physical development	<u>1,278,607</u>	<u>1,238,765</u>	<u>39,842</u>
Cultural and recreation:			
Travel and tourism			
Salaries and employee benefits		126,186	
Other operating expenditures		75,617	
Total	<u>211,330</u>	<u>201,803</u>	<u>9,527</u>
Recreation			
Salaries and employee benefits		284,240	
Vehicle maintenance		1,715	
Other operating expenditures		272,207	
Capital Outlay		-	
Total	<u>579,239</u>	<u>558,162</u>	<u>21,077</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, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Parks			
Salaries and employee benefits		207,476	
Other operating expenditures		164,465	
Total	<u>394,056</u>	<u>371,941</u>	<u>22,115</u>
Total cultural and recreation	<u>1,184,625</u>	<u>1,131,906</u>	<u>52,719</u>
Debt service:			
Principal retirement		582,515	
Interest and other charges		216,220	
Total debt service	<u>798,763</u>	<u>798,735</u>	<u>28</u>
Total expenditures	<u>8,939,146</u>	<u>8,728,997</u>	<u>210,149</u>
Revenues over (under) expenditures	<u>(211,641)</u>	<u>(44,052)</u>	<u>167,589</u>
Other financing sources (uses):			
Sale of capital asset	4,835	5,711	876
Loan proceeds	314,000	314,000	-
Transfers to other funds	(181,089)	(138,510)	42,579
Total other financing sources (uses)	<u>137,746</u>	<u>181,201</u>	<u>43,455</u>
Fund balance appropriated	<u>73,895</u>	-	<u>(73,895)</u>
Net change in fund balance	<u>\$ -</u>	137,149	\$ 137,149
Fund balances:			
Beginning of year, July 1		<u>4,485,833</u>	
End of year, June 30		<u>\$ 4,622,982</u>	

**Town of Davidson, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010**

	Fire Station Project	Affordable Housing Program	Book Garden Project	Total Nonmajor Governmental Funds
Assets				
Cash	\$ 112,000	\$ -	\$ -	\$ 112,000
Due from General Fund	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Total assets	<u>\$ 112,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 127,000</u>
Liabilities and Fund Balances				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to General Fund	<u>17,573</u>	<u>-</u>	<u>-</u>	<u>17,573</u>
Total liabilities	<u>17,573</u>	<u>-</u>	<u>-</u>	<u>17,573</u>
Fund balances:				
Reserved for special projects	<u>94,427</u>	<u>-</u>	<u>15,000</u>	<u>109,427</u>
Total liabilities and fund balances	<u>\$ 112,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 127,000</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, 2010

	Fire Station Project	Affordable Housing Program	Book Garden Project	Total Nonmajor Governmental Funds
Revenues:				
Total revenues	\$ -	\$ -	\$ 15,000	\$ 15,000
Expenditures:				
Public safety	17,573	-	-	17,573
Economic and physical development	-	26,510	-	26,510
Cultural and recreational	-	-	-	-
Total expenditures	<u>17,573</u>	<u>26,510</u>	<u>-</u>	<u>44,083</u>
Revenues over expenditures	(17,573)	(26,510)	15,000	(29,083)
Other financing sources (uses):				
Loan proceeds	-	-	-	-
Transfers from other funds	<u>112,000</u>	<u>26,510</u>	<u>-</u>	<u>138,510</u>
Total other financing sources (uses)	<u>112,000</u>	<u>26,510</u>	<u>-</u>	<u>138,510</u>
Net change in fund balance	94,427	-	15,000	109,427
Fund balances:				
Beginning of year, July 1	-	-	-	-
End of year, June 30	<u>\$ 94,427</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 109,427</u>

Town of Davidson, North Carolina
Special Revenue Fund - Affordable Housing Program
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2010

	<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	28,930	-	26,510	26,510	2,420
Total expenditures	28,930	-	26,510	26,510	2,420
Revenues under expenditures	(28,930)	-	(26,510)	(26,510)	2,420
Other financing sources (uses):					
Transfers from other funds	28,930	-	26,510	26,510	(2,420)
Total other financing sources (uses)	28,930	-	26,510	26,510	(2,420)
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>		

Town of Davidson, North Carolina
Special Revenue Fund - Book Garden Project
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2010

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenue:					
Contributions	\$ -	\$ -	\$ 15,000	\$ 15,000	\$ 15,000
Expenditures:					
Cultural and recreational	-	-	-	-	-
Total expenditures	-	-	-	-	-
Revenues under expenditures	-	-	15,000	15,000	15,000
Other financing sources (uses):					
Transfers from genreal fund	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	15,000	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ 15,000</u>		

Town of Davidson, North Carolina
Special Revenue Fund - Fire Station
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2010

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Public safety	150,000	-	17,573	17,573	132,427
Total expenditures	150,000	-	17,573	17,573	132,427
Revenues under expenditures	(150,000)	-	(17,573)	(17,573)	132,427
Other financing sources :					
Transfers from other funds	150,000	-	112,000	112,000	(38,000)
Total other financing sources	150,000	-	112,000	112,000	(38,000)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	94,427	<u>\$ 94,427</u>	<u>\$ 94,427</u>
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ 94,427</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, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2009</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2010</u>
2009-2010	\$ -	\$ 5,171,390	\$ 5,059,191	\$ 112,199
2008-2009	79,376	-	44,350	35,026
2007-2008	22,316	-	5,104	17,212
2006-2007	16,554	-	4,892	11,662
2005-2006	13,914	-	2,696	11,218
2004-2005	5,996	-	1,536	4,460
2003-2004	4,724	-	1,938	2,786
2002-2003	28,612	-	1,058	27,554
2001-2002	13,126	-	111	13,015
2000-2001	5,132	-	120	5,012
1999-2000	3,058	-	3,058	-
	<u>\$ 192,808</u>	<u>\$ 5,171,390</u>	<u>\$ 5,124,054</u>	<u>\$ 240,144</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 5,241,065
Reconciling items:	
Interest collected	(18,992)
Griffith Street Assessment	(125,871)
Other Adjustments	27,852
Subtotal	<u>(117,011)</u>
Total collections and credits	<u>\$ 5,124,054</u>

Town of Davidson, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2010

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,416,819,178	0.365	\$ 5,171,390	\$ 4,733,148	\$ 438,242
Total property valuation	<u>\$ 1,416,819,178</u>				
Net levy			5,171,390	4,733,148	438,242
Uncollected taxes at June 30, 2010			<u>(112,199)</u>	<u>(79,563)</u>	<u>(32,636)</u>
Current year's taxes collected			<u>\$ 5,059,191</u>	<u>\$ 4,653,585</u>	<u>\$ 405,606</u>
Current levy collection percentage			<u>97.83%</u>	<u>98.32%</u>	<u>92.55%</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, 2010, which collectively comprise the Town of Davidson, North Carolina's basic financial statements and have issued our report thereon dated December 9, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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 deficiencies, 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 December 9, 2010.

This report is intended solely 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.

Tinsley & Terry, CPAs, P.A.

Cornelius, North Carolina

December 9, 2010