

**TOWN OF CANTON, NORTH CAROLINA**



**FINANCIAL STATEMENTS**

**June 30, 2018**

**(With Independent Auditor's Report Thereon)**

**TOWN OF CANTON**

**Canton, North Carolina**

**Mayor and Board of Aldermen**

Zeb Smathers

Mayor

Gail Mull

Mayor Pro-Tem

James Markey

Alderman

Kristina Smith

Alderwoman

Dr. Ralph Hamlett

Alderman

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## Independent Auditor's Report

To the Honorable Mayor  
and Members of the Board of Aldermen  
Town of Canton, North Carolina

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Canton, North Carolina as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Town of Canton's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Town of Canton ABC Board. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Town of Canton ABC Board, is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Town of Canton ABC Board were not audited in accordance with *Governmental Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my opinion, based upon my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Canton, North Carolina as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 13, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages 54 through 55, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and as a Percentage of Covered Payroll on pages 56 through 57, and the Schedule of Changes in Total OPEB Liability on page 58, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Canton's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules, statistical section as well as the accompanying schedule of expenditures of expenditures of state awards as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part

200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act 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, other schedules and the schedule of expenditures of and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by me and other auditors. In my opinion, based on my audit, the procedures performed as described above, and the report of other auditors the combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, I do not express an opinion or provide assurance on them

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated October 30, 2018 on my consideration of the Town of Canton's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Canton's internal control over financial reporting and compliance.



Sheila Gahagan, CPA  
October 30, 2018



**MANAGEMENT DISCUSSION AND ANALYSIS**

## **Town of Canton, North Carolina Management's Discussion and Analysis**

As management of the Town of Canton, we offer readers of the Town of Canton's financial statements this narrative overview and analysis of the financial activities of the Town of Canton for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### **Financial Highlights**

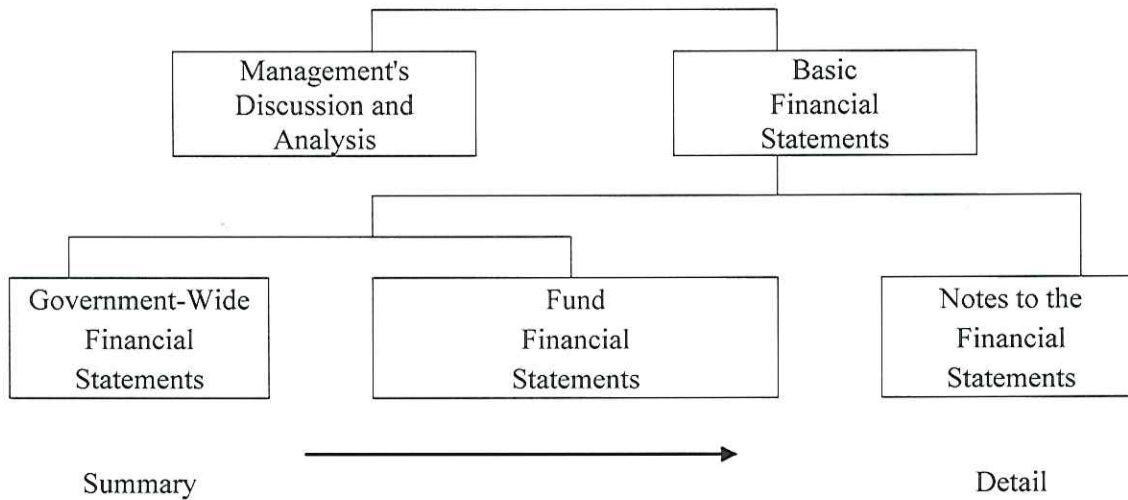
- The assets and deferred outflows of resources of the Town of Canton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,443,281 (*net position*).
- The government's total net position increased by \$1,036,115 due to a decrease in OPEB liability from the previous years' restated liability and increases in both governmental and business-type activities with growth in the Town, and an increase in the water and sewer billing rates.
- As of the close of the current fiscal year, the Town of Canton's governmental funds reported combined ending fund balances of \$3,155,118, a decrease of \$114,850 in comparison with the prior year. Approximately 46% of this total amount, or \$1,451,415 is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,703,703.
- The Town of Canton's total debt decreased by \$1,107,547 or 6% during the current fiscal year.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Town of Canton'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 Canton.

## Required Components of Annual Financial Statements

Figure 1



### Basic Financial Statements

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

The next statements (Exhibits 3 through 8) 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 three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the 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.

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities; and 3) component unit. The governmental activities include most of the Town's basic services such as public safety, parks, sanitation, and general administration. Property taxes and state and federal funding finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer offered by the Town of Canton.

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

**Fund Financial Statements** - The fund financial statements 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 Canton, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Canton can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town of Canton programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Canton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – The Town of Canton has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Canton uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Canton’s progress in funding its obligation to provide pension benefits to its employees.

**Government-Wide Financial Analysis**

**Town of Canton's Net Position  
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 3,487,281	\$ 4,470,162	\$ 3,205,547	\$ 2,943,897	\$ 6,692,828	\$ 7,414,059
Capital assets	11,296,467	10,491,946	9,057,891	8,861,476	20,354,358	19,353,422
Deferred outflow	709,184	745,428	173,777	201,339	882,961	946,767
Total assets and deferred outflows of resources	15,492,932	15,707,536	12,437,215	12,006,712	27,930,147	27,714,248
Current liabilities	414,992	1,276,177	413,517	294,686	828,509	1,570,863
Long-term liabilities outstanding	11,778,610	12,605,548	3,850,195	2,376,107	15,628,805	14,981,655
Deferred inflows of resources	826,474	32,367	203,078	5,837	1,029,552	38,204
Total liabilities and deferred inflows of resources	13,020,076	13,914,092	4,466,790	2,676,630	17,486,866	16,590,722
Net Position						
Net investment in capital assets	9,890,479	8,891,466	7,541,269	7,167,358	17,431,748	16,058,824
Restricted	954,755	1,078,455	-	-	954,755	1,078,455
Unrestricted	(8,372,378)	( 8,176,477)	429,156	2,162,724	(7,943,222)	(6,013,753)
Total net position	\$ 2,472,856	\$ 1,793,444	\$ 7,970,425	\$ 9,330,082	\$ 10,443,281	\$ 11,123,526

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Canton exceeded liabilities and deferred inflows by \$10,443,281 as of June 30, 2018. The Town's net position increased by \$1,036,115 for the fiscal year ended June 30, 2018. However, a large portion \$17,431,748 (167%) reflects the Town's net 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 Canton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Canton net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position \$954,755 (4%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance is negative (\$7,943,222) (-158%).

**Town of Canton's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 549,107	\$ 494,230	\$ 2,322,496	\$ 2,193,950	\$ 2,871,603	\$ 2,688,180
Operating grants and contributions	160,643	180,901	48,650	-	209,293	180,901
Capital grants and contributions	350,000	157,596	-	-	350,000	157,596
General revenues:						
Property taxes	3,037,473	2,847,400	-	-	3,037,473	2,847,400
Other taxes and licenses	2,931	3,967	-	-	2,931	3,967
Grants and contributions not restricted	2,074,357	2,017,259	-	-	2,074,357	2,017,259
Investment earnings	31,520	12,722	24,208	11,444	55,728	24,166
Other	303,979	281,470	7,005	4,972	310,984	286,442
<b>Total revenues</b>	<b>6,510,010</b>	<b>5,995,545</b>	<b>2,402,359</b>	<b>2,210,366</b>	<b>8,912,369</b>	<b>8,205,911</b>
<b>Expenses:</b>						
General government	1,019,460	941,989	-	-	1,019,460	941,989
Public safety	2,502,085	2,579,264	-	-	2,502,085	2,579,264
Public works	1,428,792	1,566,336	-	-	1,428,792	1,566,336
Environmental Protection	210,229	195,882	-	-	210,229	195,882
Cultural and recreation	627,233	625,842	-	-	627,233	625,842
Interest expense	42,799	14,742	-	-	42,799	14,742
Water and sewer	-	-	2,045,656	2,050,076	2,045,656	2,050,076
<b>Total expenses</b>	<b>5,830,598</b>	<b>5,924,055</b>	<b>2,045,656</b>	<b>2,050,076</b>	<b>7,876,254</b>	<b>7,974,131</b>
Change in net position before transfers	679,412	71,490	356,703	160,290	1,036,115	231,780
Net position, July 1	8,894,237	8,966,445	9,330,082	9,169,792	18,224,319	18,136,237
Restatement	(7,100,793)	(143,698)	(1,716,360)	-	(8,817,153)	(143,698)
<b>Net position, June 30</b>	<b>\$ 2,472,856</b>	<b>\$ 8,894,237</b>	<b>\$ 7,970,425</b>	<b>\$ 9,330,082</b>	<b>\$ 10,443,281</b>	<b>18,224,319</b>

**Governmental activities.** Governmental activities increased the Town's net position by \$679,412 thereby accounting for 66% of the total growth in the net position of the Town of Canton.

**Business-type activities:** Business-type activities increased the Town of Canton's net position by \$356,703 accounting for 44% of the total growth in the government's net position.

### **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Canton'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 Canton'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 Canton. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,702,031, while total fund balance was \$3,153,446. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures. The Town currently has unassigned fund balance of 29% of general fund expenditures, while total fund balance represents 53 % of that same amount.

At June 30, 2018, the general fund reported a combined fund balance of \$3,155,118, a 4% decrease from adjusted prior years' balance..

**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.

**Proprietary Funds.** The Town of Canton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$907,121. The total increase in net position for the Water and Sewer Fund was \$356,703. The Water and Sewer Fund increase was due largely to rate increase set to earn a profit to cover future expenditures. There are two capital project included in the proprietary fund, Crossroad Hill Water Association Water System Consolidation Project and Spruce Street Area Water System Improvement Project.

## Capital Asset and Debt Administration

**Capital assets.** The Town of Canton's investment in capital assets for its governmental and business-type activities as of June 30, 2018, totals \$20,354,358 (net of accumulated depreciation). These assets include construction in progress, buildings, roads, land, machinery and equipment, park facilities, and vehicles.

The major capital asset additions were related to capital projects currently underway and seventeen new police vehicles. The significant disposals were related to vehicles and motorized equipment.

Town of Canton's Changes in Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,337,761	\$ 4,328,317	\$ 220,279	\$ 220,279	\$ 4,558,040	\$ 4,548,596
Buildings & systems	5,520,046	3,037,286	8,206,945	8,096,004	13,726,991	11,133,290
Machinery & Equipment	504,458	522,422	-	-	504,458	522,422
Vehicles & motorized equipment	934,202	992,847	152,702	60,891	1,086,904	1,053,738
Construction in progress	-	1,611,074	477,965	484,302	477,965	2,095,376
	<u>\$11,296,467</u>	<u>\$10,491,946</u>	<u>\$ 9,057,891</u>	<u>\$ 8,861,476</u>	<u>\$ 20,354,358</u>	<u>\$ 19,353,422</u>

Additional information on the Town's capital assets can be found in the Notes to the Basic Financial Statements.

**Long-term Liabilities.** As of June 30, 2018, the Town of Canton had no bonded debt outstanding. The Town's long term debt consists of capital leases and installment purchases.

Town of Canton's Outstanding Debt

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Note payable	\$ 1,399,816	\$ 1,592,584	\$ 1,516,622	\$ 1,694,118	\$ 2,916,438	\$ 3,286,702
OPEB liability	9,402,609	2,897,369	2,350,652	659,107	11,753,261	3,556,476
Net pension obligation	518,693	638,229	129,673	159,557	648,366	797,786
Total pension liability (LEO)	328,916	297,086	-	-	328,916	297,086
Capital lease	6,172	7,896	-	-	6,172	7,896
Compensated absences	318,084	300,526	52,717	67,876	370,801	368,402
	<u>\$ 11,974,290</u>	<u>\$ 5,733,690</u>	<u>\$ 4,049,664</u>	<u>\$ 2,580,658</u>	<u>\$ 16,023,954</u>	<u>\$ 8,314,348</u>



North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Canton is \$23,314,116.

Additional information regarding the Town of Canton's long-term debt can be found in the Notes to the Basic Financial Statements.

### **Economic Factors and Next Year's Budgets and Rates**

The following key economic indicators reflect the stability of the Town of Canton:

- Population growth
- New businesses
- Ad valorem tax growth
- Property values
- Home sales

### **Budget Highlights for the Fiscal Year Ending June 30, 2019**

Governmental Activities:

- The proposed tax rate for the Town of Canton remains at \$0.58 per \$100 of valuation, a \$0.0 increase from last fiscal year. Canton has held this rate for ten years; however, it remains the highest for a municipality located within Haywood County.
- The Town expects to see continued increase in property valuations as a result of new commercial buildings and businesses within the town which have made substantial improvements to buildings and property as well as, a steady level of growth in residential sales and increased market price.
- The town's new pool/aquatic facility, located at Canton Recreation Park opened in May 2018 and saw a tremendous increase in not only attendance but revenue dollars generated as a result of increasing admission from \$3.00/person to \$5.00. With the increase admission rate and pool party bookings it is estimated that the aquatic facility brought in approximately \$70,000 in revenue from end of May 2018 to end of September 2018. As always, we will continue to look at the first season's operation and strive to reduce expenses and increase revenue moving into the 2019 pool season.
- For the fiscal year 2018–2019, with regard to salaries, the Board of Aldermen/women authorized a 1% COLA and up to 2% in the form of merit

based increase. The Board and staff continue to work to be remain competitive in hiring and retention of employees.

- After FY 2017–2018 transition from BCBS of North Carolina as our medical insurance provider to MedCost we continue to feel this was not only the correct choice for our employees but also one which was proactive and fiscally responsible. Our rate through MedCost remains locked in until June 30, 2019.
- The Board of Aldermen/women continued the promotion of economic development throughout our community by again including \$50,000 in the FY 2018-2019 budget for incentive/improvement grants. On top of FY 2016-2017 results where we saw 8 grant applications for a combination of façade and interior building improvement grants through these programs, in FY 2017-2018 we saw approximately five more applications approved with two completed. This program continues to be instrumental in assisting the town in redevelopment efforts as well as, draw potential investors from the Asheville/Buncombe County areas. Already this fiscal year (FY 18-19) an additional three downtown buildings have changed hands through the sale of commercial buildings/properties with one new business opening in Oct 2018 and at least two more slated for 2019.

#### Business Activities:

- The Town did increase water and sewer rates for customers (inside and out) this fiscal year in an effort to ensure that rates remained competitive with other municipalities in the area and throughout the region. The primary purpose of this was a result of two large infrastructure projects which the Town of Canton currently has underway. The first is a Town of Canton and a private water association consolidation project (funded by the State of North Carolina) and the second is an infrastructure project expected to begin in March 2019 that will address low water pressure in a particular area of town and increase capacity and/or the ability to fill Spruce Street Reservoir. The second project will be in the form of a loan received by the State of North Carolina. Water and sewer rate increases were, at a bare minimum, necessary to ensure that the Town of Canton's Water Enterprise Fund would generate this annual loan payment moving forward in addition to the revenue and expense of this fund currently.

#### **Other activities that are underway are as follows:**

- Crossroad Hills Water Association Consolidation (previously mentioned) - The Town was awarded a \$2.4 million principal forgiveness loan from the N.C. Division of Water Infrastructure to fold the Crossroad Hills Association into the Town's water system. Construction began in 2018 and is expected to be completed in early 2019.
- Spruce Street Area Water Pressure Improvements (previously mentioned) - The Town did not receive the previously applied for \$2 million CDBG-Infrastructure grant to install new water lines and booster pumps in the Spruce Street area to

address low water pressure, which has been plaguing the areas for decades; however, the Town was offered and accepted a loan to assist with the completion of this project.

- In FY 2018-2019 the Town of Canton will be working with NCDOT on the construction of a roundabout to be located along Pisgah Drive here in Canton. This roundabout will address longstanding safety concerns and traffic congestion in an area of town where four roads/streets (all heavily traveled) currently intersect in an offset and dangerous manner. This project is fully funded by NCDOT. In addition, the Town of Canton will receive approximately \$25,000 - \$30,000 from NCDOT for right-of-way acquisition of property currently owned by the Town of Canton and in located in the project area.
- In FY 2018-2019 and perhaps into FY 2019-2020 the Town of Canton will again be working with NCDOT for the construction of a multi-use path (8 foot wide sidewalk) to be included in NCDOT improvements along 19/23 (i.e. Old Asheville Hwy) coming into Canton from Haywood and Buncombe County. NCDOT will be making roadway modernization improvements along this corridor which will include resurfacing and adding bike lanes to this area of highway. As part of NCDOT's program they allow a municipality to opt-in to the construction of sidewalks at an 80%/20% match meaning NCDOT will cover 80% of the cost for construction of said sidewalks, the municipality being responsible for the 20% local match. The Town of Canton's portion of cost will total approximately \$70,000 which was included in the FY 2018-2019 budget. We see this opportunity as one that will not be available again in the future and adds safety, aesthetic, recreational and economic development value to this corridor.

### **Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Canton, PO Box 987, Canton, NC 28716.

**Town of Canton, North Carolina**  
**Statement of Net Position**  
**June 30, 2018**

	<u>Primary Government</u>			<u>Town of Canton ABC Board</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,398,872	\$ 2,910,044	\$ 5,308,916	\$ 69,899
Accrued interest receivables on taxes	30,348	-	30,348	-
Taxes receivables (net)	76,419	-	76,419	-
Accounts receivable (net)	61,993	217,321	279,314	21,323
Due from other governments	556,941	71,847	628,788	-
Inventories	6,519	-	6,519	160,362
Prepaid expenses	6,000	-	6,000	6,096
Restricted cash and cash equivalents	350,189	6,335	356,524	-
Total current assets	<u>3,487,281</u>	<u>3,205,547</u>	<u>6,692,828</u>	<u>257,680</u>
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements, and construction in process	4,337,761	698,244	5,036,005	128,079
Other capital assets, net of depreciation	6,958,706	8,359,647	15,318,353	151,781
Total capital assets	<u>11,296,467</u>	<u>9,057,891</u>	<u>20,354,358</u>	<u>279,860</u>
Total assets	<u>14,783,748</u>	<u>12,263,438</u>	<u>27,047,186</u>	<u>537,540</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	645,690	157,904	803,594	37,652
OPEB deferrals	63,494	15,873	79,367	-
Total deferred outflows of resources	<u>709,184</u>	<u>173,777</u>	<u>882,961</u>	<u>37,652</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	165,386	191,033	356,419	72,522
Accrued interest payable	-	16,680	16,680	-
Customer prepayments	23,926	-	23,926	-
Unearned grant revenue	30,000	-	30,000	-
Payable from restricted assets-customer deposits	-	6,335	6,335	-
Current portion of long term debt	195,680	199,469	395,149	-
Total current liabilities	<u>414,992</u>	<u>413,517</u>	<u>828,509</u>	<u>72,522</u>
Long-term liabilities:				
Due in more than one year	1,210,308	1,337,468	2,547,776	-
Compensated absences payable	318,084	32,402	350,486	-
Net pension liability	518,693	129,673	648,366	-
Total pension liability	328,916	-	328,916	23,374
OPEB liability	9,402,609	2,350,652	11,753,261	-
Total liabilities	<u>12,193,602</u>	<u>4,263,712</u>	<u>16,457,314</u>	<u>95,896</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	23,248	3,793	27,041	662
Prepaid taxes	6,084	-	6,084	-
OPEB deferrals	797,142	199,285	996,427	-
Total deferred inflows of resources	<u>826,474</u>	<u>203,078</u>	<u>1,029,552</u>	<u>662</u>
<b>NET POSITION</b>				
Net investment in capital assets	9,890,479	7,541,269	17,431,748	279,860
Restricted for:				
Stabilization by State Statue	571,008	-	571,008	-
Transportation	350,189	-	350,189	-
Public safety	33,558	-	33,558	-
Cultural and recreation	-	-	-	-
ABC Board - working capital	-	-	-	43,263
Unrestricted	(8,372,378)	429,156	(7,943,222)	155,511
Total net position	<u>\$ 2,472,856</u>	<u>\$ 7,970,425</u>	<u>\$ 10,443,281</u>	<u>\$ 478,634</u>

See accountant's report and accompanying notes.

**Town of Canton, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					Town of Canton ABC Board
	Program Revenues		Primary Government Activities		Total	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-type Activities		
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 1,019,460	\$ -	\$ -	\$ (952,364)	\$ -	\$ -
Public safety	2,502,085	22,526	-	(2,349,141)	-	-
Public Works	1,428,792	138,117	-	(1,056,583)	-	-
Environmental protection	210,229	-	-	(210,229)	-	-
Cultural and recreation	627,233	-	350,000	(159,732)	-	-
Interest on long-term debt	42,799	-	-	(42,799)	-	-
Total governmental activities	5,830,598	160,643	350,000	(4,770,848)	-	-
Business-type activities:						
Water and sewer	2,045,656	2,322,496	-	-	325,490	-
Total business-type activities	2,045,656	2,322,496	-	-	325,490	-
Total primary government	\$ 7,876,254	\$ 2,871,603	\$ 350,000	(4,770,848)	(4,445,358)	-
Component Units:						
Canton ABC Board	1,426,920	1,472,954	-	-	-	46,034
Total Component Unit	\$ 1,426,920	\$ 1,472,954	\$ -	\$ -	\$ -	\$ 46,034
General revenues:						
Taxes:						
Property taxes, levied for general purpose				3,037,473	-	-
Other taxes and licenses				2,931	-	-
Grants and contributions not restricted to specific programs				2,074,357	-	-
Unrestricted investment earnings				31,520	24,208	-
Gain (loss) on sale of asset				-	4,104	-
Miscellaneous				303,979	2,901	-
Total general revenues and transfers				5,450,260	31,213	-
Change in net position				679,412	356,703	46,034
Net position-beginning, previously reported				8,894,237	9,330,082	432,600
Restatement				(7,100,793)	(1,716,360)	-
Net position-ending				\$ 2,472,856	\$ 7,970,425	\$ 478,634

See accountant's report and accompanying notes.

Town of Canton, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2018

Exhibit 3

	General Fund	Canton Aquatic Center Project	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,398,512	\$ 360	\$ 2,398,872
Restricted cash	350,189	-	350,189
Receivables, net:			-
Taxes	106,767	-	106,767
Accounts	60,681	1,312	61,993
Due from other governments	556,941	-	556,941
Prepaid expenses	6,000	-	6,000
Inventories	6,519	-	6,519
Total assets	<u>\$ 3,485,609</u>	<u>\$ 1,672</u>	<u>\$ 3,487,281</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable	\$ 56,028	\$ -	\$ 56,028
Salaries and payroll taxes payable	109,358	-	109,358
Unearned grant revenue	30,000	-	30,000
Customer prepayments	23,926	-	23,926
Total liabilities	<u>219,312</u>	<u>-</u>	<u>219,312</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	\$ 106,767	\$ -	\$ 106,767
Prepaid taxes	6,084	-	6,084
Total deferred inflows of resources	<u>112,851</u>	<u>-</u>	<u>112,851</u>
Fund balances:			
Non Spendable			
Inventories	6,519	-	6,519
Restricted:			
Stabilization by State Statute	571,008	-	571,008
Police	33,558	-	33,558
Streets	350,189	-	350,189
Recreation	-	-	-
Assigned: Subsequent year's expenditures	490,141	-	490,141
Unassigned	1,702,031	1,672	1,703,703
Total fund balances	<u>3,153,446</u>	<u>1,672</u>	<u>3,155,118</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 3,485,609</u>	<u>\$ 1,672</u>	<u>\$ 3,487,281</u>

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

Total Fund Balance, Governmental Funds	3,155,118
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,296,467
Deferred outflows of resources - pension and OPEB	709,184
Liabilities for earned but deferred tax revenues considered deferred inflows of resources in fund statements.	106,767
Deferred inflows of resources - pension and OPEB	(820,390)
Long term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(11,974,290)
Net position of governmental activities	<u>2,472,856</u>

See accountant's report and accompanying notes.

**Town of Canton, North Carolina**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year ended June 30, 2018**

**Exhibit 4**

	<u>General Fund</u>	<u>Canton Aquatic Center Project</u>	<u>Total</u>
<b>REVENUES</b>			
Ad valorem taxes	\$ 2,994,917	-	2,994,917
Other taxes and licenses	2,931	-	2,931
Unrestricted intergovernmental	2,074,357	-	2,074,357
Restricted intergovernmental	160,643	350,000	510,643
Permits and fees	445	-	445
Sales and services	548,662	-	548,662
Investment earnings	31,519	1	31,520
Miscellaneous	48,352	255,627	303,979
Total revenues	<u>5,861,826</u>	<u>605,628</u>	<u>6,467,454</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,194,816	-	1,194,816
Public safety	2,314,958	-	2,314,958
Public works	1,471,433	-	1,471,433
Environmental protection	210,229	-	210,229
Culture and recreation	524,944	867,840	1,392,784
Debt service:			
Principal	193,896	-	193,896
Interest	42,799	-	42,799
Total expenditures	<u>5,953,075</u>	<u>867,840</u>	<u>6,820,915</u>
Excess (deficiency) of revenues over expenditures	(91,249)	(262,212)	(353,461)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	-	-	-
Capital contribution	238,611	-	238,611
Transfer to Canton Aquatic Center Capital Project	(48,357)	48,357	-
Installment purchase obligations issued	-	-	-
Total other financing sources	<u>190,254</u>	<u>48,357</u>	<u>238,611</u>
Net change in fund balance	99,005	(213,855)	(114,850)
Fund balances-beginning of year	3,054,441	215,527	3,269,968
Fund balances-end of year	<u>\$ 3,153,446</u>	<u>\$ 1,672</u>	<u>\$ 3,155,118</u>

See accountant's report and accompanying notes.

**Town of Canton, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net changes in fund balances - total governmental funds	\$ (114,850)
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 outlay exceeded depreciation expense in the current period.	1,006,618
Governmental funds report proceeds from the sale of capital assets as revenues. However, in the Statement of Activities the gain or loss from the sale is recorded as revenue. This is the amount by which the proceeds from the sale of capital assets exceeded the gain on the sale.	-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in unavailable revenue for tax revenues	(42,556)
Deferred outflows of resources related to OPEB and pensions are not reported in the funds	(36,244)
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.	193,896
Deferred inflows of resources related to OPEB and pensions are not reported in the funds	(788,023)
Long-term debt included in net position below (includes the addition of long-term debt and principal payments during the year):	
Compensated absences	(17,558)
Net pension liability	119,536
Total pension liability	(31,830)
OPEB liability	390,423
	390,423
Total changes in net position of governmental activities	\$ 679,412

See accountant's report and accompanying notes.



**Town of Canton, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2018**

<b>General Fund</b>				Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes			\$ 2,994,917	
Other taxes and licenses			2,931	
Unrestricted intergovernmental			2,074,357	
Restricted intergovernmental			160,643	
Permits and fees			445	
Sales and services			548,662	
Investment earnings			31,519	
Miscellaneous			48,352	
Total revenues	<u>5,614,775</u>	<u>5,624,420</u>	<u>5,861,826</u>	<u>237,406</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	1,440,590	1,469,898	1,194,816	275,082
Public safety	2,502,228	2,413,037	2,314,958	98,079
Public works	1,645,671	1,606,221	1,471,433	134,788
Environmental protection	206,500	206,500	210,229	(3,729)
Cultural and recreation	645,678	547,295	524,944	22,351
<b>Debt service:</b>				
Principal	21,144	194,450	193,896	554
Interest	8,946	43,000	42,799	201
Total expenditures	<u>6,470,757</u>	<u>6,480,401</u>	<u>5,953,075</u>	<u>527,326</u>
Revenues over expenditures	<u>(855,982)</u>	<u>(855,981)</u>	<u>(91,249)</u>	<u>764,732</u>
<b>Other Financing Sources (uses)</b>				
Transfer to Aquatic Center Project			(48,357)	
Capital contribution			238,611	
Sale of capital assets			-	
Installment purchase obligation issued			-	
Total other financing sources	<u>399,000</u>	<u>399,000</u>	<u>190,254</u>	<u>(208,746)</u>
Fund balance appropriated	<u>456,982</u>	<u>456,981</u>	<u>-</u>	<u>(456,981)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,005</u>	<u>\$ 99,005</u>
Fund balance, beginning			3,054,441	
Fund balances, end of year			<u>\$ 3,153,446</u>	
Fund balance Aquatic Center, year end			<u>1,672</u>	
			<u>\$ 3,155,118</u>	

See accountant's report and accompanying notes.

**Town of Canton, North Carolina**  
**Statement of Fund Net Position**  
**Proprietary Funds**  
**June 30, 2018**

	<b>Water and Sewer Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 2,910,044
Accounts receivable (net) - billed	54,069
Accounts receivable (net) - unbilled	163,252
Due from other governments	71,847
Restricted cash and cash equivalents	6,335
Total current assets	3,205,547
Noncurrent assets:	
Capital assets:	
Land and construction in progress	698,244
Other capital assets, net of depreciation	8,359,647
Capital assets (net)	9,057,891
Total noncurrent assets	9,057,891
Total assets	12,263,438
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension deferrals	157,904
OPEB deferrals	15,873
Total deferred outflows of resources	173,777
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	171,063
Salaries and payroll taxes payable	19,970
Accrued interest payable	16,680
Compensated absences - current	20,315
Installment purchase - current	179,154
Liabilities payable from restricted assets:	
Customer deposits	6,335
Total current liabilities	413,517
Noncurrent liabilities:	
Compensated absences	32,402
Installment purchase	1,337,468
Net pension liability	129,673
Total OPEB liability	2,350,652
Total noncurrent liabilities	3,850,195
Total liabilities	4,263,712
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	3,793
OPEB deferrals	199,285
Total deferred inflows of resources	203,078
 <b>NET POSITION</b>	
Net investment in capital assets	7,541,269
Unrestricted	429,156
Total net position	\$ 7,970,425

See accountant's report and accompanying notes.

Exhibit 7

**Town of Canton, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<b>Water and Sewer Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,260,843
Tap and reconnection fees	60,580
Other operating revenues	1,073
<b>Total operating revenues</b>	<b>2,322,496</b>
<b>OPERATING EXPENSES</b>	
Administration	243,077
Water treatment and distribution	1,501,862
Depreciation	255,828
<b>Total operating expenses</b>	<b>2,000,767</b>
<b>Operating income (loss)</b>	<b>321,729</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Sale of materials and equipment	2,901
Gain on sale of fixed assets	4,104
Investment earnings	24,208
Interest and other charges	(44,889)
<b>Total nonoperating revenue (expenses)</b>	<b>(13,676)</b>
<b>Income (loss) before contributions and transfers</b>	<b>308,053</b>
Non-capital contributions	48,650
<b>Change in net position</b>	<b>356,703</b>
Total net position - previously reported	9,330,082
Prior period adjustment	(1,716,360)
Beginning net position, restated	7,613,722
<b>Total net position - ending</b>	<b>\$ 7,970,425</b>

See accountant's report and accompanying notes.

**Town of Canton, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2018**

	<b>Water and Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 2,274,358
Cash paid for goods and services	(689,042)
Cash paid to or on behalf of employees for services	(721,383)
Net cash provided by operations	863,933
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Sales of fixed assets	-
Acquisition and construction of capital assets	(452,244)
Proceeds from installment purchases	-
Principal paid on installment purchase	(177,496)
Interest paid on installment purchase	(44,889)
Net cash used by capital and related financing activities	(674,629)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	24,208
Purchase of investments	-
Net cash provided by investing activities	24,208
Net increase (decrease) in cash and cash equivalents	213,512
Balances-beginning of the year	2,702,867
Balances-end of the year	\$ 2,916,379
 Reconciliation of operating income to net cash provided by	
Operating income (loss)	\$ 321,729
Adjustments to reconcile operating income to net cash	
Depreciation	255,828
Changes in assets, deferred outflows of resources and liabilities:	
Decrease (Increase) in accounts receivable	(23,106)
Decrease (Increase) in due from other government	(25,032)
Decrease (Increase) in deferred outflows of resources	27,562
Increase (decrease) in deferred inflow of resources	197,241
Increase (Decrease) in accounts payable and accrued liabilities	123,248
Increase (Decrease) in pension liabilities	(29,884)
Increase (Decrease) in accrued interest payable	667
Increase (Decrease) in accrued compensated absences	(15,160)
Increase (Decrease) in other postemployment benefits	30,840
Total adjustments	542,204
Net cash provided by operating activities	\$ 863,933

See accountant's report and accompanying notes.

## **I. Summary of Significant Accounting Policies**

The accounting policies of the Town of Canton and its discretely presented component unit conform to generally accepted accounting principles generally accepted in the United States of American as applicable to governments. The following is a summary of the more significant accounting policies:

### **A. Reporting Entity**

The Town of Canton is a municipal corporation that is governed by an elected mayor and a four-member board of aldermen. As required by accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

#### Town of Canton ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30-year end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Canton ABC Board, 40 Main Street, Canton, NC 28786.

### **B. Basis of Presentation**

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category –

*governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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

The Town's General Fund has the following capital project fund:

**Canton Aquatic Center Capital Project** – This fund is used to account for the Town's plans to improve the Town's swimming pool.

The Town reports the following major enterprise funds:

**Water and Sewer Fund** - This fund is used to account for the Town's water and sewer operations.

The Town's Water and Sewer Fund has the following capital project funds:

**Crossroad Hill Water Association Water System Consolidation Project** - This fund is used to account for improvements to the water system. This project is in preliminary stages.

**Spruce Street Area Water System Improvements Project** - This fund is used to account for improvements to the water system. This project is the preliminary stages.

### C. Measurement Focus and Basis of Accounting

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

*Government-wide, and Proprietary Fund Financial Statements.* The government-wide, and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash

flows take place. 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 resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operating. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customer to the water and sewer system. Operating expense for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 are for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. 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 and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs and then by general revenues, if allowable by the terms of the grant.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Water and Sewer Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for capital projects funds. The enterprise fund projects are consolidated with their respective operating funds for reporting purposes. 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. The Town's finance officer is authorized by the budget ordinance to transfer appropriations within a department. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the 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 and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.



2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

During the current year several loans were obtained for a capital project and to replace water meters, unspent proceeds of these loans are restricted to be used only for the purchases applicable to the loan purpose.

<u>Town of Canton Restricted Cash</u>			
Governmental Activities			
General Fund	Streets	\$	350,189
Business-type Activities			
Water and Sewer Fund	Customer Deposits	\$	6,335
Total Restricted Cash			<u>\$ 356,524</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2016.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventory and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market.

The Town’s General Fund inventory consists of gasoline and fuel supplies that are recorded as expenditures as used rather than when purchased. The inventories of the Town ABC

Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed 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 expenses as items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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. No amounts have been recorded for general infrastructure assets acquired prior to July 1, 2003. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. Infrastructure assets acquired subsequent to that date are recorded at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	40 -65
Plant and distribution system	50 - 65
Vehicles and motorized equipment	3 - 15
Equipment	6 - 10

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Buildings & Improvements	10-40
Furniture, fixtures, and equipment	5-10
Computer equipment	5

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has pension and OPEB deferrals for the 2018 fiscal year, which meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element,

*Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meets the criterion for this category – prepaid taxes, property taxes receivable and pension and OPEB deferrals.

#### 9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty-five days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave is lost upon resignation. However, twenty percent of outstanding sick leave, with a maximum of two months, is payable upon retirement or death. The Town has recognized a liability based on the sick leave accumulated at June 30, 2018 by those employees who are currently eligible to receive such payments, limited to the maximum amount allowed by the policy.

The ABC Board has adopted the policy that if employees do not use all their vacation or sick leave before their employment anniversary date, they will be unable to carry over credits from year to year. For the year ended June 30, 2018, there were no employees with unused vacation days; therefore, no accrual has been made. Since the Board has no obligation for accumulated sick leave until it is taken, no accrual sick leave has been made.

#### 11. Net Position/Fund Balances

### Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

### Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

**Nonspendable Fund Balance** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

**Restricted Fund Balance** – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted by Stabilization by State statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Police – portion of fund balance that is restricted by revenue source for law enforcement use.

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

**Assigned Fund Balance** – portion of fund balance that the Town intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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

The Town of Canton does not have a formal revenue spending policy. However, it is management's practice to use resources in the following hierarchy: federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are typically spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

The Town of Canton has not adopted a minimum fund balance policy. However, the Town's management monitors fund balance levels and strives to maintain fund balance at a level that is appropriate for its size.

#### Defined Benefit Cost-Sharing Plans

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

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions/deductions from the FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investment are reported at fair value.

## **II. Stewardship, Compliance and Accountability**

### **A. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2018, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board in the sanitation department by \$7,580, by \$6,994 in the Crossroad Hill Water Association Water System Consolidation Project and in the Aquatic Center Capital Project by \$102,152. These over-expenditures occurred because of errors in budgeting to correctly adjust for additional expenditures. Management and the Board will more closely review the budget reports and consider the changing expenditures.

## II. Detail Notes on All Funds

### A. Assets

#### 1. Deposits and Investments

##### Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling Method, the potential exists for under-collateralization. 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 and the ABC Board have no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum compliance for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2018, the Town's deposits had a carrying amount of \$5,664,340 and a bank balance of \$5,797,458. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$5,414,340 was covered by collateral held under the pooling method. At June 30, 2018, the Town's petty cash fund totaled \$1,100. The bank balance includes \$2,647,895 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

At year end, the Canton ABC Board's deposits had a carrying amount of \$68,149 and a bank balance of \$91,342. All the bank balance was covered by federal depository insurance. The store also had cash on hand at June 30, 2018 of \$1,750.

#### 2. Receivables - Allowances for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position includes penalties levied and outstanding in the amount of \$30,348. The accounts

receivable amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2018 is net of the following allowances for doubtful accounts:

Fund	Allowance
General fund:	
Property taxes receivable	\$ 89,951
Water and sewer enterprise fund:	
Utility accounts receivable	<u>118,040</u>
Total	\$ 207,991

3. Capital Assets

Capital Asset Activity for the Primary Government for the year ended June 30, 2018 was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,611,074	\$ -	\$ 1,611,074	\$ -
Land	<u>4,328,317</u>	<u>9,444</u>	<u>-</u>	<u>4,337,761</u>
Total capital assets not being depreciated	<u>5,939,391</u>	<u>9,444</u>	<u>1,611,074</u>	<u>4,337,761</u>
Capital assets being depreciated:				
Buildings	2,749,112	2,161,837	-	4,910,949
Infrastructure	2,152,633	483,174	-	2,635,807
Equipment	1,237,836	47,519	-	1,285,355
Vehicles and motorized equipment	<u>1,643,162</u>	<u>72,853</u>	<u>-</u>	<u>1,716,015</u>
Total capital assets being depreciated	<u>7,782,743</u>	<u>2,765,383</u>	<u>-</u>	<u>10,548,126</u>
Less accumulated depreciation for:				
Buildings	1,721,892	152,986	-	1,874,878
Infrastructure	142,567	9,265	-	151,832
Equipment	715,414	65,483	-	780,897
Vehicles and motorized equipment	<u>650,315</u>	<u>131,498</u>	<u>-</u>	<u>781,813</u>
Total accumulated depreciation	<u>3,230,188</u>	<u>359,232</u>	<u>-</u>	<u>3,589,420</u>
Total capital assets being depreciated, net	<u>4,552,555</u>			<u>6,958,706</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 10,491,946</u>			<u>\$ 11,296,467</u>

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

General government	\$	68,860
Public safety		124,982
Public Works		54,649
Environmental protection		-
Cultural and recreational		110,741
Total depreciation expense	\$	<u>359,232</u>

	Beginning Balances	Additions	Retirements	Ending Balances
<b>Business-type activities:</b>				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 220,279	\$ -	\$ -	\$ 220,279
Construction in progress	484,302	287,230	293,567	477,965
Total capital assets not being Depreciated	704,581	287,230	293,567	698,244
Capital assets being depreciated:				
Plant and distribution systems	12,202,390	358,049	8,290	12,552,149
Vehicles and motorized equipment	201,842	100,531	-	302,373
Total capital assets being Depreciated	12,404,232	458,580	8,290	12,854,522
Less accumulated depreciation for:				
Plant and distribution systems	4,106,386	247,108	8,290	4,345,204
Vehicles and motorized equipment	140,951	8,720	-	149,671
Total accumulated depreciation	4,247,337	255,828	8,290	4,494,875
Total capital assets being depreciated, net	8,156,895			8,359,647
<b>Business-type activities capital assets, net</b>	<b>\$ 8,861,476</b>			<b>\$ 9,057,891</b>

Activity for the ABC Board for the year ended June 30, 2018, was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Capital assets not being depreciated:				
Land	\$ 128,079	\$ -	\$ -	\$ 128,079
Total capital assets not being depreciated	128,079	-	-	128,079
Capital assets being depreciated:				
Buildings	227,127	-	-	227,127
Furniture and equipment	53,536	5,619	-	59,155
Computers	53,877	-	-	53,877
Total capital assets being depreciated	334,540	5,619	-	340,159



Less accumulated depreciation for:				
Buildings	85,480	7,350	-	92,830
Furniture and equipment	33,154	516	-	33,670
Computers	56,586	5,292	-	61,878
Total accumulated depreciation	<u>175,220</u>	<u>13,158</u>	<u>-</u>	<u>188,378</u>
Total capital assets being depreciated, net	<u>159,320</u>			<u>151,781</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 287,399</u>			<u>\$ 279,860</u>

### Construction commitments

The town has active construction projects as of June 30, 2018. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Spruce Street	\$ 59,300	\$ 159,300
Crossroad Hill Water Association water system consolidation	418,665	1,613,180
Total	<u>\$ 477,965</u>	<u>\$ 1,772,480</u>

### B. Liabilities

#### 1. Pension Plan and Postemployment Obligations

##### a. Local Government Employees' Retirement System

*Plan Description.* The Town of Canton is a participating employer the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local 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, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have wither completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed 5 years of service and have reach age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. This plan does not provide for automatic post-retirement benefits increases. Increases are contingent upon actuarial gains of the plan.

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.5% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$291,339 for the year ended June 30, 2018.

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

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

At June 30, 2018, the Town reported a liability of \$648,366 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.0042%, which was an increase of .004% of its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$286,828. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual expense	\$ 37,352	\$ 18,353
Changes of assumptions	92,596	-
Net difference between projected and actual earnings on pension plan investments	157,424	-
Changes in proportion and differences between contributions and proportionate share of contributions	210,809	611
Town's contributions subsequent to the measurement date	291,339	-
Total	\$ 789,520	\$ 18,964

\$291,339 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	\$ 102,827
2020	253,901
2021	142,986
2022	<u>(20,498)</u>
	\$ 479,216

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the forgoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates or arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.0%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Town's proportionate share of the net pension liability (asset)	1,946,408	648,366	(435,090)

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description*

The Town of Canton administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>11</u>
Total	<u>12</u>

2. *Summary of Significant Accounting Policies:*

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

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

3. *Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	3.16%
Projected salary increases	3.50 – 7.35%
Inflation	2.50%

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index. Mortality rates are based on the MP-2015 mortality tables with adjustments for males and females.

#### 4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$5,757 as benefits came due for the reporting period.

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

At June 30, 2018 the Town reported a total pension liability of \$328,916. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018 the Town recognized pension expense of \$26,197.

	<b><u>Deferred Outflows of</u></b>	<b><u>Deferred Inflows of</u></b>
Differences between expected and actual experience	\$ -	\$ 3,798
Changes of assumptions	10,134	4,278
Benefit payments and administrative expense subsequent to the measurement date	<u>3,940</u>	<u>-</u>
Total	\$ 14,074	\$ 8,076

\$3,940 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### **Year ended June 30:**

2018	\$3,020
2019	3,020
2020	3,020
2021	3,020
2022	1,994

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following represents the Town's total pension liability calculated using the discount rate of 3.86%, as well as what the Plan's TPL would be if it were calculated using a Discount Rate that is -1 percentage-point lower (2.86%) or 1-percentage-point higher (4.86%) than the current rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total pension liability	\$354,538	\$328,916	\$305,366

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

Beginning balance	\$297,086
Service cost	13,750
Interest	11,356
Change in benefit terms	-
Difference between expected and actuarial experience in the measurement of the total pension liability	(4,613)
Changes in assumptions and other inputs	17,094
Benefit payments	( 5,757)
Other changes	-
Ending balance of the total pension liability	<u>\$328,916</u>

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

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

	LGERS	LEOSSA	Total
Pension Expense	286,828	26,197	313,025
Proportionate share of the net pension liability	648,366 .004244%	328,916 n/a	977,282
Deferred of Outflows of Resources			
Differences between expected and actual experience	37,352	-	37,352
Change of Assumptions	92,596	10,134	102,730
Net difference between projected and actual earnings on plan investments	157,424	-	157,424
Changes in proportion and differences between contributions and proportionate share of contributions	210,809	-	210,809
Benefit payments and administrative cost paid subsequent to the measurement date	291,339	3,940	295,279

	LGERS	LEOSSA	Total
Deferred in Inflows of Resources			
Differences between expected and actual experience	18,353	3,798	22,151
Change of assumptions	-	4,278	4,278
Net difference between projected and actual earnings on plan investments	-	-	-
Change in proportion and differences between contributions and proportionate share of contributions	611	-	611

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 Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Sections 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. The Town contributed \$30,462. No amounts were forfeited.

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

*Plan Description.* The State of North Carolina contributes, on behalf of the Town of Canton, to the Firefighter's and Rescue Squad Worker's Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter's and



Rescue Squad Worker's Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Worker's Pension Fund. That report may be obtained by writing to the Officer of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Benefits Provided.* FRSWPF provides retirement and survivor benefits. The present retirement benefits are \$170 per month. Plan members are eligible to receive the monthly benefits at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

*Contributions.* Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town is not required to participate but contributes \$30 per month per member to the Fund. Contribution provisions are established by General Statute 58-86 and may be amended by the North Carolina General Assembly. For the fiscal year ending June 30, 2017 the State contributed \$17,602,000 to the plan. The Town considers their proportionate share of the State's contributions to be immaterial.

*Refunds of Contributions.* Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

e. Other Post-Employment Benefit Obligations

Healthcare Benefits

*Plan Description:* The Town administers a single-employer defined benefit healthcare plan. An employee who began service prior to July 1, 2011 and retires according to the Town of Canton Employees' Retirement Plan (ERP) requirements, with at least 15 year permanent active Town employment will receive health care insurance, dental insurance, and life insurance paid by the Town, for said employee for the remainder of his or her lifetime and for his or her spouse until spouse reaches age 70; and should an employee retire on disability with at least five years permanent active Town employment, health care and dental insurance will be provided by the Town for said employee for the remainder of his or her lifetime and for his or her dependents until age 19 or until age 25 if a full-time student, and for his or her spouse until age of 70. Retirees and spouses reaching age 65, or otherwise eligible for Medicare, are transferred to a Medicare supplement plan. This benefit was established by Town ordinance. A separate report was not issued for this plan.

An employee who began service after July 1, 2012 and retires according to the Town of Canton ERP requirements, with at least 20 years permanent active Town employment will receive health care insurance, dental insurance, and life insurance paid by the Town, for said employee for the remainder of his or her lifetime. Should an employee retire on disability with at least five years permanent active Town employment, health care, dental care, and life insurance will be provided by the Town for said employee for the remainder of his or her lifetime.

Membership of ERP consisted of the following at December 31, 2014, the date of the latest actuarial valuation:

Active members	
General Employees	47
Law Enforcement Officers	13
Firefighters	8
Retired members	45
Total	<u>113</u>

### Total OPEB Liability

The Town's total OPEB liability of \$11,753,261 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases	3.5% - 7.75%
Municipal Bond Index Rate	
Prior measurement date	3.01%
Measurement date	3.56%
Healthcare Cost Trends	
Pre-Medicare	7.75% for 2017 decreasing to an ultimate rate of 5% by 2023
Medicare	5.50% for 2017 decreasing to an ultimate rate of 5% by 2020

### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	12,373,629
Changes for the year	
Service cost	522,024
Interest	366,147
Changes of benefit terms	-
Differences between expected and actual experience	94,065
Changes in assumptions or other inputs	(1,180,950)
Benefit payments	<u>( 421,654)</u>
Balance at June 30, 2018	11,753,261

The discount rate was based on the June average of the Bond buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014, adopted by the LGERS.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$14,039,712	\$11,753,261	\$9,991,085

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$9,874,688	\$11,753,261	\$14,229,914

#### **OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the Town recognized OPEB expense of \$718,346. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 29,267	\$ -
Changes of assumptions	-	(996,427)
Benefit payments and administrative costs made subsequent to the measurement date	<u>50,100</u>	<u>-</u>
Total	\$ 79,367	\$(996,427)

Deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	(169,825)
2020	(169,825)
2021	(169,825)
2022	(169,825)
2023	(169,825)
Thereafter	( 67,935)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's benefits, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources at year end is composed of the following:

Contributions to pension plan subsequent to the measurement date	\$ 291,339
Benefit payments made and administrative costs for LEOSA made subsequent to measurement date	3,940
Benefit payments made and administrative costs for OPEB made subsequent to measurement date	
Difference between expected and actual experience	66,619
Changes of assumption	102,730
Net difference between projected and actual share of contributions	157,424

Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>210,809</u>
Total	\$ 882,961

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ 6,084	\$ 6,084
Taxes receivable, less penalties		106,767
Differences between expected and actual expense	22,151	-
Change in assumptions	1,000,706	-
Net difference between projected and actual earnings on pension plan investments	-	
Changes in proportion and differences between contributions and proportionate share of contributions	<u>611</u>	<u>-</u>
Total	\$1,029,552	\$112,851

#### 4. 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 carries commercial insurance for risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to and has purchased coverage of \$500,000 per structure through the NFIP for the Town Hall, Theater, and Armory.

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, workers compensation, and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers; compensation coverage up to statutory limits, and employee health coverage up to a \$2 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.

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 bonded for \$50,000, the Tax Collector for \$50,000 and the remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

The Canton ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workmen's compensation and employee health coverage. The Board also has a liquor legal liability. There have been no significant reductions in insurance coverage from the prior year and settled claims have not exceeded coverage in any of the past three fiscal years. Each board member, general manager, and finance officer are bonded in the amount of \$50,000 secured by corporate surety.

#### 5. Commitments

The Town rents parking lots and equipment under agreements which are operating leases. Total rent expense under operating leases was \$17,743.

Future minimum lease payments under operating leases at June 30, 2018 are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2019	\$280

#### 6. Line of Credit

The ABC Board has a revolving line of credit with First Citizens Bank. The line of credit has a fixed annual interest rate of 17.90%, and the maximum amount of credit available is \$10,000. The amount due on the line of credit on June 30, 2018 and 2017 was \$0..

#### 7. Long-Term Obligations

##### a. Capital Leases

Last year the Town entered into an agreement to lease certain equipment. 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 inception.

The lease agreement was entered into during the current year to lease maintenance equipment and requires one payment of \$2,936 and four annual payments of \$2,175. Title will pass to the Town at the end of the lease term.

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	10,009	(667)	9,342

The future minimum lease obligation and net present value of these minimum payments as of June 30, 2018 is as follows:

<u>Year ending June 30</u>	
2019	\$ 2,175
2020	2,175
2021	<u>2,175</u>
Total minimum lease payments	6,525
Less amounts representing interest	<u>( 353)</u>
Present value of the minimum lease payments	\$ 6,172

b. Installment Purchases

Governmental Activities:

In November 2010, the Town entered into an installment purchase contract for \$344,122 to finance the acquisition of a pumper fire truck. The financing contract requires 15 annual payments of \$30,027 including interest at 3.57%. The remaining balance at June 30, 2018 was \$205,810.

In August 2013, the Town entered into an installment purchase contract for \$34,800 to finance the acquisition of a brush chipper. The financing contract requires 16 quarterly payments of \$2,259 including interest at 1.8%. This loan was paid off during the current year.

In September 2014, the Town entered into an installment purchase contract for \$12,959 to finance the acquisition of fire department radios. The financing contract requires five annual payments of \$3,011.56, including interest at 5%. The remaining balance at June 30, 2018 was \$5,582.

In January 2015, the Town entered into an installment purchase contract for \$37,190 to finance the acquisition of street sweeper. The financing contract requires seven annual payments of \$37,190, including interest at 14%. The remaining balance at June 30, 2018 was \$141,096.

In August 2015, the Town entered into an installment purchase contract for \$9,920 to finance the acquisition of a John Deere Gator. The financing contract requires five annual payments of \$2,159 plus interest at 4%. The remaining balance at June 30, 2018 was \$4,207.

In November 2016, the Town entered into an installment purchase contract for \$25,797 to finance the acquisition of a new truck. The financing contract requires forty-eight payments of \$556, including interest at 7%. The remaining balance at June 30, 2018 was \$15,795.

In December 2016, the Town entered into an installment purchase contract for \$376,600 to finance the acquisition of new police vehicles. The financing contract requires five annual payments of \$79,516 plus interest at 1.8%. The remaining balance at June 30, 2018 was \$303,993.

In February 2017, the Town entered into an installment purchase contract for \$775,000 to finance a portion of the aquatic center. The financing contract requires thirty-two bi-annual principal payments of \$25,833 plus interest at 2.89%. The remaining balance at June 30, 2018 was \$723,333.

Business-type Activities:

In October 2002, the State Treasurer of North Carolina approved a loan of \$2,242,939 to the Town for the purpose of financing new construction at the wastewater treatment plant. Repayment to the loan began November 2007 upon completion of the construction. The loan requires 20 annual principal payments of \$112,147 and 40 semi-annual interest payments at 2.66%. The remaining balance at June 30, 2018 was \$897,176.

In May 2016, a local bank approved a loan of \$421,217 to the Town for the purpose of financing new radio meter readers. The loan requires 10 annual principal payments of \$48,601, including interest at a rate of 2.69%. The remaining balance at June 30, 2018 was \$345,673.

In February 2017, the Town entered into an installment purchase contract for \$300,849 to finance the acquisition of water meters. The financing contract requires ten annual principal payments of \$34,056, plus interest at 2.32%. The remaining balance at June 30, 2018 was \$273,773.

Annual debt service payments of the installment purchases and capital lease as of June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 169,792	\$ 27,621	\$ 197,413	\$ 185,505	\$ 36,531	\$ 222,036
2020	173,085	23,956	197,041	186,563	31,849	218,412
2021	167,306	20,296	187,602	187,648	27,122	214,770
2022	167,636	16,811	184,447	188,763	22,351	211,114
2023	77,763	18,489	96,252	184,857	21,157	206,014
2024-2028	290,679	99,391	390,070	583,286	20,382	603,668
2029-2033	356,727	13,438	370,165	-	-	-
Total	\$ 1,405,988	\$ 220,002	\$ 1,625,990	\$ 1,516,622	\$ 159,392	\$ 1,676,014

c. General Obligation Indebtedness

At June 30, 2018 the Town of Canton had no outstanding bonds and no authorized but unissued bonds. The Town had a legal debt margin of \$23,314,116



d. Discretely Presented Component Unit

The ABC Board's long-term liabilities consisted of the following as of June 30, 2018:

	2018	2017
Mortgage note payable in monthly installments of \$1,900 including interest at 3.87% per annum, matured in June 2018	\$ -	\$20,535

e. Changes in Long-Term Liabilities

The following is a summary of changes in the Town's long-term obligations for the year ended June 30, 2018.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	1,592,584	-	192,768	1,399,816	193,680
Compensated absences	300,526	17,558	-	318,084	-
Capital lease	7,896	-	1,724	6,172	2,000
Total pension liability (LEO)	297,086	31,830	-	328,916	-
Net pension liability OPEB	638,229	-	119,536	518,693	-
	<u>9,998,162</u>	<u>-</u>	<u>595,553</u>	<u>9,402,609</u>	<u>-</u>
Governmental activity long-term liabilities	\$ <u>12,834,483</u>	<u>49,388</u>	\$ <u>909,581</u>	\$ <u>11,974,290</u>	\$ <u>195,680</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Business-type activities:					
Installment purchases	\$ 1,694,118	\$ -	\$ 177,496	\$ 1,516,622	\$ 179,154
Compensated absences	67,876	-	15,159	52,717	20,315
Net pension liability OPEB	159,557	-	29,884	129,673	-
	<u>2,375,467</u>	<u>-</u>	<u>24,815</u>	<u>2,350,652</u>	<u>-</u>
Business-type activity long-term debt	\$ <u>4,297,018</u>	\$ <u>-</u>	\$ <u>247,354</u>	\$ <u>4,049,664</u>	\$ <u>199,469</u>

C. Concentration Reporting

For the year ended June 30, 2018, one corporation comprised approximately 35% of ad valorem tax revenues and 16% of water sales.

D. Interfund Activity

Transfers to/from other funds at June 30, 2018, consist of the following:

From General Fund to Canton Aquatic Center Capital Project	\$ 48,357
From General Fund to the Recreation Fund	435,000

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

During the 2018 fiscal year, the Town made a yearly transfer from the General Fund of \$435,000 to the Recreation Fund and a one-time transfer of \$48,357 to the Aquatic Center Capital Project. The Recreation Fund is included in General Fund for reporting purposes.

E. Net Investment in Capital Assets

	Governmental	Business-Type
Capital assets	\$ 11,296,467	\$ 9,057,891
Less: long-term debt	1,405,988	1,516,622
Net investment in capital assets	<u>\$ 9,890,479</u>	<u>\$ 7,541,269</u>

F. Fund Balances

The following schedule provides management and citizens with information on the portion of fund balance in the general fund that is available for appropriation.

Total fund balance – General Fund	\$ 3,155,118
Less:	
Inventories	6,519
Stabilization by State Statute	571,008
Police	33,558
Streets – Powell Bill	350,189
Subsequent year’s expenditures	490,141
Remaining fund balance	<u>\$1,703,703</u>

The Town has no further designation of unassigned fund balance and no formal policies regarding minimum levels of fund balance.

The Town had no outstanding encumbrances at June 30, 2018.

**IV. Summary Disclosure of Significant Contingencies**

State Assisted Programs

The Town has received proceeds from several State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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.

**V. Significant Effects of Subsequent Events**

Subsequent events have been evaluated through October 30, 2018, the date the financial statements were available to be issued.

In prior years the Town was awarded a principal forgiveness loan of \$2,107,332 from the North Carolina Division of Water Infrastructure through the Drinking Water State Revolving Fund (Revolving Fund). This award was not finalized until the current year and is to fund the Crossroad Hill Water Association Water System Consolidation Project. Preliminary design and administration costs were incurred during the current year but no loan funds were received until subsequent to year end. The Town expects construction to begin during the year ended June 30, 2019.

#### **VI. Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payment and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending December 31, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$7,100,793 and \$1,716,360 for the business-type activities.

**REQUIRED SUPPLEMENTAL FINANCIAL DATA**

Town of Canton  
 Schedule of Proportionate Share of the Net Pension Liability  
 Local Government Employees' Retirement System  
 Last Five Fiscal Years

	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) %	0.042%	0.038%	0.036%	0.038%	0.038%
Town's proportion of the net pension liability (asset)	\$ 648,366	\$ 797,786	\$ 163,316	\$ (221,450)	\$ 148,163
Town's covered-employee payroll	\$ 2,276,958	\$ 1,829,958	\$ 2,044,962	\$ 1,935,008	\$ 1,935,008
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	28.5%	43.6%	7.9%	11.4%	7.7%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

Town of Canton  
Schedule of Contributions  
Local Government Employees' Retirement System  
Last Four Years

	2018	2017	2016	2015	2014
Contractually required contribution	\$291,339	\$295,796	\$242,673	\$161,555	\$148,163
Contribution in relation to the contractually required contribution	291,339	295,796	242,673	245,109	148,163
Contribution deficiency (excess)	-	-	-	-	-
Town's covered-employee payroll	\$2,421,400	\$2,276,958	\$1,829,958	\$2,044,962	\$1,935,008
Contributions as a percentage of covered-employee payroll	12.03%	12.99%	13.26%	11.99%	7.66%

Town of Canton  
 Schedule of Changes in Total Pension Liability  
 Law Enforcement Officers' Special Separation Allowance  
 June 30, 2018

	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 297,086	\$ 286,920
Service cost	13,750	13,460
Interest on the total pension liability	11,356	10,120
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(4,613)	-
Changes of assumptions or other inputs	17,094	(6,506)
Benefit payments	(5,757)	(6,908)
Other changes	-	-
Ending Balance of the total pension liability	<u>\$ 328,916</u>	<u>\$ 297,086</u>

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

Town of Canton  
 Schedule of Total Pension Liability as a Percentage of Covered Payroll  
 Law Enforcement Officers' Special Separation Allowance  
 June 30, 2018

	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 328,916	\$ 297,086
Covered payroll	534,457	490,742
Total pension liability as a percentage of covered payroll	61.54%	60.54%

Notes to the schedule:

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



Town of Canton  
Schedule of Changes in Total OPEB Liability  
and Related Ratios  
June 30, 2018

	<b>2018</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 522,024
Interest	366,147
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total OPEB liability	94,065
Changes of assumptions or other inputs	(1,180,950)
Benefit payments and implicit subsidy credit	(421,654)
Other changes	-
Net change in total OPEB liability	(620,368)
Total OPEB liability - beginning	12,373,629
<b>Total OPEB liability - ending</b>	<b>\$ 11,753,261</b>
Covered payroll	2,512,768
Total OPEB liability as a percentage of covered payroll	467.74%

**Notes to Schedule**

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.56%

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**Town of Canton, North Carolina**  
**Comparative Balance Sheets**  
**General Fund**  
**June 30, 2018 and 2017**

**Exhibit A**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,398,872	\$ 3,106,381
Restricted cash	350,189	609,037
Receivables, net:		
Taxes	106,767	149,323
Accounts	61,993	60,993
Prepaid expenses	6,000	4,750
Due from other governments	556,941	533,931
Inventories	6,519	5,747
Total assets	\$ 3,487,281	\$ 4,470,162
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 56,028	\$ 852,071
Salaries and payroll taxes payable	109,358	97,737
Customer prepayments	53,926	97,434
Total liabilities	219,312	1,047,242
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	106,767	149,323
Prepaid taxes	6,084	3,629
Total deferred inflows of resources	112,851	152,952
 <b>Fund balances:</b>		
Nonspendable:		
Inventories	6,519	5,747
Restricted:		
Stabilization by state statute	571,008	502,240
Police	33,558	34,340
Streets	350,189	326,348
Recreation	-	215,527
Assigned:		
Subsequent year's expenditures	490,141	426,982
Unassigned	1,703,703	1,758,784
Total fund balances	3,155,118	3,269,968
 <b>Total liabilities, deferred inflows of resources and fund balances</b>		
	\$ 3,487,281	\$ 4,470,162

**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)	2017
<b>Revenues:</b>				
Ad valorem taxes:				
Taxes		\$ 2,969,374		\$ 2,867,978
Penalties and interest		25,543		23,873
Total ad valorem taxes	<u>2,762,613</u>	<u>2,994,917</u>	<u>232,304</u>	<u>2,891,851</u>
Other taxes and licenses:				
Gross receipts tax on short-term rental property		341		1,192
Privilege licenses		2,590		2,775
	<u>3,960</u>	<u>2,931</u>	<u>(1,029)</u>	<u>3,967</u>
Unrestricted intergovernmental:				
Local option sales taxes		961,493		913,997
Utility franchise tax		729,653		730,874
Piped natural gas tax		6,709		5,174
Beer and wine tax		18,880		19,349
Sales tax-communications		108,377		115,047
State hold-harmless distribution		246,845		230,418
ABC Profit distribution		2,400		2,400
Total unrestricted intergovernmental	<u>2,027,100</u>	<u>2,074,357</u>	<u>47,257</u>	<u>2,017,259</u>
Restricted intergovernmental:				
Powell Bill allocation		138,117		137,306
Miscellaneous grants		1,691		43,595
Government Crime Comm grant		20,835		-
Federal Equitable Shares grant		-		-
Total restricted intergovernmental	<u>179,505</u>	<u>160,643</u>	<u>(18,862)</u>	<u>180,901</u>
Permits and fees:				
Building permits and inspection fees	-	445		575
Plumbing and electrical fees	-	-		-
Total permits and fees	<u>-</u>	<u>445</u>	<u>445</u>	<u>575</u>

(continued)

**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)	2017
Revenues (continued)				
Sales and services:				
Refuse collection fees		\$ 229,085		\$ 228,751
Solid waste disposal tax		2,896		2,936
Sale of material and labor		3,042		-
Miscellaneous revenue-Police Department		60,620		59,654
Recreation admissions and concessions		89,148		85,151
Theater revenue		12,053		10,143
Other fees		50		8
Court facilities fees and forfeitures		2,111		3,240
Fire protection charges		69,798		77,205
Special event fees		63,559		9,050
Rents		16,300		17,517
Total sales and services	<u>585,681</u>	<u>548,662</u>	<u>(37,019)</u>	<u>493,655</u>
Investment earnings:				
Interest earnings		31,519		12,697
Total investment earnings	<u>9,180</u>	<u>31,519</u>	<u>22,339</u>	<u>12,697</u>
Miscellaneous:				
Other miscellaneous		48,352		95,914
Total miscellaneous	<u>56,381</u>	<u>48,352</u>	<u>(8,029)</u>	<u>95,914</u>
Total revenues	<u>5,624,420</u>	<u>5,861,826</u>	<u>237,406</u>	<u>5,696,819</u>
<b>Expenditures:</b>				
General government:				
Governing Board				
Salaries and employee benefits		-		-
Other operating expenditures		38,564		29,548
Total governing board	<u>38,564</u>	<u>38,564</u>	<u>-</u>	<u>29,548</u>
Administration:				
Salaries and employee benefits		131,537		128,064
Other operating expenditures		15,222		8,867
Total administration	<u>147,202</u>	<u>146,759</u>	<u>443</u>	<u>136,931</u>
Finance				
Salaries and employee benefits		263,774		323,762
Other operating expenditures		47,105		45,884
Capital outlay		-		-
Total finance	<u>320,743</u>	<u>310,879</u>	<u>9,864</u>	<u>369,646</u>

(continued)

**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)	2017
<b>Expenditures (continued)</b>				
Legal:				
Part-time salaries		-		-
Other operating expenditures		15,275		22,530
Total legal	16,170	15,275	895	22,530
Planning and Zoning				
Salaries and employee benefits		87,261		147,473
Other operating expenditures		32,999		98,965
Capital outlay		244,996		202,096
Total planning and zoning	627,864	365,256	262,608	448,534
Community Promotion				
Other operating expenditures		150,764		14,784
Capital Outlay		9,444		-
Total community promotion	161,116	160,208	908	14,784
Municipal Buildings:				
Salaries and employee benefits		6,039		6,333
Other operating expenditures		151,836		119,192
Capital outlay		-		10,953
Total municipal buildings	158,239	157,875	364	136,478
Total general government	1,469,898	1,194,816	275,082	1,158,451
Public Safety:				
Police:				
Salaries and employee benefits		1,323,510		1,338,747
Other operating expenditures		132,646		35,114
Capital outlay		38,380		504,369
Total police	1,563,495	1,494,536	68,959	1,878,230
Fire:				
Salaries and employee benefits		672,898		618,887
Other operating expenditures		113,196		104,634
Capital outlay		34,328		47,171
Total fire	849,542	820,422	29,120	770,692
Total public safety	2,413,037	2,314,958	98,079	2,648,922

(continued)

**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)	2017
<b>Expenditures (continued)</b>				
Public Works:				
Traffic Engineering	-	-	-	-
Central Services:				
Salaries and employee benefits		111,452		112,354
Other operating expenditures		31,423		32,450
Capital outlay		6,683		7,875
Total central services	169,750	149,558	20,192	152,679
Streets:				
Salaries and employee benefits		838,085		847,282
Other operating expenditures		307,356		314,062
Capital outlay		47,697		33,581
Total streets	1,246,671	1,193,138	53,533	1,194,925
Street Cleaning and Sweeping:				
Salaries and employee benefits		-		-
Other operating expenditures		10,257		11,864
Capital outlay		-		-
Total street cleaning and sweeping	16,800	10,257	6,543	11,864
Powell Bill:				
Salaries and employee benefits		-		3,561
Other operating expenditures		12,698		174,606
Capital outlay		105,782		5,543
Total powell bill	173,000	118,480	54,520	183,710
Total public works	1,606,221	1,471,433	134,788	1,543,178
Environmental Protection:				
Sanitation:				
Salaries and employee benefits		5,489		6,444
Other operating expenditures		202,091		185,094
Total sanitation	200,000	207,580	(7,580)	191,538

(continued)

**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2017</u>
<b>Expenditures (continued)</b>				
Landfill:				
Other operating expenditures		\$ 2,649		\$ 4,343
Capital outlay		-		-
Total landfill	<u>6,500</u>	<u>2,649</u>	<u>3,851</u>	<u>4,343</u>
Total environmental protection	<u>206,500</u>	<u>210,229</u>	<u>(3,729)</u>	<u>195,881</u>
Cultural and Recreational:				
Canton Historical Museum:				
Salaries and employee benefits		15,606		13,686
Other operating expenditures		15,715		12,991
Total Canton Historical Museum	<u>35,400</u>	<u>31,321</u>	<u>4,079</u>	<u>26,677</u>
Recreational Areas and Facilities:				
Salaries and employee benefits		138,040		140,935
Other operating expenditures		173,827		229,842
Capital outlay		10,700		10,009
Total recreational areas and facilities	<u>337,578</u>	<u>322,567</u>	<u>15,011</u>	<u>380,786</u>
Colonial Pathway				
Salaries and employee benefits		69,494		63,842
Other operating expenditures		51,817		47,464
Capital outlay		-		5,656
Total recreation concessions	<u>123,282</u>	<u>121,311</u>	<u>1,971</u>	<u>116,962</u>
Armory				
Salaries and employee benefits		5,558		6,436
Other operating expenditures		44,187		36,136
Capital outlay		-		-
Total recreation concessions	<u>51,035</u>	<u>49,745</u>	<u>1,290</u>	<u>42,572</u>
Total cultural and recreational	<u>547,295</u>	<u>524,944</u>	<u>22,351</u>	<u>566,997</u>

(continued)



**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>2017</u>
<b>Expenditures (continued)</b>				
Debt Service:				
Principal retirement		193,896		96,068
Interest and fees		42,799		14,742
Total debt service	<u>237,450</u>	<u>236,695</u>	<u>755</u>	<u>110,810</u>
Total expenditures	<u>6,480,401</u>	<u>5,953,075</u>	<u>527,326</u>	<u>6,224,239</u>
Revenue over (under) expenditures	<u>(855,981)</u>	<u>(91,249)</u>	<u>764,732</u>	<u>(527,420)</u>
Other Financing Sources:				
Transfer to Canton Aquatic Center		(48,357)		(598,000)
Capital contribution - Haywood Co. & Freightliner		238,611		157,596
Sale of capital assets		-		122,283
Installment purchase obligation issued		-		412,406
Total other financing sources	<u>399,000</u>	<u>190,254</u>	<u>(208,746)</u>	<u>94,285</u>
Fund balance appropriated	456,981	-	456,981	-
Net change in fund balance	<u>\$ -</u>	99,005	<u>\$ 99,005</u>	(433,135)
<b>Reconcile to combined fund balance, Exhibit 4</b>				
Canton Aquatic Center				
Capital outlay - capital project		(867,840)		(1,279,267)
Increase in capital assets		867,840		1,279,267
Unspent transfer from Recreation Fund		(213,855)		157,031
		<u>(114,850)</u>		<u>(276,104)</u>
Fund balance, beginning of year		<u>3,269,968</u>		<u>3,546,072</u>
Fund balance, end of year		<u>\$ 3,155,118</u>		<u>3,269,968</u>

**Town of Canton, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)	2017
<b>OPERATING REVENUES</b>				
Charges for services:				
Water sales		\$ 1,812,960		\$ 1,715,752
Sewer charges		447,883		419,488
Taps and connection fees		48,180		40,440
Reconnection fees		12,400		10,000
Other operating revenues		1,073		8,270
Total operating revenues	2,145,551	2,322,496	176,945	2,193,950
<b>NON-OPERATING REVENUES</b>				
Interest on investments		24,208		11,444
Sale of materials and equipment		2,901		4,972
Total non-operating revenues	14,000	27,109	13,109	16,416
Total revenues	2,159,551	2,349,605	190,054	2,210,366
<b>OPERATING EXPENDITURES</b>				
Administration:				
Salaries and employee benefits		177,537		166,877
Repairs and maintenance		439		118
Other operating expenditures		24,247		34,309
Total administration	269,720	202,223	67,497	201,304
Water treatment				
Salaries and employee benefits		267,809		284,578
Repairs and maintenance		69,971		109,704
Other operating expenditures		257,344		249,306
Total water treatment	750,116	595,124	154,992	643,588
Water and sewer distribution				
Salaries and employee benefits		430,981		431,688
Repairs and maintenance		26,487		47,535
Other operating expenditures		271,569		270,454
Total water and sewer distribution	763,650	729,037	34,613	749,677
Sewer Treatment Plant:				
Repairs and maintenance	\$ -	\$ 8,868		\$ 2,072
Other operating expenses	-	56,070		52,147
Total sewer treatment	74,000	64,938	9,062	54,219
Debt service:				
Principal retirement		177,496		149,418
Interest		44,889		41,162
Total debt service	237,386	222,385	15,001	190,580

**Town of Canton, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

With comparative actual amounts for the year ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)	2017
<b>OPERATING EXPENDITURES (continued)</b>				
Capital Outlay:	166,679	165,013	1,666	118,253
Total expenditures	2,261,551	1,978,720	282,831	1,957,621
Revenues over (under) expenditures	(102,000)	370,885	472,885	252,745
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to Crossroad Hills Project	-	-	-	(49,284)
Grant revenue	-	48,650	-	-
Gain on sale of fixed assets	-	4,104	-	-
Proceeds from installment purchase	-	-	-	300,849
Total other financing sources (uses)	102,000	52,754	(49,246)	251,565
Budgetary appropriation	-	-	-	-
Revenues and other financing sources over	\$ -	\$ 423,639	\$ 423,639	\$ 504,310
<b>Reconciliation from budgetary basis</b>				
<b>(modified accrual) to full accrual:</b>				
Reconciling items:				
Loan principal payments		177,496		149,418
Increase (decrease) in deferred outflows - pension		(43,435)		122,410
Increase (decrease) in deferred outflows - OPEB		15,873		
(Increase) in interest accrued on long term debt		(667)		(3,487)
(Increase) decrease in accrued salaries and compensated absenc		17,154		(13,122)
(Increase) decrease in pension liability		29,884		(126,894)
(Increase) decrease in deferred inflows - pension		2,044		11,509
(Increase) decrease in deferred inflows - OPEB		(199,285)		
(Increase) decrease in accrued OPEB liability		24,815		(93,109)
Capital outlay		165,013		118,253
Depreciation		(255,828)		(257,433)
Proceeds from installment purchases		-		(300,849)
Transfer to Crossroad Hills Project		-		49,284
Total reconciling items		(66,936)		(344,020)
Change in net position - Water and Sewer Fund		\$ 356,703		\$ 160,290

**Town of Canton, North Carolina**  
**Water and Sewer Capital Project Fund**  
**Crossroad Hill Water Association Water System Consolidation Project**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual**  
From Inception and for the year ended June 30, 2018

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental:					
NC Drinking Water State Revolving Fun	\$ 2,464,200	\$ -	\$ -	\$ -	\$(2,464,200)
Total revenues	<u>2,464,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,464,200)</u>
Expenditures:					
Capital Outlay					
Engineering design	25,000	10,000	-	10,000	15,000
Design and permitting	160,000	160,000	-	160,000	-
Bidding and awarding	10,000	10,000	-	10,000	-
Construction administration	150,000	7,600	3,949	11,549	138,451
Legal/Administration/Testing	25,000	3,135	28,859	31,994	(6,994)
Construction cost	1,917,400	-	152,975	152,975	1,764,425
Closing fee	49,284	-	42,147	42,147	7,137
Contingency	176,800	-	-	-	176,800
Total expenditures	<u>2,513,484</u>	<u>190,735</u>	<u>227,930</u>	<u>418,665</u>	<u>2,094,819</u>
Revenues under expenditures	<u>(49,284)</u>	<u>(190,735)</u>	<u>(227,930)</u>	<u>(418,665)</u>	<u>(369,381)</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund	49,284	49,284	-	49,284	-
Revenue and other sources over (under) expenditures	<u>-</u>	<u>\$ (141,451)</u>	<u>\$ (227,930)</u>	<u>\$ (369,381)</u>	<u>\$ (369,381)</u>

**Town of Canton, North Carolina**  
**Water and Sewer Capital Project Fund**  
**Spruce Street Area Water System Improvements Project**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual**  
From Inception and for the year ended June 30, 2018

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental:					
NC Drinking Water State Revolving Fun	\$ 1,697,000	\$ -	\$ -	\$ -	\$(1,697,000)
Total revenues	<u>1,697,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,697,000)</u>
Expenditures:					
Capital Outlay					
Engineering design	10,000	-	10,000	10,000	-
Design and permitting	98,600	-	49,300	49,300	49,300
Bidding and awarding	10,000	-	-	-	10,000
Construction administration	95,000	-	-	-	95,000
Legal/Administration/Testing	16,000	-	-	-	16,000
Construction cost	1,334,000	-	-	-	1,334,000
Closing fee	33,940	-	-	-	33,940
Contingency	133,400	-	-	-	133,400
Total expenditures	<u>1,730,940</u>	<u>-</u>	<u>59,300</u>	<u>59,300</u>	<u>1,671,640</u>
Revenues under expenditures	<u>(33,940)</u>	<u>-</u>	<u>(59,300)</u>	<u>(59,300)</u>	<u>(25,360)</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund	<u>33,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,940</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>\$ -</u>	<u>\$ (59,300)</u>	<u>\$ (59,300)</u>	<u>\$ (59,300)</u>

**Town of Canton, North Carolina**  
**General Fund Capital Project Fund**  
**Canton Aquatic Center Capital Project**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual**  
From Inception and for the year ended June 30, 2018

	Project Authorization	Prior Years	Current Year	Total To Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental:					
NC Rural Center Step Grant	\$ 7,169	\$ 7,169	\$ -	\$ 7,169	\$ -
Glass Foundation Grant	50,000	50,000	-	50,000	-
PARTF Grant	350,000	-	350,000	350,000	-
Interest earnings	-	25	1	26	26
Donations	200,000	73,060	255,627	328,687	128,687
Total revenues	<u>607,169</u>	<u>130,254</u>	<u>605,628</u>	<u>735,882</u>	<u>128,713</u>
Expenditures:					
Capital Outlay					
Design/administration/permitting	226,419	228,565	24,049	252,614	(26,195)
Construction	1,948,246	1,180,412	843,791	2,024,203	(75,957)
Contingency	-	-	-	-	-
Total expenditures	<u>2,174,665</u>	<u>1,408,977</u>	<u>867,840</u>	<u>2,276,817</u>	<u>(102,152)</u>
Revenues under expenditures	<u>(1,567,496)</u>	<u>(1,278,723)</u>	<u>(262,212)</u>	<u>(1,540,935)</u>	<u>26,561</u>
Other Financing Sources (Uses):					
Loan proceeds	775,000	775,000	-	775,000	-
Transfer from General Fund	792,496	719,250	48,357	767,607	(24,889)
Total other financing sources (uses)	<u>1,567,496</u>	<u>1,494,250</u>	<u>48,357</u>	<u>1,542,607</u>	<u>(24,889)</u>
Revenue and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 215,527</u>	<u>\$ (213,855)</u>	<u>\$ 1,672</u>	<u>\$ 1,672</u>

**OTHER SCHEDULES**

**Town of Canton, North Carolina  
General Fund  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2018**

Fiscal Year	Uncollected Balance June 30, 2017	Additions	Collections And Credits	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 2,914,165	2,845,747	\$ 68,418
2016-2017	80,209	-	60,676	19,533
2015-2016	37,282	-	29,458	7,824
2014-2015	21,079	-	14,169	6,910
2013-2014	17,125	-	7,795	9,330
2012-2013	11,976	-	1,642	10,334
2011-2012	11,858	-	1,366	10,492
2010-2011	12,851	-	1,587	11,264
2009-2010	11,203	-	1,903	9,300
2008-2009	15,293	-	5,905	9,388
2007-2008	9,638	-	6,061	3,577
	<u>\$ 228,514</u>	<u>\$ 2,914,165</u>	<u>\$ 2,976,309</u>	<u>166,370</u>
	Less: allowance for uncollectible accounts:			
	General Fund			<u>89,951</u>
	Ad valorem taxes receivable - net			<u>\$ 76,419</u>
	<u>Reconciliation with revenues:</u>			
	Ad valorem taxes - General Fund			<u>\$ 2,994,917</u>
	Reconciling items:			
	Interest collected			(25,543)
	Releases and other			874
	Taxes written off			<u>6,061</u>
	Subtotal			<u>(18,608)</u>
	Total collections and credits			<u>\$ 2,976,309</u>



**Town of Canton, North Carolina  
 Analysis of Current Tax Levy  
 Town - Wide Levy  
 For the Fiscal Year Ended June 30, 2018**

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property - real and personal	468,749,828	0.58	\$ 2,718,749	\$ 2,718,749	\$ -
Registered motor vehicles	33,173,621	0.58	192,407	-	192,407
Advertising			2,088	2,088	-
Total			2,913,244	2,720,837	192,407
Discoveries:					
Current year taxes	158,793	0.58	921	921	-
Total property valuation	502,082,241				
Net levy			2,914,165	2,721,758	192,407
Uncollected taxes at June 30, 2018			(68,418)	(68,418)	-
Current year's taxes collected			\$ 2,845,747	\$ 2,653,340	\$ 192,407
Current levy collection percentage			97.65%	97.49%	100.00%

**COMPLIANCE SECTION**

# SHEILA GAHAGAN, CPA

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Clyde, NC 28721

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor  
and Members of the Board of Aldermen  
Town of Canton, North Carolina

I have audited , in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Canton, North Carolina as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Canton's basic financial statements and have issued my report thereon dated October 30, 2018. Other auditors audited the financial statements of the Town of Canton's ABC Board, as described in my report on the Town of Canton's financial statements. The financial statements of the Town of Canton's ABC Board were not audited in accordance with *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing the audit on the financial statements, I considered the Town of Canton, North Carolina's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Canton, North Carolina's internal control over financial reporting. Accordingly, I did not express an opinion on the effectiveness of the Town of Canton, North Carolina'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 a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Canton, North Carolina's financial statements are free of material misstatement, I 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 the audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as items 2018-1.

### **Town of Canton, North Carolina's Response to Findings**

The Town of Canton, North Carolina's response to the finding identified in the audit is described in the accompanying schedule of findings and questioned costs. The Town of Canton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

The Town of Canton, North Carolina agrees with the noncompliance finding and will closely monitor budget reports considering possible year-end payables and all debt payments in the future.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Sheila Gahagan, CPA

October 30, 2018

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## **Report on Compliance For Each Major State Program; Report on Internal Control Over Compliance in Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act**

### **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the Board of Aldermen  
Town of Canton, North Carolina

#### **Report on Compliance for Each Major State Program**

I have audited the Town of Canton, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Canton's major state programs for the year ended June 30, 2018. The Town of Canton's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of the Town of Canton's major state programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the *State Single Audit Implementation Act*. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Canton's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major state program. However, my audit does not provide a legal determination of the Town of Canton's compliance.

### **Opinion on Each Major State Program**

In my opinion, the Town of Canton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of the Town of Canton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Town of Canton's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Sheila Gahagan, CPA

October 30, 2018

**TOWN OF CANTON, NORTH CAROLINA  
SCHEDULE OF FINDING AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**I. Summary of Auditor's Results**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

Material weakness identified  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  None reported

Noncompliance material to financial statements noted  Yes  No

State Awards

Internal control over major state programs:

Material weakness identified  Yes  No

Significant deficiency(s) identified  Yes  None reported

Type of auditor's report issued on compliance for major state programs: Unmodified.

Any audit findings disclose that are required to be reported in accordance with 2 CFR 200.516(a) and State Single Audit Act

Yes  No

Identification of major state programs:

Contract Number	State Program
2017-824	North Carolina Parks and Recreation Trust Fund

Dollar threshold used to distinguish between Type A and Type B program: \$500,000

Auditee qualified as low-risk auditee?  Yes  No

**TOWN OF CANTON, NORTH CAROLINA.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**II. Financial Statements Findings**

Criteria: North Carolina general statutes require expenditures be incurred and paid only if funds are available within the appropriate budgeted line item as approved by the Board.

Condition: Instances of expenditures exceeding authorized appropriations within expense categories occurred during the year ended June 30, 2018.

Effect: Budgetary noncompliance.

Cause: These over-expenditures occurred because of adjustments that were found near or after year end and a lack of review of detailed line items compared to the budget within capital project funds.

Recommendation: The Finance Officer should continuously review budget and actual expenditure reports considering the accuracy of transactions reported, previous spending and the expected future needs of the Town. The Town Manager and the Board should carefully review budget and actual expenditures at least monthly and make necessary adjustments as needed.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the correction action plan on page 79 in this audit report.

**III. State Award Findings and Questioned Costs**

None Reported



**TOWN OF CANTON, NORTH CAROLINA  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018**

**II. Financial Statement Findings**

**2018 – 1**

Name of contact person: Natalie Walker, Finance Officer

Corrective Action: The Finance Officer will reconcile general ledger accounts at least monthly and continuously review budget and actual expenditures. The Finance Officer, Town Manager and the Board will more closely review budget and actual expenses.

Proposed Completion Date: The Board will implement the above procedure immediately.

**III. State Award Findings and Questioned Costs**

None reported.

**TOWN OF CANTON, NORTH CAROLINA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2018**

**II. Financial Statement Finding**

**2017 - 1**

Finding: Last year general fund expenditures exceeded the budget for debt service and in one department.

Status: There have been two different Finance Officers over the past two years. The new Finance Officer understands budget requirements and improvements were made in reviewing budget to actual expenditures but this is a repeat finding.

Corrective Action: The Board, Finance Officer and Town Manager will review all funds, including capital projects, comparing budgeted and actual expenses and making adjustments as needed.

**Town of Canton, North Carolina**  
**Schedule of Expenditures of State Awards**  
**For the Year Ended June 30, 2018**

	State Contract Number	State Expenditures	Pass-Through to Sub- Recipients
<b><u>NC Dept. of Natural and Cultural Resources</u></b>			
NC Parks and Recreation Trust Fund	2017-824	\$ 350,000	-
<b><u>NC Dept. of Environmental Quality</u></b>			
Passed through the Division of Water Infrastructure: Asset Inventory and Assessment Grant	H-AIA-D-17-0068	48,650	-
<b><u>NC Dept. of Public Safety</u></b>			
Governors Crime Commission Grant		22,526	-
<b><u>NC Dept. of Transportation</u></b>			
Powell Bill	Powell Bill DOT 4	138,117	-
<b>Total expenditures of state awards</b>		<b>\$ 559,293</b>	<b>-</b>

Notes to the Schedule of Expenditures of State Financial Awards:

1 Basis of Presentation

The accompanying schedule of expenditures of state awards includes the state award activity of the Town of Canton, North Carolina under programs for the year ended June 30, 2018 in accordance with the requirements of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal awards (Uniform Guidance)* and the State Single Audit Act. Because the Schedule only presents a selection portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Town of Canton, North Carolina.

2 Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and State Single Audit Act, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.