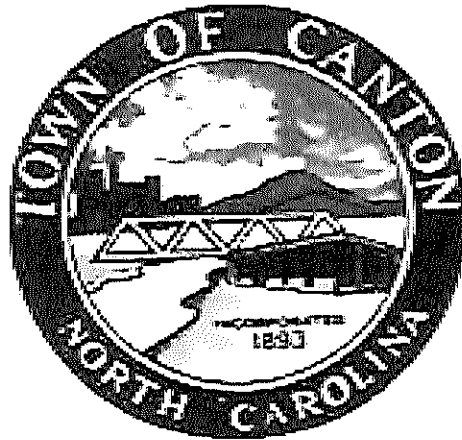


TOWN OF CANTON, NORTH CAROLINA



FINANCIAL STATEMENTS

June 30, 2017

(With Independent Auditor's Report Thereon)

TOWN OF CANTON

Canton, North Carolina

Mayor and Board of Aldermen

Michael B. Ray

Mayor

Gail Mull

Mayor Pro-Tem

Zeb Smathers

Alderman

Carole Edwards

Alderwoman

Dr. Ralph Hamlett

Alderman

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Clyde, NC 28721

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on the audit. I did not audit the financial statements of the Town of Canton ABC Board. Those statements were audited by another auditor 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 another auditor. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Town of Canton ABC Board were not audited in accordance with *Government 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 estimates made by management, as well as evaluating the overall financial statement 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 on 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Canton, North Carolina as of June 30, 2017, and the respective changes in financial position and where applicable cash flows thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 13, Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions, on pages 53-54 respectively, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on page 55-56 and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 57-58, , be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. I 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 the 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 me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining and individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates 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 statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 30, 2017 on my consideration of Town of Canton's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Canton's internal control over financial reporting and compliance.



Sheila Gahagan, CPA
October 30, 2017

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, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

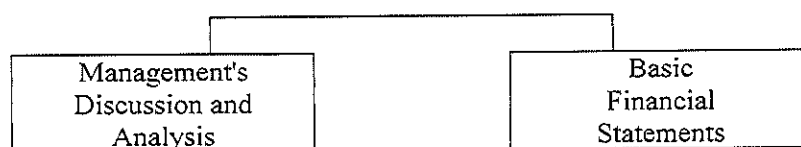
- The assets and deferred outflows of resources of the Town of Canton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$18,224,319 (*net position*).
- The government's total net position increased by \$231,780 due to increases in business-type activities of \$160,290, and an increase of \$71,490 in governmental-type activities.
- As of the close of the current fiscal year, the Town of Canton's governmental funds reported combined ending fund balances of \$3,269,968, a decrease of \$276,104 in comparison with the prior year. Approximately 46% of this total amount, or \$1,511,184 is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,758,784.
- The Town of Canton's total debt increased by \$2,379,101 or 40% during the current fiscal year.

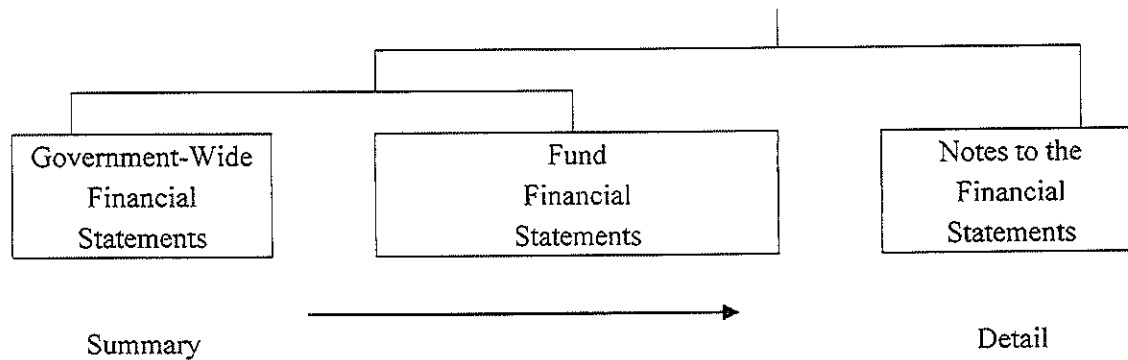
Overview of the Financial Statements

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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 4,470,162	\$ 3,909,549	\$ 2,943,897	\$ 2,915,318	\$ 7,414,059	\$ 6,824,867
Capital assets	10,491,946	8,680,387	8,861,476	8,516,351	19,353,422	17,196,738
Deferred outflow	745,428	252,136	201,339	78,929	946,767	331,065
Total assets and deferred outflows of resources	15,707,536	12,842,072	12,006,712	11,510,598	27,714,248	24,352,670
Current liabilities	1,276,177	299,814	294,686	294,219	1,570,863	594,033
Long-term liabilities outstanding	5,504,755	3,501,864	2,376,107	2,029,241	7,880,862	5,531,105
Deferred inflows of resources	32,367	73,949	5,837	17,346	38,204	91,295
Total liabilities and deferred inflows of resources	6,813,299	3,875,627	2,676,630	2,340,806	9,489,929	6,216,433
Net Position						
Net investment in capital assets	8,891,466	8,171,244	7,167,358	6,973,664	16,058,824	15,144,908
Restricted	1,078,455	1,163,815	-	-	1,078,455	1,163,815
Unrestricted	(1,075,684)	(368,614)	2,162,724	2,196,128	1,087,040	1,827,514
Total net position	\$ 8,894,237	\$ 8,966,445	\$ 9,330,082	\$ 9,169,792	\$ 18,224,319	\$ 18,136,237

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 \$18,224,319 as of June 30, 2017. The Town's net position increased by \$231,780 for the fiscal year ended June 30, 2017. However, a large portion \$16,058,824 (88%) 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 \$1,078,455 (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,087,040 (6%) is unrestricted.

Town of Canton's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 494,230	\$ 533,171	\$ 2,193,950	\$ 2,102,213	\$ 2,688,180	\$ 2,635,384
Operating grants and contributions	180,901	185,193	-	-	180,901	185,193
Capital grants and contributions	157,596	57,169	-	95,985	157,596	153,154
General revenues:						
Property taxes	2,847,400	2,827,573	-	-	2,847,400	2,827,573
Other taxes and licenses	3,967	3,800	-	-	3,967	3,800
Grants and contributions not restricted	2,017,259	2,019,097	-	-	2,017,259	2,019,097
Investment earnings	12,722	7,394	11,444	6,088	24,166	13,482
Other	281,470	104,341	4,972	-	286,442	104,341
Total revenues	<u>5,995,545</u>	<u>5,737,738</u>	<u>2,210,366</u>	<u>2,204,286</u>	<u>8,205,911</u>	<u>7,942,024</u>
Expenses:						
General government	941,989	1,245,187	-	-	941,989	1,245,187
Public safety	2,579,264	2,296,946	-	-	2,579,264	2,296,946
Public works	1,566,336	1,596,835	-	-	1,566,336	1,596,835
Environmental Protection	195,882	196,547	-	-	195,882	196,547
Cultural and recreation	625,842	580,800	-	-	625,842	580,800
Interest expense	14,742	16,609	-	-	14,742	16,609
Water and sewer	-	-	2,050,076	1,861,209	2,050,076	1,861,209
Total expenses	<u>5,924,055</u>	<u>5,932,924</u>	<u>2,050,076</u>	<u>1,861,209</u>	<u>7,974,131</u>	<u>7,794,133</u>
Change in net position before transfers	71,490	(195,186)	160,290	343,077	231,780	147,891
Net position, July 1	8,966,445	9,161,631	9,169,792	8,826,715	18,136,237	17,988,346
Restatement	(143,698)	-	-	-	(143,698)	-
Net position, June 30	<u>\$ 8,894,237</u>	<u>\$ 8,966,445</u>	<u>\$ 9,330,082</u>	<u>\$ 9,169,792</u>	<u>\$ 18,224,319</u>	<u>18,136,237</u>

Governmental activities. Governmental activities increased the Town's net position by \$71,490 thereby accounting for 31% 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 \$160,290 accounting for 69% 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 \$1,758,784, while total fund balance reached \$3,269,968. 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 23% of general fund expenditures, while total fund balance represents 44 % of that same amount.

At June 30, 2017, the general fund reported a combined fund balance of \$3,269,968, a 8% 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 \$2,162,724. The total increase in net position for the Water and Sewer Fund was \$160,290. The Water and Sewer Fund increase was due largely to the rate of charges set to earn a profit to cover future expenditures. There is a capital project included in the proprietary fund, Crossroad Hill Water Association Water System Consolidation 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, 2017, totals \$19,353,422 (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	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,328,317	\$ 4,328,317	\$ 220,279	\$ 220,279	\$ 4,548,596	\$ 4,548,596
Buildings & systems	3,037,286	3,125,180	8,096,004	8,230,014	11,133,290	11,355,194
Machinery & Equipment	522,422	533,071	-	-	522,422	533,071
Vehicles & motorized equipment	992,847	564,108	60,891	66,058	1,053,738	630,166
Construction in progress	1,611,074	129,711	484,302	-	2,095,376	129,711
	<u>\$10,491,946</u>	<u>\$ 8,680,387</u>	<u>\$ 8,861,476</u>	<u>\$ 8,516,351</u>	<u>\$ 19,353,422</u>	<u>\$ 17,196,738</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, 2017, 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	
	2017	2016	2017	2016	2017	2016
Note payable	\$ 1,592,584	\$ 509,143	\$ 1,694,118	\$ 1,542,686	\$ 3,286,702	\$ 2,051,829
OPEB liability	2,897,369	2,539,641	659,107	565,998	3,556,476	3,105,639
Net pension obligation	638,229	130,653	159,557	32,663	797,786	163,316
Total pension liability (LEO)	297,086	286,920	-	-	297,086	286,920
Capital lease	7,896	-	-	-	7,896	-
Compensated absences	300,526	269,509	67,876	58,034	368,402	327,543
	<u>\$ 5,733,690</u>	<u>\$ 3,735,866</u>	<u>\$ 2,580,658</u>	<u>\$ 2,199,381</u>	<u>\$ 8,314,348</u>	<u>\$ 5,935,247</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 \$30,518,223.

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, 2018

Governmental Activities:

- The proposed tax rate for remains at \$0.58 per \$100 of valuation, a \$0.0 increase from last fiscal year. Canton has held this rate for nine years; however, it remains the highest in Haywood County.
- The Town expects to see an increase in not only property valuations as a result of Haywood County property tax reassessments but also the location of a number of new commercial buildings and businesses within the town which have made substantial improvements to buildings and property.
- Construction of the town's new pool/aquatic facility, located at Canton Recreation Park is complete. We anticipate its opening to be sometime in March of 2018.
- For the fiscal year 2017–2018, with regard to salaries, the Board of Aldermen/women authorized a 2% COLA and up to 1% in the form of merit based increase.
- While beginning FY 2017–2018 with BCBS of North Carolina as our medical insurance provider the town has recently opted to go a different route and will be canceling BCBSNC and once again be contracting with MedCost through the NC League of Municipalities MIT insurance program. This will not only insure that our employees continue to receive the same caliber of insurance of which they have been accustomed but also have the peace of mind knowing the Mission Health Systems is "in-network" through MedCost. This decision was purely spurred by the continued back and forth between BCBS and Mission Health System. While the premium will increase slightly with MedCost (a total of 8.8%), MedCost has agreed to lock that premium rate in until June 30, 2019 if the town chooses to renew with them again at the end of FY 2017-2018. Also, we see

this move as having the potential for cost savings over our existing insurance programs. The savings is estimated to be between \$20,000 and \$40,000. This savings will be realized by our ability to no longer have supplemental reimbursement plans in place to ensure that co-pays, deductibles, etc. were kept at the same level prior to transition to BCBSNC.

- The purchase of all previously reported police vehicles in conjunction with a new take home car program have been delivered and been in action for approximately 6 months. This addition will improve rapid response and reduce maintenance costs as well as, increase moral and retention of officers within the department.
- The Board of Aldermen/women continued the promotion of economic development throughout our community by again including \$50,000 in the FY 2017-2018 budget for incentive/improvement grants. In 2016-2017 we saw 8 grant applications for a combination of façade and interior building improvement grants through these programs. This program has been instrumental in assisting the town in redevelopment efforts as well as, sparked a tremendous amount of interest from other potential investors from the Asheville/Buncombe County areas. Already this fiscal year 3 downtown buildings have changed hands through the sale of commercial buildings/properties and house new businesses.

Business Activities

- The Town did not increase water and sewer rates for customers (inside or out) this fiscal year; however, close analysis will need to be done in FY 2018-2019 to ensure that rates are competitive with other municipalities in the area and throughout the region. The primary purpose of this will be so that the town can be competitive in grant application for infrastructure projects. Additionally, an increase in utility revenue would expect to be seen.
- The Town continues to comply with State-mandated sewer cleaning and videoing. The annual cost is approximately \$50,000, which pays for cleaning and videoing 10% of all sewer lines each year. This year (post contracted cleaning) the town elected to purchase its own vacuum machine which moving forward will allow it to clean and video its own sewer lines. The payback on this decision will be 1 ½ years after which the town will be in the green on this purchase and will reduce the water/sewer budget (theoretically) by \$50,000 each year forward while still allowing for the effective cleaning and videoing of sewer lines. It is expected that with this equipment and on an annual basis the town will be able to clean and video much more than the 10% required to be in compliance.

Other activities that are underway are as follows:

- Crossroad Hills Water Association Consolidation—The Town has been 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. Design is underway and construction is expected to begin the spring, 2017.

Spruce Street Area Water Pressure Improvements—The Town has applied for a \$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. Without grant funding, the Town may have to look at financing options to solve this water system failure

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.

BASIC FINANCIAL STATEMENTS

Town of Canton, North Carolina
Statement of Net Position
June 30, 2017

	Primary Government			Town of Canton ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,106,381	\$ 2,673,150	\$ 5,779,531	\$ 30,500
Accrued interest receivables on taxes	43,577	-	43,577	-
Taxes receivables (net)	105,746	-	105,746	-
Accounts receivable (net)	60,993	194,215	255,208	21,323
Due from other governments	533,931	46,815	580,746	-
Inventories	5,747	-	5,747	159,003
Prepaid expenses	4,750	-	4,750	11,974
Restricted cash and cash equivalents	609,037	29,717	638,754	5,887
Total current assets	4,470,162	2,943,897	7,414,059	228,687
Non-current assets:				
Net pension asset	-	-	-	-
Capital assets:				
Land, non-depreciable improvements, and construction in process	5,939,391	704,581	6,643,972	128,079
Other capital assets, net of depreciation	4,552,555	8,156,895	12,709,450	159,319
Total capital assets	10,491,946	8,861,476	19,353,422	287,398
Total assets	14,962,108	11,805,373	26,767,481	516,085
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	745,428	201,339	946,767	43,156
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	949,808	67,786	1,017,594	73,285
Accrued interest payable	-	16,013	16,013	-
Customer prepayments	67,434	-	67,434	-
Unearned grant revenue	30,000	-	30,000	-
Payable from restricted assets-customer deposits	-	6,335	6,335	-
Current portion of long term debt	228,935	204,552	433,487	23,920
Total current liabilities	1,276,177	294,686	1,570,863	97,205
Long-term liabilities:				
Due in more than one year	1,431,650	1,509,642	2,941,292	-
Compensated absences payable	240,421	47,801	288,222	-
Total pension liability	297,086	-	297,086	-
Net pension liability	638,229	159,557	797,786	-
OPEB liability	2,897,369	659,107	3,556,476	28,439
Total liabilities	6,780,932	2,670,793	9,451,725	125,644
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	28,738	5,837	34,575	997
Prepaid taxes	3,629	-	3,629	-
Total deferred inflows of resources	32,367	5,837	38,204	997
NET POSITION				
Net investment in capital assets	8,891,466	7,167,358	16,058,824	266,863
Restricted for:				
Stabilization by State Statue	502,240	-	502,240	-
Transportation	326,348	-	326,348	-
Public safety	34,340	-	34,340	-
Cultural and recreation	215,527	-	215,527	-
ABC Board - working capital	-	-	-	41,348
Unrestricted	(1,075,684)	2,162,724	1,087,040	124,389
Total net position	\$ 8,894,237	\$ 9,330,082	\$ 18,224,319	\$ 432,600

See accountant's report and accompanying notes.

Town of Canton, North Carolina
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Town of Canton ABC Board
	Expenses	Charges for Services		Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities			Total		
Primary government:								
Governmental activities:								
General government	\$ 941,989	\$ 26,567	\$ 43,595	\$ -	\$ (871,827)	\$ -	\$ (871,827)	\$ -
Public safety	2,579,264	140,682	-	-	(2,438,582)	-	(2,438,582)	-
Public Works	1,566,336	-	137,306	157,596	(1,271,434)	-	(1,271,434)	-
Environmental protection	195,882	231,688	-	-	35,806	-	35,806	-
Cultural and recreation	625,842	95,293	-	-	(530,549)	-	(530,549)	-
Interest on long-term debt	14,742	-	-	-	(14,742)	-	(14,742)	-
Total governmental activities	5,924,055	494,230	180,901	157,596	(5,091,328)	-	(5,091,328)	-
Business-type activities:								
Water and sewer	2,050,076	2,193,950	-	-	-	143,874	143,874	-
Total business-type activities	2,050,076	2,193,950	-	-	-	143,874	143,874	-
Total primary government	\$ 7,974,131	\$ 2,688,180	\$ 180,901	\$ 157,596	(5,091,328)	143,874	(4,947,454)	-
Component Units:								
Canton ABC Board	1,303,093	1,358,142	-	-	-	-	-	45,233
Total Component Unit	\$ 1,303,093	\$ 1,358,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,233
General revenues:								
Taxes:								
Property taxes, levied for general purpose					2,847,400	-	2,847,400	-
Other taxes and licenses					3,967	-	3,967	-
Grants and contributions not restricted to specific programs					2,017,259	-	2,017,259	-
Unrestricted investment earnings					12,722	11,444	24,166	-
Gain (loss) on sale of asset					122,283	-	122,283	-
Miscellaneous					159,187	4,972	164,159	-
Total general revenues and transfers					5,162,818	16,416	5,179,234	-
Change in net position					71,490	160,290	231,780	45,233
Net position-beginning, previously reported					8,966,445	9,169,792	18,136,237	387,367
Restatement					(143,698)	-	(143,698)	-
Net position-ending					\$ 8,894,237	\$ 9,330,082	\$ 18,224,319	\$ 432,600

See accountant's report and accompanying notes.

Town of Canton, North Carolina
Balance Sheet
Governmental Funds
June 30, 2017

Exhibit 3

	<u>General Fund</u>	<u>Canton Aquatic Center Project</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,482,042	\$ 624,339	\$ 3,106,381
Restricted cash	364,389	244,648	609,037
Receivables, net:			-
Taxes	149,323	-	149,323
Accounts	60,993	-	60,993
Due from other governments	533,931	-	533,931
Prepaid expenses	4,750	-	4,750
Inventories	5,747	-	5,747
Total assets	<u>\$ 3,601,175</u>	<u>\$ 868,987</u>	<u>\$ 4,470,162</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 198,611	\$ 653,460	\$ 852,071
Salaries and payroll taxes payable	97,737	-	97,737
Unearned grant revenue	30,000	-	30,000
Customer prepayments	67,434	-	67,434
Total liabilities	<u>393,782</u>	<u>653,460</u>	<u>1,047,242</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	\$ 149,323	\$ -	\$ 149,323
Prepaid taxes	3,629	-	3,629
Total deferred inflows of resources	<u>152,952</u>	<u>-</u>	<u>152,952</u>
Fund balances:			
Non Spendable			
Inventories	5,747	-	5,747
Restricted:			
Stabilization by State Statute	502,240	-	502,240
Police	34,340	-	34,340
Streets	326,348	-	326,348
Recreation	-	215,527	215,527
Assigned: Subsequent year's expenditures	426,982	-	426,982
Unassigned	1,758,784	-	1,758,784
Total fund balances	<u>3,054,441</u>	<u>215,527</u>	<u>3,269,968</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 3,601,175</u>	<u>\$ 868,987</u>	<u>\$ 4,470,162</u>

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

Total Fund Balance, Governmental Funds	3,269,968
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,491,946
Deferred outflows of of resources - pension	745,428
Liabilities for earned but deferred tax revenues considered deferred inflows of resources in fund statements.	149,323
Pension related deferrals	(28,738)
Long term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(5,733,690)
Net position of governmental activities	<u>8,894,237</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, 2017

Exhibit 4

	<u>General Fund</u>	<u>Canton Aquatic Center Project</u>	<u>Total</u>
REVENUES			
Ad valorem taxes	\$ 2,891,851	-	2,891,851
Other taxes and licenses	3,967	-	3,967
Unrestricted intergovernmental	2,017,259	-	2,017,259
Restricted intergovernmental	180,901	-	180,901
Permits and fees	575	-	575
Sales and services	493,655	-	493,655
Investment earnings	12,697	25	12,722
Miscellaneous	95,914	63,273	159,187
Total revenues	<u>5,696,819</u>	<u>63,298</u>	<u>5,760,117</u>
EXPENDITURES			
Current:			
General government	1,158,451	-	1,158,451
Public safety	2,648,922	-	2,648,922
Public works	1,543,178	-	1,543,178
Environmental protection	195,881	-	195,881
Culture and recreation	566,997	1,279,267	1,846,264
Debt service:			
Principal	96,068	-	96,068
Interest	14,742	-	14,742
Total expenditures	<u>6,224,239</u>	<u>1,279,267</u>	<u>7,503,506</u>
Excess (deficiency) of revenues over expenditures	(527,420)	(1,215,969)	(1,743,389)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	122,283	-	122,283
Capital contribution - Haywood County	157,596	-	157,596
Transfer to Canton Aquatic Center Capital Project	(598,000)	598,000	-
Installment purchase obligations issued	412,406	775,000	1,187,406
Total other financing sources	<u>94,285</u>	<u>1,373,000</u>	<u>1,467,285</u>
Net change in fund balance	(433,135)	157,031	(276,104)
Fund balances-beginning of year	3,487,576	58,496	3,546,072
Fund balances-end of year	<u>\$ 3,054,441</u>	<u>\$ 215,527</u>	<u>\$ 3,269,968</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, 2017

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

Net changes in fund balances - total governmental funds	\$ (276,104)
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.	1,811,558
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	(44,451)
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.	(1,091,338)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	236,466
Benefit payments paid and administrative expense for the LEOSA are not included on the Statement of Activities	6,908
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(31,016)
Pension expense	(182,804)
Other postemployment benefits	(357,729)
Total changes in net position of governmental activities	<u>\$ 71,490</u>

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, 2017

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes			\$ 2,891,851	
Other taxes and licenses			3,967	
Unrestricted intergovernmental			2,017,259	
Restricted intergovernmental			180,901	
Permits and fees			575	
Sales and services			493,655	
Investment earnings			12,697	
Miscellaneous			95,914	
Total revenues	<u>5,752,094</u>	<u>5,634,369</u>	<u>5,696,819</u>	<u>62,450</u>
Expenditures:				
Current:				
General government	1,058,277	1,052,840	1,158,451	(105,611)
Public safety	2,910,347	2,909,409	2,648,922	260,487
Public works	1,719,398	1,719,398	1,543,178	176,220
Environmental protection	207,454	207,454	195,881	11,573
Cultural and recreation	667,498	673,873	566,997	106,876
Debt service:				
Principal	21,144	21,144	96,068	(74,924)
Interest	8,884	8,884	14,742	(5,858)
Total expenditures	<u>6,593,002</u>	<u>6,593,002</u>	<u>6,224,239</u>	<u>368,763</u>
Revenues over expenditures	<u>(840,908)</u>	<u>(958,633)</u>	<u>(527,420)</u>	<u>431,213</u>
Other Financing Sources (uses)				
Transfer to Aquatic Center Project	-	(598,000)	(598,000)	-
Capital contribution	-	-	157,596	157,596
Sale of capital assets	143,700	121,600	122,283	683
Installment purchase obligation issued	409,192	409,192	412,406	3,214
Total other financing sources	<u>552,892</u>	<u>(67,208)</u>	<u>94,285</u>	<u>161,493</u>
Fund balance appropriated	<u>288,016</u>	<u>1,025,841</u>	<u>-</u>	<u>(1,025,841)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (433,135)</u>	<u>\$ (433,135)</u>
Fund balance, beginning			3,487,576	
Fund balances, end of year			<u>\$ 3,054,441</u>	
Fund balance Aquatic Center, year end			<u>215,527</u>	
			<u>\$ 3,269,968</u>	

See accountant's report and accompanying notes.

Exhibit 6

Town of Canton, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2017

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,673,150
Accounts receivable (net) - billed	54,980
Accounts receivable (net) - unbilled	139,235
Due from other governments	46,815
Restricted cash and cash equivalents	29,717
Total current assets	<u>2,943,897</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	704,581
Other capital assets, net of depreciation	8,156,895
Capital assets (net)	<u>8,861,476</u>
Total noncurrent assets	<u>8,861,476</u>
Total assets	<u>11,805,373</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	<u>201,339</u>
 LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	45,822
Salaries and payroll taxes payable	21,964
Accrued interest payable	16,013
Compensated absences - current	20,076
Installment purchase - current	184,476
Liabilities payable from restricted assets:	
Customer deposits	6,335
Total current liabilities	<u>294,686</u>
Noncurrent liabilities:	
Compensated absences	47,801
Installment purchase	1,509,642
Other postemployment benefits	659,107
Net pension liability	159,557
Total noncurrent liabilities	<u>2,376,107</u>
Total liabilities	<u>2,670,793</u>
 DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	<u>5,837</u>
 NET POSITION	
Net investment in capital assets	7,167,358
Unrestricted	2,162,724
Total net position	<u>\$ 9,330,082</u>

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, 2017

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 2,135,240
Tap and reconnection fees	50,440
Other operating revenues	8,270
Total operating revenues	<u>2,193,950</u>
OPERATING EXPENSES	
Administration	234,442
Water treatment and distribution	1,513,552
Depreciation	257,433
Total operating expenses	<u>2,005,427</u>
Operating income (loss)	<u>188,523</u>
NONOPERATING REVENUES (EXPENSES)	
Sale of materials and equipment	4,972
Investment earnings	11,444
Interest and other charges	(44,649)
Total nonoperating revenue (expenses)	<u>(28,233)</u>
Change in net position	160,290
Total net position - beginning	9,169,792
Total net position - ending	<u><u>\$ 9,330,082</u></u>

See accountant's report and accompanying notes.

Exhibit 8

Town of Canton, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,187,798
Cash paid for goods and services	(801,478)
Cash paid to or on behalf of employees for services	(889,506)
Net cash provided by operations	<u>496,814</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sales of materials and equipment	4,972
Acquisition and construction of capital assets	(602,557)
Proceeds from installment purchases	300,849
Principal paid on installment purchase	(149,418)
Interest paid on installment purchase	(44,649)
Net cash used by capital and related financing activities	<u>(490,803)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	11,444
Purchase of investments	-
Net cash provided by investing activities	<u>11,444</u>
Net increase (decrease) in cash and cash equivalents	17,455
Balances-beginning of the year	2,685,412
Balances-end of the year	<u>\$ 2,702,867</u>
 Reconciliation of operating income to net cash provided by	
Operating income (loss)	<u>\$ 188,523</u>
Adjustments to reconcile operating income to net cash	
Depreciation	257,433
Changes in assets, deferred outflows of resources and liabilities:	
Decrease (Increase) in accounts receivable	(14,107)
Decrease (Increase) in due from other government	2,983
Decrease (Increase) in prepaid expenses	-
Decrease (Increase) in pension asset	-
Decrease (Increase) in deferred outflows of resources	(122,410)
Increase (decrease) in deferred inflow of resources	(11,509)
Increase (Decrease) in accounts payable and accrued liabilities	(37,432)
Increase (Decrease) in pension liability	126,894
Increase (Decrease) in accrued interest payable	3,487
Increase (Decrease) in accrued compensated absences	9,844
Increase (Decrease) in other postemployment benefits	93,108
Total adjustments	<u>308,291</u>
Net cash provided by operating activities	<u>\$ 496,814</u>

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:

Pandora Circle-Spruce Street Water System Improvement Project - This fund was used to account for improvements to the Upper Beaverdam Water System. This project was completed during the current year.

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.

Town of Canton Restricted Cash

Governmental Activities			
General Fund	Streets	\$	326,348
	Aquatic Center		244,648
	Police Vehicles		38,041
Business-type Activities			
Water and Sewer Fund	Customer Deposits	\$	6,335
	Meter Replacement		23,382
Total Restricted Cash		\$	<u>638,754</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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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 deferrals for the 2017 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 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. Issuance 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, 2017 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, 2017, 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.

Restricted for Recreation – portion of fund balance that is restricted by loan agreement for construction of the Aquatics Center.

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, 2017, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for planning and zoning activities by \$131,400. This over-expenditure occurred because of additional payables at year end that were not accounted for. Also in the General Fund expenditures exceeded the authorized appropriations for debt service by \$80,782. This over-expenditure occurred because of an error in budgeting to correctly account for principal retirement. Expenditures made in the Canton Aquatic Center Capital Project exceeded authorized appropriations made by the governing board for the design/administration/permitting line item by \$2,146. This over-expenditure occurred because of project change orders. Management and the Board will more closely review the budget reports and consider accounts payables to ensure compliance in future years.

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, 2017, the Town's deposits had a carrying amount of \$6,417,385 and a bank balance of \$6,525,127. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$6,275,127 was covered by collateral held under the pooling method. At June 30, 2017, the Town's petty cash fund totaled \$900. The bank balance includes \$1,015,175 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 \$34,637 and a bank balance of \$69,727. All the bank balance was covered by federal depository insurance. The store also had cash on hand at June 30, 2017 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 \$44,374. The accounts

receivable amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2017 is net of the following allowances for doubtful accounts:

Fund	Allowance
General fund:	
Property taxes receivable	\$ 122,768
Water and sewer enterprise fund:	
Utility accounts receivable	<u>110,962</u>
Total	\$ 233,730

3. Capital Assets

Capital Asset Activity for the Primary Government for the year ended June 30, 2017 was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 129,711	\$ 1,481,363	\$ -	\$ 1,611,074
Land	<u>4,328,317</u>	<u>-</u>	<u>-</u>	<u>4,328,317</u>
Total capital assets not being depreciated	<u>4,458,028</u>	<u>1,481,363</u>	<u>-</u>	<u>5,939,391</u>
Capital assets being depreciated:				
Buildings	2,722,937	26,175	-	2,749,112
Infrastructure	2,152,633	-	-	2,152,633
Equipment	1,185,469	52,367	-	1,237,836
Vehicles and motorized equipment	<u>1,393,265</u>	<u>546,617</u>	<u>296,720</u>	<u>1,643,162</u>
Total capital assets being depreciated	<u>7,454,304</u>	<u>625,159</u>	<u>296,720</u>	<u>7,782,743</u>
Less accumulated depreciation for:				
Buildings	1,643,700	78,192	-	1,721,892
Infrastructure	106,690	35,877	-	142,567
Equipment	652,398	63,016	-	715,414
Vehicles and motorized equipment	<u>829,157</u>	<u>117,878</u>	<u>296,720</u>	<u>650,315</u>
Total accumulated depreciation	<u>3,231,945</u>	<u>294,963</u>	<u>296,720</u>	<u>3,230,188</u>
Total capital assets being depreciated, net	<u>4,222,359</u>			<u>4,552,555</u>
Governmental activity capital assets, net	<u>\$ 8,680,387</u>			<u>\$ 10,491,946</u>

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

General government	\$	58,018
Public safety		121,893
Public Works		43,846
Environmental protection		-
Cultural and recreational		71,206
Total depreciation expense	\$	<u>294,963</u>

	Beginning Balances	Additions	Retirements	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 220,279	\$ -	\$ -	\$ 220,279
Construction in progress	-	484,302	-	484,302
Total capital assets not being Depreciated	220,279	484,302	-	704,581
Capital assets being depreciated:				
Plant and distribution systems	12,084,135	118,255	-	12,202,390
Vehicles and motorized equipment	201,842	-	-	201,842
Total capital assets being Depreciated	12,285,977	118,255		12,404,232
Less accumulated depreciation for:				
Plant and distribution systems	3,854,120	252,266	-	4,106,386
Vehicles and motorized equipment	135,784	5,167		140,951
Total accumulated depreciation	3,989,904	257,433	-	4,247,337
Total capital assets being depreciated, net	8,296,073			8,156,895
Business-type activities capital assets, net	\$ 8,516,352			\$ 8,861,476

Construction commitments

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

Project	Spent-to-date	Remaining Commitment
Water meter replacement	\$ 724,143	\$ 23,254
Aquatic Center	1,408,977	870,381
Crossroad Hill Water Association water system consolidation	190,735	162,400
Total	\$ <u>2,323,855</u>	\$ <u>1,056,035</u>

Activity for the ABC Board for the year ended June 30, 2017, 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	209,932	17,195	-	227,127
Furniture and equipment	53,535	-	-	53,535
Computers	53,877	-	-	53,877
Total capital assets being depreciated	317,344	17,195	-	334,539
Less accumulated depreciation for:				
Buildings	78,428	7,052	-	85,480
Furniture and equipment	32,314	840	-	33,154
Computers	49,733	6,853	-	56,586
Total accumulated depreciation	160,475	14,745	-	175,220
Total capital assets being depreciated, net	156,869			159,319
Business-type activities capital assets, net	\$ 284,948			\$ 287,398

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.

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 five 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, 2017, was 7.01% of compensation for law enforcement officers and 6.46% 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 \$295,796 for the year ended June 30, 2017.

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

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

At June 30, 2017, the Town reported a liability of \$797,786 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension 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, 2016, the

Town's proportion was 0.0036%, which was a decrease of .002% of its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$253,745. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between excepted and actual expense	\$ 14,989	\$ 27,955
Changes of assumptions	54,641	-
Net difference between projected and actual earnings on pension plan investments	441,075	-
Changes in proportion and differences between contributions and proportionate share of contributions	140,656	1,228
Town's contributions subsequent to the measurement date	291,952	-
Total	<u>\$ 943,313</u>	<u>\$ 29,183</u>

\$943,313 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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 113,796
2019	113,863
2020	247,386
2021	<u>147,135</u>
	\$ 622,179

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

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

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the 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, 2016 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 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town'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 (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	1,893,518	797,786	(117,451)

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	12
Total	<u>13</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, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	3.86%
Projected salary increases	3.50 – 7.35%
Inflation	3.00%

The discount rate used to measure the TPL is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

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 \$6,908 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, 2017 the Town reported a total pension liability of \$297,086. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017 the Town recognized pension expense of \$22,639.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	5,392
Benefit payments and administrative expense subsequent to the measurement date	<u>3,454</u>	<u> </u>
Total	\$ 3,454	\$ 5,392

\$3,454 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	\$1,114
2019	1,114
2020	1,114
2021	1,114
2022	936

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	\$320,268	\$297,086	\$275,944

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

Beginning balance	\$286,920
Service cost	13,460
Interest	10,120
Change in benefit terms	-
Difference between expected and actuarial experience in the measurement of the total pension liability	-
Changes in assumptions and other inputs	(6,506)
Benefit payments	(6,908)
Other changes	-
Ending balance of the total pension liability	\$297,086

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. Contributions for the year ended June 30, 2017 were \$31,665.

which consisted of \$28,695 from the Town and \$2,970 from the law enforcement officers. 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, for a total of \$2,520 for the year ended June 30, 2017. 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, 2016 the State contributed \$13,900,000 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	40
Law Enforcement Officers	13
Firefighters	8
Retired members	45
Total	106

Funding Policy: The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board of Aldermen. Dependent coverage is available at the group rate and is paid for by the Town of Canton. Dependent coverage will be terminated when the spouse turns 70. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 37% of annual covered payroll. For the current year, the Town contributed \$388,014 or 17% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, represented 17% of covered payroll. The Town contributions totaled \$388,014 in fiscal year 2017. There were no contributions made by employees. The Town's obligation to contribute to the ERP is established and may be amended by the Town's Board of Alderman.

Summary of Significant Accounting Policies: Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation: The Town's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

	Governmental Activities	Business- Type Activities	Total
Annual required contribution	\$ 666,640	\$ 166,660	\$ 833,300
Interest on net OPEB obligation	101,585	22,640	124,225
Adjustment to annual required contributions	(97,046)	(21,628)	(118,674)
Annual OPEB cost (expense)	671,179	167,672	838,851
Contributions made	(313,451)	(74,563)	(388,014)
Increase (decrease) in net OPEB obligation	357,728	93,109	450,837
Net OPEB obligation, beginning of year	2,539,641	565,998	3,105,639
Net OPEB obligation, end of year	\$ 2,897,369	\$ 659,107	\$ 3,556,476

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 838,852	50.8%	\$ 3,556,476
2016	838,000	52.2%	3,105,639
2015	804,420	50.8%	2,629,233

Funded Status and Funding Progress: As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$10,923,677. The covered payroll (annual payroll of active employees covered by the plan) was \$2,028,493 and the ratio of the UAAL to the covered payroll was 538.5 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employers' own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 5.00% to 7.50% annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014, was 30 years.

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:

Town's contributions subsequent to the measurement date	\$ 291,952
Benefit payments made and administrative costs for LEOSA	3,454
Difference between expected and actual experience	14,989
Changes of assumption	54,641
Net difference between projected and actual	441,075

Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>140,656</u>
Total	\$ 946,767

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

Prepaid taxes (General Fund)	\$ 3,629
Differences between expected and actual expense	27,955
Change in assumptions	5,392
Net difference between projected and actual earnings on pension plan investments	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>1,228</u>
Total	\$ 38,204

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. Claims, Judgments and Contingent Liabilities

At June 30, 2017, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Commitments

The Town rents parking lots and equipment under agreements which are operating leases. Total rent expense under operating leases was \$12,377.

Future minimum lease payments under operating leases at June 30, 2017 are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2018	3,977

7. 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, 2017 and 2016 was \$0..

8. Long-Term Obligations

a. Capital Leases

During the current 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	-	10,009

The future minimum lease obligation and net present value of these minimum payments as of June 30, 2017 is as follows:

Year ending June 30

2018	\$ 2,175
2019	2,175
2020	2,175
2021	<u>2,175</u>
Total minimum lease payments	8,700
Less amounts representing interest	<u>(804)</u>
Present value of the minimum lease payments	\$ 7,896

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, 2017 was \$227,703.

In October 2012, the Town entered into an installment purchase contract for \$180,000 to finance the acquisition of police vehicles. The financing contract requires 16 quarterly payments of \$11,658 including interest at 1.69%. This loan was paid off during the year ended June 30, 2016..

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%. The remaining balance at June 30, 2017 was \$2,249.

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, 2017 was \$8,167.

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, 2017 was \$175,135.

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, 2017 was \$6,187.

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, 2017 was \$22,143.

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, 2017 was \$376,000.

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, 2017 was \$775,000.

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, 2017 was \$1,009,323.

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, 2017 was \$383,946.

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, 2017 was \$300,849.

Annual debt service payments of the installment purchases and capital lease as of June 30, 2017 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 168,830	\$ 31,976	\$ 200,806	\$ 184,476	\$ 41,173	\$ 225,649
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
2023-2027	239,276	52,928	292,204	761,163	41,539	802,702
2028-2032	129,167	33,596	162,763	-	-	-
2033-2037	129,167	24,264	153,431	-	-	-
2038-2042	129,167	14,931	144,098	-	-	-
2043-2047	127,054	5,599	132,653	-	-	-
Total	\$ 1,600,480	\$ 251,978	\$ 1,852,458	\$ 1,694,118	\$ 200,565	\$ 1,894,683

c. General Obligation Indebtedness

At June 30, 2017 the Town of Canton had no outstanding bonds and no authorized but unissued bonds. The Town had a legal debt margin of \$30,518,223

d. Discretely Presented Component Unit

The ABC Board's long-term liabilities consisted of the following as of June 30, 2017:

	2017	2016
Mortgage note payable in monthly installments of \$1,900 including interest at 3.87% per annum, maturing in June 2018	\$ 20,535	\$ 43,809
Current maturity	<u>(20,535)</u>	<u>(21,479)</u>
	\$ <u>-</u>	\$ <u>22,330</u>

The note is secured by real estate having an original cost of \$310,969.

Aggregate long-term debt principal payments for the life of the note will approximate the following: 2018, \$22,330.

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, 2017.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	509,143	1,177,396	93,955	1,592,584	166,850
Compensated absences	269,509	31,017	-	300,526	60,105
Capital lease	-	10,009	2,113	7,896	1,980
Total pension liability (LEO)	286,920	10,166	-	297,086	-
Net pension liability	130,653	507,576	-	638,229	-
OPEB	2,539,641	357,728	-	2,897,369	-
Governmental activity long-term liabilities	\$ <u>3,735,866</u>	<u>2,093,892</u>	\$ <u>96,068</u>	\$ <u>5,733,690</u>	\$ <u>228,935</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Business-type activities:					
Installment purchases	\$ 1,542,686	\$ 300,849	\$ 149,417	\$ 1,694,118	\$ 184,476
Compensated absences	58,034	9,842	-	67,876	20,076
Net pension liability	32,663	126,894	-	159,557	-
OPEB	565,998	93,109	-	659,107	-
Business-type activity long-term debt	\$ <u>2,199,381</u>	\$ <u>530,694</u>	\$ <u>149,417</u>	\$ <u>2,580,658</u>	\$ <u>204,552</u>

C. Concentration Reporting

For the year ended June 30, 2017, 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, 2017, consist of the following:

From General Fund to Canton Aquatic Center Capital Project	\$ 598,000
From General Fund to the Recreation Fund	370,000

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 2017 fiscal year, the Town made a yearly transfer from the General Fund of \$370,000 to the Recreation Fund and a one-time transfer of \$598,000 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	\$ 10,491,946	\$ 8,861,476
Less: long-term debt	1,600,480	1,694,118
Net investment in capital assets	<u>\$ 8,891,466</u>	<u>\$ 7,167,358</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	\$ 3,269,968
Less:	
Inventories	5,747
Stabilization by State Statute	502,240
Police	34,340
Streets – Powell Bill	326,348
Recreation – Aquatic Center	215,527
Subsequent year's expenditures	426,982
Remaining fund balance	<u>\$1,758,784</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, 2017.

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, 2017, the date the financial statements were available to be issued.

In February 2016, the Town was awarded a principal forgiveness loan of \$2,464,200 from the North Carolina Division of Water Infrastructure through the Drinking Water State Revolving Fund (Revolving Fund). This award is to fund the Crossroad Hill Water Association water system consolidation project. Preliminary design and administration costs were incurred during the current year but the Revolving Fund award will not be received until bids are accepted. The Town expects construction to begin during the year ended June 30, 2018.

VI. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payment and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$143,698.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

TOWN OF CANTON, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
12/31/07	-	\$ 10,424,811	\$ 10,424,811	0%	\$ 2,033,345	512.7%
12/31/08	-	11,190,696	11,190,696	0%	2,160,970	517.9%
12/31/10	-	10,821,208	10,821,208	0%	2,097,131	516.0%
12/31/12	-	10,417,051	10,417,051	0%	1,966,610	529.7%
12/31/14	-	10,417,051	10,923,677	0%	2,028,493	538.5%

TOWN OF CANTON, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 849,215	35.1%
2011	881,061	43.9%
2012	882,932	46.4%
2013	779,831	39.5%
2014	780,440	52.2%
2015	804,420	50.8%
2016	838,000	56.8%
2017	833,300	54.1%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as a part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2014
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation period	Market value
Actuarial assumptions:	
Investment rate of return	4.0%
Medical cost trend rate:	
Pre-Medicare trend rate	7.5% to 5.0%
Post-Medicare trend rate	5.50% to 5.0%
Year of Ultimate trend rate	2020
Includes inflation at	3.0%

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

	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) %	0.038%	0.036%	0.038%	0.038%
Town's proportion of the net pension liability (asset)	\$ 797,786	\$ 163,316	\$ (221,450)	\$ 148,163
Town's covered-employee payroll	\$ 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	43.6%	7.9%	11.4%	7.7%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.64%	94.35%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$295,796	\$242,673	\$161,555	\$148,163
Contribution in relation to the contractually required contribution	295,796	242,673	245,109	148,163
Contribution deficiency (excess)	-	-	-	-
Town's covered-employee payroll	\$2,276,958	\$1,829,958	\$2,044,962	\$1,935,008
Contributions as a percentage of covered-employee payroll	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, 2017

Beginning Balance	\$ 286,920
Service Cost	13,460
Interest on the total pension liability	10,120
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(6,506)
Benefit payments	(6,908)
Other changes	-
Ending Balance of the total pension liability	<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, 2017

Total pension liability	\$ 297,086
Covered payroll	490,742
Total pension liability as a percentage of covered payroll	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.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Town of Canton, North Carolina
Comparative Balance Sheets
General Fund
June 30, 2017 and 2016

Exhibit A

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 3,106,381	\$ 2,670,047
Restricted cash	609,037	371,134
Receivables, net:		
Taxes	149,323	149,400
Accounts	60,993	54,673
Prepaid expenses	4,750	11,000
Due from other governments	533,931	643,971
Inventories	5,747	9,324
Total assets	<u>\$ 4,470,162</u>	<u>\$ 3,909,549</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 852,071	\$ 91,362
Salaries and payroll taxes payable	97,737	85,398
Customer prepayments	97,434	32,751
Total liabilities	<u>1,047,242</u>	<u>209,511</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	149,323	149,400
Prepaid taxes	3,629	4,566
Total deferred inflows of resources	<u>152,952</u>	<u>153,966</u>
Fund balances:		
 Nonspendable:		
Inventories	5,747	9,324
 Restricted:		
Stabilization by state statute	502,240	687,983
Police	34,340	24,541
Streets	326,348	371,134
Recreation	215,527	58,496
 Assigned:		
Subsequent year's expenditures	426,982	288,016
Unassigned	1,758,784	2,106,578
Total fund balances	<u>3,269,968</u>	<u>3,546,072</u>
Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 4,470,162</u></u>	<u><u>\$ 3,909,549</u></u>

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, 2017

With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
Revenues:				
Ad valorem taxes:				
Taxes		\$ 2,867,978		\$ 2,821,357
Penalties and interest		23,873		33,064
Total ad valorem taxes	<u>2,745,262</u>	<u>2,891,851</u>	<u>146,589</u>	<u>2,854,421</u>
Other taxes and licenses:				
Gross receipts tax on short-term rental property		1,192		1,470
Privilege licenses		2,775		2,330
	<u>2,775</u>	<u>3,967</u>	<u>1,192</u>	<u>3,800</u>
Unrestricted intergovernmental:				
Local option sales taxes		913,997		896,035
Utility franchise tax		730,874		753,051
Piped natural gas tax		5,174		5,487
Beer and wine tax		19,349		18,625
Sales tax-communications		115,047		119,673
State hold-harmless distribution		230,418		212,933
Gasoline Tax		-		10,893
ABC Profit distribution		2,400		2,400
Total unrestricted intergovernmental	<u>1,901,800</u>	<u>2,017,259</u>	<u>115,459</u>	<u>2,019,097</u>
Restricted intergovernmental:				
Powell Bill allocation		137,306		138,461
Miscellaneous grants		43,595		34,710
Government Crime Comm grant		-		14,962
TDA grant		-		4,600
Glass Foundation grant		-		50,000
Rural Center grant		-		-
Federal Equitable Shares grant		-		4,229
Total restricted intergovernmental	<u>178,313</u>	<u>180,901</u>	<u>2,588</u>	<u>246,962</u>
Permits and fees:				
Building permits and inspection fees	-	575		555
Plumbing and electrical fees	-	-		-
Total permits and fees	<u>200</u>	<u>575</u>	<u>375</u>	<u>555</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, 2017

With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
Revenues (continued)				
Sales and services:				
Refuse collection fees		\$ 228,751		\$ 227,900
Solid waste disposal tax		2,936		2,704
Sale of material and labor		-		82
Miscellaneous revenue-Police Department		59,654		62,172
Recreation admissions and concessions		85,151		106,518
Theater revenue		10,143		14,806
Parking violation penalties		8		60
Court facilities fees and forfeitures		3,240		4,116
Fire protection charges		77,205		75,363
Special event fees		9,050		8,050
Rents		17,517		31,400
Total sales and services	590,665	493,655	(97,010)	533,171
Investment earnings:				
Interest earnings		12,697		7,394
Total investment earnings	9,154	12,697	3,543	7,394
Miscellaneous:				
Other miscellaneous		95,914		83,576
Total miscellaneous	206,200	95,914	(110,286)	83,576
Total revenues	5,634,369	5,696,819	62,450	5,748,976
Expenditures:				
General government:				
Governing Board				
Salaries and employee benefits		-		-
Other operating expenditures		29,548		29,603
Total governing board	29,846	29,548	298	29,603
Administration:				
Salaries and employee benefits		128,064		118,551
Other operating expenditures		8,867		9,476
Total administration	141,104	136,931	4,173	128,027
Finance				
Salaries and employee benefits		323,762		275,887
Other operating expenditures		45,884		44,673
Capital outlay		-		-
Total finance	381,402	369,646	11,756	320,560
				(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, 2017

With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
Expenditures (continued)				
Legal:				
Part-time salaries		-		-
Other operating expenditures		22,530		243,772
Total legal	25,000	22,530	2,470	243,772
Planning and Zoning				
Salaries and employee benefits		147,473		152,188
Other operating expenditures		98,965		58,115
Capital outlay		202,096		
Total planning and zoning	317,134	448,534	(131,400)	210,303
Community Promotion				
Other operating expenditures		14,784		18,467
Capital Outlay		-		-
Total community promotion	19,700	14,784	4,916	18,467
Municipal Buildings:				
Salaries and employee benefits		6,333		6,127
Other operating expenditures		119,192		144,348
Capital outlay		10,953		-
Total municipal buildings	138,654	136,478	2,176	150,475
Total general government	1,052,840	1,158,451	(105,611)	1,101,207
Public Safety:				
Police:				
Salaries and employee benefits		1,338,747		1,208,748
Other operating expenditures		35,114		143,111
Capital outlay		504,369		14,962
Total police	2,030,841	1,878,230	152,611	1,366,821
Fire:				
Salaries and employee benefits		618,887		597,121
Other operating expenditures		104,634		86,549
Capital outlay		47,171		20,856
Total fire	878,568	770,692	107,876	704,526
Total public safety	2,909,409	2,648,922	260,487	2,071,347

(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, 2017

With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
Expenditures (continued)				
Public Works:				
Administration:				
Salaries and employee benefits		\$ -		\$ -
Other operating expenditures		-		-
Total administration	-	-	-	-
Traffic Engineering	2,059	-	2,059	49
Central Services:				
Salaries and employee benefits		112,354		105,287
Other operating expenditures		32,450		30,922
Capital outlay		7,875		-
Total central services	201,648	152,679	48,969	136,209
Streets:				
Salaries and employee benefits		847,282		756,737
Other operating expenditures		314,062		370,255
Capital outlay		33,581		-
Total streets	1,256,252	1,194,925	61,327	1,126,992
Street Cleaning and Sweeping:				
Salaries and employee benefits		-		-
Other operating expenditures		11,864		10,755
Capital outlay		-		-
Total street cleaning and sweeping	51,439	11,864	39,575	10,755
Powell Bill:				
Salaries and employee benefits		3,561		-
Other operating expenditures		174,606		175,441
Capital outlay		5,543		46,786
Total powell bill	208,000	183,710	24,290	222,227
Total public works	1,719,398	1,543,178	176,220	1,496,232
Environmental Protection:				
Sanitation:				
Salaries and employee benefits		6,444		6,254
Other operating expenditures		185,094		185,558
Total sanitation	200,954	191,538	9,416	191,812

(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, 2017
 With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
Expenditures (continued)				
Landfill:				
Other operating expenditures		\$ 4,343		\$ 4,735
Capital outlay		-		12,500
Total landfill	6,500	4,343	2,157	17,235
Cemetery:				
Salaries and employee benefits		-		-
Other operating expenditures		-		-
Total cemetery	-	-	-	-
Total environmental protection	207,454	195,881	11,573	209,047
Cultural and Recreational:				
Canton Historical Museum:				
Salaries and employee benefits		13,686		9,804
Other operating expenditures		12,991		12,227
Total Canton Historical Museum	31,835	26,677	5,158	22,031
Recreational Areas and Facilities:				
Salaries and employee benefits		133,033		88,979
Other operating expenditures		229,842		213,273
Capital outlay		10,009		102,818
Total recreational areas and facilities	463,206	372,884	90,322	405,070
Recreation Concessions:				
Salaries and employee benefits		7,902		2,401
Other operating expenditures		-		366
Total recreation concessions	9,703	7,902	1,801	2,767
Armory				
Salaries and employee benefits		6,436		9,301
Other operating expenditures		36,136		53,618
Capital outlay		-		42,367
Total recreation concessions	46,197	42,572	3,625	105,286

(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, 2017

With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
Expenditures (continued)				
Colonial Pathway:				
Salaries and employee benefits		\$ 63,842		\$ 62,567
Other operating expenditures		47,464		47,570
Capital outlay		5,656		-
Total colonial pathway	122,932	116,962	5,970	110,137
Total cultural and recreational	673,873	566,997	106,876	645,291
Debt Service:				
Principal retirement		96,068		111,448
Interest and fees		14,742		16,609
Total debt service	30,028	110,810	(80,782)	128,057
Total expenditures	6,593,002	6,224,239	368,763	5,651,181
Revenue over (under) expenditures	(958,633)	(527,420)	431,213	97,795
Other Financing Sources:				
Transfer to Canton Aquatic Center		(598,000)		(65,250)
Capital contribution - Haywood County		157,596		
Sale of capital assets		122,283		15,610
Installment purchase obligation issued		412,406		9,921
Total other financing sources	(67,208)	94,285	161,493	(39,719)
Fund balance appropriated	1,025,841	-	1,025,841	-
Net change in fund balance	\$ -	(433,135)	\$ (433,135)	58,076
Reconcile to combined fund balance, Exhibit 4				
Canton Aquatic Center				
Capital outlay - capital project		(1,279,267)		
Increase in capital assets		1,279,267		
Unspent transfer from Recreation Fund		157,031		65,250
		(276,104)		123,326
Fund balance, beginning of year		3,546,072		3,422,746
Fund balance, end of year		<u>\$ 3,269,968</u>		<u>3,546,072</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, 2017

With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
OPERATING REVENUES				
Charges for services:				
Water sales		\$ 1,715,752		\$ 1,667,966
Sewer charges		419,488		388,902
Taps and connection fees		40,440		27,633
Reconnection fees		10,000		10,667
Other operating revenues		8,270		7,045
Total operating revenues	2,147,437	2,193,950	46,513	2,102,213
NON-OPERATING REVENUES				
Interest on investments		11,444		6,088
Sale of materials and equipment		4,972		-
Total non-operating revenues	10,400	16,416	6,016	6,088
 Total revenues	 2,157,837	 2,210,366	 52,529	 2,108,301
OPERATING EXPENDITURES				
Administration:				
Salaries and employee benefits		166,877		180,170
Repairs and maintenance		118		240
Other operating expenditures		34,309		31,953
Total administration	221,726	201,304	20,422	212,363
Water treatment				
Salaries and employee benefits		284,578		362,287
Repairs and maintenance		109,704		28,616
Other operating expenditures		249,306		284,301
Total water treatment	711,801	643,588	68,213	675,204
Water and sewer distribution				
Salaries and employee benefits		431,688		284,561
Repairs and maintenance		47,535		40,147
Other operating expenditures		270,454		234,410
Total water and sewer distribution	859,161	749,677	109,484	559,118

(continued)

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, 2017
 With comparative actual amounts for the year ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)	2016
OPERATING EXPENDITURES (continued)				
Sewer Treatment Plant:				
Repairs and maintenance	\$ -	\$ 2,072		\$ 4,968
Other operating expenses	-	52,147		31,539
Total sewer treatment	59,000	54,219	4,781	36,507
Debt service:				
Principal retirement		149,418		112,147
Interest		41,162		32,814
Total debt service	190,580	190,580	-	144,961
Capital Outlay:	487,750	118,253	369,497	551,724
Total expenditures	2,530,018	1,957,621	572,397	2,179,877
Revenues over (under) expenditures	(372,181)	252,745	624,926	(71,576)
OTHER FINANCING SOURCES (USES)				
Transfer to Crossroad Hills Project	(49,284)	(49,284)	-	-
Proceeds from installment purchase	300,849	300,849	-	421,217
Total other financing sources (uses)	251,565	251,565	-	421,217
Budgetary appropriation	120,616	-	(120,616)	-
Revenues and other financing sources over (under)	\$ -	\$ 504,310	\$ 504,310	\$ 349,641
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Loan principal payments		149,418		112,147
Increase (decrease) in net pension asset		-		(42,076)
Increase (decrease) in deferred outflows - pension		122,410		28,619
(Increase) in interest accrued on long term debt		(3,487)		(7,057)
(Increase) decrease in accrued salaries and compensated absences		(13,122)		12,743
(Increase) decrease in net pension liability		(126,894)		32,663
(Increase) decrease in deferred inflows - pension		11,509		(26,364)
(Increase) in accrued OPEB liability		(93,109)		(90,464)
Capital outlay		118,253		647,709
Depreciation		(257,433)		(253,267)
Proceeds from installment purchases		(300,849)		(421,217)
Capital Contributions		-		95,985
Transfer to Crossroad Hills Project		49,284		(95,985)
Total reconciling items		(344,020)		(6,564)
Change in net position - Water and Sewer Fund		\$ 160,290		\$ 343,077

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, 2017

	<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	-	-	-	25,000
Design and permitting	160,000	-	187,600	187,600	(27,600)
Bidding and awarding	10,000	-	-	-	10,000
Construction administration	150,000	-	-	-	150,000
Legal/Administration/Testing	25,000	-	3,135	3,135	21,865
Construction cost	1,917,400	-	-	-	1,917,400
Closing fee	49,284	-	-	-	49,284
Contingency	<u>176,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,800</u>
Total expenditures	<u>2,513,484</u>	<u>-</u>	<u>190,735</u>	<u>190,735</u>	<u>2,322,749</u>
Revenues under expenditures	<u>(49,284)</u>	<u>-</u>	<u>(190,735)</u>	<u>(190,735)</u>	<u>(141,451)</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund	<u>49,284</u>	<u>-</u>	<u>49,284</u>	<u>49,284</u>	<u>-</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>\$ -</u>	<u>\$ (141,451)</u>	<u>\$ (141,451)</u>	<u>\$ (141,451)</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, 2017

	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)
Interest earnings	-	-	25	25	25
Donations	200,000	9,787	63,273	73,060	(126,940)
Total revenues	607,169	66,956	63,298	130,254	(476,915)
Expenditures:					
Capital Outlay					
Design/administration/permitting	226,419	129,710	98,855	228,565	(2,146)
Construction	1,875,000	-	1,180,412	1,180,412	694,588
Contingency	-	-	-	-	-
Total expenditures	2,101,419	129,710	1,279,267	1,408,977	692,442
Revenues under expenditures	(1,494,250)	(62,754)	(1,215,969)	(1,278,723)	215,527
Other Financing Sources (Uses):					
Loan proceeds	775,000	-	775,000	775,000	-
Transfer from General Fund	719,250	121,250	598,000	719,250	-
Total other financing sources (uses)	1,494,250	121,250	1,373,000	1,494,250	-
Revenue and other sources over (under) expenditures	\$ -	\$ 58,496	\$ 157,031	\$ 215,527	\$ 215,527

OTHER SCHEDULES

Town of Canton, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$ 2,817,200	\$ 2,736,991	\$ 80,209
2015-2016	114,275	-	76,993	37,282
2014-2015	50,532	-	29,453	21,079
2013-2014	26,811	-	9,686	17,125
2012-2013	19,564	-	7,588	11,976
2011-2012	14,570	-	2,712	11,858
2010-2011	14,212	-	1,361	12,851
2009-2010	11,288	-	85	11,203
2008-2009	14,921	-	(372)	15,293
2007-2008	9,600	-	(38)	9,638
2006-2007	11,237	-	11,237	-
	<u>\$ 287,010</u>	<u>\$ 2,817,200</u>	<u>\$ 2,875,696</u>	<u>228,514</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>122,768</u>
Ad valorem taxes receivable - net				<u>\$ 105,746</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				<u>\$ 2,891,851</u>
Reconciling items:				
Interest collected				(23,873)
Releases and other				826
Taxes written off				<u>6,892</u>
Subtotal				<u>(16,155)</u>
Total collections and credits				<u>\$ 2,875,696</u>

Town of Canton, North Carolina
 Analysis of Current Tax Levy
 Town - Wide Levy
 For the Fiscal Year Ended June 30, 2017

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property - real and personal	452,848,276	0.58	\$ 2,626,520	\$ 2,626,520	\$ -
Registered motor vehicles	32,459,310	0.58	188,264	-	188,264
Advertising			2,088	2,088	-
Total			2,816,872	2,628,608	188,264
Discoveries:					
Current year taxes	56,552	0.58	328	328	-
Total property valuation	<u>485,364,138</u>				
Net levy			2,817,200	2,628,936	188,264
Uncollected taxes at June 30, 2017			(80,209)	(80,209)	-
Current year's taxes collected			<u>\$ 2,736,991</u>	<u>\$ 2,548,727</u>	<u>\$ 188,264</u>
Current levy collection percentage			<u>97.15%</u>	<u>96.95%</u>	<u>100.00%</u>

COMPLIANCE SECTION

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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 uni2017t, 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, 2017, 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, 2017. 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 below:

2017 – 01

In the General Fund expenditures materially exceeded authorized appropriations made by the governing board for planning and zoning and debt service. These over-expenditures occurred because accounts payables were not appropriately considered and all debt payments were not considered in the budgeting process.

Town of Canton, North Carolina's Response to Findings

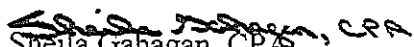
The Town of Canton, North Carolina's response to the finding identified in the audit is described below. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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.

The Board will closely monitor budget reports and consider 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, 2017