

TOWN OF CANTON, NORTH CAROLINA



FINANCIAL STATEMENTS

June 30, 2019

(With Independent Auditor's Report Thereon)

TOWN OF CANTON

Canton, North Carolina

Mayor and Board of Aldermen

Zeb Smathers

Mayor

Gail Mull

Mayor Pro-Tem

Kristina Smith

Alderwoman

Dr. Ralph Hamlett

Alderman

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Canton, North Carolina (Town of Canton) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Town of Canton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinions

In my opinion, based upon my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Canton as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Canton's basic financial statements. The introductory information, combining and individual fund financial statements, budgetary schedules, other schedules, statistical section as well as the accompanying Schedule of Expenditures of Federal

and State Awards as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 29, 2019 on my consideration of the Town of Canton's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Canton's internal control over financial reporting and compliance.



Sheila Gahagan, CPA
October 29, 2019

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, 2019. 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

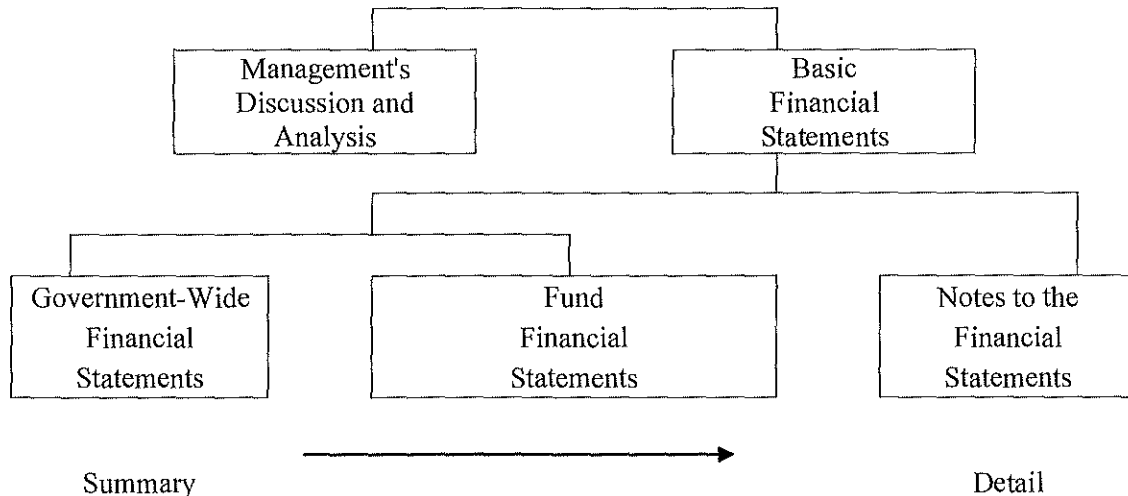
- The assets and deferred outflows of resources of the Town of Canton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,020,900 (*net position*).
- The Town of Canton's total net position increased by \$2,577,619 due to a forgiveness loan received for a water capital project.
- As of the close of the current fiscal year, the Town of Canton's governmental funds reported combined ending fund balances of \$3,423,112, an increase of \$267,994 in comparison with the prior year. Approximately 51% of this total amount, or \$1,743,508 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,679,604.
- The Town of Canton's total debt decreased by \$237,294 or 1.5% 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,820,052	\$ 3,487,281	\$ 3,902,488	\$ 3,205,547	\$ 7,722,540	\$ 6,692,828
Capital assets	10,959,030	11,296,467	10,401,547	9,057,891	21,360,577	20,354,358
Deferred outflow	1,245,115	709,184	312,749	173,777	1,557,864	882,961
Total assets and deferred outflows of resources	16,024,197	15,492,932	14,616,784	12,437,215	30,640,981	27,930,147
Current liabilities	514,644	414,992	320,033	413,517	834,677	828,509
Long-term liabilities outstanding	11,686,735	11,778,610	3,699,006	3,850,195	15,385,741	15,628,805
Deferred inflows of resources	1,124,983	826,474	274,680	203,078	1,399,663	1,029,552
Total liabilities and deferred inflows of resources	13,326,362	13,020,076	4,293,719	4,466,790	17,620,081	17,486,866
Net Position						
Net investment in capital assets	9,748,443	9,890,479	9,064,079	7,541,269	18,812,522	17,431,748
Restricted	1,010,595	954,755	-	-	1,010,595	954,755
Unrestricted	(8,061,203)	(8,372,378)	1,258,986	429,156	(6,802,217)	(7,943,222)
Total net position	\$ 2,697,835	\$ 2,472,856	\$10,323,065	\$ 7,970,425	\$ 13,020,900	\$ 10,443,281

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 \$13,020,900 as of June 30, 2019. The Town's net position increased by \$2,577,619 for the fiscal year ended June 30, 2019. However, a large portion \$18,812,522 (144%) 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's 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 \$1,010,595 (8%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance is negative (\$6,802,217) (-52%).

Town of Canton's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 599,406	\$ 549,107	\$ 2,423,044	\$ 2,322,496	\$ 3,022,450	\$ 2,871,603
Operating grants and contributions	167,626	160,643	-	48,650	167,626	209,293
Capital grants and contributions	-	350,000	1,864,284	-	1,864,284	350,000
General revenues:						
Property taxes	3,005,778	3,037,473	-	-	3,005,778	3,037,473
Other taxes and licenses	4,111	2,931	-	-	4,111	2,931
Grants and contributions not restricted	2,088,453	2,074,357	-	-	2,088,453	2,074,357
Investment earnings	53,781	31,520	50,073	24,208	103,854	55,728
Other	156,908	303,979	5,542	7,005	162,450	310,984
Total revenues	6,076,063	6,510,010	4,342,943	2,402,359	10,419,006	8,912,369
Expenses:						
General government	1,083,931	1,019,460	-	-	1,083,931	1,019,460
Public safety	2,341,856	2,502,085	-	-	2,341,856	2,502,085
Public works	1,463,807	1,428,792	-	-	1,463,807	1,428,792
Environmental Protection	215,072	210,229	-	-	215,072	210,229
Cultural and recreation	708,028	627,233	-	-	708,028	627,233
Interest expense	38,390	42,799	-	-	38,390	42,799
Water and sewer	-	-	1,990,303	2,045,656	1,990,303	2,045,656
Total expenses	5,851,084	5,830,598	1,990,303	2,045,656	7,841,387	7,876,254
Change in net position before transfers	224,979	679,412	2,352,640	356,703	2,577,619	1,036,115
Net position, July 1	2,472,856	8,894,237	7,970,425	9,330,082	10,443,281	18,224,319
Restatement	-	(7,100,793)	-	(1,716,360)	-	(8,817,153)
Net position, June 30	\$ 2,697,835	\$ 2,472,856	\$10,323,065	\$ 7,970,425	\$13,020,900	10,443,281

Governmental activities. Governmental activities increased the Town's net position by \$224,979 thereby accounting for 9% 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 \$2,352,640 accounting for 91% 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 \$1,679,604, while total fund balance was \$3,423,112. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures. The Town currently has unassigned fund balance of 29% of general fund expenditures, while total fund balance represents 59 % of that same amount.

At June 30, 2019, the general fund reported a combined fund balance of \$3,423,112, an 8% increase from 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 \$1,258,986. The total increase in net position for the Water and Sewer Fund was \$2,352,640. The Water and Sewer Fund increase was due to a capital contribution for a capital project. There are two capital projects included in the proprietary fund, Crossroad Hill Water Association Water System Consolidation Project and Spruce Street Area Water System Improvement Project.

Capital Asset and Debt Administration

Capital assets. The Town of Canton's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$21,360,577 (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. 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	
	2019	2018	2019	2018	2019	2018
Land	\$ 4,189,898	\$ 4,189,898	\$ 220,279	\$ 220,279	\$ 4,410,177	\$ 4,410,177
Buildings & systems	5,458,056	5,667,311	7,972,366	8,206,945	13,430,422	13,874,256
Machinery & Equipment	491,950	504,458	-	-	491,950	504,458
Vehicles & motorized equipment	819,126	934,800	127,429	152,702	946,555	1,087,502
Construction in progress	-	-	2,081,473	477,965	2,081,473	477,965
	<u>\$10,959,030</u>	<u>\$11,296,467</u>	<u>\$10,401,547</u>	<u>\$ 9,057,891</u>	<u>\$ 21,360,577</u>	<u>\$ 20,354,358</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, 2019, 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	
	2019	2018	2019	2018	2019	2018
Note payable	\$ 1,206,415	\$ 1,399,816	\$ 1,337,468	\$ 1,516,622	\$ 2,543,883	\$ 2,916,438
OPEB liability	9,290,963	9,402,609	2,322,741	2,350,652	11,613,704	11,753,261
Net pension obligation	736,754	518,693	184,189	129,673	920,943	648,366
Total pension liability (LEO)	319,885	328,916	-	-	319,885	328,916
Capital lease	4,172	6,172	-	-	4,172	6,172
Compensated absences	327,326	318,084	56,747	52,717	384,073	370,801
	<u>\$ 11,885,515</u>	<u>\$ 11,974,290</u>	<u>\$ 3,901,145</u>	<u>\$ 4,049,664</u>	<u>\$ 15,786,660</u>	<u>\$ 16,023,954</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 \$25,440,788.

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, 2020

Governmental Activities:

- The proposed tax rate for the Town of Canton remains at \$0.58 per \$100 of valuation, with no increase from the last fiscal year. Canton has held this rate for ten years; however, it remains the highest for a municipality located within Haywood County.
- The Town expects to see continued increase in property valuations as a result of new commercial buildings and businesses within the town which have made substantial improvements to buildings and property as well as, a steady level of growth in residential sales and increased market price.
- For the fiscal year 2019–2020, with regard to salaries, the Board of Aldermen/women authorized a 1% increase. For the first time, The Town is matching up to 3% on 401K contributions as well. The Board and staff continue to work to remain competitive in hiring and retention of employees.
- MedCost continues to provide coverage with health insurance. For FY 2019-2020, a small increase was implemented, but the choice remains fiscally responsible.
- The Board of Aldermen/women continued the promotion of economic development throughout our community by again including \$50,000 in the FY 2019-2020 budget for incentive/improvement grants. This program continues to be instrumental in assisting the town in redevelopment efforts as well as, draw potential investors from

be instrumental in assisting the town in redevelopment efforts as well as, draw potential investors from the Asheville/Buncombe County areas. Already this fiscal year (FY 2019-2020) an additional three downtown buildings have changed hands through the sale of commercial buildings/properties.

Business Activities:

- The Town did not increase water and sewer rates for customers (inside and out) this fiscal year since an increase was implemented in FY 2018-2019.

Other activities that are underway are as follows:

- Crossroad Hills Water Association Consolidation was completed in June 2019.
- Spruce Street Area Water Pressure Improvements: In FY 2018-2019 the Town accepted a \$2 million low interest loan 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. This project is anticipated to be completed in March 2020 and thus far appears it will be under budget.
- In FY 2018-2019 the Town of Canton began working with NCDOT on the construction of a roundabout to be located along Pisgah Drive in Canton. This roundabout will address longstanding safety concerns and traffic congestion in an area of town where four roads/streets (all heavily traveled) currently intersect in an offset and dangerous manner. This project is fully funded by NCDOT. In addition, the Town of Canton received approximately \$25,000 - \$30,000 from NCDOT for right-of-way acquisition of property currently owned by the Town of Canton and is located in the project area. The project is expected to be completed early 2020.
- What began in FY 2018-2019 and now moving into FY 2019-2020 is a project that the Town of Canton is working with NCDOT on. This project will include the construction of a multi-use path (8 feet wide sidewalk) to be included in NCDOT improvements along 19/23 (i.e. Old Asheville Hwy) coming into Canton from Haywood and Buncombe County. NCDOT will be making roadway modernization improvements along this corridor which will include resurfacing and adding bike lanes to this area of highway. As part of NCDOT's program they allow a municipality to opt-in to the construction of sidewalks at an 80%/20% match meaning NCDOT will cover 80% of the cost for construction of said sidewalks, the municipality being responsible for the 20% local match. The Town of Canton's portion of cost will total approximately \$70,000 which was included in the FY 2019-2020 budget. We see this opportunity as one that will not be available again in the future and adds safety, aesthetic, recreational and economic development value to this corridor. NCDOT is currently in the design phase of this project and moving into environmental assessment and ROW acquisition. If the portion of Town committed funds are not required in FY 2019-2020, said allocation will be placed in FY 2020-2021 Budget.

Requests for Information

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

Town of Canton, North Carolina
Statement of Net Position
June 30, 2019

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Town of Canton ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,583,784	\$ 2,145,451	\$ 4,729,235	\$ 99,725
Accrued interest receivables on taxes	22,549	-	22,549	-
Taxes receivables (net)	54,279	-	54,279	-
Accounts receivable (net)	66,278	227,476	293,754	-
Due from other governments	468,086	1,523,226	1,991,312	-
Inventories	8,174	-	8,174	175,952
Prepaid expenses	6,000	-	6,000	6,170
Restricted cash and cash equivalents	610,902	6,335	617,237	-
Total current assets	<u>3,820,052</u>	<u>3,902,488</u>	<u>7,722,540</u>	<u>281,847</u>
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements, and construction in process	4,189,898	2,301,752	6,491,650	128,079
Other capital assets, net of depreciation	6,769,132	8,099,795	14,868,927	138,840
Total capital assets	<u>10,959,030</u>	<u>10,401,547</u>	<u>21,360,577</u>	<u>266,919</u>
Total assets	<u>14,779,082</u>	<u>14,304,035</u>	<u>29,083,117</u>	<u>548,766</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	849,657	209,651	1,059,308	48,464
OPEB deferrals	395,458	103,098	498,556	-
Total deferred outflows of resources	<u>1,245,115</u>	<u>312,749</u>	<u>1,557,864</u>	<u>48,464</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	139,644	95,566	235,210	50,736
Accrued interest payable	-	15,993	15,993	-
Customer prepayments	-	-	-	1,095
Payable from restricted assets	176,220	6,335	182,555	-
Current portion of long term debt	198,780	202,139	400,919	-
Total current liabilities	<u>514,644</u>	<u>320,033</u>	<u>834,677</u>	<u>51,831</u>
Long-term liabilities:				
Due in more than one year	1,011,807	1,156,614	2,168,421	-
Compensated absences payable	327,326	35,462	362,788	2,556
Net pension liability	736,754	184,189	920,943	38,669
Total pension liability	319,885	-	319,885	-
OPEB liability	9,290,963	2,322,741	11,613,704	-
Total liabilities	<u>12,201,379</u>	<u>4,019,039</u>	<u>16,220,418</u>	<u>93,056</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	25,828	953	26,781	200
Prepaid taxes	4,248	-	4,248	-
OPEB deferrals	1,094,907	273,727	1,368,634	-
Total deferred inflows of resources	<u>1,124,983</u>	<u>274,680</u>	<u>1,399,663</u>	<u>200</u>
NET POSITION				
Net investment in capital assets	9,748,443	9,064,079	18,812,522	266,919
Restricted for:				
Stabilization by State Statue	540,364	-	540,364	-
Transportation	434,682	-	434,682	-
Public safety	35,549	-	35,549	-
ABC Board - working capital	-	-	-	47,702
Unrestricted	(8,061,203)	1,258,986	(6,802,217)	189,353
Total net position	<u>\$ 2,697,835</u>	<u>\$ 10,323,065</u>	<u>\$ 13,020,900</u>	<u>\$ 503,974</u>

See accountant's report and accompanying notes.

Town of Canton, North Carolina
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Town of Canton ABC Board
		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	\$ 1,083,931	\$ 24,898	\$ 4,958	\$ -	\$ (1,054,075)	\$ -	\$ (1,054,075)	\$ -
Public safety	2,341,856	190,080	24,500	-	(2,127,276)	-	(2,127,276)	-
Public Works	1,463,807	233,162	138,168	-	(1,092,477)	-	(1,092,477)	-
Environmental protection	215,072	-	-	-	(215,072)	-	(215,072)	-
Cultural and recreation	708,028	151,266	-	-	(556,762)	-	(556,762)	-
Interest on long-term debt	38,390	-	-	-	(38,390)	-	(38,390)	-
Total governmental activities	<u>5,851,084</u>	<u>599,406</u>	<u>167,626</u>	<u>-</u>	<u>(5,084,052)</u>	<u>-</u>	<u>(5,084,052)</u>	<u>-</u>
Business-type activities:								
Water and sewer	<u>1,990,303</u>	<u>2,423,044</u>	<u>-</u>	<u>1,864,284</u>	<u>-</u>	<u>2,297,025</u>	<u>2,297,025</u>	<u>-</u>
Total business-type activities	<u>1,990,303</u>	<u>2,423,044</u>	<u>-</u>	<u>1,864,284</u>	<u>-</u>	<u>2,297,025</u>	<u>2,297,025</u>	<u>-</u>
Total primary government	<u>\$ 7,841,387</u>	<u>\$ 3,022,450</u>	<u>\$ 167,626</u>	<u>\$ 1,864,284</u>	<u>(5,084,052)</u>	<u>2,297,025</u>	<u>(2,787,027)</u>	<u>-</u>
Component Units:								
Canton ABC Board	<u>1,574,165</u>	<u>1,599,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,340</u>
Total Component Unit	<u>\$ 1,574,165</u>	<u>\$ 1,599,505</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,340</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					3,005,778	-	3,005,778	-
Other taxes and licenses					4,111	-	4,111	-
Grants and contributions not restricted to specific programs					2,088,453	-	2,088,453	-
Unrestricted investment earnings					53,781	50,073	103,854	-
Gain (loss) on sale of asset					25,800	4,298	30,098	-
Miscellaneous					131,108	1,244	132,352	-
Total general revenues and transfers					<u>5,309,031</u>	<u>55,615</u>	<u>5,364,646</u>	<u>-</u>
Change in net position					224,979	2,352,640	2,577,619	25,340
Net position-beginning					2,472,856	7,970,425	10,443,281	478,634
Net position-ending					<u>\$ 2,697,835</u>	<u>\$ 10,323,065</u>	<u>\$ 13,020,900</u>	<u>\$ 503,974</u>

See accountant's report and accompanying notes.

Town of Canton, North Carolina
Balance Sheet
Governmental Funds
June 30, 2019

Exhibit 3

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,583,784
Restricted cash	610,902
Receivables, net:	
Taxes	76,828
Accounts	66,278
Due from other governments	468,086
Prepaid expenses	6,000
Inventories	8,174
Total assets	<u>\$ 3,820,052</u>
LIABILITIES AND FUND BALANCES	
Accounts payable	\$ 30,658
Salaries and payroll taxes payable	108,986
Unearned grant revenue	127,860
Customer prepayments	48,360
Total liabilities	<u>315,864</u>
DEFERRED INFLOWS OF RESOURCES	
Property taxes receivable	\$ 76,828
Prepaid taxes	4,248
Total deferred inflows of resources	<u>81,076</u>
Fund balances:	
Non Spendable	
Inventories	8,174
Restricted:	
Stabilization by State Statute	540,364
Police	35,549
Streets	434,682
Recreation	-
Assigned: Subsequent year's expenditures	724,739
Unassigned	1,679,604
Total fund balances	<u>3,423,112</u>
Total liabilities, deferred inflow of resources and fund balances	<u><u>\$ 3,820,052</u></u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total Fund Balance, Governmental Funds	3,423,112
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,959,030
Deferred outflows of resources - pension and OPEB	1,245,115
Liabilities for earned but deferred tax revenues considered deferred inflows of resources in fund statements.	76,828
Deferred inflows of resources - pension and OPEB	(1,120,735)
Long term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(11,885,515)
Net position of governmental activities	<u>2,697,835</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, 2019

Exhibit 4

	<u>General Fund</u>	<u>Canton Aquatic Capital Project</u>	<u>Total</u>
REVENUES			
Ad valorem taxes	\$ 3,035,717	\$ -	\$ 3,035,717
Other taxes and licenses	4,111	-	4,111
Unrestricted intergovernmental	2,088,453	-	2,088,453
Restricted intergovernmental	167,626	-	167,626
Permits and fees	325	-	325
Sales and services	599,081	-	599,081
Investment earnings	53,781	-	53,781
Miscellaneous	131,108	-	131,108
Total revenues	<u>6,080,202</u>	<u>-</u>	<u>6,080,202</u>
EXPENDITURES			
Current:			
General government	978,455	-	978,455
Public safety	2,452,974	-	2,452,974
Public works	1,388,811	-	1,388,811
Environmental protection	215,072	-	215,072
Culture and recreation	569,046	-	569,046
Debt service:			
Principal	195,260	-	195,260
Interest	38,390	-	38,390
Total expenditures	<u>5,838,008</u>	<u>-</u>	<u>5,838,008</u>
Excess (deficiency) of revenues over expenditures	242,194	-	242,194
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	25,800	-	25,800
Transfer between funds	1,672	(1,672)	-
Installment purchase obligations issued	-	-	-
Total other financing sources	<u>27,472</u>	<u>(1,672)</u>	<u>25,800</u>
Net change in fund balance	269,666	(1,672)	267,994
Fund balances-beginning of year	3,054,441	1,672	3,155,118
Fund balances-end of year	<u>\$ 3,324,107</u>	<u>\$ -</u>	<u>\$ 3,423,112</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, 2019

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

Net changes in fund balances - total governmental funds	\$ 267,994
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(337,437)
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	(29,937)
Deferred outflows of resources related to OPEB and pensions are not reported in the funds	535,931
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.	195,260
Deferred inflows of resources related to OPEB and pensions are not reported in the funds	(300,345)
Long-term debt included in net position below (includes the addition of long-term debt and principal payments during the year:	
Compensated absences	(9,103)
Net pension liability	(218,061)
Total pension liability	9,031
OPEB liability	111,646
Total changes in net position of governmental activities	<u>\$ 224,979</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, 2019

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes			\$ 3,035,717	
Other taxes and licenses			4,111	
Unrestricted intergovernmental			2,088,453	
Restricted intergovernmental			167,626	
Permits and fees			325	
Sales and services			599,081	
Investment earnings			53,781	
Miscellaneous			131,108	
Total revenues	<u>5,819,783</u>	<u>5,818,282</u>	<u>6,080,202</u>	<u>261,920</u>
Expenditures:				
Current:				
General government	1,060,612	1,073,821	978,455	95,366
Public safety	2,515,708	2,489,606	2,452,974	36,632
Public works	1,708,601	1,598,682	1,388,811	209,871
Environmental protection	207,200	218,420	215,072	3,348
Cultural and recreation	715,575	716,241	569,046	147,195
Debt service:				
Principal	74,348	195,263	195,260	3
Interest	27,880	38,390	38,390	-
Total expenditures	<u>6,309,924</u>	<u>6,330,423</u>	<u>5,838,008</u>	<u>492,415</u>
Revenues over expenditures	<u>(490,141)</u>	<u>(512,141)</u>	<u>242,194</u>	<u>754,335</u>
Other Financing Sources (uses)				
Capital contribution			-	
Sale of capital assets			25,800	
Installment purchase obligation issued			-	
Total other financing sources	<u>-</u>	<u>22,000</u>	<u>25,800</u>	<u>3,800</u>
Fund balance appropriated	<u>490,141</u>	<u>490,141</u>	<u>-</u>	<u>(490,141)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,994</u>	<u>\$ 267,994</u>
Fund balance, beginning			3,155,118	
Fund balances, end of year			<u>\$ 3,423,112</u>	

See accountant's report and accompanying notes.

Exhibit 6

Town of Canton, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2019

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,145,451
Accounts receivable (net) - billed	75,901
Accounts receivable (net) - unbilled	151,575
Due from other governments	1,523,226
Restricted cash and cash equivalents	6,335
Total current assets	<u>3,902,488</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	2,301,752
Other capital assets, net of depreciation	8,099,795
Capital assets (net)	<u>10,401,547</u>
Total noncurrent assets	<u>10,401,547</u>
Total assets	<u>14,304,035</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	209,651
OPEB deferrals	103,098
Total deferred outflows of resources	<u>312,749</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	72,204
Salaries and payroll taxes payable	23,362
Accrued interest payable	15,993
Compensated absences - current	21,285
Installment purchase - current	180,854
Liabilities payable from restricted assets:	
Customer deposits	6,335
Total current liabilities	<u>320,033</u>
Noncurrent liabilities:	
Compensated absences	35,462
Installment purchase	1,156,614
Net pension liability	184,189
Total OPEB liability	<u>2,322,741</u>
Total noncurrent liabilities	<u>3,699,006</u>
Total liabilities	<u>4,019,039</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	953
OPEB deferrals	273,727
Total deferred inflows of resources	<u>274,680</u>
NET POSITION	
Net investment in capital assets	9,064,079
Unrestricted	1,258,986
Total net position	<u>\$ 10,323,065</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, 2019

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 2,352,444
Tap and reconnection fees	70,600
Other operating revenues	1,244
Total operating revenues	<u>2,424,288</u>
OPERATING EXPENSES	
Administration	217,082
Treatment and distribution	1,446,792
Depreciation	286,913
Total operating expenses	<u>1,950,787</u>
Operating income (loss)	<u>473,501</u>
NONOPERATING REVENUES (EXPENSES)	
Sale of materials and equipment	4,298
Gain on sale of fixed assets	-
Investment earnings	50,073
Interest and other charges	(39,516)
Total nonoperating revenue (expenses)	<u>14,855</u>
Income (loss) before contributions and transfers	488,356
Capital contributions	<u>1,864,284</u>
Change in net position	2,352,640
Total net position - beginning	7,970,425
Total net position - ending	<u><u>\$ 10,323,065</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, 2019

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,402,180
Cash paid for goods and services	(944,156)
Cash paid to or on behalf of employees for services	(853,577)
Net cash provided by operations	<u>604,447</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sales of fixed assets	4,298
Acquisition and construction of capital assets	(1,629,600)
Capital contributions - State grant	424,858
Principal paid on installment purchase	(179,154)
Interest paid on installment purchase	(39,515)
Net cash used by capital and related financing activities	<u>(1,419,113)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	50,073
Purchase of investments	-
Net cash provided by investing activities	<u>50,073</u>
Net increase (decrease) in cash and cash equivalents	(764,593)
Balances-beginning of the year	<u>2,916,379</u>
Balances-end of the year	<u>\$ 2,151,786</u>
 Reconciliation of operating income to net cash provided by	
Operating income (loss)	\$ 473,501
Adjustments to reconcile operating income to net cash	
Depreciation	286,913
Changes in assets, deferred outflows of resources and liabilities:	
Decrease (Increase) in accounts receivable	(10,155)
Decrease (Increase) in due from other government	(11,953)
Decrease (Increase) in deferred outflows of resources	(138,972)
Increase (decrease) in deferred inflow of resources	71,602
Increase (Decrease) in accounts payable and accrued liabilities	(95,467)
Increase (Decrease) in pension liabilities	54,516
Increase (Decrease) in accrued interest payable	(687)
Increase (Decrease) in accrued compensated absences	3,060
Increase (Decrease) in other postemployment benefits	(27,911)
Total adjustments	<u>130,946</u>
Net cash provided by operating activities	<u>\$ 604,447</u>

See accountant's report and accompanying notes.

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Canton, North Carolina (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 statue 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 reports the following major enterprise funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Government-wide, and Proprietary Fund Financial Statements. The government-wide, and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operating. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customer to the water and sewer system. Operating expense for enterprise funds includes 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- Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT – Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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 six months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Customer deposits and prepayments by customers held by the Town before any services are supplied are restricted to the service for which the deposit or monies 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.

Unexpended grant proceeds are classified as restricted assets because their use is restricted to the purpose for which the grants were awarded.

Town of Canton Restricted Cash

Governmental Activities

General Fund	Streets	\$	434,682
	Cultural & recreational		176,220

Business-type Activities

Water and Sewer Fund	Customer Deposits	\$	6,335
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Total Restricted Cash		\$	<u>617,237</u>
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4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

The Town's General Fund inventory consists of gasoline and fuel supplies that are recorded as expenditures as used rather than when purchased. The inventories of the Town ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expenses as items are used.

7. Capital Assets

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

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

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

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has pension and OPEB deferrals for the 2019 fiscal year, which meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several

items that meets the criterion for this category – prepaid taxes, property taxes receivable and pension and OPEB deferrals.

9. Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. 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, 2019 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, 2019, 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 for Stabilization by State statute – North Carolina G.S. 159-8 prohibits units of governments from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted Fund Balance on the face of the balance sheet.

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

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

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

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

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

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

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

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

Defined Benefit Cost-Sharing Plans

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

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

II. Stewardship, Compliance and Accountability

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2019, the legal/administration/testing expenditures made in the Town's Crossroad Hill Water Association Water System Consolidation Project exceeded the authorized appropriations for that line item by \$7,361. The over-expenditures occurred because although the Board had budgeted for contingencies in the original budget, they failed to approve an amendment to move the appropriated contingency to cover additional attorney fees. Management and the Board will more closely review the budget reports and make amendments when needed among budgeted line-items.

II. Detail Notes on All Funds

A. Assets

1. Deposits and Investments

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, 2019, the Town's deposits had a carrying amount of \$5,345,472 and a bank balance of \$5,395,710. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$5,145,710 was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$1,000. The bank balance includes \$2,754,191 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 \$96,525 and a bank balance of \$143,775. All of the bank balance was covered by federal depository insurance. The store also had cash on hand at June 30, 2019 of \$3,200.

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 \$22,549. The accounts receivable amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 is net of the following allowances for doubtful accounts:

Fund	Allowance
General fund:	
Property taxes receivable	\$ 71,206
Water and sewer enterprise fund:	
Utility accounts receivable	<u>122,245</u>
Total	\$ 193,451

3. Capital Assets

Capital Asset Activity for the Primary Government for the year ended June 30, 2019 was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	<u>4,189,898</u>	<u>-</u>	<u>-</u>	<u>4,189,898</u>
Total capital assets not being depreciated	<u>4,189,898</u>	<u>-</u>	<u>-</u>	<u>4,189,898</u>
Capital assets being depreciated:				
Buildings	5,039,598	-	-	5,039,598
Infrastructure	2,654,423	-	-	2,654,423
Equipment	1,285,355	61,795	39,582	1,307,568
Vehicles and motorized equipment	<u>1,716,614</u>	<u>20,904</u>	<u>-</u>	<u>1,737,518</u>
Total capital assets being depreciated	<u>10,695,990</u>	<u>82,699</u>	<u>39,582</u>	<u>10,739,107</u>
Less accumulated depreciation for:				
Buildings	1,839,001	136,694	-	1,975,695
Infrastructure	187,709	72,561	-	260,270
Equipment	780,897	74,303	39,582	815,618
Vehicles and motorized equipment	<u>781,813</u>	<u>136,579</u>	<u>-</u>	<u>918,392</u>
Total accumulated depreciation	<u>3,589,420</u>	<u>420,137</u>	<u>39,582</u>	<u>3,969,975</u>
Total capital assets being depreciated, net	<u>7,106,570</u>			<u>6,769,132</u>
Governmental activity capital assets, net	<u>\$ 11,296,469</u>			<u>\$ 10,959,030</u>

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

General government	\$	88,699
Public safety		137,007
Public Works		62,890
Environmental protection		-
Cultural and recreational		131,541
Total depreciation expense	\$	<u>420,137</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	<u>477,965</u>	<u>1,603,508</u>	<u>-</u>	<u>2,081,473</u>
Total capital assets not being Depreciated	698,244	1,603,508	-	2,301,752
Capital assets being depreciated:				
Plant and distribution systems	12,552,149	27,061	-	12,579,210
Vehicles and motorized equipment	<u>302,373</u>	<u>-</u>	<u>-</u>	<u>302,373</u>
Total capital assets being Depreciated	<u>12,854,522</u>	<u>27,061</u>	<u>-</u>	<u>12,881,583</u>
Less accumulated depreciation for:				
Plant and distribution systems	4,345,204	261,640	-	4,606,844
Vehicles and motorized equipment	<u>149,671</u>	<u>25,273</u>	<u>-</u>	<u>174,944</u>
Total accumulated depreciation	<u>4,494,875</u>	<u>286,913</u>	<u>-</u>	<u>4,781,788</u>
Total capital assets being depreciated, net	<u>8,359,647</u>			<u>8,099,795</u>
Business-type activities capital assets, net	<u>\$ 9,057,891</u>			<u>\$ 10,401,547</u>

Activity for the ABC Board for the year ended June 30, 2019, was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Capital assets not being depreciated:				
Land	\$ 128,079	\$ -	\$ -	\$ 128,079
Total capital assets not being depreciated	128,079	-	-	128,079
Capital assets being depreciated:				
Buildings	227,129	-	-	227,129
Furniture and equipment	75,887	-	-	75,877
Computers	<u>37,143</u>	<u>-</u>	<u>-</u>	<u>37,143</u>
Total capital assets being depreciated	<u>340,159</u>	<u>-</u>	<u>-</u>	<u>340,159</u>

Less accumulated depreciation for:				
Buildings	92,830	7,325	-	100,155
Furniture and equipment	58,693	5,425	-	64,118
Computers	36,855	191	-	37,046
Total accumulated depreciation	<u>188,378</u>	<u>12,941</u>	<u>-</u>	<u>201,319</u>
Total capital assets being depreciated, net	<u>151,781</u>			<u>138,840</u>
Business-type activities capital assets, net	<u><u>\$ 279,860</u></u>			<u><u>\$ 266,919</u></u>

Construction commitments

The town has active construction projects as of June 30, 2019. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Spruce Street	\$ 118,600	\$ 1,752,215

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 to provide benefits for employees of local governments. LGERS membership is comprised of general employees and local law enforcement officers (LEOs), firefighters and rescue squad workers of participating local governmental entities. Benefit provisions are established by North Carolina General Statutes 128-27 and may be amended only by 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, disability 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. General employee 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. General employee 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

and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad workers 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. Cost of living benefit increases are contingent upon actuarial gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

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 or 25 years of creditable service. Disabled members may qualify for disability benefits at earlier ages. 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 and has reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by North Carolina 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 annual pay. 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, 2019, was 8.5% of covered payroll for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined. These amounts, combined with employee contributions and investment income, fund the benefits earned by plan members during the year, a payment to reduce the net pension liability, a payment for past service liability, if applicable, and administrative expenses. Contributions to the pension plan from the Town were \$328,139 for the year ended June 30, 2019.

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 include interest (currently 4% per year) regardless of the number of years of retirement service credit or reason for separation from service. 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 any other retirement or survivor benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$920,943 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2018, the Town's proportion was 0.0039%, which was a decrease of .003% of its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$340,491. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual expense	\$ 142,080	\$ 4,767
Changes of assumptions	244,383	-
Net difference between projected and actual earnings on pension plan investments	126,418	-
Changes in proportion and differences between contributions and proportionate share of contributions	207,234	-
Town's contributions subsequent to the measurement date	328,139	-
Total	\$ 1,048,254	\$ 4,767

\$328,139 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 327,598
2020	224,644
2021	73,362
2022	89,743
	<u>\$ 715,347</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including a 3.5% inflation and productivity factor
Investment rate of return	7.0 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuations were based on the results of an actuarial experience review for LGERS for the period January 1, 2010 through December 31, 2014.

Future ad hoc and cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

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

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

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

Discount rate. The discount rate used to measure the total pension liability was 7.0%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assumed that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those 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 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.percent) or one percentage point higher (8.%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.0%)
Town's proportionate share of the net pension liability (asset)	2,212,185	920,943	(158,039)

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, 2017, the Separation Allowance's membership consisted of:

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

2. *Summary of Significant Accounting Policies:*

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	3.64%
Projected salary increases	3.50 – 7.35%
Inflation	2.50%

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

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$21,733 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, 2019 the Town reported a total pension liability of \$319,885. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019 the Town recognized pension expense of \$24,227.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ -	\$ 9,086
Changes of assumptions	11,054	12,928
Benefit payments and administrative expense subsequent to the measurement date	-	-
Total	\$ 11,054	\$22,014

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

Year ended June 30:

2020	\$(1,978)
2021	(1,978)
2022	(1,800)
2023	(1,613)
2024	(3,069)
Thereafter	(522)

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:

	1% Decrease <u>(2.64%)</u>	Discount Rate <u>(3.64%)</u>	1% Increase <u>(4.64%)</u>
Total pension liability	\$344,670	\$319,885	\$297,020

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

Beginning balance	\$328,916
Service cost	16,069
Interest	10,136
Change in benefit terms	-
Difference between expected and actuarial experience in the measurement of the total pension liability	(7,284)
Changes in assumptions and other inputs	(11,652)
Benefit payments	(16,300)
Other changes	-
Ending balance of the total pension liability	\$319,885

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

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

	LGERS	LEOSSA	Total
Pension Expense	340,491	24,227	364,718
Pension Liability	920,943	319,885	1,240,828
Proportionate share of the net pension liability	.003882%	n/a	

	LGERS	LEOSSA	Total
Deferred of Outflows of Resources			
Differences between expected and actual experience	142,080	-	142,080
Change of Assumptions	244,383	11,054	255,437
Net difference between projected and actual earnings on plan investments	126,418	-	126,418
Changes in proportion and differences between contributions and proportionate share of contributions	207,234	-	207,234
Benefit payments and administrative cost paid subsequent to the measurement date	328,139	-	328,139
Deferred in Inflows of Resources			
Differences between expected and actual experience	4,767	9,086	13,853
Change of assumptions	-	12,928	12,928
Net difference between projected and actual earnings on plan investments	-	-	-
Change in proportion and differences between contributions and proportionate share of contributions	-	-	-

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed

are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town contributed \$24,345. No amounts were forfeited.

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

Plan Description. The State of North Carolina contributes, on behalf of the Town of Canton, to the Firefighter's and Rescue Squad Worker's Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter's and Rescue Squad Worker's Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Worker's Pension Fund. That report may be obtained by writing to the Officer of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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

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

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

e. Other Post-Employment Benefit ObligationsHealthcare 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 June 30, 2017, the date of the latest actuarial valuation:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive members entitled but not yet receiving benefits	-
Active employees	68
Total	<u>113</u>

Total OPEB Liability

The Town's total OPEB liability of \$11,613,704 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

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

Inflation	2.5 percent
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases	
General employees	3.5% - 7.75%
Firefighters	3.5% - 7.75%
Law enforcement officers	3.5% - 7.35%
Municipal Bond Index Rate	
Prior measurement date	3.56%
Measurement date	3.89%
Healthcare Cost Trends	
Pre-Medicare	7.5% for 2017 decreasing to an ultimate rate of 5% by 2023
Medicare	5.50% for 2017 decreasing to an ultimate rate of 5% by 2020

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	11,753,261
Changes for the year	
Service cost	458,628
Interest	410,663
Changes of benefit terms	-
Differences between expected and actual experience	90,374
Changes in assumptions or other inputs	(659,828)
Benefit payments and implicit subsidy credit	<u>(439,394)</u>
Balance at June 30, 2018	11,613,704

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

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

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

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$13,802,357	\$11,613,704	\$9,916,956

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-

percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$9,706,898	\$11,613,704	\$14,128,308

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$610,489. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 140,922	\$ -
Changes of assumptions	-	1,368,634
Benefit payments and administrative costs made subsequent to the measurement date	<u>357,634</u>	<u>-</u>
Total	\$ 498,556	\$ 1,368,634

\$357,634 of 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	(258,802)
2020	(258,802)
2021	(258,802)
2022	(258,802)
2023	(156,912)
Thereafter	(35,592)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the

System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's benefits, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred outflows and Inflows of Resources

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

Contributions to pension plan subsequent to the measurement date	\$ 328,139
Benefit payments made and administrative costs for LEOSA made subsequent to measurement date	-
Benefit payments made and administrative costs for OPEB made subsequent to measurement date	357,634
Difference between expected and actual experience	283,002
Changes of assumption	255,437
Net difference between projected and actual share of contributions	126,418
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>207,234</u>
Total	\$1,557,864

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ 4,248	\$ 4,248
Taxes receivable, less penalties		76,828
Differences between expected and actual expense	-	-
Change in assumptions	1,381,562	-
Net difference between projected and actual earnings on pension plan investments	13,853	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>-</u>
Total	\$1,399,663	\$ 81,076

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

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

The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability, workers compensation, and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

In accordance with G.S. 159-29, The Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000, the Tax Collector for \$50,000 and the remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

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

5. Commitments

The Town rents parking lots and equipment under agreements which are operating leases. Most agreements are for 12 months or less. Total rent expense under operating leases was \$85,152.

Future minimum lease payments under operating leases at June 30, 2019 are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2020	\$ 12,303
2021	12,303
2022	1,025

6. Line of Credit

The ABC Board has a revolving line of credit with First Citizens Bank. The line of credit has a fixed annual interest rate of 17.90%, and the maximum amount of credit available is \$10,000. There were no amounts due on the line of credit on June 30, 2019.

7. Long-Term Obligationsa. Capital Leases

In August 2016 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	9,921	(6,945)	2,976

The future minimum lease obligation and net present value of these minimum payments as of June 30, 2019 is as follows:

<u>Year ending June 30</u>	
2020	\$ 2,175
2021	<u>2,175</u>
Total minimum lease payments	4,350
Less amounts representing interest	<u>(178)</u>
Present value of the minimum lease payments	\$ 4,172

b. Installment Purchases

Governmental Activities:

In November 2010, the Town entered into an installment purchase contract for \$344,122 to finance the acquisition of a pumper fire truck. The financing contract requires 15 annual payments of \$30,027 including interest at 3.57%. The remaining balance at June 30, 2019 was \$183,125.

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, 2019 was \$2,862.

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, 2019 was \$106,939.

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, 2019 was \$2,146.

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, 2019 was \$9,338.

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, 2019 was \$230,339.

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, 2019 was \$671,666.

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, 2019 was \$785,029.

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, 2019 was \$306,370.

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, 2019 was \$246,069.

Annual debt service payments of the installment purchases and capital lease as of June 30, 2019 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 198,780	\$ 33,378	\$ 232,158	\$ 180,854	\$ 31,849	\$ 212,703
2021	193,288	28,311	221,599	182,597	27,122	209,719
2022	191,742	23,407	215,149	184,385	22,351	206,736
2023	77,763	18,489	96,252	186,218	17,535	203,753
2024	78,695	16,064	94,759	188,099	12,672	200,771
2025-2029	315,319	45,998	361,317	415,315	11,333	426,648
2030-2034	155,000	7,839	162,839	-	-	-
Total	\$ 1,210,587	\$ 173,486	\$ 1,384,073	\$ 1,337,468	\$ 122,862	\$ 1,460,330

c. General Obligation Indebtedness

At June 30, 2019 the Town of Canton had no outstanding bonds and no authorized but unissued bonds. The Town had a legal debt margin of \$25,440,788.

d. 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, 2019:

	Beginning Balance	Increases	Decreases	Ending Balances	Current Portion
Governmental activities:					
Installment purchases	1,399,816	-	193,401	1,206,415	196,723
Compensated absences	318,084	9,242	-	327,326	-
Capital lease	6,172	-	2,000	4,172	2,057
Total pension liability (LEO)	328,916	-	9,031	319,885	-
Net pension liability	518,693	218,061	-	736,754	-
OPEB	9,402,609	-	111,646	9,290,963	-
Governmental activity long-term liabilities	\$ 11,974,290	227,303	\$ 316,078	\$ 11,885,515	\$ 198,780

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Business-type activities:					
Installment purchases	\$ 1,516,622	\$ -	\$ 179,154	\$ 1,337,468	\$ 180,854
Compensated absences	52,717	4,030	-	56,747	21,285
Net pension liability	129,673	54,516	-	184,189	
OPEB	<u>2,350,652</u>	<u>-</u>	<u>27,911</u>	<u>2,322,741</u>	<u>-</u>
Business-type activity long-term debt	<u>\$ 4,049,664</u>	<u>\$ 58,546</u>	<u>\$ 207,065</u>	<u>\$ 3,901,145</u>	<u>\$ 202,139</u>

C. Concentration Reporting

For the year ended June 30, 2019, one corporation comprised approximately 37.5% of ad valorem tax revenues and 19% of water sales.

D. Interfund Activity

Transfers to/from other funds at June 30, 2019, consist of the following:

From General Fund to the Recreation Fund	\$ 350,000
From Aquatic Capital Project Fund to General Fund	1,672

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 2019 fiscal year, the Town made a yearly transfer from the General Fund of \$350,000 to the Recreation Fund. The Recreation Fund is included in General Fund for reporting purposes. The Town also transferred \$1,672 of remaining unrestricted funds from the Canton Aquatic Capital Project Fund to the General Fund. The funds are combined for reporting purposes.

E. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-Type</u>
Capital assets	\$ 10,959,030	\$ 10,401,547
Less: long-term debt	<u>1,210,587</u>	<u>1,337,468</u>
Net investment in capital assets	<u>\$ 9,748,443</u>	<u>\$ 9,064,079</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	\$ 3,423,112
Less:	
Inventories	8,174
Stabilization by State Statute	540,364
Police	35,549
Streets – Powell Bill	434,682
Subsequent year's expenditures	724,739
Remaining fund balance	\$1,679,604

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, 2019.

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 29, 2019, the date the financial statements were available to be issued.

The Town received \$1,171,850 from the North Carolina Division of Water Infrastructure through the Drinking Water State Revolving Fund (Revolving Fund) in July 2019. This was part of the \$1,439,426 reported as Due from Other Governments related to the Crossroad Hill Water Association Water System Consolidation Project as of June 30, 2019.

The Town received approval for a low interest State Loan from the Water Infrastructure Fund for a maximum amount of \$2,000,000 for the Spruce Street Area Water System Improvements Project. Only engineering, design and permitting were performed on this project by year-end. However, the Town began construction on this project subsequent to the current year end and will start receiving proceeds related to the State Loan during the year ending June 30, 2020.

VI. Reclassifications

Certain prior year amounts have been reclassified for comparison purposes to current year presentation.

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

	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) %	0.039%	0.042%	0.038%	0.036%	0.038%	0.038%
Town's proportion of the net pension liability (asset)	\$ 920,943	\$ 648,366	\$ 797,786	\$ 163,316	\$ (221,450)	\$ 148,163
Town's covered-employee payroll	\$ 2,421,400	\$ 2,276,958	\$ 1,829,958	\$ 2,044,962	\$ 1,935,008	\$1,935,008
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.0%	28.5%	43.6%	7.9%	-11.40%	7.7%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

Town of Canton North Carolina
Schedule of Contributions
Local Government Employees' Retirement System
Last Six Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$328,139	\$291,339	\$295,796	\$242,673	\$161,555	\$148,163
Contribution in relation to the contractually required contribution	328,139	291,339	295,796	242,673	161,555	148,163
Contribution deficiency (excess)	-	-	-	-	-	-
Town's covered-employee payroll	\$2,611,689	\$2,421,400	\$2,276,958	\$1,829,958	\$2,044,962	\$1,935,008
Contributions as a percentage of covered- employee payroll	12.56%	12.03%	12.99%	13.26%	11.99%	7.66%

Town of Canton North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 328,916	\$ 297,086	\$ 286,920
Service cost	16,069	13,750	13,460
Interest on the total pension liability	10,136	11,356	10,120
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(7,284)	(4,613)	-
Changes of assumptions or other inputs	(11,652)	17,094	(6,506)
Benefit payments	(16,300)	(5,757)	(6,908)
Other changes	-	-	-
Ending Balance of the total pension liability	<u>\$ 319,885</u>	<u>\$ 328,916</u>	<u>\$ 297,086</u>

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

Town of Canton North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 319,885	\$ 328,916	\$ 297,086
Covered payroll	573,038	534,457	490,742
Total pension liability as a percentage of covered payroll	55.82%	61.54%	60.54%

Notes to the schedule:

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

Town of Canton North Carolina
Schedule of Changes in Total OPEB
Liability and Related Ratios
June 30, 2019

	Measurement Period Ending	
	2019	2018
Total OPEB Liability		
Service cost	\$ 458,628	\$ 522,024
Interest	410,663	366,147
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total OPEB liability	90,374	94,065
Changes of assumptions or other inputs	(659,828)	(1,180,950)
Net benefit payments and implicit subsidy credit	(439,394)	(421,654)
Other changes	-	-
Net change in total OPEB liability	(139,557)	(620,368)
Total OPEB liability - beginning	11,753,261	12,373,629
Total OPEB liability - ending	\$ 11,613,704	\$ 11,753,261
 Covered payroll	 2,512,768	 2,512,768
Total OPEB liability as a percentage of covered payroll	462.19%	467.74%

Notes to Schedule

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

<u>Fiscal Year</u>	<u>Rate</u>
2019	3.89%
2018	3.56%

Town of Canton, North Carolina
Comparative Balance Sheets
General Fund
June 30, 2019 and 2018

Exhibit A

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,583,784	\$ 2,398,872
Restricted cash	610,902	350,189
Receivables, net:		
Taxes	76,828	106,767
Accounts	66,278	61,993
Prepaid expenses	6,000	6,000
Due from other governments	468,086	556,941
Inventories	8,174	6,519
Total assets	<u>\$ 3,820,052</u>	<u>\$ 3,487,281</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 30,658	\$ 56,028
Salaries and payroll taxes payable	108,986	109,358
Unearned grant revenue	127,860	-
Customer prepayments	48,360	53,926
Total liabilities	<u>315,864</u>	<u>219,312</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	76,828	106,767
Prepaid taxes	4,248	6,084
Total deferred inflows of resources	<u>81,076</u>	<u>112,851</u>
Fund balances:		
Nonspendable:		
Inventories	8,174	6,519
Restricted:		
Stabilization by state statute	540,364	571,008
Police	35,549	33,558
Streets	434,682	350,189
Assigned:		
Subsequent year's expenditures	724,739	490,141
Unassigned	1,679,604	1,703,703
Total fund balances	<u>3,423,112</u>	<u>3,155,118</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,820,052</u>	<u>\$ 3,487,281</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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
Revenues:				
Ad valorem taxes:				
Taxes		\$ 3,018,735		\$ 2,969,374
Penalties and interest		16,982		25,543
Total ad valorem taxes	2,906,613	3,035,717	129,104	2,994,917
Other taxes and licenses:				
Gross receipts tax on short-term rental property		1,201		341
Privilege licenses		2,910		2,590
	3,500	4,111	611	2,931
Unrestricted intergovernmental:				
Local option sales taxes		938,743		961,493
Utility franchise tax		776,346		729,653
Piped natural gas tax		4,539		6,709
Beer and wine tax		19,241		18,880
Sales tax-communications		71,424		108,377
State hold-harmless distribution		241,360		246,845
ABC Profit distribution		36,800		2,400
Total unrestricted intergovernmental	2,025,900	2,088,453	62,553	2,074,357
Restricted intergovernmental:				
Powell Bill allocation		138,168		138,117
Miscellaneous grants		4,958		1,691
Government Crime Comm grant		24,500		20,835
Federal Equitable Shares grant		-		-
Total restricted intergovernmental	173,000	167,626	(5,374)	160,643
Permits and fees:				
Building permits and inspection fees	-	325		445
Plumbing and electrical fees	-	-		-
Total permits and fees	-	325	325	445

(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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
Revenues (continued)				
Sales and services:				
Refuse collection fees		\$ 230,473		\$ 229,085
Solid waste disposal tax		2,689		2,896
Sale of material and labor		2,385		3,042
Miscellaneous revenue-Police Department		99,687		60,620
Recreation admissions and concessions		132,337		89,148
Theater revenue		18,929		12,053
Other fees		6,254		50
Court facilities fees and forfeitures		2,474		2,111
Fire protection charges		87,865		69,798
Rents		15,988		16,300
Total sales and services	514,620	599,081	84,461	485,103
Investment earnings:				
Interest earnings		53,781		31,519
Total investment earnings	15,350	53,781	38,431	31,519
Miscellaneous:				
Special event fees		24,697		63,559
Other miscellaneous		106,411		48,352
Total miscellaneous	179,299	131,108	(48,191)	111,911
Total revenues	5,818,282	6,080,202	261,920	5,861,826
Expenditures:				
General government:				
Governing Board				
Salaries and employee benefits		-		-
Other operating expenditures	29,800	28,262		38,564
Total governing board	29,800	28,262	1,538	38,564
Administration:				
Salaries and employee benefits	138,726	137,081		131,537
Other operating expenditures	10,935	2,484		15,222
Total administration	149,661	139,565	10,096	146,759
Finance				
Salaries and employee benefits	268,198	259,689		263,774
Other operating expenditures	53,537	52,352		47,105
Capital outlay	-	-		-
Total finance	321,735	312,041	9,694	310,879
				(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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
Expenditures (continued)				
Legal:				
Part-time salaries	-	-		-
Other operating expenditures	17,531	14,690		15,275
Total legal	17,531	14,690	2,841	15,275
Planning and Zoning				
Salaries and employee benefits	170,464	164,006		87,261
Other operating expenditures	220,631	165,611		32,999
Capital outlay	-	-		244,996
Total planning and zoning	391,095	329,617	61,478	365,256
Community Promotion				
Other operating expenditures	12,000	9,557		150,764
Capital Outlay	-	-		9,444
Total community promotion	12,000	9,557	2,443	160,208
Municipal Buildings:				
Salaries and employee benefits	4,700	4,659		6,039
Other operating expenditures	147,299	140,064		151,836
Capital outlay	-	-		-
Total municipal buildings	151,999	144,723	7,276	157,875
Total general government	1,073,821	978,455	95,366	1,194,816
Public Safety:				
Police:				
Salaries and employee benefits	1,372,515	1,363,460		1,323,510
Other operating expenditures	176,859	170,435		132,646
Capital outlay	49,071	49,071		38,380
Total police	1,598,445	1,582,966	15,479	1,494,536
Fire:				
Salaries and employee benefits	735,529	718,702		672,898
Other operating expenditures	133,198	128,873		113,196
Capital outlay	22,434	22,433		34,328
Total fire	891,161	870,008	21,153	820,422
Total public safety	2,489,606	2,452,974	36,632	2,314,958

(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, 2019

With comparative actual amounts for the year ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2018</u>
Expenditures (continued)				
Public Works:				
Traffic Engineering	<u>1,059</u>	<u>1,059</u>	<u>-</u>	<u>-</u>
Central Services:				
Salaries and employee benefits	110,832	110,166		111,452
Other operating expenditures	38,290	33,399		31,423
Capital outlay	-	-		6,683
Total central services	<u>149,122</u>	<u>143,565</u>	<u>5,557</u>	<u>149,558</u>
Streets:				
Salaries and employee benefits	811,845	792,101		838,085
Other operating expenditures	343,906	311,053		307,356
Capital outlay	-	-		47,697
Total streets	<u>1,155,751</u>	<u>1,103,154</u>	<u>52,597</u>	<u>1,193,138</u>
Street Cleaning and Sweeping:				
Salaries and employee benefits	56,412	44,488		-
Other operating expenditures	36,338	29,456		10,257
Capital outlay	-	-		-
Total street cleaning and sweeping	<u>92,750</u>	<u>73,944</u>	<u>18,806</u>	<u>10,257</u>
Powell Bill:				
Salaries and employee benefits	-	-		-
Other operating expenditures	187,000	55,894		12,698
Capital outlay	13,000	11,195		105,782
Total powell bill	<u>200,000</u>	<u>67,089</u>	<u>132,911</u>	<u>118,480</u>
Total public works	<u>1,598,682</u>	<u>1,388,811</u>	<u>209,871</u>	<u>1,471,433</u>
Environmental Protection:				
Sanitation:				
Salaries and employee benefits	4,700	1,553		5,489
Other operating expenditures	187,000	187,515		202,091
Total sanitation	<u>191,700</u>	<u>189,068</u>	<u>2,632</u>	<u>207,580</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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
Expenditures (continued)				
Landfill:				
Other operating expenditures	\$ 26,720	\$ 26,004		\$ 2,649
Capital outlay	-	-		-
Total landfill	26,720	26,004	716	2,649
 Total environmental protection	 218,420	 215,072	 3,348	 210,229
Cultural and Recreational:				
Canton Historical Museum:				
Salaries and employee benefits	17,721	18,208		15,606
Other operating expenditures	19,945	18,667		15,715
Total Canton Historical Museum	37,666	36,875	791	31,321
 Recreational Areas and Facilities:				
Salaries and employee benefits	157,714	135,038		138,040
Other operating expenditures	262,271	162,984		173,827
Capital outlay	10,000	2,140		10,700
Total recreational areas and facilities	429,985	300,162	129,823	322,567
 Colonial Pathway				
Salaries and employee benefits	72,039	71,164		69,494
Other operating expenditures	52,089	50,125		51,817
Capital outlay	-	-		-
Total recreation concessions	124,128	121,289	2,839	121,311
 Armory				
Salaries and employee benefits	8,962	6,285		5,558
Other operating expenditures	60,558	49,493		44,187
Capital outlay	54,942	54,942		-
Total recreation concessions	124,462	110,720	13,742	49,745
 Total cultural and recreational	 716,241	 569,046	 147,195	 524,944

(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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
Expenditures (continued)				
Debt Service:				
Principal retirement	195,263	195,260		193,896
Interest and fees	38,390	38,390		42,799
Total debt service	233,653	233,650	3	236,695
Total expenditures	6,330,423	5,838,008	492,415	5,953,075
Revenue over (under) expenditures	(512,141)	242,194	754,335	(91,249)
Other Financing Sources:				
Transfer to Canton Aquatic Center	-	-		(48,357)
Capital Contribution - Haywood Co & Freightliner	-	-		238,611
Sale of capital assets	22,000	25,800		-
Installment purchase obligation issued	-	-		-
Total other financing sources	22,000	25,800	3,800	190,254
Fund balance appropriated	490,141	-	(490,141)	-
Net change in fund balance	\$ -	267,994	\$ 267,994	99,005
Reconcile to combined fund balance, Exhibit 4				
Unspent transfer from Recreation Fund		-		(213,855)
Fund balance, beginning of year		3,155,118		3,269,968
Fund balance, end of year		\$ 3,423,112		\$ 3,155,118

**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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
OPERATING REVENUES				
Charges for services:				
Water sales		\$ 1,877,187		\$ 1,812,960
Sewer charges		475,257		447,883
Taps and connection fees		50,350		48,180
Reconnection fees		20,250		12,400
Other operating revenues		1,244		1,073
Total operating revenues	2,236,700	2,424,288	187,588	2,322,496
NON-OPERATING REVENUES				
Interest on investments		50,073		24,208
Sale of materials and equipment		4,298		2,901
Total non-operating revenues	14,500	54,371	39,871	27,109
Total revenues	2,251,200	2,478,659	227,459	2,349,605
OPERATING EXPENDITURES				
Administration:				
Salaries and employee benefits	178,155	180,006		177,537
Repairs and maintenance	500	307		439
Other operating expenditures	79,720	36,769		24,247
Total administration	258,375	217,082	41,293	202,223
Water treatment				
Salaries and employee benefits	308,865	286,194		267,809
Repairs and maintenance	61,426	57,191		69,971
Other operating expenditures	326,083	322,963		257,344
Total water treatment	696,374	666,348	30,026	595,124
Water and sewer distribution				
Salaries and employee benefits	437,705	424,586		430,981
Repairs and maintenance	85,684	67,087		26,487
Other operating expenditures	607,086	260,666		271,569
Total water and sewer distribution	1,130,475	752,339	378,136	729,037
Sewer Treatment Plant:				
Repairs and maintenance	4,500	-		8,868
Other operating expenses	55,500	56,653		56,070
Total sewer treatment	60,000	56,653	3,347	64,938
Debt service:				
Principal retirement	179,154	179,154		177,496
Interest	40,016	39,516		44,889
Total debt service	219,170	218,670	500	222,385

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, 2019

With comparative actual amounts for the year ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)	2018
OPERATING EXPENDITURES (continued)				
Capital Outlay:	30,000	27,062	2,938	165,013
Total expenditures	2,394,394	1,938,154	456,240	1,978,720
Revenues over (under) expenditures	(143,194)	540,505	683,699	370,885
OTHER FINANCING SOURCES (USES)				
Transfer to Crossroad Hills Project	-	-	-	-
Grant revenue	-	-	-	48,650
Gain on sale of fixed assets	-	-	-	4,104
Proceeds from installment purchase	-	-	-	-
Total other financing sources (uses)	50,000	-	(50,000)	52,754
Budgetary appropriation	93,194	-	(93,194)	-
Revenues and other financing sources over	\$ -	\$ 540,505	\$ 540,505	\$ 423,639
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Loan principal payments		179,154		177,496
Increase (decrease) in deferred outflows - pension		51,747		(43,435)
Increase (decrease) in deferred outflows - OPEB		87,225		15,873
(Increase) in interest accrued on long term debt		687		(667)
(Increase) decrease in accrued salaries and compensated absences		(7,224)		17,154
(Increase) decrease in pension liability		(54,516)		29,884
(Increase) decrease in deferred inflows - pension		(2,840)		2,044
(Increase) decrease in deferred inflows - OPEB		(74,442)		(199,285)
(Increase) decrease in accrued OPEB liability		27,911		24,815
Capital outlay		27,062		165,013
Depreciation		(286,913)		(255,828)
Capital contribution - Crossroad Hills capital project		1,864,284		-
Total reconciling items		1,812,135		(66,936)
Change in net position - Water and Sewer Fund		\$ 2,352,640		\$ 356,703

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, 2019

	<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 Fund	\$ 2,464,200	\$ -	\$ 1,864,284	\$ 1,864,284	\$ (599,916)
Total revenues	<u>2,464,200</u>	<u>-</u>	<u>1,864,284</u>	<u>1,864,284</u>	<u>(599,916)</u>
Expenditures:					
Capital Outlay					
Engineering design	25,000	10,000	-	10,000	15,000
Design and permitting	160,000	160,000	-	160,000	-
Bidding and awarding	10,000	10,000	-	10,000	-
Construction administration	150,000	11,549	116,558	128,107	21,893
Legal/Administration/Testing	25,000	31,994	367	32,361	(7,361)
Construction cost	1,917,400	152,975	1,377,978	1,530,953	386,447
Closing fee	49,284	42,147	-	42,147	7,137
Contingency	176,800	-	-	-	176,800
Total expenditures	<u>2,513,484</u>	<u>418,665</u>	<u>1,494,903</u>	<u>1,913,568</u>	<u>599,916</u>
Revenues under expenditures	<u>(49,284)</u>	<u>(418,665)</u>	<u>369,381</u>	<u>(49,284)</u>	<u>-</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund	<u>49,284</u>	<u>49,284</u>	<u>-</u>	<u>49,284</u>	<u>-</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>\$ (369,381)</u>	<u>\$ 369,381</u>	<u>\$ -</u>	<u>\$ -</u>

Exhibit E

Town of Canton, North Carolina
 Water and Sewer Capital Project Fund
 Spruce Street Area Water System Improvements Project
 Schedule of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual
 From Inception and for the year ended June 30, 2019

	<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 Reserve Loan	\$ 1,697,000	\$ -	\$ -	\$ -	\$ (1,697,000)
Total revenues	<u>1,697,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,697,000)</u>
Expenditures:					
Capital Outlay					
Engineering design	10,000	10,000	-	10,000	-
Design and permitting	98,600	49,300	49,300	98,600	-
Bidding and awarding	10,000	-	10,000	10,000	-
Construction administration	95,000	49,305	-	49,305	45,695
Legal/Administration/Testing	16,000	-	-	-	16,000
Construction cost	1,334,000	-	-	-	1,334,000
Closing fee	33,940	-	-	-	33,940
Contingency	<u>133,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,400</u>
Total expenditures	<u>1,730,940</u>	<u>108,605</u>	<u>59,300</u>	<u>167,905</u>	<u>1,563,035</u>
Revenues under expenditures	<u>(33,940)</u>	<u>(108,605)</u>	<u>(59,300)</u>	<u>(167,905)</u>	<u>(133,965)</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund	<u>33,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,940)</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>\$ (108,605)</u>	<u>\$ (59,300)</u>	<u>\$ (167,905)</u>	<u>\$ (167,905)</u>

Exhibit F

**Town of Canton, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 2,990,853	2,946,801	\$ 44,052
2017-2018	68,418	-	52,712	15,706
2016-2017	19,533	-	11,187	8,346
2015-2016	7,824	-	2,794	5,030
2014-2015	6,910	-	1,576	5,334
2013-2014	9,330	-	1,547	7,783
2012-2013	10,334	-	422	9,912
2011-2012	10,492	-	491	10,001
2010-2011	11,264	-	779	10,485
2009-2010	9,300	-	464	8,836
2008-2009	9,388	-	9,388	-
2007-2008	3,577	-	3,577	-
	<u>\$ 166,370</u>	<u>\$ 2,990,853</u>	<u>\$ 3,031,738</u>	<u>125,485</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(71,206)</u>
Ad valorem taxes receivable - net				<u>\$ 54,279</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				<u>\$ 3,035,717</u>
Reconciling items:				
Interest collected				(16,982)
Releases and other				38
Taxes written off				<u>12,965</u>
Subtotal				<u>(3,979)</u>
Total collections and credits				<u>\$ 3,031,738</u>

Exhibit G

Town of Canton, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2019

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property - real and personal	484,156,897	0.58	\$ 2,808,110	\$ 2,808,110	\$ -
Registered motor vehicles	31,132,069	0.58	180,566	-	180,566
Advertising			1,863	1,863	-
Total			2,990,539	2,809,973	180,566
Discoveries:					
Current year taxes	54,138	0.58	314	314	-
Total property valuation	<u>515,343,104</u>				
Net levy			2,990,853	2,810,287	180,566
Uncollected taxes at June 30, 2019			(44,052)	(44,052)	-
Current year's taxes collected			<u>\$ 2,946,801</u>	<u>\$ 2,766,235</u>	<u>\$ 180,566</u>
Current levy collection percentage			<u>98.53%</u>	<u>98.43%</u>	<u>100.00%</u>

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Canton, North Carolina (Town of Canton) as of and for the year ended June 30, 2019, 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 29, 2019. 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'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's internal control over financial reporting. Accordingly, I did not express an opinion on the effectiveness of the Town of Canton's internal control.

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

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during the audit I did identify a deficiency in

internal control described in the accompanying schedule of findings and questioned costs as items 2019-2, that I consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Canton's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as items 2019-1 and 2019-2.

Town of Canton's Response to Findings

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

The Town of Canton agrees with the material weakness and noncompliance findings and will closely monitor budgets by line item and reconcile general ledger accounts on a monthly basis.

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

Sheila Gahagan, CPA

October 29, 2019

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance in Accordance with OMB Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

I have audited the Town of Canton, North Carolina's (Town of Canton) compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Canton's major federal programs for the year ended June 30, 2019. The Town of Canton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Environmental Protection Agency (EPA) Capitalization Grants for Drinking Water State Revolving Funds

As described in the accompanying schedule of findings and questioned costs, Town of Canton did not comply with requirements regarding CFDA 66.468 as described in finding number 2019-3 for Uniform Guidance general procurement standards. Compliance with such requirement is necessary, in my opinion, for Town of Canton to comply with the requirements applicable to that program.

Qualified Opinion on EPA Capitalization Grants for Drinking Water State Revolving Funds

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Town of Canton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The Town of Canton's response to the noncompliance findings identified in the audit is described in the accompany schedule of findings and questioned costs. Town of Canton's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control Over Compliance

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

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

requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. I did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-3, that I consider to be a material weakness.

Town of Canton's response to the internal control over compliance finding identified in my audit is described in the accompanying schedule of findings and questioned costs. Town of Canton's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, I express no opinion on the response.

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



Sheila Gahagan, CPA

January 13, 2020, except for my report on the Schedule of Expenditures of Federal and State Awards, for which the date is October 29, 2019

**TOWN OF CANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

I. Summary of Auditor's Results

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

Internal control over financial reporting:

Material weakness identified X Yes No

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

Noncompliance material to financial statements noted X Yes No

Federal Awards

Internal control over major federal programs:

Material weakness identified X Yes No

Significant deficiency(s) identified Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Qualified

Any audit findings disclose that are required to be reported in accordance with 2 CFR 200.516(a)

 X Yes No

Identification of major federal programs:

CFDA Number	Federal Program
66.468	Capitalization Grants and Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B program: \$750,000

Auditee qualified as low-risk auditee? Yes X No

**TOWN OF CANTON, NORTH CAROLINA.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

II. Financial Statements Findings
2019 – 1

Criteria: North Carolina general statutes require expenditures be incurred and paid only if the budget ordinance authorizes the obligation.

Condition: One instance of expenditures exceeding authorized appropriations within a budgeted category for the Crossroad Hills capital project occurred during the year ended June 30, 2019.

Effect: Budgetary noncompliance.

Cause: This expenditure in excess of appropriation occurred because of a lack of understanding that even though expenditures were below budgeted amounts in total, amendments are required by budgeted line items authorized by the Board.

Recommendation: The Finance Officer should continuously review budget and actual expenditure reports considering budgeted and actual expenditures as approved by the Board. The Town Manager and the Board should carefully review budget and actual expenditures at least monthly and make necessary amendments as needed.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the correction action plan on page 80 in this audit report.

2019 – 2

Criteria: North Carolina's Local Government Budget and Fiscal Control Act requires local governments to establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues, and expenditures

Condition: Year-end reconciliations for accounts receivables and investment accounts were not reconciled prior to the audit for the year ended June 30, 2019.

Effect: Material misstatements could occur if accounts are not reconciled on a timely basis.

Cause: Poor internal controls.

Recommendation: The Finance Officer should reconcile subsidiary accounts, such as cash, investments and accounts receivable, with the general ledger on a timely basis. The Town Manager should then review reconciliations to assure performed correctly and timely.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the correction action plan on page 80 in this audit report.

**TOWN OF CANTON, NORTH CAROLINA.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

III. Federal Award Findings and Questioned Costs

2019 – 3

Criteria: The Uniform Guidance, 2 CFR 200.318, requires entities to use their own documented procurement procedures and specifies procurement procedures must be in writing.

Condition: Although no evidence was found the Town did not comply with their policies and procedures, the Town did not provide written procurement procedures that comply with federal requirements.

Effect: Non-compliance with the Uniform Guidance requirements.

Cause: Poor internal controls.

Recommendation: The Finance Officer and Town Manager should complete written procurement procedures that document compliance with federal and state laws and requirements.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the correction action plan on page 80 in this audit report.



**TOWN OF CANTON, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

II. Financial Statement Findings

2019– 1

Name of contact person: Natalie Walker, Finance Officer

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

Proposed Completion Date: Management and the Board have implemented the above procedure as of the date of the audit report.

2019– 2

Name of contact person: Natalie Walker, Finance Officer

Corrective Action: The Finance Officer will reconcile subsidiary ledgers with the general ledger monthly and at year-end and the Town Manager will review reconciliations.

Proposed Completion Date: Management will implement the above procedure immediately.

III. Federal Award Findings and Questioned Costs

2019– 3

Name of contact person: Natalie Walker, Finance Officer

Corrective Action: The Finance Officer and Town Manager will complete written procurement procedures in compliance with the Uniform Guidance and North Carolina laws and requirements for local governments.

Proposed Completion Date: Management will implement the above procedure immediately

**TOWN OF CANTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

II. Financial Statement Finding

2018 - 1

Finding: Last year general fund expenditures exceeded the budget in several funds.

Status: The client made significant improvements in reviewing and making necessary amendments to the budget as needed; however, during the current year they failed to amend a line item within a capital project fund. The Board originally budgeted for contingencies within the capital project fund but failed to amend the budget to cover over-expenditures for legal and administrative costs. This is a repeat finding.

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

III. State Award Findings and Questioned Costs

None reported.

Town of Canton, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2019

	Federal CFDA Number	Federal Expenditures	State Number	State Expenditures	Pass-Through to Sub- Recipients
<u>Environmental Protection Agency</u>					
Passed through the Division of Water Infrastructure:					
Capitalization Grants for Drinking Water State					
Revolving Funds Cluster:	66.468	\$ 1,494,903.00	WIF-1898	\$ -	\$ -
<u>NC Dept. of Environmental Quality</u>					
Passed through the Division of Water Infrastructure:					
State Reserve Loan (SRP)		-	H-SRP-D-17-0020	59,300	-
<u>NC Dept. of Public Safety</u>					
Governors Crime Commission Grant					
Byrne Justice Assistance Grants	16.738	24,500		-	-
<u>NC Dept. of Transportation</u>					
Powell Bill		-	Powell Bill DOT 4	138,117	-
Total expenditures of federal and state awards		\$ 1,519,403		\$ 197,417	\$ -

Notes to the Schedule of Expenditures of State Financial Awards:

1 Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state award activity of the Town of Canton under programs for the year ended June 30, 2019 in accordance with the requirements of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal awards (Uniform Guidance)*. Because the Schedule only presents a selective portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Town of Canton.

2 Summary of Significant Accounting Policies

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