

# **TOWN OF CANTON, NORTH CAROLINA**



## **FINANCIAL STATEMENTS**

**June 30, 2022**

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

**TOWN OF CANTON**

**Canton, North Carolina**

**Mayor and Board of Aldermen/Alderwomen**

Zeb Smathers

Mayor

Gail Mull

Mayor Pro-Tem

Kristina Proctor

Alderwoman

Dr. Ralph Hamlett

Alderman

Tim Shepard

Alderman

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Town of Canton's basic financial statements as listed in the table of contents.

In my opinion, based on my audit and the report of the other auditor, 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 the Town of Canton, North Carolina as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I did not audit the financial statements of the Town of Canton ABC Board, which represents 1.9 percent, 3.3 percent, and 16.9 percent of the assets, net position, and revenues, respectively, as of June 30, 2022 and the respective changes in financial position, and where applicable, cash flows thereon for the year then ended. Those statements were audited by another auditor whose report has been furnished to me, and my opinions, insofar as it relates to the amounts included for the Town of Canton ABC Board, is based solely on the report of the other auditor. The financial statements of the Town of Canton ABC Board was not audited in accordance with *Governmental Auditing Standards*.

### Basis for Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Town of Canton and to meet other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Canton's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Canton's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Canton's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 57 through 58, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and as a Percentage of Covered Payroll on pages 59 through 60, and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 61, be presented to supplement the basic financial statements. Such information is the responsibility of management, 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 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 me 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 combining and individual fund financial statements, budgetary schedules, other schedules, as well as the accompanying Schedule of Expenditures of Federal 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* 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 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 Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated November 29, 2022 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  
November 29, 2022



## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

As management of the Town of Canton, we offer readers of the Town of Canton's financial statements this narrative overview and analysis of the financial activities of the Town of Canton for the fiscal year ended June 30, 2022. 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**

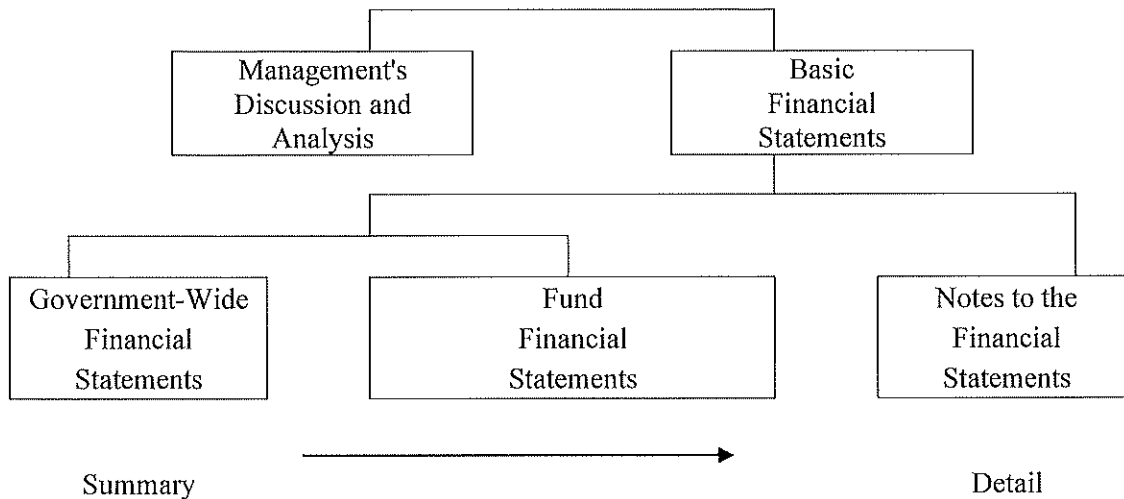
- The assets and deferred outflows of resources of the Town of Canton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$15,006,125 (*net position*).
- The Town of Canton's total net position increased by \$808,196 due to property tax increases after a recent County reevaluation and water and sewer fees exceeding expenditures.
- As of the close of the current fiscal year, the Town of Canton's governmental funds reported combined ending fund balances of \$4,229,383, an increase of \$178,579 in comparison with the prior year. Approximately 37% of this total amount, or \$1,544,283 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,231,307.
- The Town of Canton's total debt increased by \$1,758,559 or 10% during the current fiscal year due to normal principle payments and decreases in OPEB and pension liabilities.

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

This discussion and analysis are intended to serve as an introduction to the 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 9) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statement.

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 three categories: 1) governmental activities; 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 three categories: governmental funds, proprietary funds, and fiduciary 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's 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	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 4,497,346	\$ 4,301,642	\$ 5,479,242	\$ 4,845,999	\$ 9,976,588	\$ 9,147,641
Capital and ROU assets	11,124,253	11,071,152	11,284,841	11,703,420	22,409,094	22,774,572
Deferred outflow	2,664,501	2,883,222	569,094	602,794	3,233,595	3,486,016
Total assets and deferred outflows of resources	18,286,100	18,256,016	17,333,177	17,152,213	35,619,277	35,408,229
Current liabilities	322,103	387,315	445,683	412,539	767,786	799,854
Long-term liabilities outstanding	12,015,742	13,326,443	4,680,671	5,085,957	16,696,413	18,412,400
Deferred inflows of resources	2,578,409	1,614,950	570,544	349,303	3,148,953	1,964,253
Total liabilities and deferred inflows of resources	14,916,254	15,328,708	5,696,898	5,847,799	20,613,152	21,176,507
Net Position						
Net investment in capital assets	10,411,587	10,227,173	8,810,090	8,940,979	19,221,677	19,168,152
Restricted	1,533,075	993,066	-	-	1,533,075	993,066
Unrestricted	(8,574,816)	( 8,292,931)	2,826,189	2,363,435	(5,748,627)	(5,929,496)
Total net position	\$ 3,369,846	\$ 2,927,308	\$11,636,279	\$11,304,414	\$ 15,006,125	\$ 14,231,722

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 \$15,006,125 as of June 30, 2022. The Town's net position increased by \$808,196 for the fiscal year ended June 30, 2022. However, a large portion \$19,221,677 (128%) 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 \$1,533,075 (11%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance is negative (\$5,748,627) (-39%).

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 575,728	\$ 639,297	\$ 2,846,538	\$ 2,577,789	\$ 3,422,266	\$ 3,217,086
Operating grants and contributions	2,406,439	409,698	170,492	-	2,576,931	409,698
Capital grants and contributions	100,000	153,983	-	-	100,000	153,983
General revenues:						
Property taxes	3,560,177	3,188,444	-	-	3,560,177	3,188,444
Other taxes and licenses	4,455	3,403	-	-	4,455	3,403
Grants and contributions not restricted	2,640,765	2,453,669	-	-	2,640,765	2,453,669
Investment earnings	5,000	5,130	3,052	11,246	8,052	16,376
Other	(1,790,898)	55,211	( 176,531)	7,034	(1,967,429)	62,245
Total revenues	7,501,666	6,908,835	2,843,551	2,596,069	10,345,217	9,504,904
Expenses:						
General government	1,183,303	1,110,354	-	-	1,183,303	1,110,354
Public safety	3,051,780	3,117,234	-	-	3,051,780	3,117,234
Public works	1,907,958	1,705,126	-	-	1,907,958	1,705,126
Environmental Protection	346,052	241,898	-	-	346,052	241,898
Cultural and recreation	529,962	605,415	-	-	529,962	605,415
Interest expense	31,440	30,201	-	-	31,440	30,201
Water and sewer	-	-	2,486,526	2,034,653	2,486,526	2,034,653
Total expenses	7,050,495	6,810,228	2,486,526	2,034,653	9,537,021	8,844,881
Change in net position before transfers	451,171	98,607	357,025	561,416	808,196	660,023
Net position, July 1	2,927,308	2,828,701	11,304,414	10,742,998	14,231,722	13,571,699
Prior period adjustment	( 8,633)	-	(25,160)	-	(33,793)	-
Net position, June 30	\$ 3,369,846	\$ 2,927,308	\$11,636,279	\$11,304,414	\$15,006,125	14,231,722

**Governmental activities.** Governmental activities increased the Town's net position by \$451,171 thereby accounting for 55.8% 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 \$357,025 accounting for 44.2% 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 \$2,231,307, while total fund balance was \$4,229,383. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. The Town currently has unassigned fund balance of 31% of general fund expenditures, while total fund balance represents 59% of that same amount.

At June 30, 2022, the general fund reported a combined fund balance of \$4,229,383, a 4.4% 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 \$2,826,189. The total increase in net position for the Water and Sewer Fund was \$357,025. The Water and Sewer Fund increase was due to charges for services increasing.

## 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, 2022 totals \$22,255,512 (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 the purchase of a new fire truck and construction for Chestnut Mountain and a new splash pad. The significant disposals were related to building and equipment permanently damaged by the flood in August 2021.

**Town of Canton's Changes in Capital Assets**

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 4,664,440	\$ 4,411,692	\$ 220,283	\$ 220,279	\$ 4,884,723	\$ 4,631,971
Buildings & systems	4,923,739	5,064,155	10,901,567	11,258,095	15,825,306	16,322,250
Machinery & Equipment	363,103	519,833	-	-	363,103	519,833
Vehicles & motorized equipment	1,002,673	629,664	51,614	184,953	1,054,287	814,617
Construction in progress	88,000	445,808	40,093	40,093	128,093	485,901
	<u>\$11,041,955</u>	<u>\$11,071,152</u>	<u>\$11,213,557</u>	<u>\$11,703,420</u>	<u>\$ 22,255,512</u>	<u>\$ 22,774,572</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, 2022, the Town of Canton had no bonded debt outstanding. The Town's long-term debt consists of capital leases and direct borrowings.

**Town of Canton's Outstanding Debt**

**Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Direct borrowings	\$ 818,519	\$ 818,519	\$ 2,677,123	\$ 2,677,123	\$ 3,495,642	\$ 3,495,642
OPEB liability	10,789,822	10,789,822	2,368,498	2,368,498	13,158,320	13,158,320
Net pension obligation	1,119,340	1,119,340	245,709	245,709	1,365,049	1,365,049
Total pension liability (LEO)	463,326	463,326	-	-	463,326	463,326
Capital lease	25,460	25,460	85,318	85,318	110,778	110,778
Compensated absences	312,436	312,436	65,767	65,767	378,203	378,203
	<u>\$ 13,528,903</u>	<u>\$ 13,528,903</u>	<u>\$ 5,442,415</u>	<u>\$ 5,442,415</u>	<u>\$ 18,971,318</u>	<u>\$ 18,971,318</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 \$35,267,499.

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, 2023**

Governmental Activities:

- The proposed tax rate for the Town of Canton stayed the same at \$0.54 per \$100 of valuation. The lowering of this rate was implemented to account for the increase in property valuations done by Haywood County.
- The Town expects to see a 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 2022–2023, regarding salaries, the Board of Aldermen/women authorized a 3% cost of living increase with an additional merit raises based on performance reviews for all staff. The Town is matching up to 3% on 401K contributions as well which is the same as the last fiscal year. The Board and staff continue to work to remain competitive in the hiring and retention of employees.
- MedCost continues to provide coverage with health insurance. For FY 2022-2023, 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 2022-2023 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 the Asheville/Buncombe County areas.

#### Business Activities:

- The Town did not increase water and sewer rates for customers (inside or out) this fiscal year to reduce taxpayer burden during this trying economic climate.
- The Town of Canton will continue to move through Storm Recovery from Tropical Storm Fred which impacted most of the Town's core facilities including, Town Hall, Police, Fire, Museum, Colonial, Armory, Camp Hope, Recreation Park, Chestnut Mountain etc. In addition to rebuilding, we will be working to mitigate future impacts on Town facilities and infrastructure.

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

- Chestnut Mountain Nature Park is under construction, and we have received multiple major grants totally more than \$650,000.
- The Town has partnered with Kiwanis of Waynesville to fundraise and build an All-Abilities playground to replace the storm-damaged one. This will be a major asset for our Town and region.
- The Town received \$85,000 for renovation of the basketball courts at Recreation Park
- We have partnered with the Cruso Endowment to make aesthetic improvements to the downtown through decorative street signs, murals, development of Sorrell's Street Park, Christmas lights and various other betterments.
- Improvements to our core infrastructure continue to be a priority to the Town. Based on this priority we will be undertaking significant improvements to our water treatment plant, water intake and general utility security.
- The Town will undergo a comprehensive planning process/UDO development this year. The development of this document will help us shape and mold the future of Canton regarding infrastructure, development, zoning, transportation, economic development and beyond.
- The Town of Canton also continues to complete sidewalk redevelopment on Newfound, which will be completed in FY 2022-2023.

#### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**Town of Canton, North Carolina**  
**Statement of Net Position**  
**June 30, 2022**

	Primary Government			Town of Canton ABC Board
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,890,110	\$ 4,981,669	\$ 7,871,779	\$ 167,953
Accrued interest receivables on taxes	13,845	-	13,845	-
Taxes receivables (net)	47,334	-	47,334	-
Accounts receivable (net)	303,404	250,565	553,969	-
Due from other governments	1,097,444	240,673	1,338,117	-
Inventories	11,208	-	11,208	172,916
Prepaid expenses	-	-	-	10,104
Restricted cash and cash equivalents	134,001	6,335	140,336	-
Total current assets	4,497,346	5,479,242	9,976,588	350,973
Non-current assets:				
Right of use leased assets, net of amortization	82,298	71,284	153,582	-
Capital assets:				
Land, non-depreciable improvements, and construction in process	4,752,440	260,376	5,012,816	-
Other capital assets, net of depreciation	6,289,515	10,953,181	17,242,696	286,127
Total capital assets	11,041,955	11,213,557	22,255,512	286,127
Total assets	15,621,599	16,764,083	32,385,682	637,100
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	875,897	176,474	1,052,371	25,093
OPEB deferrals	1,788,604	392,620	2,181,224	-
Total deferred outflows of resources	2,664,501	569,094	3,233,595	25,093
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	165,900	54,904	220,804	128,178
Accrued interest payable	-	12,950	12,950	-
Unearned revenue	2,834	-	2,834	-
Payable from restricted assets	34,286	6,335	40,621	-
Current portion of long term liabilities	119,083	371,494	490,577	-
Total current liabilities	322,103	445,683	767,786	128,178
Long-term liabilities:				
Due in more than one year	593,583	2,152,861	2,746,444	-
Compensated absences payable	286,443	27,446	313,889	-
Net pension liability	452,662	106,180	558,842	23,157
Total pension liability	476,272	-	476,272	-
OPEB liability	10,206,782	2,394,184	12,600,966	-
Total liabilities	12,337,845	5,126,354	17,464,199	151,335
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	717,775	162,938	880,713	-
Prepaid taxes	3,764	-	3,764	-
OPEB deferrals	1,856,870	407,606	2,264,476	-
Total deferred inflows of resources	2,578,409	570,544	3,148,953	-
<b>NET POSITION</b>				
Net investment in capital assets	10,411,587	8,810,090	19,221,677	286,127
Restricted for:				
Stabilization by State Statue	1,400,848	-	1,400,848	-
Transportation	99,715	-	99,715	-
Public safety	32,512	-	32,512	-
ABC Board - working capital	-	-	-	60,137
Unrestricted	(8,574,816)	2,826,189	(5,748,627)	164,594
Total net position	\$ 3,369,846	\$ 11,636,279	\$ 15,006,125	\$ 510,858

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2022

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	\$ 1,183,303	\$ 38,329	\$ 1,562,713	\$ -	\$ 417,739	\$ -	\$ 417,739	\$ -
Public safety	3,051,780	211,167	692,689	-	(2,147,924)	-	(2,147,924)	-
Public Works	1,907,958	-	151,037	-	(1,756,921)	-	(1,756,921)	-
Environmental protection	346,052	278,078	-	-	(67,974)	-	(67,974)	-
Cultural and recreation	529,962	48,154	-	100,000	(381,808)	-	(381,808)	-
Interest on long-term debt	31,440	-	-	-	(31,440)	-	(31,440)	-
Total governmental activities	7,050,495	575,728	2,406,439	100,000	(3,968,328)	-	(3,968,328)	-
Business-type activities:								
Water and sewer	2,486,526	2,846,538	170,492	-	-	530,504	530,504	-
Total business-type activities	2,486,526	2,846,538	170,492	-	-	530,504	530,504	-
Total primary government	\$ 9,537,021	\$ 3,422,266	\$ 2,576,931	\$ 100,000	(3,968,328)	530,504	(3,437,824)	-
Component Units:								
Canton ABC Board	2,070,926	2,032,312	-	-	-	-	-	(38,614)
Total Component Unit	\$ 2,070,926	\$ 2,032,312	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (38,614)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					3,560,177	-	3,560,177	-
Other taxes and licenses					4,455	-	4,455	-
Grants and contributions not restricted to specific programs					2,640,765	-	2,640,765	-
Unrestricted investment earnings					5,000	3,052	8,052	-
Gain (loss) on sale of asset					9,500	-	9,500	-
Extraordinary Item: Gain on insurance recovery of fixed assets					472,049	-	472,049	41,767
Extraordinary Item: Flood damages loss					(2,418,040)	(181,580)	(2,599,620)	-
Miscellaneous					145,593	5,049	150,642	-
Total general revenues and transfers					4,419,499	(173,479)	4,246,020	41,767
Change in net position					451,171	357,025	808,196	3,153
Net position-beginning					2,927,308	11,304,414	14,231,722	507,705
Prior period adjustment, accounting standard change					(8,633)	(25,160)	(33,793)	-
Net position-ending					\$ 3,369,846	\$ 11,636,279	\$ 15,006,125	\$ 510,858

See independent auditor's report and accompanying notes.

**Town of Canton, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2022**

**Exhibit 3**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,890,110
Restricted cash	134,001
Receivables, net:	
Taxes	61,179
Accounts	303,404
Due from other governments	1,097,444
Inventories	11,208
Total assets	<u>\$ 4,497,346</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Accounts payable and accrued liabilities	\$ 71,655
Salaries payable	94,245
Unearned revenue	2,834
Customer prepayments	34,286
Total liabilities	<u>203,020</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property taxes receivable	\$ 61,179
Prepaid taxes	3,764
Total deferred inflows of resources	<u>64,943</u>
Fund balances:	
Non Spendable	
Inventories	11,208
Restricted:	
Stabilization by State Statute	1,400,848
Public Safety	32,512
Transportation	99,715
Assigned: Subsequent year's expenditures	453,793
Unassigned	2,231,307
Total fund balances	<u>4,229,383</u>
Total liabilities, deferred inflow of resources and fund balances	<u><u>\$ 4,497,346</u></u>

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

Total Fund Balance, Governmental Funds	4,229,383
Capital assets and right of use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,124,253
Deferred outflows of resources - pension and OPEB	2,664,501
Liabilities for earned but deferred tax revenues considered deferred inflows of resources in fund statements.	61,179
Deferred inflows of resources -pension and OPEB	(2,574,645)
Long term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(12,134,825)
Net position of governmental activities	<u>3,369,846</u>

See independent auditor'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, 2022**

**Exhibit 4**

	<u>General Fund</u>
<b>REVENUES</b>	
Ad valorem taxes	\$ 3,560,703
Other taxes and licenses	4,455
Unrestricted intergovernmental	2,640,765
Restricted intergovernmental	1,813,750
Restricted intergovernmental - ARP/COVID-19	692,689
Sales and services	575,728
Investment earnings	5,000
Miscellaneous	145,593
Total revenues	<u>9,438,683</u>
 <b>EXPENDITURES</b>	
Current:	
General government	961,407
Public safety	3,031,035
Public works	1,702,711
Environmental protection	345,060
Culture and recreation	887,515
Debt service:	
Principal	222,732
Interest	31,440
Total expenditures	<u>7,181,900</u>
Excess (deficiency) of revenues over expenditures	2,256,783
<b>OTHER FINANCING SOURCES (USES)</b>	
Sale of capital assets	9,500
Insurance recovery	2,126,875
Lease liability issued	91,764
Extraordinary expense - flood damages	(4,306,343)
Total other financing sources	<u>(2,078,204)</u>
 Net change in fund balance	178,579
Fund balances-beginning of year	4,050,804
Fund balances-end of year	<u>\$ 4,229,383</u>

See independent auditor'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, 2022**

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

Net changes in fund balances - total governmental funds	\$ 178,579
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation or amortization expense. This is the amount by which capital outlay and right of exceeded depreciation in the current period.	693,750
Governmental funds report proceeds from the sale of capital assets or insurance proceeds 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 flood damage losses exceeded insurance proceeds.	(613,004)
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	(526)
Deferred outflows of resources related to OPEB and pensions are not reported in the funds	(218,721)
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.	130,968
Deferred inflows of resources related to OPEB and pensions are not reported in the funds	(963,973)
Change in long-term debt included in net position below (includes the addition of long-term debt and principal payments during the year:	
Compensated absences	7,326
Net pension liability	666,678
Total pension liability	(12,946)
OPEB liability	583,040
Total changes in net position of governmental activities	<u>\$ 451,171</u>

See independent auditor'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, 2022**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes			\$ 3,560,703	
Other taxes and licenses			4,455	
Unrestricted intergovernmental			2,640,765	
Restricted intergovernmental			1,813,750	
Restricted intergovernmental - ARP/COVID-19			692,689	
Sales and services			575,728	
Investment earnings			5,000	
Miscellaneous			145,593	
Total revenues	6,979,355	7,068,191	9,438,683	2,370,492
Expenditures:				
Current:				
General government	1,223,793	1,243,337	961,407	281,930
Public safety	2,740,638	3,319,224	3,031,035	288,189
Public works	2,020,036	1,829,754	1,702,711	127,043
Environmental protection	-	282,000	345,060	(63,060)
Cultural and recreation	1,174,532	1,176,332	887,515	288,817
Debt service:				
Principal	76,867	76,867	222,732	(145,865)
Interest	-	20,885	31,440	(10,555)
Total expenditures	7,235,866	7,948,399	7,181,900	766,499
Revenues over expenditures	(256,511)	(880,208)	2,256,783	3,136,991
Other Financing Sources (uses)				
Sale of capital assets	-	-	9,500	
Insurance recovery			2,126,875	
Lease liability issued			91,764	
Extraordinary expense - flood damages			(4,306,343)	
Total other financing sources	-	(2,455,316)	(2,078,204)	377,112
Fund balance appropriated	256,511	3,335,524	-	(3,335,524)
Net change in fund balance	\$ -	\$ -	\$ 178,579	\$ 178,579
Fund balance, beginning			4,050,804	
Fund balances, end of year			\$ 4,229,383	

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina  
Statement of Fund Net Position  
Proprietary Funds  
June 30, 2022

	<u>Water and Sewer Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 4,981,669
Accounts receivable (net) - billed	41,875
Accounts receivable (net) - unbilled	208,690
Due from other governments	240,673
Restricted cash and cash equivalents	6,335
Total current assets	<u>5,479,242</u>
Noncurrent assets:	
Right of use leased assets, net of amortization	71,284
Capital assets:	
Land and construction in progress	260,376
Other capital assets, net of depreciation	10,953,181
Capital assets (net)	<u>11,213,557</u>
Total noncurrent assets	<u>11,213,557</u>
Total assets	<u>16,764,083</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension deferrals	176,474
OPEB deferrals	392,620
Total deferred outflows of resources	<u>569,094</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	33,259
Salaries payable	21,645
Accrued interest payable	12,950
Compensated absences - current	49,604
Installment purchase - current	275,856
Lease liability - current	46,034
Liabilities payable from restricted assets:	
Customer deposits	6,335
Total current liabilities	<u>445,683</u>
Noncurrent liabilities:	
Compensated absences	27,446
Installment purchase	2,127,245
Lease liability	25,616
Net pension liability	106,180
Total OPEB liability	2,394,184
Total noncurrent liabilities	<u>4,680,671</u>
Total liabilities	<u>5,126,354</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	162,938
OPEB deferrals	407,606
Total deferred inflows of resources	<u>570,544</u>
<b>NET POSITION</b>	
Net investment in capital assets	8,810,090
Unrestricted	2,826,189
Total net position	<u>\$ 11,636,279</u>

See independent auditor'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, 2022**

	<b>Water and Sewer Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,714,008
Tap and reconnection fees	81,875
Other operating revenues	23,155
<b>Total operating revenues</b>	<u>2,819,038</u>
<b>OPERATING EXPENSES</b>	
Administration	271,336
Treatment and distribution	1,730,614
Depreciation and amortization	426,504
<b>Total operating expenses</b>	<u>2,428,454</u>
<b>Operating income (loss)</b>	<u>390,584</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Sale of materials and equipment	5,285
Grant revenue	197,992
Investment earnings	3,052
Interest and other charges	(58,308)
<b>Total nonoperating revenue (expenses)</b>	<u>148,021</u>
<b>Income (loss) before extraordinary items:</b>	538,605
Flood loss/damage	<u>(181,580)</u>
<b>Change in net position</b>	357,025
Total net position - beginning	11,304,414
Prior period adjustment	(25,160)
<b>Total net position - ending</b>	<u><u>\$ 11,636,279</u></u>

See independent auditor'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, 2022**

	<u>Water and Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 2,352,449
Cash paid for goods and services	(967,602)
Cash paid to or on behalf of employees for services	(690,581)
Net cash provided by operations	<u>694,266</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Sale of assets	-
Acquisition and construction of capital assets	(8,375)
Loan proceeds	-
Principal paid on installment purchase and lease liabilities	(222,732)
Interest paid on installment purchase and lease liabilities	(58,308)
Net cash used by capital and related financing activities	<u>(289,415)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	3,052
Purchase of investments	-
Net cash provided by investing activities	<u>3,052</u>
Net increase (decrease) in cash and cash equivalents	407,903
Balances-beginning of the year	4,580,101
Balances-end of the year	<u>\$ 4,988,004</u>
Reconciliation of operating income to net cash provided by operating	
Operating income (loss)	\$ 390,584
Adjustments to reconcile operating income to net cash provided by	
Depreciation	390,169
Amortization	36,333
Prior period adjustment	(25,160)
Changes in assets, deferred outflows of resources and liabilities:	
Decrease (Increase) in accounts receivable	(18,607)
Decrease (Increase) in due from other government	(206,733)
Decrease (Increase) in deferred outflows of resources	33,700
Increase (decrease) in deferred inflow of resources	153,692
Increase (Decrease) in accounts payable and accrued liabilities	(2,197)
Increase (Decrease) in pension liabilities	(139,529)
Increase (Decrease) in accrued compensated absences	14,465
Increase (Decrease) in other postemployment benefits	67,549
Total adjustments	<u>303,682</u>
Net cash provided by operating activities	<u>\$ 694,266</u>

See independent auditor's report and accompanying notes.

**Exhibit 9**

**Town of Canton, North Carolina  
Statement of Fiduciary Net Position  
Employee Support Group Fund - Fiduciary Fund  
For the Year Ended June 30, 2022**

	<u>Agency Fund</u>
Assets:	
Cash and Cash Equivalents	<u>\$        10,827</u>
Liabilities:	
Payable to Employees Support Group Committee	<u>\$        10,827</u>

See independent auditor'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 the fiduciary fund. Separate statements for each fund category –

*Governmental, proprietary and fiduciary* – 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:

**Spruce Street Area Water System Improvements Project** - This fund is used to account for improvements to the water system. This project was completed and the fixed assets from this project were transferred into the Water and Sewer Fund during the prior year. The final payment of loan proceeds were received during the current year and are shown to close the project.

The Town reports the following fund types:

**Agency Fund** – Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town hold on behalf of others. The Town maintains the Employee Support Group Fund, which accounts for monies held to be used for emergency situations of employees, with payments remitted upon approval by the Employee Support Group Committee.

#### 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, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary and fiduciary 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. The issuance of lease liability under financed leases are reported as other financing sources and the right of use assets acquired as capital outlay .

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 beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Haywood County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. 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 is 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 and the ABC Board 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 generally reported at fair value. 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, 2022, the Term portfolio has a duration of .15 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 and considers all cash and investments to be cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

## 3. Restricted Assets

Unexpended grant proceeds are classified as restricted assets because their use is restricted to the purpose for which the grants were awarded. 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 outlined in G.S. 136-41.1 through 136-41.4.

### Town of Canton Restricted Cash

#### Governmental Activities

General Fund	Streets	\$	99,715
	Cultural & recreational		2,515
	Public Works		31,771
Total Governmental Activities			<u>134,001</u>

#### Business-type Activities

Water and Sewer Fund	Customer Deposits	\$	6,335
Total Restricted Cash			<u>\$ 140,336</u>

## 4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2022.

## 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 expensed 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 received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets, are reported at cost or estimated historical costs. No amounts have been recorded for general infrastructure assets acquired prior to July 1, 2003. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. Infrastructure assets acquired subsequent to that date are recorded at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows: Building and improvements over ten to forty years, computers and other equipment over five to ten years.

## 8. Right to use assets

The Town recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease

incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

9. 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 2022 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.

10. Long-Term Obligations

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

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

11. 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 does not vest, but any unused sick leave accumulation at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since

the Town does not have any obligation for the accumulated sick leave until it is taken, no accrual for sick leave has been made.

If an employee retires from the Town of Canton with at least 30 years of service and meets the requirements for retirement under the State Retirement System, they are eligible for a one-time longevity payment to be paid with their final paycheck. Longevity pay at retirement is calculated considering actual time worked and compensated absences paid during a retiree's years of service with the Town and creditable service hours (using the definition of creditable service hours used by the NC Retirement System). Creditable service hours considered for longevity pay at retirement is limited to twenty percent of outstanding sick leave, or a maximum of 320 hours. The Town has recognized a liability based on the longevity accumulated at June 30, 2022, 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 leave before year end, they will be unable to carry over unused hours without Board approval. For the year ended June 30, 2022, no such approval was given; therefore, no accrual has been made.

## 12. 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 Transportation (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 Public Safety (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. Significant Violations of Finance-Related Legal and Contractual Provisions**

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

For the fiscal year ended June 30, 2022, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for landfill, recreation planning and debt service by \$65,848, \$10,611 and \$156,420, respectively. The expenditures made in the Town's Water and Sewer Fund exceeded the authorized appropriations for debt service and capital outlay by \$31,251 and \$23,896, respectively. These over-expenditures occurred because the planned payments for lease liabilities were budgeted as lease expenditures and the issuance of new leases, although Board approved was not budgeted for the issuance of the lease liability or the capital outlay from the purchase. This was the first year of implementing the new lease accounting standard. Management and the Board will more closely review lease agreements and consider changing accounting standards to properly budget in future years.

## **III. 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 they rely 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, 2022, the Town's deposits had a carrying amount of \$8,011,015 and a bank balance of \$8,203,261. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$7,953,261 was covered by collateral held under the pooling method. At June 30, 2022, the Town's petty cash fund totaled \$1,100. The bank balance includes \$1,661,638 invested with the North Carolina Capital Management Trust's Government 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 \$167,953 and a bank balance of \$208,133. All of the bank balance was covered by federal depository insurance. The store also had cash on hand at June 30, 2022 of \$2,183.

## 2. Receivables - Allowances for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position includes interest levied and outstanding in the amount of \$13,845. The accounts receivable amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2022 is net of the following allowances for doubtful accounts:

Fund	Allowance
General fund:	
Property taxes receivable	\$ 36,199
Water and sewer enterprise fund:	
Utility accounts receivable	<u>138,206</u>
Total	\$ 174,405

## 3. Capital Assets

Capital Asset Activity for the Primary Government for the year ended June 30, 2022 was as follows:



	Beginning Balances	Additions	Retirement	Ending Balances
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Construction in progress	\$ 445,808	\$ -	\$ 357,808	\$ 88,000
Land	4,411,692	252,748	-	4,664,440
Total capital assets not being Depreciated	4,857,500	252,748	357,808	4,752,440
Capital assets being depreciated:				
Buildings	5,053,047	-	850,893	4,202,154
Infrastructure	2,660,317	575,904	131,553	3,104,668
Equipment	1,352,762	-	345,330	1,007,432
Vehicles and motorized Equipment	1,755,051	565,602	175,819	2,144,834
Total capital assets being depreciated	10,821,177	1,141,506	1,503,595	10,459,088
Less accumulated depreciation for:				
Buildings	2,235,623	87,282	434,393	1,888,512
Infrastructure	413,586	91,071	10,086	494,571
Equipment	832,929	81,779	270,379	644,329
Vehicles and motorized Equipment	1,125,387	140,607	123,833	1,142,161
Total accumulated depreciation	4,607,525	400,739	838,691	4,169,573
Total capital assets being depreciated, net	6,213,652			6,289,515
<b>Governmental activity capital assets, net</b>	<b>\$ 11,071,152</b>			<b>\$ 11,041,955</b>

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

General government	\$ 85,802
Public safety	154,967
Public Works	62,446
Environmental protection	-
Cultural and recreational	97,524
Total depreciation expense	\$ 400,739

	Beginning Balances	Additions	Retirements	Ending Balances
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 220,283	\$ -	\$ -	\$ 220,283
Construction in progress	40,093	-	-	40,093
Total capital assets not being depreciated	260,376	-	-	260,376
Capital assets being depreciated:				
Plant and distribution systems	16,530,977	8,375	-	16,539,352
Vehicles and motorized equipment	400,230	-	113,753	286,477
Total capital assets being Depreciated	16,931,207	8,375	113,753	16,825,829

Less accumulated depreciation for:				
Plant and distribution systems	5,272,888	364,897	-	5,637,785
Vehicles and motorized equipment	215,278	25,272	5,687	234,863
Total accumulated depreciation	<u>5,488,166</u>	<u>390,169</u>	<u>5,687</u>	<u>5,872,648</u>
Capital assets being depreciated, net	<u>11,443,041</u>			<u>10,953,181</u>
<b>Business-type activities capital assets, net</b>	<b>\$ <u>11,703,417</u></b>			<b>\$ <u>11,213,557</u></b>

**Discretely Presented Component Unit:**

Capital Asset Activity for the ABC Board for the year ended June 30, 2022, 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	<u>128,079</u>	<u>-</u>	<u>-</u>	<u>128,079</u>
Capital assets being depreciated:				
Buildings	235,585	25,964	3,669	257,880
Furniture and equipment	84,556	10,429	22,354	72,631
Computers	38,956	4,125	36,185	6,896
Total capital assets being depreciated	<u>359,097</u>	<u>40,518</u>	<u>62,208</u>	<u>337,407</u>
Less accumulated depreciation for:				
Buildings	116,286	9,553	3,669	122,170
Furniture and equipment	70,781	4,624	20,213	55,192
Computers	37,510	672	36,185	1,997
Total accumulated depreciation	<u>224,577</u>	<u>14,849</u>	<u>60,067</u>	<u>179,359</u>
Capital assets being depreciated, net	<u>134,520</u>			<u>158,048</u>
<b>Business-type activities capital assets, net</b>	<b>\$ <u>262,599</u></b>			<b>\$ <u>286,127</u></b>

**4. Right to Use Leased Assets**

The Town has recorded right to use leased assets for both government activities and business-type activities. The assets are right to use assets for leased equipment. The related leases are discussed in the Leases section of the Liabilities section of this note. The right to use assts are amortized on a straight-line basis over the terms of the related leases.

Right to use assts activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Governmental activities:				
Leased equipment	32,340	91,764	-	124,104
Less accumulated amortization	<u>8,085</u>	<u>33,721</u>	<u>-</u>	<u>41,806</u>
Net	<u>24,255</u>	<u>58,043</u>	<u>-</u>	<u>82,298</u>
Business-type activities:				
Leased equipment	98,296	33,896	-	132,192
Less accumulated amortization	<u>24,575</u>	<u>36,333</u>	<u>-</u>	<u>60,908</u>
Net	<u>73,721</u>	<u>(2,437)</u>		<u>71,284</u>

**B. Liabilities****1. Pension Plan and Postemployment Obligations****a. Local Government Employees' Retirement System**

*Plan Description.* The Town of Canton and the Town of Canton ABC Board (ABC Board) are participating employers in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs), firefighters and rescue squad workers of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement, 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. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirements benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters and rescue squad workers). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have 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 reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. This plan does not provide for automatic post-retirement benefits increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have 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 and ABC Board'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 and ABC Board's contractually required contribution rate for the year ended June 30, 2022, was 12.1 % of covered payroll for law enforcement officers and 11.35% for general employees and firefighters, actuarially determined as an amount that when combined with employee contributions, is expected to finance costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$318,529 and \$24,664 for the ABC Board for the year ended June 30, 2022.

*Refunds of Contributions.* Town and ABC Board employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other 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, 2022, the Town and ABC Board reported a liability of \$558,842 and \$23,157 respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions. The Town and ABC Board's proportion of the net pension liability was based on a projection of the Town and ABC Board's long-term share of future payroll covered by the pension plan of participating LGERS employers, actuarially determined. At June 30, 2021 (the measurement date), the Town and ABC Board's proportion were .036440% and .00151% respectively, which was an decrease of .176% for the Town and a decrease of .0014% for the ABC Board of the proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the Town and ABC Board recognized pension expense of \$290,498 and \$16,505. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between excepted and actual expense	\$ 177,788	\$ -
Changes of assumptions	351,096	-
Net difference between projected and actual earnings on pension plan investments	-	798,418
Changes in proportion and differences between contributions and proportionate share of contributions	71,110	59,153
Town's contributions subsequent to the measurement date	328,816	-
Total	\$ 928,810	\$ 857,571

At June 30, 2022, the ABC Board 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	\$ 7,367	\$ -
Changes of assumptions	14,549	-
Net difference between projected and actual earnings on pension plan investments	-	33,085
Changes in proportion and differences between contributions and proportionate share of contributions	11,598	-
Town's contributions subsequent to the measurement date	24,664	-
Total	\$ 58,178	\$ 33,085

\$328,816 and \$24,664 to the Town and ABC Board respectively 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, 2022. 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:	Town	ABC
2023	70,423	7,179
2024	(14,817)	3,053
2025	(68,863)	325
2026	(244,321)	(10,124)
	\$ (257,578)	\$ 433

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including a 3.25% inflation and productivity factor
Investment rate of return	6.5 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 healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuations were based on the results of an actuarial experience study for LGERS for the period January 1, 2015 through December 31, 2019.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the forgoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates or arithmetic real rates of return for each major asset class as of June 30, 2022 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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 2018 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 2.5%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 6.5%. This projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutory 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 liability to changes in the discount rate.* The following presents the Town and ABC Board's proportionate share of the net pension liability calculated using the discount rate of 7 percent, as well as what the Town and ABC Board'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%) or one percentage point higher (8%) than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Town's proportionate share of the net pension liability (asset)	2,169,380	558,842	(766,536)

	<b>1% Decrease (5.50%)</b>	<b>Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
ABC Boards's proportionate share of the net pension liability (asset)	89,895	23,157	(31,764)

*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, 2020, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	13
Total	<u>14</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, 2020 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	2.25%
Projected salary increases	3.25 – 7.75%
Inflation	2.50%

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index. All mortality rates use Pub-2010 amount-weighted tables and are projected from 2010 using generational improvement with Scale MP-2019.

### 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 \$20,511 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, 2022 the Town reported a total pension liability of \$476,272. The total pension liability was measured as of December 31, 2021 based on a December 31, 2020 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2021 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2022 the Town recognized pension expense of \$55,227.

	<b><u>Deferred Outflows</u></b>	<b><u>Deferred Inflows</u></b>
Differences between expected and actual experience	\$ 21,237	\$ 9,114
Changes of assumptions	81,813	14,028
Benefit payments and administrative expense subsequent to the measurement date	<u>20,511</u>	<u>-</u>
Total	\$ 123,561	\$23,142

\$20,511 paid as benefits came due subsequent to the measurement date have been reported as deferred outflow of resources. 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:**

2023	\$ 19,366
2024	17,910
2025	20,457
2026	16,112
2027	6,184
Thereafter	(121)

*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 1.93%, as well as what the Town's total pension liability would be if it were calculated using a Discount Rate that is 1-percentage-point lower (.93%) or 1-percentage-point higher (2.93%) than the current rate:

	1% Decrease <u>(1.25%)</u>	Discount Rate <u>(2.25%)</u>	1% Increase <u>(3.25%)</u>
Total pension liability	\$514,025	\$476,272	\$441,843

The plan currently used mortality tables that vary by age and health status (disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study completed for LGERS for the five-year period ending December 31, 2019.

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

Beginning balance	\$463,326
Service cost	27,316
Interest	8,732
Change in benefit terms	-
Difference between expected and actuarial experience in the measurement of the total pension liability	10,338
Changes in assumptions and other inputs	(11,707)
Benefit payments	(21,733)
Other changes	-
Ending balance of the total pension liability	<u>\$476,272</u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). All mortality rates use Pub-2010 amount-weighted tables and are projected from 2010 using generational improvement with Scale MP-2019.

**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:

	<b>LGERS</b>	<b>LEOSSA</b>	<b>Total</b>
Pension Expense	290,498	55,227	345,725
Pension Liability	558,842	476,272	1,035,114
Proportionate share of the net pension liability	.03644%	n/a	

<b>Deferred of Outflows of Resources</b>	<b>LGERS</b>	<b>LEOSSA</b>	<b>Total</b>
Differences between expected and actual experience	177,788	21,237	199,025
Change of Assumptions	351,096	81,813	432,909
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	71,110	-	71,110
Benefit payments and administrative cost paid subsequent to the measurement date	328,816	20,511	349,327

**Deferred in Inflows of Resources**

Differences between expected and actual experience	-	9,114	9,114
Change of assumptions	-	14,028	14,028
Net difference between projected and actual earnings on plan investments	798,418	-	798,415
Change in proportion and differences between contributions and proportionate share of contributions	59,153	-	59,153

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 \$31,556. No amounts were forfeited.

The Town offers full and part time employees the ability to contribute to also contribute to the Plan, up to the annual statutory limits prescribed by the Internal Revenue Service (IRS). Employee contributions are voluntary and the Town can choose to match general employees 401(k) contributions if budgeted by the Board, up to annual statutory limits. However, the Town's match of 401(k) funds for general employees is not a guaranteed benefit since the Board can elect whether to match funds on an annual basis. During the year ended June 30, 2022, the Board budgeted and paid \$42,923 for 401(k) employer contributions for participating employees, based on a 3% match for employee contributions.

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 Firefighters' and Rescue Squad Workers' 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 Firefighters' and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighters' and Rescue Squad Workers' 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, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*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, 2022 the State contributed \$18,302,000 to the plan. The Town considers their proportionate share of the State's contributions to be immaterial.

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

#### e. Other Post-Employment Benefit Obligations

##### Healthcare Benefits

*Plan Description:* The Town administers a single-employer defined benefit healthcare plan. The Town Board has the authority to establish and amend the benefits terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement 75.

*Benefits Provided:* 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 the ERP consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Inactive employees or beneficiaries currently receiving benefits	44
Inactive members entitled but not yet receiving benefits	-
Active employees	59
Total	103

### **Total OPEB Liability**

The Town's total OPEB liability of \$12,600,966 was measured as of June 30, 2021 and was determined by an actuarial valuation as of June 30, 2021.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 2021 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	.75%
Wage inflation	3.25%
Salary increases	
General employees	3.25% - 8.41%
Firefighters	3.25% - 8.15%
Law enforcement officers	3.25% - 7.90%
Municipal Bond Index Rate	
Prior measurement date	2.21%
Measurement date	2.16%
Healthcare Cost Trends	
Pre-Medicare	7.0% for 2021 decreasing to an ultimate rate of 4.5% by 2031
Medicare	5.125% for 2021 decreasing to an ultimate rate of 4.5% by 2024

### **Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at June 30, 2021	13,158,320
Changes for the year	
Service cost	488,113
Interest	297,417
Changes of benefit terms	-
Differences between expected and actual experience	(1,203,890)
Changes in assumptions or other inputs	240,336
Benefit payments and implicit subsidy credit	( 379,330)
Balance at June 30, 2022	12,600,966

The discount rate was based on the June Bond Buyer 20-year General Obligation Bond Index and the Municipal Bond Index Rates as of the measurement date.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019, 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 (1.21 percent) or 1-percentage-point higher (3.21 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$15,139,571	\$12,600,966	\$10,664,292

*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	Current	1% Increase
Total OPEB liability	\$10,556,961	\$12,600,966	\$15,311,923

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

For the year ended June 30, 2022, the Town recognized OPEB expense of \$566,352. At June 30, 2022, 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	\$ 65,229	\$1,752,814
Changes of assumptions	1,786,707	511,662
Benefit payments and administrative costs made subsequent to the measurement date	<u>329,288</u>	<u>-</u>
Total	\$2,181,224	\$2,264,476

\$329,288 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, 2022. 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:**

2023	(311,955)
2024	(210,065)
2025	16,331
2026	93,149
2027	-
Thereafter	-

**2. Other Employment Benefits**

- a. 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	\$ 328,816
Benefit payments made and administrative costs for LEOSA made subsequent to measurement date	20,511
Benefit payments made and administrative costs for OPEB made subsequent to measurement date	329,288
Difference between expected and actual experience	264,254
Changes of assumption	2,219,616
Net difference between projected and actual share of contributions	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	71,110
Total	\$3,233,595

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)	\$ 3,764	\$ 3,764
Taxes receivable, less penalties		61,179
Differences between expected and actual expense	1,761,928	-
Change in assumptions	525,690	
Net difference between projected and actual earnings on pension plan investments	798,418	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>59,153</u>	<u>-</u>
Total	\$3,148,953	\$ 64,943

#### 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 and "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 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 for 12 months or less, which are short-term leases. The Town has elected to expense short-term leases. Total rent expense under operating leases was \$52,523. There are no future minimum lease payments under operating leases at June 30, 2022.

#### 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, 2022.

#### 7. Long-Term Obligations

The Town has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

##### Government Activities:

The first agreement was executed in October 2020 to lease an excavator and requires thirty-six monthly payments of \$1,040. The lease liability is measured at a discount rate of 1%, which is the stated rate in the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$13,475 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section of this note.

The second agreement was executed in October 2021 to lease a crawler dozer and requires thirty-six monthly payments of \$2,950. The lease liability is measured at a discount rate of 1%, which is the stated rate in the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$68,823 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section of this note.

##### Business-Type Activities:

For the Water and Sewer Fund, the first agreement was executed in October 2020 to lease a backhoe and requires thirty-six monthly payments of \$1,530. The lease liability is measured at a discount rate of 7%, which is the stated rate in the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$19,831 at June 30,

2022. The right to use asset is discussed in more detail in the Intangible Asset section of this note.

The second agreement for the Water and Sewer Fund was executed in October 2020 to lease a second backhoe and requires thirty-six monthly payments of \$1,630. The lease liability is measured at a discount rate of 7%, which is the stated rate in the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$21,126 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section of this note.

The third agreement was executed in October 2021 to lease a track loader and requires thirty-six monthly payments of \$1,090. The lease liability is measured at a discount rate of 7%, which is the stated rate in the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$30,327 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section of this note.

The future minimum lease obligation and net present value of these minimum payments as of June 30, 2022 is as follows:

<u>Year ending June 30</u>	<u>Government</u>		<u>Business-Type</u>	
	Principal	Interest	Principal	Interest
2023	\$41,319	\$ 6,555	\$46,034	\$ 4,961
2024	35,863	2,655	21,344	1,211
2025	8,708	142	4,272	87
2026	-	-	-	-
Totals	\$85,890	\$ 9,352	\$71,650	\$6,259

a. Direct Borrowings

Governmental Activities:

In November 2010, the Town entered into a direct borrowing 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, 2022 was \$110,110.

In January 2015, the Town entered into a direct borrowing 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%. This direct borrowing was paid off in the current year.

In December 2016, the Town entered into a direct borrowing 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%. This direct borrowing was paid off in the current year.

In February 2017, the Town entered into a direct borrowing 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, 2022 was \$516,667.

**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, 2022 was \$448,588.

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, 2022 was \$182,004.

In February 2017, the Town entered into a direct borrowing 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, 2022 was \$159,040.

In March 2020, the Town entered into a direct borrowing contract for \$1,792,744 to finance the construction of water system improvements at Spruce Street in Canton. The financing contract requires annual payments of \$89,637 plus interest at 1.53%. The remaining balance at June 30, 2022 was \$1,613,470

Annual debt service payments of direct borrowings as of June 30, 2022 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 77,763	\$ 18,489	\$ 96,252	\$ 275,856	\$ 45,204	\$ 321,060
2024	78,695	16,064	94,759	277,736	38,969	316,705
2025	79,660	13,606	93,266	279,664	35,187	314,851
2026	80,659	11,114	91,773	281,641	26,355	307,996
2027	51,667	8,586	60,253	122,921	21,499	144,420
2028-2032	258,332	20,532	278,864	448,186	75,430	523,616
2033-2037	-	-	-	448,186	41,143	489,329
2038-2042	-	-	-	268,911	8,229	277,140
Total	\$ 626,776	\$ 88,391	\$ 715,167	\$ 2,403,101	\$ 292,016	\$ 2,695,117

c. General Obligation Indebtedness

At June 30, 2022 the Town of Canton had no outstanding bonds and no authorized but unissued bonds. The Town had a legal debt margin of \$35,267,499.

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, 2022:

	Beginning Balance	Increases	Decreases	Ending Balances	Current Portion
Governmental activities:					
Direct borrowings	818,519	-	191,743	626,776	77,763
Compensated absences	312,436	-	25,993	286,443	-
Lease liability	25,115	91,764	30,989	85,890	41,320
Total pension liability (LEO)	463,326	12,946	-	476,272	-
Net pension liability	1,119,340	-	666,678	452,662	-
OPEB	10,789,822	-	583,040	10,206,782	-
Governmental activity long-term liabilities	\$ 13,528,558	104,710	\$ 1,498,443	\$ 12,134,825	\$ 119,083

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Business-type activities:					
Direct borrowings	\$ 2,677,123	\$ -	\$ 274,022	\$ 2,403,101	\$ 275,856
Compensated absences	65,767	11,283	-	77,050	49,604
Lease liability	59,894	33,896	22,140	71,650	46,034
Net pension liability	245,709	-	139,529	106,180	-
OPEB	2,368,498	25,686	-	2,394,184	-
Business-type activity long-term debt	\$ 5,416,991	\$ 70,865	\$ 435,691	\$ 5,052,165	\$ 371,494

C. Concentration Reporting

For the year ended June 30, 2022, one corporation comprised approximately 40% of ad valorem tax revenues and 14% of water sales.

D. Net Investment in Capital Assets

	Governmental	Business-Type
Capital and right of use assets	\$ 11,124,253	\$ 11,284,841
Less: long-term debt	712,666	2,474,751
Net investment in capital assets	\$ 10,411,587	\$ 8,810,090

**E. 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	\$ 4,229,383
Less:	
Inventories	11,208
Stabilization by State Statute	1,400,848
Police	32,512
Streets – Powell Bill	99,715
Subsequent year's expenditures	453,793
Remaining fund balance	\$2,231,307

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, 2022.

**IV. Summary Disclosure of Significant Contingencies****Federal and State Assisted Programs**

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

On August 17, 2022 portions of the Town of Canton were flooded as a result of Tropical Storm Fred. Town Hall and several other buildings and/or sections of the Town are no longer usable after this event. The long-term effects to the Town and community are still being assessed currently. However, the Town was able to repair some real and personal property damages and replace lost contents and equipment prior to year end. Those losses and capital asset impairment losses assessed are reported net of insurance recovery gains within the Statement of Activities. For fund statements the insurance proceeds and replacement costs are recorded separately.

**VI. ARP Funds – COVID Assistance**

In fiscal year 2020/2021, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for eligible state, local, territorial and tribal governments. The Town was allocated \$1,385,377 of fiscal recovery funds to be paid in two equal installments. During July 2021, the Town received the first installment of \$692,689. Town staff and the Board of Aldermen/Alderswomen elected to use 100% of the funds for premium pay. See Subsequent Events disclosure below regarding the final receipt of awarded funds.

The Town recorded the received and expended ARP Funds of \$692,689 as an operating grant of Government Activities on the Statement of Activities and as restricted intergovernmental revenues on the Statement of Revenue, Expenditures and Changes in Fund Balance.

## **VII. Opioid Settlement Funds**

In April 2022, drug manufacturer Johnson & Johnson, and three drug distributors, McKesson, AmerisourceBergen, and Cardinal Health, finalized a \$26 billion-dollar nationwide settlement related to multiple opioid lawsuits. These funds will be disbursed to each participating state over an 18-year period according to an allocation agreement reached with all participating states. The majority of these funds are intended for opioid abatement and the distribution of the funds will be front loaded.

North Carolina's Memorandum of Agreement (MOA) between the state and local governments for the settlement funds allocates the funds as follows:

- 15% directly to the State ("State Abatement Fund")
- 80% to abatement funds established by Local Governments ("Local Abatement Funds")
- 5% to a County Incentive Fund.

The Town was notified they would receive \$73,787 as part of this settlement. For the year ending June 30, 2022 the Town received \$2,834. Per the terms of the MOA, the Town created a special revenue fund, the Opioid Settlement Fund, to account for these funds. All funds are to be used for opioid abatement and remediation activities. Funds are restricted until expended. No funds have been expended as of June 30th, 2022. The MOA offered the Town two options of expending the funds. The Town has not yet decided which option they will choose for the use of these funds. Currently the amount received is reported as Unearned revenue.

## **VIII. Significant Effects of Subsequent Events**

Subsequent events have been evaluated through November 29, 2022, the date the financial statements were available to be issued.

The Town expects continued assessments to reveal additional permanent impairment losses resulting from Tropical Storm Fred that will be reported for the year ending June 30, 2023. The Town has been notified by the State of North Carolina that the State has budgeted \$23 million for rebuilding and repairs following the flood to the Town of Canton. This funding will offset the expected losses from permanent impairment of capital assets and allow for the purchase of real property or extensive repairs to damaged Town property.

The Town received an award for \$1,385,377 from the Coronavirus Local Fiscal Recovery Funds. The funds are restricted for allowable pandemic recovery. The second and final payment of awarded funds, \$692,688 was received subsequent to year end. The Town plans to use 100% of the funds received to offset Public Safety salaries, as allowed by the American Rescue Plan and guidance from the Department of the Treasury. See ARP Funds – Covid Assistance disclosure above regarding the initial payment of awarded funds.

**VIX. Reclassifications**

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

**X. Prior Period Adjustment/Change in Accounting Principle**

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, effective July 1, 2021. The statement redefines leases and requires finance leases to be reported as lease liabilities and right of use assets. There is no longer a distinction between operating and capital leases. Under GASB 87, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Non-financial assets outside the scope of this statement include leases of intangible assets, biological assets, inventory leases, supply contracts, service concession arrangements and certain agreement types, such as asset financed with outstanding conduit debt. All short-term leases with a maximum noncancelable term of 12 months or less, regardless of whether all noncancelable terms (i.e. renewals) are expected to be exercised, can be excluded from the requirements of this standard as well.

Lease payments have a portion that reduces the lease liability and a portion that is reported as interest expense. The right of use asset is amortized over the lease term or the useful life of the underlying asset, whichever is shorter. As part of implementing the statement, several previously reported capital leases had to be restated to comply with the new standard. Previously reported capital leases were removed from capital assets, both the historical cost and accumulated depreciation and capital lease liability was also removed. The leases were then recalculated from inception in accordance with GASB 87 and the new right of use assets and lease liabilities recorded with the net effect of this change reported as a prior period adjustment. As a result, net position for government activities decreased by \$8,633 and fund balance and net position for the business type activities decreased by \$25,160.

**REQUIRED SUPPLEMENTAL FINANCIAL DATA**



Town of Canton, North Carolina  
Schedule of Proportionate Share of the Net Pension Liability  
Required Supplementary Information  
Local Government Employees' Retirement System  
Last Eight Fiscal Years

	2022	2021	2020	2019	2018
Town's proportion of the net pension liability (asset) %	0.364%	0.382%	0.04183%	0.03882%	0.042%
Town's proportion of the net pension liability (asset)	\$ 558,842	\$ 1,365,049	\$ 1,142,345	\$ 920,943	\$ 648,366
Town's covered-employee payroll	\$2,655,896	\$ 2,707,973	\$ 2,611,689	\$ 2,421,400	\$ 2,276,958
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	21.0%	50.4%	43.7%	38.0%	28.5%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.16%	91.47%	98.09%	99.07%
	2017	2016	2015	2014	
Town's proportion of the net pension liability (asset) %	0.038%	0.036%	0.038%	0.038%	
Town's proportion of the net pension liability (asset)	\$ 797,786	\$ 163,316	\$ (221,450)	\$ 148,163	
Town's covered-employee payroll	\$ 1,829,958	\$ 2,044,962	\$ 1,935,008	\$ 1,935,008	
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	43.6%	7.9%	-11.40%	7.7%	
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%	96.45%	102.64%	

The amounts provided for each fiscal year were determined as of the prior year ending June 30.

Town of Canton, North Carolina  
Schedule of Contributions  
Required Supplementary Information  
Local Government Employees' Retirement System  
Last Eight Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$318,529	\$281,780	\$369,416	\$328,139	\$291,339
Contribution in relation to the contractually required contribution	318,529	281,780	369,416	328,139	291,339
Contribution deficiency (excess)	-	-	-	-	-
Town's covered-employee payroll	\$2,751,379	\$2,655,896	\$2,707,973	\$2,611,689	\$2,421,400
Contributions as a percentage of covered-employee payroll	11.58%	10.61%	13.64%	12.56%	12.03%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
Contractually required contribution	\$295,796	\$242,673	\$161,555	\$148,163	
Contribution in relation to the contractually required contribution	295,796	242,673	161,555	148,163	
Contribution deficiency (excess)	-	-	-	-	
Town's covered-employee payroll	\$2,276,958	\$1,829,958	\$2,044,962	\$1,935,008	
Contributions as a percentage of covered-employee payroll	12.99%	13.26%	11.99%	7.66%	

Town of Canton, North Carolina  
Schedule of Changes in Total Pension Liability  
Law Enforcement Officers' Special Separation Allowance  
June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 463,326	\$ 358,026	\$ 319,885	\$ 328,916	\$ 297,086	\$ 286,920
Service cost	27,316	15,766	14,335	16,069	13,750	13,460
Interest on the total pension liability	8,732	11,317	11,248	10,136	11,356	10,120
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	10,338	(8,744)	24,425	(7,284)	(4,613)	-
Changes of assumptions or other inputs	(11,707)	108,694	9,866	(11,652)	17,094	(6,506)
Benefit payments	(21,733)	(21,733)	(21,733)	(16,300)	(5,757)	(6,908)
Other changes	-	-	-	-	-	-
Ending Balance of the total pension liability	<u>\$ 476,272</u>	<u>\$ 463,326</u>	<u>\$ 358,026</u>	<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, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 476,272	\$ 463,326	\$ 358,026	\$ 319,885	\$ 328,916	\$ 297,086
Covered payroll	605,430	543,380	591,990	573,038	534,457	490,742
Total pension liability as a percentage of covered payroll	78.67%	85.27%	60.48%	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, 2022

		<b>Measurement Period Ending</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Total OPEB Liability</b>				
Service cost	\$ 488,113	\$ 317,830	\$ 430,960	\$ 458,628
Interest	297,417	367,766	443,986	410,663
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total OPEB liability	(1,203,890)	16,662	(1,683,702)	90,374
Changes of assumptions or other inputs	240,336	2,468,102	(12,560)	(659,828)
Net benefit payments and implicit subsidy credit	(379,330)	(400,199)	(404,229)	(439,394)
Other changes	-	-	-	-
Net change in total OPEB liability	(557,354)	2,770,161	(1,225,545)	(139,557)
Total OPEB liability - beginning	13,158,320	10,388,159	11,613,704	11,753,261
<b>Total OPEB liability - ending</b>	<b>\$ 12,600,966</b>	<b>\$ 13,158,320</b>	<b>\$ 10,388,159</b>	<b>\$ 11,613,704</b>
Covered payroll	2,393,727	2,192,556	2,192,556	2,512,768
Total OPEB liability as a percentage of covered payroll	526.42%	600.14%	473.79%	462.19%

**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:

<b>Fiscal Year</b>	<b>Rate</b>
2022	2.16%
2021	3.50%
2020	3.50%
2019	3.89%

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**Town of Canton, North Carolina**  
**Comparative Balance Sheets**  
**General Fund**  
**June 30, 2022 and 2021**

**Exhibit A**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,890,110	\$ 3,248,351
Restricted cash	134,001	347,786
Receivables, net:		
Taxes	61,179	61,705
Accounts	303,404	23,023
Due from other governments	1,097,444	613,088
Inventories	11,208	7,689
Total assets	<u>\$ 4,497,346</u>	<u>\$ 4,301,642</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 71,655	\$ 47,637
Salaries payable	94,245	107,286
Unearned revenue	2,834	-
Customer prepayments	34,286	29,932
Total liabilities	<u>203,020</u>	<u>184,855</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	61,179	61,705
Prepaid taxes	3,764	4,278
Total deferred inflows of resources	<u>64,943</u>	<u>65,983</u>
<b>Fund balances:</b>		
Nonspendable:		
Inventories	11,208	7,689
Restricted:		
Stabilization by state statute	1,400,848	636,111
Public Safety	32,512	39,101
Transportation	99,715	317,854
Assigned:		
Subsequent year's expenditures	453,793	256,511
Unassigned	2,231,307	2,793,538
Total fund balances	<u>4,229,383</u>	<u>4,050,804</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u><u>\$ 4,497,346</u></u>	<u><u>\$ 4,301,642</u></u>

**Town of Canton, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2022**

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
<b>Revenues:</b>				
Ad valorem taxes:				
Taxes		\$ 3,552,579		\$ 3,171,043
Penalties and interest		8,124		12,622
Total ad valorem taxes	3,379,000	3,560,703	181,703	3,183,665
Other taxes and licenses:				
Privilege licenses		4,455		3,403
	3,300	4,455	1,155	3,403
Unrestricted intergovernmental:				
Local option sales taxes		1,406,376		1,280,876
Utility franchise tax		737,611		730,046
Piped natural gas tax		8,363		6,859
Sales tax-telecommunications		34,621		46,590
Sales tax-video programming		39,117		39,392
State hold-harmless distribution		375,662		294,219
Beer and wine tax		17,558		18,406
ABC Profit distribution		21,457		37,281
Total unrestricted intergovernmental	2,131,400	2,640,765	509,365	2,453,669
Restricted intergovernmental:				
Powell Bill allocation		151,037		128,009
FEMA/NC Emergency Management grants		1,562,713		-
Cares Act grant - COVID		-		157,941
ARP grant - COVID		692,689		-
Government Crime Comm grant		-		45,462
Miscellaneous grants		100,000		8,556
Total restricted intergovernmental	808,536	2,506,439	1,697,903	339,968
Permits and fees:				
Building permits and inspection fees		-		-
Plumbing and electrical fees		-		-
Total permits and fees	3,000	-	(3,000)	-

(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, 2022**

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
Revenues (continued)				
Sales and services:				
Rents		18,390		18,390
Miscellaneous revenue-Police Department		97,312		115,527
Court facilities fees and forfeitures		1,413		4,713
Fire protection charges		129,426		90,926
Solid waste disposal tax		3,336		3,298
Sale of material and labor		2,955		4,500
Refuse collection fees		274,742		275,128
Recreation admissions and concessions		42,984		107,111
Theater revenue		1,250		12,228
Other fees		3,920		7,476
Total sales and services	486,300	575,728	89,428	639,297
Investment earnings:				
Interest earnings		5,000		5,130
Total investment earnings	5,105	5,000	(105)	5,130
Miscellaneous:				
Special event fees		28,045		11,990
Donations		99,673		231,465
Other miscellaneous		17,875		26,989
Total miscellaneous	251,550	145,593	(105,957)	270,444
Total revenues	7,068,191	9,438,683	2,370,492	6,895,576
<b>Expenditures:</b>				
General government:				
Governing Board				
Other operating expenditures		40,207		27,822
Total governing board	42,358	40,207	2,151	27,822
Administration:				
Salaries and employee benefits		143,242		155,586
Other operating expenditures		4,423		14,054
Capital outlay		-		-
Total administration	164,407	147,665	16,742	169,640
Finance				
Salaries and employee benefits		281,012		259,815
Other operating expenditures		35,223		57,070
Capital outlay		-		-
Total finance	366,449	316,235	50,214	316,885

(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, 2022**

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
<b>Expenditures (continued)</b>				
Legal:				
Part-time salaries		-		-
Other operating expenditures		26,892		17,060
Total legal	26,892	26,892	-	17,060
Planning and Zoning				
Salaries and employee benefits		127,022		193,741
Other operating expenditures		170,485		60,784
Capital outlay		-		-
Total planning and zoning	441,550	297,507	144,043	254,525
Community Promotion				
Other operating expenditures		7,700		6,898
Capital Outlay		-		-
Total community promotion	74,800	7,700	67,100	6,898
Municipal Buildings:				
Salaries and employee benefits		4,672		4,683
Other operating expenditures		120,529		144,589
Capital outlay		-		-
Total municipal buildings	126,881	125,201	1,680	149,272
Total general government	1,243,337	961,407	281,930	942,102
Public Safety:				
Police:				
Salaries and employee benefits		1,373,417		1,420,453
Other operating expenditures		197,768		189,656
Capital outlay		-		44,285
Total police	1,814,970	1,571,185	243,785	1,654,394
Fire:				
Salaries and employee benefits		780,581		758,839
Other operating expenditures		113,667		98,087
Capital outlay		565,602		36,170
Total fire	1,504,254	1,459,850	44,404	893,096
Total public safety	3,319,224	3,031,035	288,189	2,547,490

(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, 2022**

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
<b>Expenditures (continued)</b>				
Public Works:				
Traffic Engineering	1,059	1,059	-	1,059
Central Services:				
Salaries and employee benefits		119,233		116,272
Other operating expenditures		62,858		41,517
Capital outlay		-		-
Total central services	190,596	182,091	8,505	157,789
Streets:				
Salaries and employee benefits		819,218		787,093
Other operating expenditures		297,759		278,985
Capital outlay		-		46,371
Total streets	1,218,099	1,116,977	101,122	1,112,449
Street Cleaning and Sweeping:				
Salaries and employee benefits		-		34,812
Other operating expenditures		48,535		52,275
Capital outlay		-		-
Total street cleaning and sweeping	64,500	48,535	15,965	87,087
Powell Bill:				
Salaries and employee benefits		-		-
Other operating expenditures		354,049		146,156
Capital outlay		-		-
Total powell bill	355,500	354,049	1,451	146,156
Total public works	1,829,754	1,702,711	127,043	1,504,540
Environmental Protection:				
Sanitation:				
Salaries and employee benefits		-		-
Other operating expenditures		241,212		227,306
Total sanitation	244,000	241,212	2,788	227,306

(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, 2022**

With comparative actual amounts for the year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2021</u>
<b>Expenditures (continued)</b>				
Landfill:				
Other operating expenditures		12,084		13,600
Capital outlay		91,764		-
Total landfill	<u>38,000</u>	<u>103,848</u>	<u>(65,848)</u>	<u>13,600</u>
Total environmental protection	<u>282,000</u>	<u>345,060</u>	<u>(63,060)</u>	<u>240,906</u>
Cultural and Recreational:				
Canton Historical Museum:				
Salaries and employee benefits		18,156		17,737
Other operating expenditures		18,321		17,985
Total Canton Historical Museum	<u>41,397</u>	<u>36,477</u>	<u>4,920</u>	<u>35,722</u>
Recreational Areas and Facilities:				
Salaries and employee benefits		39,975		77,441
Other operating expenditures		120,904		170,414
Capital outlay		470,844		552,320
Total recreational areas and facilities	<u>882,507</u>	<u>631,723</u>	<u>250,784</u>	<u>800,175</u>
Colonial Pathway				
Salaries and employee benefits		52,879		66,283
Other operating expenditures		44,267		60,545
Capital outlay		-		-
Total recreation concessions	<u>130,042</u>	<u>97,146</u>	<u>32,896</u>	<u>126,828</u>
Armory				
Salaries and employee benefits		666		2,514
Other operating expenditures		29,881		51,131
Capital outlay		-		-
Total recreation concessions	<u>41,375</u>	<u>30,547</u>	<u>10,828</u>	<u>53,645</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, 2022**

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
<b>Expenditures (continued)</b>				
Recreation Planning				
Salaries and employee benefits		57,141		6,121
Other operating expenditures		34,481		1,029
Capital outlay		-	-	-
Total recreation planning	81,011	91,622	(10,611)	7,150
Total cultural and recreational	1,176,332	887,515	288,817	1,023,520
Debt Service:				
Principal retirement		222,732		200,750
Interest and fees		31,440		30,201
Total debt service	97,752	254,172	(156,420)	230,951
Total expenditures	7,948,399	7,181,900	766,499	6,489,509
Revenue over (under) expenditures	(880,208)	2,256,783	3,136,991	406,067
Other Financing Sources (Uses):				
Sale of capital assets	-	9,500		43,008
Insurance recovery		2,126,875		
Lease liability issued		91,764		
Extraordinary expenses - flood damage		(4,306,343)	4,306,343	32,922
Total other financing sources	(2,455,316)	(2,078,204)	377,112	75,930
Fund balance appropriated	3,335,524	-	(3,335,524)	-
Net change in fund balance	\$ -	178,579	\$ 178,579	481,997
Fund balance, beginning of year		4,050,804		3,568,807
Fund balance, end of year		\$ 4,229,383		\$ 4,050,804

**Exhibit C**

**Town of Canton, North Carolina  
Opioid Settlement Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
From Inception and for the year ended June 30, 2022**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Opioid Settlement Funds	73,787	\$ -	\$ -	\$ -	\$ (73,787)
Expenditures:					
Collaborative strategic planning	-	-	-	-	0
Opioid additction treatment	73,787	-	-	-	73,787
Recovery support treatment	-	-	-	-	0
Total expenditures	73,787	-	-	-	73,787
Revenue and other sources over (under) expenditures	-	-	-	-	-
Fund balance, beginning			-		
Fund balance - ending			\$ -		

Exhibit D

**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, 2022**

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
<b>OPERATING REVENUES</b>				
Charges for services:				
Water sales		\$ 2,198,395		\$ 1,966,149
Sewer charges		515,613		467,634
Taps and connection fees		65,600		86,150
Reconnection fees		16,275		14,325
Other operating revenues		23,155		43,531
Total operating revenues	2,659,000	2,819,038	160,038	2,577,789
<b>NON-OPERATING REVENUES</b>				
Interest on investments		3,052		11,246
Sale of materials and equipment		5,285		7,034
Total non-operating revenues	12,500	8,337	(4,163)	18,280
Total revenues	2,671,500	2,827,375	155,875	2,596,069
<b>OPERATING EXPENDITURES</b>				
Administration:				
Salaries and employee benefits		224,032		187,578
Repairs and maintenance		1,258		605
Other operating expenditures		46,046		63,680
Total administration	271,596	271,336	260	251,863
Water treatment				
Salaries and employee benefits		213,271		296,102
Repairs and maintenance		109,751		84,227
Other operating expenditures		324,008		248,787
Total water treatment	1,066,768	647,030	419,738	629,116
Water and sewer distribution				
Salaries and employee benefits		463,463		389,702
Repairs and maintenance		101,738		50,532
Other operating expenditures		236,511		235,478
Total water and sewer distribution	884,611	801,712	82,899	675,712
Sewer Treatment Plant:				
Repairs and maintenance		-		-
Other operating expenses		129,492		165,281
Total sewer treatment	221,302	129,492	91,810	165,281
<b>Debt service:</b>				
Principal retirement		296,162		300,673
Interest		60,505		60,885
Total debt service	325,416	356,667	(31,251)	361,558

(continued)

Town of Canton, North Carolina  
Water and Sewer Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non - GAAP)  
For the Fiscal Year Ended June 30, 2022

With comparative actual amounts for the year ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)	2021
<b>OPERATING EXPENDITURES (continued)</b>				
Capital Outlay:	18,375	42,271	(23,896)	263,931
Total expenditures	2,788,068	2,248,508	539,560	2,347,461
Revenues over (under) expenditures	(116,568)	578,867	695,435	248,608
<b>OTHER FINANCING SOURCES (USES)</b>				
FEMA/NC Emergency Management grant		170,492	-	-
Regionalization grant		27,500	-	-
Flood damage expenses		(181,580)	-	-
Lease Liability Issued		33,896	-	-
Total other financing sources (uses)	(300,000)	50,308	350,308	-
Budgetary appropriation	416,568	-	(416,568)	-
Revenues and other financing sources over (under)	\$ -	\$ 629,175	\$ 629,175	\$ 248,608
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>				
Reconciling items:				
Principal retirement		296,162		300,673
Increase (decrease) in deferred outflows - pension		16,185		(22,172)
Increase (decrease) in deferred outflows - OPEB		(49,885)		350,088
(Increase)decrease in interest accrued on long term debt		2,197		818
(Increase) decrease in accrued salaries and compensated absences		(11,282)		(1,092)
(Increase) decrease in pension liability		139,529		(40,087)
(Increase) decrease in deferred inflows - pension		(153,692)		(9,246)
(Increase) decrease in deferred inflows - OPEB		(67,549)		155,353
(Increase) decrease in accrued OPEB liability		(25,686)		(290,866)
Capital outlay		42,271		263,931
Lease liability issued		(33,896)		-
Depreciation & amortization		(426,504)		(394,592)
Total reconciling items		(272,150)		312,808
Change in net position - Water and Sewer Fund		\$ 357,025		\$ 561,416



**Town of Canton, North Carolina**  
**Employee Support Group Fund - Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2022**

	Beginning Balance	Additions	Deductions	Ending Balance
Assets:				
Cash and Cash Equivalents	\$ 10,610	\$ 849	\$ 632	\$ 10,827
Liabilities:				
Payable to Employees Support Group Committee	\$ 10,610	\$ 849	\$ 632	\$ 10,827

## **OTHER SCHEDULES**

Exhibit F

Town of Canton, North Carolina  
General Fund  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2022

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2020</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2021</u>
2021-2022	\$ -	\$ 3,542,537	3,500,202	\$ 42,335
2020-2021	55,879	-	48,939	6,940
2019-2020	5,968	-	2,345	3,623
2018-2019	4,309	-	496	3,813
2017-2018	3,525	-	602	2,923
2016-2017	3,083	-	390	2,693
2015-2016	3,118	-	-	3,118
2014-2015	3,931	-	-	3,931
2013-2014	6,215	-	110	6,105
2012-2013	8,100	-	48	8,052
2011-2012	8,949	-	8,949	-
	<u>\$ 103,077</u>	<u>\$ 3,542,537</u>	<u>\$ 3,562,081</u>	<u>83,533</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(22,354)</u>
Ad valorem taxes receivable - net				<u>\$ 61,179</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				<u>\$ 3,560,703</u>
Reconciling items:				
Interest collected				(8,124)
Discounts allowed and releases				553
Taxes written off				<u>8,949</u>
Subtotal				<u>1,378</u>
Total collections and credits				<u>\$ 3,562,081</u>

**Town of Canton, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2022**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property - real and personal	620,945,000	0.54	\$ 3,353,103	\$ 3,353,103	\$ -
Registered motor vehicles	34,454,630	0.54	186,055	-	186,055
Advertising			1,859	1,859	-
Total			3,541,017	3,354,962	186,055
Discoveries:					
Current year taxes	281,481	0.54	1,520	1,520	-
Total property valuation	<u>655,681,111</u>				
Net levy			3,542,537	3,356,482	186,055
Uncollected taxes at June 30, 2022			(42,335)	(42,335)	-
Current year's taxes collected			<u>\$ 3,500,202</u>	<u>\$ 3,314,147</u>	<u>\$ 186,055</u>
Current levy collection percentage			<u>98.80%</u>	<u>98.74%</u>	<u>100.00%</u>

## COMPLIANCE SECTION

# SHEILA GAHAGAN, CPA

229 Penland Street

Clyde, NC 28721

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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, 2022, 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 November 29, 2022. Another auditor 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*.

### **Report on Internal Control over Financial Reporting**

In planning and performing my audit of 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 do 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be a material weakness. However, material weaknesses may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Canton's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



Sheila Gahagan, CPA

November 29, 2022



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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

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

#### ***Opinion on Each Major Federal Program***

I have audited the Town of Canton, North Carolina's (Town of Canton) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* 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, 2022. 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.

In my opinion, the Town of Canton, North Carolina 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, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

I am required to be independent of the Town of Canton and to meet other ethical responsibilities, in accordance with relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion on compliance for each major federal program. My audit does not provide a legal determination of the Town of Canton's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the



requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town of Canton's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

My objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town of Canton's compliance based on my audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town of Canton's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town of Canton's compliance with the compliance requirements referred to above and performing such other procedures as I considered necessary in the circumstances.
- Obtain an understanding of the Town of Canton's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Town of Canton's internal control over compliance. Accordingly, no such opinion is expressed.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that identified during the audit.

### **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during my audit I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

My audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Sheila Gahagan, CPA

November 29, 2022

**TOWN OF CANTON, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2022**

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

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

Internal control over financial reporting:

Material weakness identified ☐ Yes ☒ No

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

Noncompliance material to financial statements noted ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

Material weakness identified ☐ Yes ☒ No

Significant deficiency(s) identified ☐ Yes ☒ None reported

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

Any audit findings disclose that are required to be reported in accordance with 2 CFR 200.516(a) ☐ Yes ☒ No

Identification of major federal programs:

AL Number	Federal Program
97.036	Department of Homeland Security: Disaster Grants-Public Assistance (Presidentially Declared Disasters)

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

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

**TOWN OF CANTON, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2022**

**II. Financial Statements Findings**

None reported.

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

None reported.

**TOWN OF CANTON, NORTH CAROLINA  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2022**

**II. Financial Statement Findings**

None reported

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

None reported

**TOWN OF CANTON, NORTH CAROLINA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2022**

**II. Financial Statement Finding**

No prior year audit findings

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

No prior year audit findings

**Town of Canton, North Carolina**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2022**

	Federal AL Number	Federal Expenditures	State Number	Pass-Through to Sub- Recipients
<b><u>Department of Homeland Security</u></b>				
Passed through NC Department of Public Safety				
Disaster Grants - Public Assistance - Presidentially				
Declared Disasters	97.036	\$ 1,559,885		-
<b><u>Department of Treasury</u></b>				
Passed through North Carolina Office of the Governor:				
Coronavirus State and Local Fiscal Recovery Funds/ARP	21.027	\$ 692,689		-
<b>Total expenditures of federal awards</b>		<u>\$ 2,252,574</u>		<u>\$ -</u>

**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, 2022 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.