

TOWN OF CANTON, NORTH CAROLINA



FINANCIAL STATEMENTS

June 30, 2023

(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, 2023, 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, 2023, 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 1.6 percent, 2.4 percent, and 12.1 percent of the assets, net position, and revenues, respectively, as of June 30, 2023 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 60 and 61, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and as a Percentage of Covered Payroll on pages 62 through 63, and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 64, 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 and State Awards as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal 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, 2023 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, 2023

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, 2023. 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

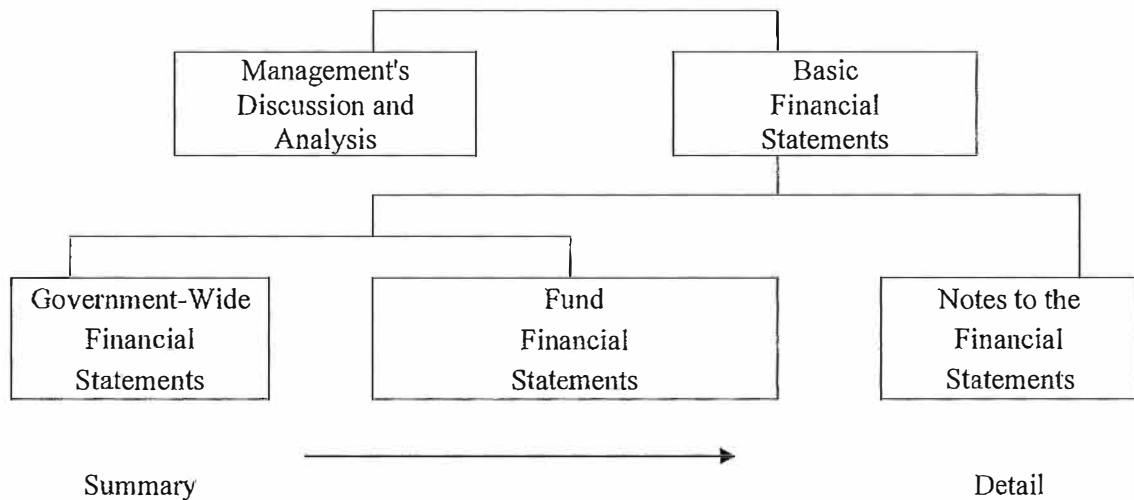
- The assets and deferred outflows of resources of the Town of Canton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$21,836,943 (*net position*).
- The Town of Canton's total net position increased by \$6,830,818 due to grants to replace or restore Town assets following flooding from Tropical Storm Fred in 2022 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 \$6,296,689, an increase of \$2,067,306 in comparison with the prior year. Approximately 36% of this total amount, or \$2,223,899 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,415,790.
- The Town of Canton's total debt decreased by \$484,828 or 2.8% during the current fiscal year due to normal principle payments and decreases in OPEB and law enforcement 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	
	2023	2022	2023	2022	2023	2022
Current and other assets	11,601,552	4,497,346	5,691,000	5,479,242	17,292,552	9,976,588
Capital and ROU assets	15,167,792	11,124,253	12,019,705	11,284,841	27,187,497	22,409,094
Deferred outflow	2,545,057	2,664,501	552,060	569,094	3,097,117	3,233,595
Total assets and deferred outflows of resources	29,314,401	18,286,100	18,262,765	17,333,177	47,577,166	35,619,277
Current liabilities	5,476,081	322,103	377,268	445,683	5,853,349	767,786
Long-term liabilities	11,769,258	12,015,742	4,266,238	4,680,671	16,035,496	16,696,413
Deferred inflows of resources	3,191,008	2,578,409	660,370	570,544	3,851,378	3,148,953
Total liabilities and deferred inflows of resources	20,436,347	14,916,254	5,303,876	5,696,898	25,740,223	20,613,152
Net Position						
Net investment in capital assets	13,720,870	10,411,587	9,869,203	8,810,090	23,590,073	19,221,677
Restricted	2,261,565	1,533,075	-	-	2,261,565	1,533,075
Unrestricted	(7,104,381)	(8,574,816)	3,089,686	2,826,189	(4,014,695)	(5,748,627)
Total net position	8,878,054	\$ 3,369,846	12,958,889	\$11,636,279	\$ 21,836,943	\$ 15,006,125

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 \$21,836,943 as of June 30, 2023. The Town's net position increased by \$6,830,818 for the fiscal year ended June 30, 2023. However, a large portion \$23,590,073 (108%) 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 \$2,261,565 (11%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance is negative (\$4,014,695) (-19%).

Town of Canton's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	680,824	\$ 575,728	2,839,414	\$ 2,846,538	3,520,238	\$ 3,422,266
Operating grants and contributions	973,349	2,406,439	-	170,492	973,349	2,576,931
Capital grants and contributions	305,306	100,000	58,440	-	363,746	100,000
General revenues:						
Property taxes	3,763,942	3,560,177	-	-	3,763,942	3,560,177
Other taxes and licenses	3,165	4,455	-	-	3,165	4,455
Grants and contributions not restricted	2,855,457	2,640,765	-	-	2,855,457	2,640,765
Investment earnings	121,613	5,000	42,796	3,052	164,409	8,052
Other	3,612,948	(1,790,898)	1,026,263	(176,531)	4,639,211	(1,967,429)
Total revenues	12,316,604	7,501,666	3,966,913	2,843,551	16,283,517	10,345,217
Expenses:						
General government	1,241,515	1,183,303	-	-	1,241,515	1,183,303
Public safety	3,071,238	3,051,780	-	-	3,071,238	3,051,780
Public works	1,475,527	1,907,958	-	-	1,475,527	1,907,958
Environmental Protection	244,407	346,052	-	-	244,407	346,052
Cultural and recreation	749,312	529,962	-	-	749,312	529,962
Interest expense	26,397	31,440	-	-	26,397	31,440
Water and sewer	-	-	2,644,303	2,486,526	2,644,303	2,486,526
Total expenses	6,808,396	7,050,495	2,644,303	2,486,526	9,452,699	9,537,021
Change in net position before transfers	5,508,208	451,171	1,322,610	357,025	6,830,818	808,196
Net position, July 1	3,369,846	2,918,675	11,636,279	11,279,254	15,006,125	14,197,929
Net position, June 30	\$8,878,054	\$ 3,369,846	12,958,889	\$11,636,279	\$21,836,943	15,006,125

Governmental activities. Governmental activities increased the Town's net position by \$5,508,208 thereby accounting for 81% 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 \$1,322,610 accounting for 19% 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 \$3,415,790, while total fund balance was \$6,287,126. 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 57% of that same amount.

At June 30, 2023, the general fund reported a combined fund balance of \$6,296,689, a 49% 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 \$3,089,686. The total increase in net position for the Water and Sewer Fund was \$1,322,610. The Water and Sewer Fund increase was due to charges for services increasing and grant funds to restore or replace lost assets from the 2022 flooding.

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, 2023 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	
	2023	2022	2023	2022	2023	2022
Land	\$ 4,664,440	\$ 4,664,440	\$ 284,666	\$ 220,283	\$ 4,949,106	\$ 4,884,723
Buildings & systems	7,879,195	4,923,739	11,583,356	10,901,567	19,462,551	15,825,306
Machinery & equipment	520,575	363,103	-	-	520,575	363,103
Vehicles/motorized eq.	1,779,279	1,002,673	29,894	51,614	1,809,173	1,054,287
Construction in progress	281,125	88,000	98,533	40,093	379,658	128,093
	<u>\$15,124,614</u>	<u>\$11,041,955</u>	<u>\$11,996,449</u>	<u>\$11,213,557</u>	<u>\$27,121,063</u>	<u>\$ 22,255,512</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, 2023, 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	
	2023	2022	2023	2022	2023	2022
Direct borrowings	\$ 1,403,744	\$ 818,519	\$ 2,127,245	\$ 2,677,123	\$ 3,530,989	\$ 3,495,642
OPEB liability	8,381,516	10,789,822	1,966,035	2,368,498	10,347,551	13,158,320
Net pension obligation	1,689,365	1,119,340	396,271	245,709	2,085,636	1,365,049
Total pension liability (LEO)	279,911	463,326	-	-	279,911	463,326
Capital lease	47,694	25,460	25,590	85,318	73,284	110,778
Compensated absences	317,917	312,436	66,874	65,767	384,791	378,203
	<u>\$ 12,120,147</u>	<u>\$ 13,528,903</u>	<u>\$ 4,582,015</u>	<u>\$ 5,442,415</u>	<u>\$ 16,702,162</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, 2024

Governmental Activities:

- The proposed tax rate for the Town of Canton stayed the same at \$0.54 per \$100 of valuation. Haywood County will begin updating valuations in 2024.
- The Town expects to see a continued increase in property valuations because 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 2023–2024, regarding salaries, the Board of Aldermen/women authorized a 3% cost of living increase. 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 2023-2024, 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 \$25,000 in the FY 2023-2024 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 increased water and sewer rates to reflect the recommendations that came from the Feasibility Study looking at options for future wastewater treatment construction and operation as well as to compensate for the increase cost of drinking water production.
- 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. The Town has received multiple Golden Leaf grants to cover the unmet need for infrastructure projects in the Rhoda/Meadowbrook corridor, which were also damaged during TS Fred.

Other activities that are underway are as follows:

- Chestnut Mountain Nature Park is under construction and should be complete by the end of 2024. We received additional funding this year through DNCR to complete the three remaining trails.
- The Town has partnered with many organizations to fundraise and rebuild our flood-affected playground with an All-Abilities Playground.
- The Town received a Rural Transformation Grant to renovate the old A&P building adjacent to Sorrell St. to provide an indoor/outdoor market and event space.
- We have partnered with the Cruso Endowment to make aesthetic improvements to the downtown through decorative street signs, outdoor skating rink and other betterments.
- We will be undertaking significant improvements to our water treatment plant, water intake, as well as water and wastewater infrastructure throughout the Town.
- The Town will undergo a comprehensive planning process funded by NC Commerce to help us shape and mold the future of Canton regarding infrastructure, development, zoning, transportation, economic development, recreation and beyond.

Requests for Information

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

Town of Canton, North Carolina
Statement of Net Position
June 30, 2023

	Primary Government			Town of Canton ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 9,406,883	\$ 4,114,019	\$ 13,520,902	\$ 197,606
Accrued interest receivables on taxes	14,130	-	14,130	-
Taxes receivables (net)	28,518	-	28,518	-
Accounts receivable (net)	132,989	270,707	403,696	-
Lease receivable, current	41,195	10,862	52,057	-
Due from other governments	1,731,785	263,340	1,995,125	-
Inventories	16,995	-	16,995	199,480
Prepaid expenses	-	-	-	11,175
Restricted cash and cash equivalents	204,453	6,335	210,788	-
Total current assets	11,576,948	4,665,263	16,242,211	408,261
Non-current assets:				
Lease receivable, non-current	24,604	6,487	31,091	-
Right of use leased assets, net of amortization	43,178	23,256	66,434	-
Capital assets:				
Land, non-depreciable improvements, and construction in process	4,945,565	383,199	5,328,764	-
Other capital assets, net of depreciation	10,179,049	11,613,250	21,792,299	279,944
Total capital assets	15,124,614	11,996,449	27,121,063	279,944
Total assets	26,769,344	16,691,455	43,460,799	688,205
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	1,163,569	248,806	1,412,375	83,545
OPEB deferrals	1,381,488	303,254	1,684,742	-
Total deferred outflows of resources	2,545,057	552,060	3,097,117	83,545

(continued)

Town of Canton, North Carolina
Statement of Net Position
June 30, 2023

	Primary Government			Town of Canton ABC Board
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	218,668	44,439	263,107	145,872
Accrued interest payable	-	10,716	10,716	-
Unearned revenue	3,855,214	-	3,855,214	-
Payable from restricted assets	32,060	6,335	38,395	-
Due to/from other funds	1,019,250	(1,019,250)	-	-
Current portion of long term liabilities	350,889	315,778	666,667	-
Total current liabilities	5,476,081	(641,982)	4,834,099	145,872
Long-term liabilities:				
Due in more than one year	1,180,028	1,887,213	3,067,241	-
Compensated absences payable	238,438	16,719	255,157	-
Net pension liability	1,689,365	396,271	2,085,636	89,699
Total pension liability (LEO)	279,911	-	279,911	-
OPEB liability	8,381,516	1,966,035	10,347,551	-
Total liabilities	17,245,339	3,624,256	20,869,595	235,571
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	225,229	8,082	233,311	379
OPEB deferrals	2,892,980	635,045	3,528,025	-
Leases	65,394	17,243	82,637	-
Prepaid Taxes	7,405	-	7,405	-
Total deferred inflows of resources	3,191,008	660,370	3,851,378	379
NET POSITION				
Net investment in capital assets	13,720,870	9,869,203	23,590,073	279,944
Restricted for:				
Stabilization by State Statue	1,988,413	-	1,988,413	-
Transportation	182,258	-	182,258	-
Public safety	26,670	-	26,670	-
Other	64,224	-	64,224	-
ABC Board - working capital	-	-	-	70,332
Unrestricted	(7,104,381)	3,089,686	(4,014,695)	185,524
Total net position	\$ 8,878,054	\$ 12,958,889	\$ 21,836,943	\$ 535,800

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina
Statement of Activities
For the Year Ended June 30, 2023

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	\$ 1,241,515	\$ 53,861	\$ 117,429	\$ -	\$ (1,070,225)	\$ -	\$ (1,070,225)	\$ -
Public safety	3,071,238	272,429	706,196	-	(2,092,613)	-	(2,092,613)	-
Public Works	1,475,527	-	149,724	-	(1,325,803)	-	(1,325,803)	-
Environmental protection	244,407	282,839	-	-	38,432	-	38,432	-
Cultural and recreation	749,312	71,695	-	305,306	(372,311)	-	(372,311)	-
Interest on long-term debt	26,397	-	-	-	(26,397)	-	(26,397)	-
Total governmental activities	6,808,396	680,824	973,349	305,306	(4,848,917)	-	(4,848,917)	-
Business-type activities:								
Water and sewer	2,644,303	2,839,414	-	58,440	-	253,551	253,551	-
Total business-type activities	2,644,303	2,839,414	-	58,440	-	253,551	253,551	-
Total primary government	\$ 9,452,699	\$ 3,520,238	\$ 973,349	\$ 363,746	(4,848,917)	253,551	(4,595,366)	-
Component Units:								
Canton ABC Board	2,347,069	2,372,011	-	-	-	-	-	24,942
Total Component Unit	\$ 2,347,069	\$ 2,372,011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,942
General revenues:								
Taxes:								
Property taxes, levied for general purpose					3,763,942	-	3,763,942	-
Other taxes and licenses					3,165	-	3,165	-
Grants and contributions not restricted to specific programs					2,855,457	-	2,855,457	-
Unrestricted investment earnings					121,613	42,796	164,409	-
Gain (loss) on sale of asset					736	-	736	-
Miscellaneous					372,235	7,013	379,248	-
Total general revenues and transfers					7,117,148	49,809	7,166,957	-
Change in net position before extraordinary items					2,268,231	303,360	2,571,591	24,942
Extraordinary Items: Grant reimbursements for flood damages					4,116,717	1,022,559	5,139,276	-
Extraordinary Item: Flood damages loss					(876,740)	(3,309)	(880,049)	-
Change in net position					5,508,208	1,322,610	6,830,818	24,942
Net position-beginning					3,369,846	11,636,279	15,006,125	510,858
Net position-ending					\$ 8,878,054	\$ 12,958,889	\$ 21,836,943	\$ 535,800

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina
Balance Sheet
Governmental Funds
June 30, 2023

Exhibit 3

	Major Fund General Fund	Non-Major Fund Opioid Fund	Total
ASSETS			
Cash and cash equivalents	\$ 9,406,883	-	9,406,883
Restricted cash	204,453	-	204,453
Receivables, net:			-
Taxes	42,648	-	42,648
Accounts	68,765	64,224	132,989
Due from other governments	1,731,785	-	1,731,785
Right of use rent receivable	65,799	-	65,799
Inventories	16,995	-	16,995
Total assets	<u>\$ 11,537,328</u>	<u>64,224</u>	<u>11,601,552</u>
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued liabilities	\$ 165,310	-	165,310
Salaries payable	53,358	-	53,358
Unearned revenue	3,855,214	-	3,855,214
Customer prepayments	32,060	-	32,060
Due to other funds	1,028,813	(9,563)	1,019,250
Total liabilities	<u>5,134,755</u>	<u>(9,563)</u>	<u>5,125,192</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	\$ 42,648	-	42,648
Right of use lease receivable	65,394	-	65,394
Opioid receivable	-	64,224	64,224
Prepaid taxes	7,405	-	7,405
Total deferred inflows of resources	<u>115,447</u>	<u>64,224</u>	<u>179,671</u>
FUND BALANCES			
Non Spendable			
Inventories	16,995	-	16,995
Restricted:			
Stabilization by State Statute	1,988,413	-	1,988,413
Public Safety	26,670	-	26,670
Transportation	182,258	-	182,258
Other	-	9,563	9,563
Assigned: Subsequent year's expenditures	657,000	-	657,000
Unassigned	3,415,790	-	3,415,790
Total fund balances	<u>6,287,126</u>	<u>9,563</u>	<u>6,296,689</u>
Total liabilities, deferred inflow of resources fund balances	<u>\$ 11,537,328</u>	<u>\$ 64,224</u>	<u>\$ 11,601,552</u>

(continued)

Town of Canton, North Carolina
Balance Sheet
Governmental Funds
June 30, 2023

Exhibit 3

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

Total Fund Balance, Governmental Funds	6,296,689
Capital assets and right of use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,167,792
Deferred outflows of resources - pension and OPEB	2,545,057
Liabilities for earned but deferred tax revenues considered deferred inflows of resources in fund statements.	42,648
Liabilities for earned but deferred opioid settlement funds considered deferred inflows of resources in fund statements.	64,224
Deferred inflows of resources -pension and OPEB	(3,118,209)
Long term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	<u>(12,120,147)</u>
Net position of governmental activities	<u><u>\$ 8,878,054</u></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, 2023

Exhibit 4

	<u>Major Fund</u>	<u>Non-Major</u>	
	<u>General Fund</u>	<u>Fund</u>	
		<u>Opioid</u>	<u>Total</u>
REVENUES			
Ad valorem taxes	\$ 3,782,473	-	\$ 3,782,473
Other taxes and licenses	3,165	-	3,165
Unrestricted intergovernmental	2,855,457	-	2,855,457
Restricted intergovernmental	585,966	-	585,966
Restricted intergovernmental - ARP/COVID-19	692,689	-	692,689
Sales and services	680,824	-	680,824
Investment earnings	121,613	-	121,613
Miscellaneous	299,898	9,563	309,461
Total revenues	<u>9,022,085</u>	<u>9,563</u>	<u>9,031,648</u>
EXPENDITURES			
Current:			
General government	2,440,247	-	2,440,247
Public safety	5,043,473	-	5,043,473
Public works	1,581,570	-	1,581,570
Environmental protection	244,407	-	244,407
Culture and recreation	1,608,233	-	1,608,233
Debt service:			
Principal	77,763	-	77,763
Right of use	38,196	-	38,196
Interest	26,397	-	26,397
Total debt service	<u>142,356</u>	<u>-</u>	<u>142,356</u>
Total expenditures	<u>11,060,286</u>	<u>-</u>	<u>11,060,286</u>
Excess (deficiency) of revenues over expenditures	(2,038,201)	9,563	(2,028,638)
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	736	-	736
Insurance recovery	500	-	500
Loan proceeds	854,731	-	854,731
Total other financing sources	<u>855,967</u>	<u>-</u>	<u>855,967</u>
Net change before Extraordinary Items	(1,182,234)	9,563	(1,172,671)
EXTRAORDINARY ITEMS			
Flood damage expenses	(876,740)	-	(876,740)
FEMA/NC Emergency Management grants	527,305	-	527,305
NC Disaster Recovery Grant	3,425,537	-	3,425,537
Flood reimbursement - STRAP Grant	163,875	-	163,875
Total extraordinary items	<u>3,239,977</u>	<u>-</u>	<u>3,239,977</u>
Net change in Fund Balance	2,057,743	9,563	2,067,306
Fund balances-beginning of year	4,229,383	-	4,229,383
Fund balances-end of year	<u>\$ 6,287,126</u>	<u>\$ 9,563</u>	<u>\$ 6,296,689</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, 2023

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

Net changes in fund balances - total governmental funds	\$ 2,067,306
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.	4,043,538
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 gains exceed revenues/	-
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	(18,531)
Change in unavailable revenue for opioid settlement	64,224
Deferred outflows of resources related to OPEB and pensions are not reported in the funds	(119,444)
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.	(738,772)
Deferred inflows of resources related to OPEB and pensions are not reported in the funds	(543,564)
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	(31,473)
Net pension liability	(1,236,703)
Total pension liability	196,361
OPEB liability	1,825,266
Total changes in net position of governmental activities	<u>\$ 5,508,208</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, 2023

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes			\$ 3,782,473	
Other taxes and licenses			3,165	
Unrestricted intergovernmental			2,855,457	
Restricted intergovernmental			585,966	
Restricted intergovernmental - ARP/COVID-19			692,689	
Sales and services			680,824	
Investment earnings			121,613	
Miscellaneous			299,898	
Total revenues	<u>7,845,102</u>	<u>7,967,007</u>	<u>9,022,085</u>	<u>1,055,078</u>
Expenditures:				
Current:				
General government	1,397,677	2,503,495	2,440,247	63,248
Public safety	3,205,796	5,314,164	5,043,473	270,691
Public works	2,090,760	2,030,207	1,581,570	448,637
Environmental protection	-	280,000	244,407	35,593
Cultural and recreation	1,535,495	1,928,064	1,608,233	319,831
Debt service:				
Principal		-	115,959	
Interest		-	26,397	
Total debt service	<u>69,167</u>	<u>155,967</u>	<u>142,356</u>	<u>13,611</u>
Total expenditures	<u>8,298,895</u>	<u>12,211,897</u>	<u>11,060,286</u>	<u>1,151,611</u>
Revenues over expenditures	<u>(453,793)</u>	<u>(4,244,890)</u>	<u>(2,038,201)</u>	<u>2,206,689</u>
Other Financing Sources (uses)				
Sale of capital assets	-	-	736	
Insurance recovery			500	
Loan proceeds			854,731	
Total other financing sources	<u>-</u>	<u>854,731</u>	<u>855,967</u>	<u>1,236</u>
Fund balance appropriated	<u>453,793</u>	<u>1,072,112</u>	<u>-</u>	<u>(1,072,112)</u>
Net change before extraordinary items	<u>-</u>	<u>(2,318,047)</u>	<u>(1,182,234)</u>	<u>1,135,813</u>
Extraordinary items				
Flood damage expenses		(502,400)	(876,740)	
Flood reimbursement grants		2,820,447	4,116,717	
Total extraordinary items	<u>-</u>	<u>2,318,047</u>	<u>3,239,977</u>	<u>921,930</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,057,743</u>	<u>\$ 2,057,743</u>
Fund balance, beginning			4,229,383	
Fund balances, end of year			<u>\$ 6,287,126</u>	

See independent auditor's report and accompanying notes.

Exhibit 6

Town of Canton, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2023

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,114,019
Accounts receivable (net) - billed	83,325
Accounts receivable (net) - unbilled	187,382
Right of use lease receivable	10,862
Due from other governments	263,340
Due from general fund	1,019,250
Restricted cash and cash equivalents	6,335
Total current assets	<u>5,684,513</u>
Noncurrent assets:	
Right of use lease receivable, non-current	6,487
Right of use leased assets, net of amortization	23,256
Capital assets:	
Land and construction in progress	383,199
Other capital assets, net of depreciation	11,613,250
Capital assets (net)	<u>11,996,449</u>
Total noncurrent assets	<u>12,026,192</u>
Total assets	<u>17,710,705</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	248,806
OPEB deferrals	303,254
Total deferred outflows of resources	<u>552,060</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	31,529
Salaries payable	12,910
Accrued interest payable	10,716
Compensated absences - current	44,794
Installment purchase - current	277,736
Lease liability - current	21,324
Liabilities payable from restricted assets:	
Customer deposits	6,335
Total current liabilities	<u>405,344</u>
Noncurrent liabilities:	
Compensated absences	22,080
Installment purchase	1,849,510
Lease liability	4,266
Net pension liability	396,271
Total OPEB liability	1,966,035
Total noncurrent liabilities	<u>4,238,162</u>
Total liabilities	<u>4,643,506</u>
DEFERRED INFLOWS OF RESOURCES	
Right of use lease	17,243
Pension deferrals	8,082
OPEB deferrals	635,045
Total deferred inflows of resources	<u>660,370</u>
NET POSITION	
Net investment in capital assets	9,869,203
Unrestricted	3,089,686
Total net position	<u>\$ 12,958,889</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, 2023

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 2,720,413
Tap and reconnection fees	115,958
Other operating revenues	3,043
Total operating revenues	<u>2,839,414</u>
OPERATING EXPENSES	
Administration	250,526
Treatment and distribution	1,904,031
Depreciation and amortization	442,642
Total operating expenses	<u>2,597,199</u>
Operating income (loss)	<u>242,215</u>
NONOPERATING REVENUES (EXPENSES)	
Sale of materials and equipment	7,013
Grant revenue	58,440
Investment earnings	42,796
Interest and other charges	(47,104)
Total nonoperating revenue (expenses)	<u>61,145</u>
Change in net position before extraordinary items:	303,360
Extraordinary Items:	
Flood damage expenses	(3,309)
FEMA/NC Emergency Management grants	3,309
NC Disaster Recovery Grant	1,019,250
Total extraordinary items	<u>1,019,250</u>
Change in net position	1,322,610
Total net position - beginning	<u>11,636,279</u>
Total net position - ending	<u>\$ 12,958,889</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, 2023

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,796,605
Cash paid for goods and services	(1,197,804)
Cash paid to or on behalf of employees for services	(1,006,016)
Net cash provided by operations	<u>592,785</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sale of assets	-
Acquisition and construction of capital assets	(1,131,977)
Loan proceeds	-
Principal paid on installment purchase and lease liabilities	(321,916)
Interest paid on installment purchase and lease liabilities	(49,338)
Net cash used by capital and related financing activities	<u>(1,503,231)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	42,796
Purchase of investments	-
Net cash provided by investing activities	<u>42,796</u>
Net increase (decrease) in cash and cash equivalents	(867,650)
Balances-beginning of the year	4,988,004
Balances-end of the year	<u>\$ 4,120,354</u>
Reconciliation of operating income to net cash provided by operating	
Operating income (loss)	\$ 242,215
Adjustments to reconcile operating income to net cash provided by	
Depreciation	398,577
Amortization	44,065
Changes in assets, deferred outflows of resources and liabilities:	
Decrease (Increase) in accounts receivable	(20,142)
Decrease (Increase) in due from other government	(22,667)
Decrease (Increase) in deferred outflows of resources	17,034
Increase (decrease) in deferred inflow of resources	89,826
Increase (Decrease) in accounts payable and	
accrued liabilities	(12,699)
Increase (Decrease) in pension liabilities	290,091
Increase (Decrease) in accrued compensated absences	(5,366)
Increase (Decrease) in other postemployment benefits	(428,149)
Total adjustments	<u>350,570</u>
Net cash provided by operating activities	<u>\$ 592,785</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, 2023**

	<u>Custodial Fund</u>
Assets:	
Cash and Cash Equivalents	<u>\$ 11,207</u>
Net Position:	
Restricted for:	
Individuals	<u>\$ 11,207</u>

See independent auditor's report and accompanying notes.

Exhibit 10

**Town of Canton, North Carolina
Statement of Changes in Fiduciary Net Position
Employee Support Group Fund - Fiduciary Fund
For the Year Ended June 30, 2023**

	<u>Custodial Fund</u>
Additions:	
Contributions	\$ 1,064
Deductions	
Benefit payments	<u>684</u>
Net increase in fiduciary net position	380
Net position - beginning	<u>10,827</u>
Net position - ending	<u><u>\$ 11,207</u></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 statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30-year end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Canton ABC Board, 40 Main Street, Canton, NC 28786.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including 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 reports the following fund types:

Custodial Fund – Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds are used to account for assets the Town hold on behalf of others that meet certain criteria. The Town maintains the Employee Support Group Fund, which accounts for monies held to be used for emergency situations of voluntarily participating employees, with payments remitted upon approval by the Employee Support Group Committee.

Non-major fund – The Town maintains a non-major fund for the Opioid settlement fund, a special revenue fund.

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).

NCCMT, which consists of an SEC-registered mutual fund (the Government Portfolio), is authorized by GS 159-30(c)(8). The Government Portfolio, which invests in treasuries and government agencies, and collateralized repurchase agreements, is a SEC-registered (2a-7) money market mutual fund, maintains a AAAm rating from S&P and AAmf by Moody's Investor Service, and is measured at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income 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 earned 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 CashGovernmental Activities

General Fund	Streets	\$	182,258
	Public Works		22,195
Total Governmental Activities			<u>204,453</u>

Business-type Activities

Water and Sewer Fund	Customer Deposits	\$	6,335
Total Restricted Cash		\$	<u>210,788</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, 2023.

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. Lease Receivable

The Town's lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the Town receives consistent monthly lease payments.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

7. Inventory and Prepaid

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.

8. 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:

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

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

9 Right to use assets

The Town recorded right to use lease assets as a result of previously 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.

10. 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 2023 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.

11. 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.

12. 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.

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, 2023, 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, 2023, no such approval was given; therefore, no accrual has been made.

13. 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. Noncompliance with North Carolina General Statutes

Instances were found where the Town was not in compliance with state law G.S. 159-28. State law requires any written contract or agreement requiring the payment of money, or evidenced by a written purchase order the written document must include on its face a certificate stating the instrument has been reaudited. The preaudit certificate must be signed by the finance officer or any deputy finance officer approved by the governing board. Although procedures ensuring compliance with the preaudit requirement is normally followed, a few instances were found when contracts were signed and payments made without the finance officers preaudit certification signature.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2023, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for municipal buildings and flood expense by \$37,599, and \$43,440, respectively. These over-expenditures occurred because of the finance department not receiving information or invoices about work performed at year end that led to unexpected accounts payables. Management will improve communication and tracking of multiple on-going projects and ensure all invoices are addressed directly to the finance office.

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, 2023, the Town's deposits had a carrying amount of \$13,741,746 and a bank balance of \$13,806,945. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$13,556,945 was covered by collateral held under the pooling method. At June 30, 2023, the Town's petty cash fund totaled \$1,150. The bank balance includes \$3,394,279 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 \$195,273 and a bank balance of \$271,753. Of the bank balance, \$250,000 was covered by federal depository insurance and is collateralized by the pooling method for amounts that exceed FDIC coverage. The store also had cash on hand at June 30, 2023 of \$2,333.

2. Lease Receivable

In January 2023, the Town entered into two leases with a local bank. Under the lease, the bank pays the Town \$3,020 per month for twenty-four months for commercial rental space and \$1,466 per month for twenty-four months for a separate commercial rental space for the bank to operate its business. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 3%, which is the implicit rate.

In fiscal year 2023, the Town recognized \$14,293 of lease revenue and \$807 of interest revenue under the \$3,020 monthly lease and \$6,941 of lease revenue and \$391 of interest revenue under the \$1,466 monthly lease.

3. 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, 2023 is net of the following allowances for doubtful accounts:

Fund	Allowance
General fund:	
Property taxes receivable	\$ 31,044
Water and sewer enterprise fund:	
Utility accounts receivable	<u>142,211</u>
Total	\$ 173,255

4. Capital Assets

Capital Asset Activity for the Primary Government for the year ended June 30, 2023 was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 88,000	\$ 193,125	\$ -	\$ 281,125
Land	<u>4,664,440</u>	<u>-</u>	<u>-</u>	<u>4,664,440</u>
Total capital assets not being Depreciated	<u>4,752,440</u>	<u>193,125</u>	<u>-</u>	<u>4,945,565</u>
Capital assets being depreciated:				
Buildings	4,202,154	2,691,864	-	6,894,018
Infrastructure	3,104,668	499,652	-	3,604,320
Equipment	1,007,432	247,583	-	1,255,015
Vehicles and motorized Equipment	<u>2,144,834</u>	<u>1,009,844</u>	<u>8,265</u>	<u>3,146,413</u>
Total capital assets being depreciated	<u>10,459,088</u>	<u>4,448,943</u>	<u>8,265</u>	<u>14,899,766</u>
Less accumulated depreciation for:				
Buildings	1,888,512	114,348	-	2,002,860
Infrastructure	494,571	121,712	-	616,283
Equipment	644,329	90,111	-	734,440
Vehicles and motorized Equipment	<u>1,142,161</u>	<u>233,238</u>	<u>8,265</u>	<u>1,367,134</u>
Total accumulated depreciation	<u>4,169,573</u>	<u>559,409</u>	<u>8,265</u>	<u>4,720,717</u>
Total capital assets being depreciated, net	<u>6,289,515</u>			<u>10,179,049</u>
Governmental activity capital assets, net	<u>\$ 11,041,955</u>			<u>\$ 15,124,614</u>

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

General government	\$	103,342
Public safety		250,039
Public Works		66,741
Environmental protection		-
Cultural and recreational		139,287
Total depreciation expense	\$	<u>559,409</u>

	Beginning Balances	Additions	Retirements	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 220,283	\$ 64,383	\$ -	\$ 284,666
Construction in progress	40,093	58,440	-	98,533
Total capital assets not being Depreciated	<u>260,376</u>	<u>122,823</u>	<u>-</u>	<u>383,199</u>
Capital assets being depreciated:				
Plant and distribution systems	16,539,352	39,396	-	16,578,748
Building	-	1,019,250	-	1,019,250
Vehicles and motorized equipment	286,477	-	-	286,477
Total capital assets being Depreciated	<u>16,825,829</u>	<u>1,058,646</u>	<u>-</u>	<u>17,884,475</u>
Less accumulated depreciation for:				
Plant and distribution systems	5,637,785	365,176	-	6,002,961
Building	-	11,681	-	11,681
Vehicles and motorized equipment	234,863	21,720	-	256,583
Total accumulated depreciation	<u>5,872,648</u>	<u>398,577</u>	<u>-</u>	<u>6,271,225</u>
Capital assets being depreciated, net	<u>10,953,181</u>			<u>11,613,250</u>
Business-type activities capital assets, net	\$ <u>11,213,557</u>			\$ <u>11,996,449</u>

Discretely Presented Component Unit:

Capital Asset Activity for the ABC Board for the year ended June 30, 2023, 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	257,880	6,342	-	264,222
Furniture and equipment	72,631	2,995	-	75,626
Computers	6,896	-	-	6,896
Total capital assets being depreciated	<u>337,407</u>	<u>9,337</u>	<u>-</u>	<u>346,744</u>
Less accumulated depreciation for:				
Buildings	122,170	10,281	-	132,451
Furniture and equipment	55,192	4,155	-	59,347
Computers	1,997	1,084	-	3,081
Total accumulated depreciation	<u>179,359</u>	<u>15,520</u>	<u>-</u>	<u>194,879</u>
Capital assets being depreciated, net	<u>158,048</u>			<u>151,865</u>
Business-type activities capital assets, net	\$ <u>286,127</u>			\$ <u>279,944</u>

Construction Commitments

The Town has active construction projects as of June 30, 2023. At year-end, the governments commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Recreational facilities	\$ 55,124	\$ 158,625
Administration and police facilities	40,150	97,750
Water and sewer treatment facilities	58,440	1,143,000

5. 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 assets are amortized on a straight-line base over the terms of the related leases.

Right to use assets activity for the year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Leased equipment	124,104	-	-	124,104
Less accumulated amortization	<u>41,806</u>	<u>-</u>	<u>39,120</u>	<u>80,926</u>
Net	82,298	-	39,120	43,178
Business-type activities:				
Leased equipment	132,192	-	-	132,192
Less accumulated amortization	<u>60,908</u>	<u>48,028</u>	<u>-</u>	<u>108,936</u>
Net	71,284	48,028	-	23,256

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 (LERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LERS 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 LERS 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 LERS. That report may be obtained by writing to the

Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement, disability and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. 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, 2023, 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, 2023.

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, 2023, the Town and ABC Board reported a liability of \$1,689,365 and \$89,699, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 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, 2022 (the measurement date), the Town and ABC Board's proportion were .036497% and .006069%, respectively, which was an decrease of .00053% for the Town and a decrease of .00151% for the ABC Board of the proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Town and ABC Board recognized pension expense of \$624,732 and \$33,565. At June 30, 2023, 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	\$ 89,868	\$ 8,811
Changes of assumptions	208,100	-
Net difference between projected and actual earnings on pension plan investments	689,325	-
Changes in proportion and differences between contributions and proportionate share of contributions	28,546	33,726
Town's contributions subsequent to the measurement date	293,665	-
Total	\$ 1,309,504	\$ 42,537

At June 30, 2023, 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	\$ 3,865	\$ 379
Changes of assumptions	8,950	-
Net difference between projected and actual earnings on pension plan investments	18,987	-
Changes in proportion and differences between contributions and proportionate share of contributions	26,646	-
Town's contributions subsequent to the measurement date	25,097	-
Total	\$ 83,545	\$ 379

\$293,665 and \$83,545 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, 2023. 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
2024	310,796	20,149
2025	256,114	17,324
2026	77,984	6,472
2027	328,407	14,124
2028	-	-
	\$ 973,301	\$ 58,069

Actuarial Assumptions. The total pension liability in the December 31, 2021 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, 2023 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	33.0%	.9%
Global Equity	38.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Credit	7.0%	5.0%
Inflation Projection	6.0%	2.7%
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:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Town's proportionate share of the net pension liability (asset)	3,764,304	2,085,636	702,316
ABC Boards's proportionate share of the net pension liability (asset)	161,895	86,699	30,205

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, 2021 valuation. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	4.31%
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 \$21,733 as benefits came due for the reporting period.

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

At June 30, 2023 the Town reported a total pension liability of \$279,911. The total pension liability was measured as of December 31, 2022 based on a December 31, 2021 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2022 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2023 the Town recognized pension expense of \$19,486.

	<u>Deferred</u> <u>Outflows</u>	<u>Deferred</u> <u>Inflows</u>
Differences between expected and actual experience	\$ 15,681	\$ 140,717
Changes of assumptions	61,253	50,057
Benefit payments and administrative expenses subsequent to the measurement date	25,937	-
Total	\$ 102,871	\$ 190,774

\$25,937 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	\$ (14,503)
2024	(11,956)
2025	(16,301)
2026	(26,229)
2027	(32,534)
Thereafter	(12,317)

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 or 1-percentage-point higher than the current rate:

	1% Decrease (3.31%)	Discount Rate (4.31%)	1% Increase (5.31%)
Total pension liability	\$301,579	\$279,911	\$260,307

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, 2021 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	\$476,272
Service cost	21,695
Interest	10,472
Change in benefit terms	-
Difference between expected and actuarial experience in the measurement of the total pension liability	(159,720)
Changes in assumptions and other inputs	(47,075)
Benefit payments	(21,733)
Other changes	-
Ending balance of the total pension liability	\$279,911

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:

	LGERS	LEOSSA	Total
Pension Expense	624,732	19,486	644,218
Pension Liability	2,085,636	279,911	2,365,547
Proportionate share of the net pension liability	.03697%	n/a	

Deferred of Outflows of Resources	LGERS	LEOSSA	Total
Differences between expected and actual experience	89,868	15,681	105,549
Change of Assumptions	208,100	61,253	269,353
Net difference between projected and actual earnings on plan investments	689,325	-	689,325
Changes in proportion and differences between contributions and proportionate share of contributions	28,546	-	28,546
Benefit payments and administrative cost paid subsequent to the measurement date	293,665	25,937	319,602

Deferred in Inflows of Resources

Differences between expected and actual experience	8,811	140,717	149,528
Change of assumptions	-	50,057	50,057
Net difference between projected and actual earnings on plan investments	-	-	-
Change in proportion and differences between contributions and proportionate share of contributions	33,726	-	33,726

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 \$13,966. 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, 2023, 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.

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, 2023 the State contributed \$19,352,000 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	<u>59</u>
Total	103

Total OPEB Liability

The Town's total OPEB liability of \$10,347,551 was measured as of June 30, 2022 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	2.16%
Measurement date	3.54%
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, 2022	12,600,966
Changes for the year	
Service cost	424,922
Interest	277,365
Changes of benefit terms	-
Differences between expected and actual experience	31,376
Changes in assumptions or other inputs	(2,615,214)
Benefit payments and implicit subsidy credit	<u>(371,864)</u>
Balance at June 30, 2023	10,347,551

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 (2.54 percent) or 1-percentage-point higher (4.54 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$12,147,220	\$10,347,551	\$ 8,938,353

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	\$ 8,778,973	\$10,347,551	\$12,382,418

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

For the year ended June 30, 2023, the Town recognized OPEB income of \$126,436. At June 30, 2023, 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	\$ 58,562	\$1,214,036
Changes of assumptions	1,301,808	2,313,989
Benefit payments and administrative costs made subsequent to the measurement date	<u>324,372</u>	<u>-</u>
Total	\$1,684,742	\$3,528,025

\$324,372 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, 2023. 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:

2024	(726,833)
2025	(500,437)
2026	(423,619)
2027	(516,766)
2028	-
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	\$ 293,665
Benefit payments made and administrative costs for LEOSA made subsequent to measurement date	25,937
Benefit payments made and administrative costs for OPEB made subsequent to measurement date	324,372
Difference between expected and actual experience	164,111
Changes of assumption	1,571,161
Net difference between projected and actual share of earnings on plan investments	689,325
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,546
Total	\$3,097,117

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)	\$ 7,405	\$ 7,405
Taxes receivable, less penalties		42,648
Opioid receivable		64,224
Lease receivable (General Fund)	65,394	65,394
Lease receivable (Water Fund)	17,243	-
Differences between expected and actual expense	1,363,564	-
Change in assumptions	2,364,046	
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>33,726</u>	<u>-</u>
Total	\$3,851,378	\$179,671

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 \$59,211. There are no future minimum lease payments under operating leases at June 30, 2023.

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, 2023.

7. Long-Term Obligations

a. Leases

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 11.3%, which is the implicit rate within the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$3,496 at June 30, 2023. 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 11.35%, which is the implicit rate within the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$39,682 at June 30, 2023. 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 implicit rate within the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$3,966 at June 30, 2023. 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 \$4,225 at June 30, 2023. 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 10.35%, which is the implicit rate within the lease agreement. As a result of the lease, the Town has recorded a right to use asset with a book value of \$15,065 at June 30, 2023. 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, 2023 is as follows:

<u>Year ending June 30</u>	<u>Government</u>		<u>Business-Type</u>	
	Principal	Interest	Principal	Interest
2024	\$36,125	\$ 3,433	\$21,323	\$ 1,232
2025	11,569	230	4,267	92
2026	-	-	-	-
Totals	\$47,694	\$ 3,663	\$25,590	\$1,324

b. 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, 2023 was \$84,013.

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, 2023 was \$465,000.

Business-type Activities:

In October 2002, the State Treasurer of North Carolina approved a loan of \$2,242,939 to the Town for the purpose of financing new construction at the wastewater treatment plant. Repayment to the loan began November 2007 upon completion of the construction. The loan requires 20 annual principal payments of \$112,147 and 40 semi-annual interest payments at 2.66%. The remaining balance at June 30, 2023 was \$336,441.

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, 2023 was \$138,298.

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, 2023 was \$128,674.

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, 2023 was \$1,523,832.

Annual debt service payments of direct borrowings as of June 30, 2023 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 235,285	\$ 51,479	\$ 286,764	\$ 277,736	\$ 38,969	\$ 316,705
2025	243,120	42,151	285,271	279,664	35,187	314,851
2026	251,291	32,487	283,778	281,641	26,355	307,996
2027	229,784	22,474	252,258	122,921	21,499	144,420
2028	237,598	13,166	250,764	89,637	17,829	107,466
2029-2033	206,666	13,439	220,105	448,186	68,573	516,759
2034-2038	-	-	-	448,186	34,286	482,472
2039-2043	-	-	-	179,274	4,114	183,388
Total	\$ 1,403,744	\$ 175,196	\$ 1,578,940	\$ 2,127,245	\$ 246,812	\$ 2,374,057

c. General Obligation Indebtedness

At June 30, 2023 the Town of Canton had no outstanding bonds and no authorized but unissued bonds. The Town had a legal debt margin of \$43,744,579.

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, 2023:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental activities:					
Direct borrowings	626,776	854,731	77,763	1,403,744	235,285
Compensated absences	286,443	31,474	-	317,917	79,479
Lease liability	85,890	-	38,196	47,694	36,125
Total pension liability (LEO)	476,272	-	196,361	279,911	-
Net pension liability	452,662	1,236,703	-	1,689,365	-
OPEB	10,206,782	-	1,825,266	8,381,516	-
Governmental activity long-term liabilities	\$ 12,134,825	2,122,908	\$ 2,137,586	\$ 12,120,147	\$ 350,889

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Business-type activities:					
Direct borrowings	\$ 2,403,101	\$ -	\$ 275,856	\$ 2,127,245	\$ 277,736
Compensated absences	77,050	-	10,176	66,874	16,719
Lease liability	71,650	-	46,060	25,590	21,323
Net pension liability	106,180	290,091	-	396,271	-
OPEB	2,394,184	-	428,149	1,966,035	-
Business-type activity long-term debt	\$ 5,052,165	\$ 290,091	\$ 760,241	\$ 4,582,015	\$ 315,778

C. Concentration Reporting

For the year ended June 30, 2023, one corporation comprised approximately 40% of ad valorem tax revenues and 14% of water sales. See subsequent events about the closure of this corporation.

D. Net Investment in Capital Assets

	Governmental	Business-Type
Capital and right of use assets	\$ 15,124,614	\$ 11,996,449
Less: long-term debt	1,403,744	2,127,245
Net investment in capital assets	<u>\$ 13,720,870</u>	<u>\$ 9,869,203</u>

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	\$ 6,287,126
Less:	
Inventories	16,995
Stabilization by State Statute	1,988,413
Police	26,670
Streets – Powell Bill	182,258
Subsequent year's expenditures	657,000
Remaining fund balance	\$3,415,790

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, 2023.

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

In 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. Losses and capital asset impairment losses assessed were reported net of insurance recovery gains within the Statement of Activities for the year ended June 30, 2022. Additional expenses due the flood for the year ending June 30, 2023 were recorded as flood expenses since losses from capital asset impairment was recorded in the previous year. 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. The second and final payment of awarded funds, \$692,688 was received July 2022. The Town planned and did 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

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, 2023 the Town has received \$9,563. 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 30, 2023. 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.

VIII. Significant Effects of Subsequent Events

Subsequent events have been evaluated through November 29, 2023, the date the financial statements were available to be issued.

In September 2023, the Town was notified they have been authorized to receive \$42,000,000 to construct a new wastewater treatment plant and sewer system improvements to be financed by the Bipartisan Infrastructure Bill and Cares Act via a direct allocation from the State of North Carolina.

VIX. Reclassifications

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

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) %	0.03697%	0.0364%	0.382%	0.04183%	0.03882%	0.042%	0.038%	0.036%	0.038%	0.038%
Town's proportion of the net pension liability (asset)	\$2,085,636	\$ 558,842	\$1,365,049	\$1,142,345	\$ 920,943	\$ 648,366	\$ 797,786	\$ 163,316	\$ (221,450)	\$ 148,163
Town's covered-employee payroll	2,319,123	\$2,655,896	\$2,707,973	\$2,611,689	\$2,421,400	\$2,276,958	\$1,829,958	#####	\$1,935,008	\$1,935,008
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	89.9%	21.0%	50.4%	43.7%	38.0%	28.5%	43.6%	7.9%	-11.40%	7.7%
Plan fiduciary net position as a percentage of the total pension liability	84.14%	91.63%	94.16%	91.47%	98.09%	99.07%	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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 293,665	\$318,529	\$281,780	\$369,416	\$328,139	\$291,339	\$295,796	\$242,673	\$161,555	\$148,163
Contribution in relation to the contractually required contribution	293,665	318,529	281,780	369,416	328,139	291,339	295,796	242,673	161,555	148,163
Contribution deficiency (excess)		-	-	-	-	-	-	-	-	-
Town's covered-employee payroll	#####	\$2,751,379	\$2,655,896	\$2,707,973	\$2,611,689	\$2,421,400	\$2,276,958	\$1,829,958	\$2,044,962	\$1,935,008
Contributions as a percentage of covered-employee payroll	12.66%	11.58%	10.61%	13.64%	12.56%	12.03%	12.99%	13.26%	11.99%	7.66%

Town of Canton, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 476,272	\$ 463,326	\$ 358,026	\$ 319,885	\$ 328,916	\$ 297,086	\$ 286,920
Service cost	21,695	27,316	15,766	14,335	16,069	13,750	13,460
Interest on the total pension liability	10,472	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	(159,720)	10,338	(8,744)	24,425	(7,284)	(4,613)	-
Changes of assumptions or other inputs	(47,075)	(11,707)	108,694	9,866	(11,652)	17,094	(6,506)
Benefit payments	(21,733)	(21,733)	(21,733)	(21,733)	(16,300)	(5,757)	(6,908)
Other changes	-	-	-	-	-	-	-
Ending Balance of the total pension liability	<u>279,911</u>	<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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 279,911	\$ 476,272	\$ 463,326	\$ 358,026	\$ 319,885	\$ 328,916	\$ 297,086
Covered payroll	548,847	605,430	543,380	591,990	573,038	534,457	490,742
Total pension liability as a percentage of covered payroll	50.99%	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, 2023

			Measurement Period Ending		
	2023	2022	2021	2020	2019
Total OPEB Liability					
Service cost	\$ 424,922	\$ 488,113	\$ 317,830	\$ 430,960	\$ 458,628
Interest	277,365	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	31,376	(1,203,890)	16,662	(1,683,702)	90,374
Changes of assumptions or other inputs	(2,615,214)	240,336	2,468,102	(12,560)	(659,828)
Net benefit payments and implicit subsidy credit	(371,864)	(379,330)	(400,199)	(404,229)	(439,394)
Other changes		-	-	-	-
Net change in total OPEB liability	(2,253,415)	(557,354)	2,770,161	(1,225,545)	(139,557)
Total OPEB liability - beginning	12,600,966	13,158,320	10,388,159	11,613,704	11,753,261
Total OPEB liability - ending	\$ 10,347,551	\$ 12,600,966	\$ 13,158,320	\$ 10,388,159	\$ 11,613,704
Covered payroll	2,393,727	2,393,727	2,192,556	2,192,556	2,512,768
Total OPEB liability as a percentage of covered payro	432.28%	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:

<u>Fiscal Year</u>	<u>Rate</u>
2023	3.54%
2022	2.16%
2021	3.50%
2020	3.50%
2019	3.89%

Town of Canton, North Carolina
Comparative Balance Sheets
General Fund
June 30, 2023 and 2022

Exhibit A

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 9,406,883	\$ 2,890,110
Restricted cash	204,453	134,001
Receivables, net:		
Taxes	42,648	61,179
Accounts	68,765	303,404
Due from other governments	1,731,785	1,097,444
Right of use rent receivable	65,799	-
Inventories	16,995	11,208
Total assets	<u>\$ 11,537,328</u>	<u>\$ 4,497,346</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 165,310	\$ 71,655
Salaries payable	53,358	94,245
Unearned revenue	3,855,214	2,834
Customer prepayments	32,060	34,286
Due to Water Fund	1,028,813	-
Total liabilities	<u>5,134,755</u>	<u>203,020</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	42,648	61,179
Right of use lease receivable	65,394	-
Prepaid taxes	7,405	3,764
Total deferred inflows of resources	<u>115,447</u>	<u>64,943</u>
Fund balances:		
Nonspendable:		
Inventories	16,995	11,208
Restricted:		
Stabilization by state statute	1,988,413	1,400,848
Public Safety	26,670	32,512
Transportation	182,258	99,715
Assigned:		
Subsequent year's expenditures	657,000	453,793
Unassigned	3,415,790	2,231,307
Total fund balances	<u>6,287,126</u>	<u>4,229,383</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,537,328</u>	<u>\$ 4,497,346</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, 2023

With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
Revenues:				
Ad valorem taxes:				
Taxes		\$ 3,772,142		\$ 3,552,579
Penalties and interest		10,331		8,124
Total ad valorem taxes	3,430,000	3,782,473	352,473	3,560,703
Other taxes and licenses:				
Privilege licenses		3,165		4,455
	3,800	3,165	(635)	4,455
Unrestricted intergovernmental:				
Local option sales taxes		1,551,715		1,406,376
Utility franchise tax		758,532		737,611
Piped natural gas tax		9,565		8,363
Sales tax-telecommunications		35,461		34,621
Sales tax-video programming		35,939		39,117
State hold-harmless distribution		371,476		375,662
Beer and wine tax		20,114		17,558
ABC Profit distribution		72,655		21,457
Total unrestricted intergovernmental	2,233,200	2,855,457	622,257	2,640,765
Restricted intergovernmental:				
Powell Bill allocation		149,724		151,037
ARP grant - COVID		692,689		692,689
Government Crime Comm grant		13,507		-
SCIF Grant		80,000		-
PARTF Grant		225,306		-
NC Unmet Needs Grant		117,429		-
Miscellaneous grants		-		100,000
Total restricted intergovernmental	1,480,000	1,278,655	(201,345)	943,726
Investment earnings:				
Interest earnings		121,613		5,000
Total investment earnings	67,757	121,613	53,856	5,000

(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, 2023

With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
Revenues (continued)				
Sales and services:				
Rents		48,694		18,390
Miscellaneous revenue-Police Department		131,864		97,312
Court facilities fees and forfeitures		3,412		1,413
Fire protection charges		137,153		129,426
Solid waste disposal tax		6,366		3,336
Sale of material and labor		3,578		2,955
Refuse collection fees		276,473		274,742
Recreation admissions and concessions		71,695		42,984
Theater revenue		-		1,250
Other		1,589		3,920
Total sales and services	546,500	680,824	134,324	575,728
Miscellaneous:				
Special event fees		109,318		28,045
Donations		165,384		99,673
Other miscellaneous		25,196		17,875
Total miscellaneous	205,750	299,898	94,148	145,593
Total revenues	7,967,007	9,022,085	1,055,078	7,875,970
Expenditures:				
General government:				
Governing Board				
Other operating expenditures		33,168		40,207
Total governing board	36,400	33,168	3,232	40,207
Administration:				
Salaries and employee benefits		164,533		143,242
Other operating expenditures		6,109		4,423
Capital outlay		-		-
Total administration	199,162	170,642	28,520	147,665
Finance				
Salaries and employee benefits		294,869		281,012
Other operating expenditures		96,358		35,223
Capital outlay		-		-
Total finance	410,473	391,227	19,246	316,235

(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, 2023

With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
Expenditures (continued)				
Legal:				
Part-time salaries		-		-
Other operating expenditures		27,852		26,892
Total legal	27,983	27,852	131	26,892
Planning and Zoning				
Salaries and employee benefits		169,448		127,022
Other operating expenditures		202,514		170,485
Capital outlay		-		-
Total planning and zoning	413,477	371,962	41,515	297,507
Community Promotion				
Other operating expenditures		3,797		7,700
Capital Outlay		-		-
Total community promotion	12,000	3,797	8,203	7,700
Municipal Buildings:				
Salaries and employee benefits		4,648		4,672
Other operating expenditures		147,505		120,529
Capital outlay		1,289,446		-
Total municipal buildings	1,404,000	1,441,599	(37,599)	125,201
Total general government	2,503,495	2,440,247	63,248	961,407
Public Safety:				
Police:				
Salaries and employee benefits		1,644,879		1,373,417
Other operating expenditures		273,586		197,768
Capital outlay		2,111,567		-
Total police	4,204,962	4,030,032	174,930	1,571,185
Fire:				
Salaries and employee benefits		823,001		780,581
Other operating expenditures		130,993		113,667
Capital outlay		59,447		565,602
Total fire	1,109,202	1,013,441	95,761	1,459,850
Total public safety	5,314,164	5,043,473	270,691	3,031,035

(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, 2023

With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
Expenditures (continued)				
Public Works:				
Traffic Engineering	1,059	-	1,059	1,059
Central Services:				
Salaries and employee benefits		122,938		119,233
Other operating expenditures		50,621		62,858
Total central services	204,086	173,559	30,527	182,091
Streets:				
Salaries and employee benefits		823,865		819,218
Other operating expenditures		270,222		282,437
Capital outlay		185,844		-
Total streets	1,369,462	1,279,931	89,531	1,101,655
Street Cleaning and Sweeping:				
Other operating expenditures		53,552		48,535
Total street cleaning and sweeping	112,500	53,552	58,948	48,535
Powell Bill:				
Other operating expenditures		74,528		369,371
Capital outlay		-		-
Total powell bill	150,000	74,528	75,472	369,371
Total public works	1,837,107	1,581,570	255,537	1,702,711
Environmental Protection:				
Sanitation:				
Other operating expenditures		237,382		241,212
Total sanitation	258,000	237,382	20,618	241,212
Landfill:				
Other operating expenditures		7,025		12,084
Capital outlay		-		91,764
Total landfill	22,000	7,025	14,975	103,848
Total environmental protection	280,000	244,407	35,593	345,060

(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, 2023

With comparative actual amounts for the year ended June 30, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2022</u>
Expenditures (continued)				
Cultural and Recreational:				
Canton Historical Museum:				
Salaries and employee benefits		20,319		18,156
Other operating expenditures		11,670		18,321
Total Canton Historical Museum	<u>40,396</u>	<u>31,989</u>	<u>8,407</u>	<u>36,477</u>
Recreational Areas and Facilities:				
Salaries and employee benefits		79,840		39,975
Other operating expenditures		341,423		120,904
Capital outlay		995,764		470,844
Total recreational areas and facilities	<u>1,581,488</u>	<u>1,417,027</u>	<u>164,461</u>	<u>631,723</u>
Colonial Pathway				
Salaries and employee benefits		12,494		52,879
Other operating expenditures		35,529		44,267
Capital outlay		-		-
Total recreation concessions	<u>52,525</u>	<u>48,023</u>	<u>4,502</u>	<u>97,146</u>
Armory				
Salaries and employee benefits		-		666
Other operating expenditures		25,999		29,881
Capital outlay		-		-
Total recreation concessions	<u>26,636</u>	<u>25,999</u>	<u>637</u>	<u>30,547</u>
Recreation Planning				
Salaries and employee benefits		68,790		57,141
Other operating expenditures		16,405		34,481
Total recreation planning	<u>89,219</u>	<u>85,195</u>	<u>4,024</u>	<u>91,622</u>
Total cultural and recreational	<u>1,790,264</u>	<u>1,608,233</u>	<u>182,031</u>	<u>887,515</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, 2023

With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
Expenditures (continued)				
Debt Service:				
Principal retirement		77,763		191,743
Right of use retirement		38,196		30,989
Interest and fees		26,397		31,440
Total debt service	155,967	142,356	13,611	254,172
Total expenditures	11,880,997	11,060,286	820,711	7,181,900
Revenue over (under) expenditures	(3,913,990)	(2,038,201)	1,875,789	694,070
Other Financing Sources (Uses):				
Sale of capital assets		736		9,500
Insurance recovery		500		2,126,875
Lease liability issued		-		91,764
Loan proceeds		854,731		-
Total other financing sources	854,731	855,967	1,236	2,228,139
Fund balance appropriated	1,072,112	-	(1,072,112)	-
Net change before Extraordinary Items	(1,987,147)	(1,182,234)	804,913	2,922,209
Extraordinary Items:				
Flood damage expenses	(833,300)	(876,740)	(43,440)	(4,306,343)
FEMA/NC Emergency Management grants	-	527,305		
NC Disaster Recovery Grant	2,677,947	3,425,537		
Flood Reimbursement - STRAP Grant	142,500	163,875		
Total extraordinary revenue	2,820,447	4,116,717	1,296,270	1,562,713
Total extraordinary items	1,987,147	3,239,977	1,252,830	(2,743,630)
Net change in Fund Balance	-	2,057,743	2,057,743	178,579
Fund balance, beginning of year		4,229,383		4,050,804
Fund balance, end of year		\$ 6,287,126		\$ 4,229,383

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, 2023

	<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	\$ -	\$ 9,563	\$ 9,563	\$ (64,224)
Expenditures:					
Collaborative strategic planning	-	-	-	-	0
Opioid addiction treatment	73,787	-	-	-	73,787
Recovery support treatment	-	-	-	-	0
Total expenditures	73,787	-	-	-	73,787
Revenue and other sources over (under) expenditures	-	-	9,563	9,563	9,563
Fund balance, beginning			-		
Fund balance - ending			\$ 9,563		

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, 2023
 With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
OPERATING REVENUES				
Charges for services:				
Water sales		\$ 2,193,012		\$ 2,198,395
Sewer charges		527,401		515,613
Taps and connection fees		102,107		65,600
Reconnection fees		13,850		16,275
Other operating revenues		3,043		23,155
Total operating revenues	2,665,000	2,839,413	174,413	2,819,038
NON-OPERATING REVENUES				
Interest on investments		42,796		3,052
Sale of materials and equipment		7,013		5,285
Total non-operating revenues	10,600	49,809	39,209	8,337
Total revenues	2,675,600	2,889,222	213,622	2,827,375
OPERATING EXPENDITURES				
Administration:				
Salaries and employee benefits		214,182		224,032
Repairs and maintenance		2,501		1,258
Other operating expenditures		44,871		46,046
Total administration	291,758	261,554	30,204	271,336
Water treatment				
Salaries and employee benefits		344,546		213,271
Repairs and maintenance		153,063		109,751
Other operating expenditures		342,025		324,008
Total water treatment	950,211	839,634	110,577	647,030
Water and sewer distribution				
Salaries and employee benefits		403,296		463,463
Repairs and maintenance		137,186		101,738
Other operating expenditures		247,764		236,511
Total water and sewer distribution	911,620	788,246	123,374	801,712
Sewer Treatment Plant:				
Repairs and maintenance		-		-
Other operating expenses		332,473		129,492
Total sewer treatment	335,500	332,473	3,027	129,492
Debt service:				
Principal retirement		275,856		296,162
Right of use liability retirement		46,060		
Interest		49,338		60,505
Total debt service	376,500	371,254	5,246	356,667

(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, 2023

With comparative actual amounts for the year ended June 30, 2022

	Budget	Actual	Variance Positive (Negative)	2022
OPERATING EXPENDITURES (continued)				
Capital Outlay:	1,282,549	1,181,469	101,080	42,271
Total expenditures	4,148,138	3,774,630	373,508	2,248,508
Revenues over (under) expenditures	(1,472,538)	(885,408)	587,130	578,867
OTHER FINANCING SOURCES (USES)				
Grants		58,440		27,500
Lease Liability Issued		-		33,896
Total other financing sources (uses)	-	58,440	58,440	61,396
Budgetary appropriation	1,477,538	-	(1,477,538)	-
Revenues and other financing sources over (under)	5,000	(826,968)	(831,968)	640,263
Extraordinary Items:				
Flood damage expenses	(5,000)	(3,309)		(181,580)
FEMA/NC Emergency Management grants		3,309		170,492
NC Disaster Recovery grant		1,019,250		-
Total extraordinary items	(5,000)	1,019,250	1,024,250	(11,088)
Revenues, other financing sources and extraordinary items over expenditures	\$ -	\$ 192,282	\$ 192,282	\$ 629,175
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Principal retirement		275,856		257,578
Right of use liability retirement		46,060		38,584
Increase (decrease) in deferred outflows - pension		72,332		16,185
Increase (decrease) in deferred outflows - OPEB		(89,366)		(49,885)
(Increase)decrease in interest accrued on long term debt		2,234		2,197
(Increase) decrease in accrued salaries and compensated absences		18,911		(11,282)
(Increase) decrease in pension liability		(290,091)		139,529
(Increase) decrease in deferred inflows - pension		154,856		(153,692)
(Increase) decrease in deferred inflows - OPEB		(227,440)		(67,549)
(Increase) decrease in accrued OPEB liability		428,149		(25,686)
Capital outlay		1,181,469		42,271
Lease liability issued		-		(33,896)
Depreciation & amortization		(442,642)		(426,504)
Total reconciling items		1,130,328		(272,150)
Change in net position - Water and Sewer Fund		\$ 303,360		\$ 357,025

Exhibit E

**Town of Canton, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2023**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2022</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2023</u>
2022-2023	\$ -	\$ 3,775,103	3,752,134	\$ 22,969
2021-2022	42,335	-	33,758	8,577
2020-2021	6,940	-	1,391	5,549
2019-2020	3,623	-	(701)	4,324
2018-2019	3,813	-	(1,074)	4,887
2017-2018	2,923	-	(960)	3,883
2016-2017	2,693	-	(1,444)	4,137
2015-2016	3,118	-	(5,325)	8,443
2014-2015	3,931	-	(2,878)	6,809
2013-2014	6,105	-	1,991	4,114
2012-2013	8,052	-	8,052	-
	<u>\$ 83,533</u>	<u>\$ 3,775,103</u>	<u>\$ 3,784,944</u>	<u>73,692</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(31,044)</u>
Ad valorem taxes receivable - net				<u>\$ 42,648</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				<u>\$ 3,782,473</u>
Reconciling items:				
Interest collected				(10,331)
Discounts allowed and releases				7,520
Taxes written off				<u>5,282</u>
Subtotal				<u>2,471</u>
Total collections and credits				<u>\$ 3,784,944</u>

Town of Canton, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2023

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property - real and personal	664,068,334	0.54	\$ 3,585,969	\$ 3,585,969	\$ -
Registered motor vehicles	35,210,555	0.54	190,137	-	190,137
Advertising			4,234	4,234	-
Total			3,780,340	3,590,203	190,137
Discoveries:					
Current and prior years	128,333	0.54	693	693	-
Releases	1,098,148	0.54	(5,930)	(5,930)	-
Total property valuation	698,309,074				
Net levy			3,775,103	3,584,966	190,137
Uncollected taxes at June 30, 2023			(22,969)	(22,969)	-
Current year's taxes collected			\$ 3,752,134	\$ 3,561,997	\$ 190,137
Current levy collection percentage			99.39%	99.36%	100.00%

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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 *Government 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 units, 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, 2023, 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, 2023. The report includes a reference to other auditors who audited the financial statements of the Town of Canton, as described in the report on the Town of Canton's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Canton 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) as a basis for designing 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses/schedules of findings and questioned costs, I identified a certain deficiency as item 2023-001 that I consider to be a material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002.

Town of Canton's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town of Canton's responses to the findings identified in the audit are described in the accompanying schedule of findings and responses / schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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, 2023

SHEILA GAHAGAN, CPA

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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, 2023. 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, 2023.

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); and the *State Single Audit Implementation Act*. 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

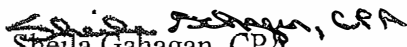
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE WITH OMB UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

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

Report on Compliance for Each Major State Program

Opinion on Each Major State 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* and the *Audit Manual for Governmental Auditors* issued by the North Carolina Local Government Commission that could have a direct and material effect on each of the Town of Canton's major state programs for the year ended June 30, 2023. The Town of Canton's major state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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 state programs for the year ended June 30, 2023.

Basis for Opinion on Each Major State 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); and the *State Single Audit Implementation Act*. 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 state 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 state 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 state 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 *State Single Audit Implementation Act*, 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 state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over

compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the 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 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.



Sheila Gahagan, CPA

November 29, 2023

**TOWN OF CANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

I. Summary of Auditor's Results

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

Internal control over financial reporting:

Material weakness identified X Yes No

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

Noncompliance material to financial statements noted X Yes No

Federal Awards

Internal control over major federal programs:

Material weakness identified Yes X No

Significant deficiency(s) identified Yes X None reported

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

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

Identification of major federal programs:

AL Number	Federal Program
21.027	Department of the Treasury: Coronavirus State and Local Fiscal Recovery Funds

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

Auditee qualified as low-risk auditee? Yes X No

**TOWN OF CANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

I. Summary of Auditor's Results (Continued)

State Awards

Internal control over major state programs:

Material weakness identified _____ Yes X No

Significant deficiency(s) identified _____ Yes X None reported

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

Any audit findings disclosed that are
required to be reported in accordance
with the State Single Audit
Implementation Act

_____ Yes X No

Identification of major state programs:

State ID Number	State Program
N/A	Department of Public Safety: Emergency Management - Disaster Relief & Recovery/Mitigation/Resiliency

II. Financial Statements Findings

2023-001 Failure to Document Compliance with State Required Pre-Audit Certification and the Town's Procurement Policies and Procedures

Criteria: NC state law (G.S. 159-28 requires any written contract, agreement or purchase order must include a certification stating the instrument has been preaudited and the certification must be signed by the finance officer. Town of Canton's policies require proper approval of purchase orders prior to employees purchasing items or services.

Condition: A few contracts and invoices were found without the preaudit certification and a few purchase orders found that did not document proper approvals before the procurement of services or products.

Effect: The Town is out of compliance with state law when the preaudit certification is not properly included on the face of required documents or signed by the finance officer. The risk of exceeding budgeted costs or incurring unallowed costs is significantly increased when procurement policies are not followed.

Cause: Ineffective internal controls.

Recommendation: Staff and management must ensure all purchase orders or contracts being considered are given to the Finance Office for approval, which will be documented by the Finance Officer's signature on the preaudit certification, prior to purchase or obligation. Purchase orders should be prepared ahead of immediate need for items or services to allow the Finance Officer the needed time to review purchase orders compared to budget, state law and funding source requirements when applicable. No items are to be purchased or encumbered without the proper preaudit certification. Department Managers should approve all purchase orders before being sent to the Finance Officer.

Views of responsible officials and planned corrective actions:

The Town agrees with this finding and will adhere to the correction action plan on page 88 in this audit report.

2023-002 Expenditures Exceeded Board Approved Appropriations

Criteria: NC Budget and Fiscal Control Act requires Board appropriations by budgeted category exceed or equal any Town expenditures.

Condition: The Town's expenditures in two budgeted categories exceeded appropriations.

Effect: The Town is out of compliance with state law when expenditures are incurred and paid that exceed the Board's appropriations..

Cause: Ineffective internal controls.

Recommendation: Management must communicate and follow preaudit requirements to stay abreast of on-going projects and expected expenditures.

Views of responsible officials and planned corrective actions:

The Town agrees with this finding and will adhere to the correction action plan beginning on page 88 in this audit report.

III. Federal Award Findings and Questioned Costs

None reported.

IV. State Award Findings and Questioned Costs

None reported.



CANTON

NORTH CAROLINA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2023

II. Financial Statement Findings

2023-001 Failure to Document Compliance with State Required Pre-Audit Certification and the Town's Procurement Policies and Procedures

Name of contact person: Natalie Walker, Finance Officer

Corrective Action: Management will meet with staff to ensure overall understanding of state and Town requirements before items or services are ordered and the importance of proper documentation to show compliance with state law and Town policies. Management plans to update policies and procedures to ensure effective and efficient practices are in place for proper internal controls.

Proposed Completion Date: We will implement these corrective actions immediately.

2023-002 Expenditures Exceeded Board Approved Appropriations

Name of contact person: Natalie Walker, Finance Officer

Corrective Action: Management will meet with staff to ensure overall understanding of state and Town requirements before items or services are ordered and the importance of proper documentation to show compliance with state law and Town policies. Management will emphasize the importance of proper cut-off of expenditures based on the budget and obtaining budget amendments when needed.

Proposed Completion Date: We will implement these corrective actions immediately.

III. Federal Award Findings and Questioned Costs

None reported

IV. State Award Findings and Questioned Costs

None reported

**TOWN OF CANTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2023**

II. Financial Statement Finding

No prior year audit findings

III. Federal Award Findings and Questioned Costs

No prior year audit findings

IV. State Award Findings and Questioned Costs

No prior year audit findings

Town of Canton, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2023

	Federal AL Number	Federal Expenditures	State Expenditures	State Number
<u>Department of Homeland Security</u>				
Passed through NC Department of Public Safety				
Disaster Grants - Public Assistance - Presidentially Declared	97.036	\$ 477,552	\$ 53,061	
<u>Department of Treasury</u>				
Passed through North Carolina Office of the Governor:				
Coronavirus State and Local Fiscal Recovery Funds/ARP	21.027	692,689	-	
<u>Department of Environmental Quality</u>				
Passed through North Carolina Department of Environmental Quality				
Drinking Water Reserve and Waterwater Reserve Projects				
Coronavirus State and Local Fiscal Recovery Funds/ARP	21.027	58,440	-	
Total Coronavirus State and Local Fiscal Recovery Funds/ARP		751,129		
<u>NC Office of State Budget and Management</u>				
Tropical Storm Fred Unmet Needs		-	117,429	MOA # 0046-03
Passed through Southwestern Commission Council of Government				
State Capital and Infrastructure Fund			80,000	
<u>NC Department of Public Safety</u>				
Disaster Relief & Recovery/Mitigation/Resilency		-	4,444,786	H.B. 103
Governor's Crime Commission Grant		-	13,507	
<u>NC Department of Agricultural</u>				
Streamflow Rehabilitation Assistance Program		-	163,875	Contract 22-080-4074
<u>NC Department of Natural and Cultural Resources</u>				
NC Parks and Recreation Trust Fund			225,306	2022-962
<u>NC Department of Transportation</u>				
Non-State System Street-Aid Allocation				
Powell Bill		-	149,724	DOT-4
<u>Other Financial Assistance:</u>				
NC Department of Justice				
Opioid Settlement Funds (Note 4)		-	9,563	
Total expenditures of federal and state awards		\$ 1,228,681	\$ 5,257,251	

Notes to the Schedule of Expenditures of State Financial Awards:

1 Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (SEFSA) includes the federal and state grant activity of the Town of Canton under programs of the federal government and the State of North Carolina for the year ended June 30, 2023. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act. Because the Schedule only presents a selective portion of the operations of the Town of Canton, it is not intended to and does not present the financial position, change in net assets or cash flows of the Town.

2 Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and the State Single Audit Implementation Act, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

3 The Town has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4 The NC Department of Justice does not consider Opioid Settlement Funds either Federal or State Financial assistance since they are from a settlement with private major drug companies. Since these funds are subject to the State Single Audit Implementation Act, they are reported as "Other Financial Assistance" on the SEFSA, and considered State Awards for State single audit requirements.