

TOWN OF CANTON, NORTH CAROLINA



FINANCIAL STATEMENTS

June 30, 2020

(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 Smith

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
Town of Canton, North Carolina

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Canton, North Carolina (Town of Canton) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of Canton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Town of Canton ABC Board, which represent 5.3 percent, 3.6 percent, and 21.3 percent, respectively, of the assets, net position, and revenues of the Town of Canton. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Town of Canton ABC Board, is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Town of Canton ABC Board were not audited in accordance with *Governmental Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinions

In my opinion, based on my audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Canton as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 54 through 55, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and as a Percentage of Covered Payroll on pages 56 through 57, and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 58, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide 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 introductory information, combining and individual fund financial statements, budgetary schedules, other

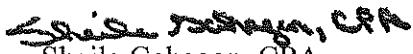
schedules, statistical section as well as the accompanying Schedule of Expenditures of Federal Awards as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 20, 2020 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 20, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

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

As management of the Town of Canton, we offer readers of the Town of Canton's financial statements this narrative overview and analysis of the financial activities of the Town of Canton for the fiscal year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

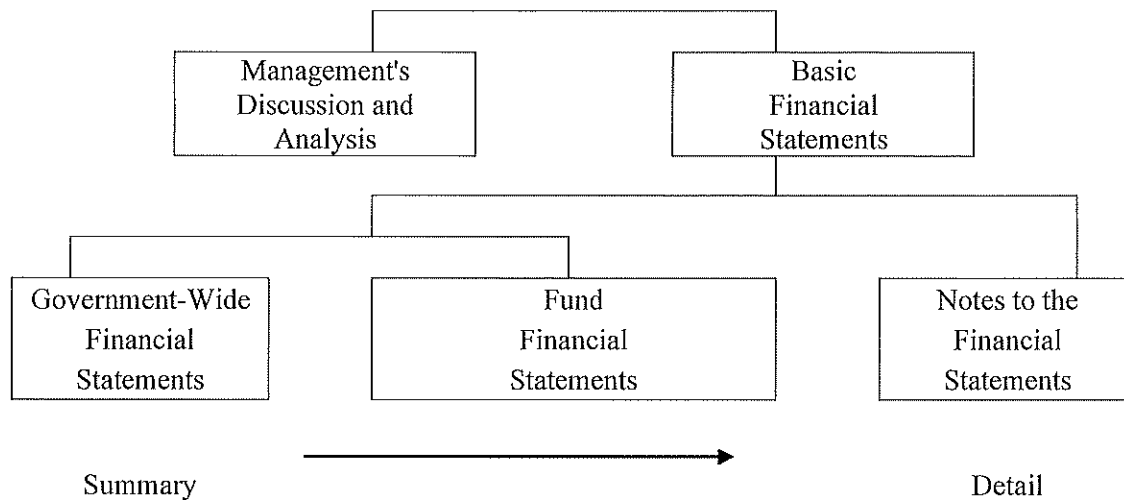
- The assets and deferred outflows of resources of the Town of Canton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,571,699 (*net position*).
- The Town of Canton's total net position increased by \$550,799 due to water and sewer fees exceeding expenditures.
- As of the close of the current fiscal year, the Town of Canton's governmental funds reported combined ending fund balances of \$3,568,807, an increase of \$145,695 in comparison with the prior year. Approximately 50% of this total amount, or \$1,776,909 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,791,898.
- The Town of Canton's total debt decreased by \$533,502 or 3% during the current fiscal year due to a decrease in OPEB liability.

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	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 3,907,834	\$ 3,820,052	\$ 3,510,434	\$ 3,902,488	\$ 7,418,268	\$ 7,722,540
Capital assets	10,863,086	10,959,030	11,834,081	10,401,547	22,697,167	21,360,577
Deferred outflow	1,257,023	1,245,115	274,878	312,749	1,531,901	1,557,864
Total assets and deferred outflows of resources	16,027,943	16,024,197	15,619,393	14,616,784	31,647,336	30,640,981
Current liabilities	468,523	514,644	363,326	320,033	831,849	834,677
Long-term liabilities outstanding	10,728,193	11,686,735	4,017,659	3,699,006	14,745,852	15,385,741
Deferred inflows of resources	2,002,526	1,124,983	495,410	274,680	2,497,936	1,399,663
Total liabilities and deferred inflows of resources	13,199,242	13,326,362	4,876,395	4,293,719	18,075,637	17,620,081
Net Position						
Net investment in capital assets	9,851,279	9,748,443	9,849,720	9,064,079	19,700,999	18,812,522
Restricted	903,444	1,010,595	-	-	903,444	1,010,595
Unrestricted	(7,926,022)	(8,061,203)	893,278	1,258,986	(7,032,744)	(6,802,217)
Total net position	\$ 2,828,701	\$ 2,697,835	\$10,742,998	\$10,323,065	\$ 13,571,699	\$ 13,020,900

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Canton exceeded liabilities and deferred inflows by \$13,571,699 as of June 30, 2020. The Town's net position increased by \$550,799 for the fiscal year ended June 30, 2020. However, a large portion \$19,700,999 (145%) 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 \$903,444 (7%) represents resources that are subject to external restrictions on how they may be used. The unrestricted balance is negative (\$7,032,744) (-52%).

Town of Canton's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 568,981	\$ 599,406	\$ 2,425,181	\$ 2,423,044	\$ 2,994,162	\$ 3,022,450
Operating grants and contributions	163,240	167,626	27,449	-	190,689	167,626
Capital grants and contributions	-	-	-	1,864,284	-	1,864,284
General revenues:						
Property taxes	3,095,353	3,005,778	-	-	3,095,353	3,005,778
Other taxes and licenses	2,751	4,111	-	-	2,751	4,111
Grants and contributions not restricted	2,247,634	2,088,453	-	-	2,247,634	2,088,453
Investment earnings	41,473	53,781	45,790	50,073	87,263	103,854
Other	155,748	156,908	5,470	5,542	161,218	162,450
Total revenues	6,275,180	6,076,063	2,503,890	4,342,943	8,779,070	10,419,006
Expenses:						
General government	1,145,992	1,083,931	-	-	1,145,992	1,083,931
Public safety	2,672,186	2,341,856	-	-	2,672,186	2,341,856
Public works	1,441,316	1,463,807	-	-	1,441,316	1,463,807
Environmental Protection	261,211	215,072	-	-	261,211	215,072
Cultural and recreation	590,232	708,028	-	-	590,232	708,028
Interest expense	33,377	38,390	-	-	33,377	38,390
Water and sewer	-	-	2,083,957	1,990,303	2,083,957	1,990,303
Total expenses	6,144,314	5,851,084	2,083,957	1,990,303	8,228,271	7,841,387
Change in net position before transfers	130,866	224,979	419,933	2,352,640	550,799	2,577,619
Net position, July 1	2,697,835	2,472,856	10,323,065	7,970,425	13,020,900	10,443,281
Net position, June 30	\$ 2,828,701	\$ 2,697,835	\$10,742,998	\$10,323,065	\$13,571,699	13,020,900

Governmental activities. Governmental activities increased the Town's net position by \$130,866 thereby accounting for 24% 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 \$419,933 accounting for 76% of the total growth in the government's net position.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Canton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Canton's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Canton. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,791,898, while total fund balance was \$3,568,807. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures. The Town currently has unassigned fund balance of 29% of general fund expenditures, while total fund balance represents 58% of that same amount.

At June 30, 2020, the general fund reported a combined fund balance of \$3,568,807, a 4% increase from prior years' balance.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Proprietary Funds. The Town of Canton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$893,278. The total increase in net position for the Water and Sewer Fund was \$419,933. The Water and Sewer Fund increase was due to charges for services exceeding expenditures. There were two capital projects included in the proprietary fund, Crossroad Hill Water Association Water System Consolidation Project and Spruce Street Area Water System Improvement Project.

Capital Asset and Debt Administration

Capital assets. The Town of Canton's investment in capital assets for its governmental and business-type activities as of June 30, 2020 totals \$22,697,167 (net of accumulated depreciation). These assets include construction in progress, buildings, roads, land, machinery and equipment, park facilities, and vehicles.

The major capital asset additions were related to capital projects completed in the current year. The significant disposals were related to vehicles and motorized equipment.

Town of Canton's Changes in Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 4,180,454	\$ 4,189,898	\$ 220,279	\$ 220,279	\$ 4,400,733	\$ 4,410,177
Buildings & systems	5,254,658	5,458,056	11,497,621	7,972,366	16,752,279	13,430,422
Machinery & Equipment	551,509	491,950	-	-	551,509	491,950
Vehicles & motorized equipment	720,209	819,126	102,156	127,429	822,365	946,555
Construction in progress	156,256	-	14,025	2,081,473	170,281	2,081,473
	<u>\$10,863,086</u>	<u>\$10,959,030</u>	<u>\$11,834,081</u>	<u>\$10,401,547</u>	<u>\$ 22,697,167</u>	<u>\$ 21,360,577</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, 2020, 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	
	2020	2019	2020	2019	2020	2019
Direct borrowings	\$ 1,009,692	\$ 1,206,415	\$ 1,984,361	\$ 1,337,468	\$ 2,994,053	\$ 2,543,883
OPEB liability	8,310,527	9,290,963	2,077,632	2,322,741	10,388,159	11,613,704
Net pension obligation	936,723	736,754	205,622	184,189	1,142,345	920,943
Total pension liability (LEO)	358,026	319,885	-	-	358,026	319,885
Capital lease	2,115	4,172	-	-	2,115	4,172
Compensated absences	304,398	327,326	64,062	56,747	368,460	384,073
	<u>\$ 10,921,481</u>	<u>\$ 11,885,515</u>	<u>\$ 4,331,677</u>	<u>\$ 3,901,145</u>	<u>\$ 15,253,158</u>	<u>\$ 15,786,660</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 \$27,200,974.

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, 2021

Governmental Activities:

- The proposed tax rate for the Town of Canton remains at \$0.58 per \$100 of valuation, with no increase from the last fiscal year. Canton has held this rate for ten years; however, it remains the highest for a municipality located within Haywood County.
- The Town expects to see a continued increase in property valuations as a result of new commercial buildings and businesses within the town, which have made substantial improvements to buildings and property, as well as a steady level of growth in residential sales and increased market price.
- For the fiscal year 2020–2021, with regard to salaries, the Board of Aldermen/women authorized a 1% 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 2020–2021, a small increase was implemented, but the choice remains fiscally responsible.
- The Board of Aldermen/women continued the promotion of economic development throughout our community by again including \$50,000 in the FY 2020–2021 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. Already this fiscal year (FY 2020-2021) an additional three downtown buildings have changed hands through the sale of commercial buildings/properties.

Business Activities:

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

Other activities that are underway are as follows:

- The previously commissioned Pigeon River ADA compliant access and launch has been completed as of the date of the release of the current year financial statements.
- Additionally, as stated in the FY 2020-2021 budget the redevelopment of Canton Recreation Park is underway with the addition of a dog park located on site. The prep work for this project, including fencing and concrete work, has been completed. We will continue on with previously discussed improvements to include redevelopment of the basketball courts and also fulfillment of the anticipated redevelopment of Sorrells Street Park.
- The Town during FY 2020-2021 also purchased approximately 4.4 acres of land located along Old Asheville Highway. This property will be the parking area for the Chestnut Mountain Park project. This project includes an approximate 450-acre site that the Town will be acquiring with the assistance of Southern Appalachian Highlands Conservancy (purchaser) that will be turned over to the Town. The use of this facility will be specifically for outdoor recreation and will include pump tracks, pavilions, trails, and so forth. The Town has applied for both RTP and PARTF grants from the State of North Carolina to assist with bringing this project to fruition. It is anticipated that the complete project will span the course of three fiscal years.
- The Town of Canton also continues to complete sidewalk redevelopment on Newfound, which will be completed in FY 2020-2021.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Town of Canton, North Carolina
Statement of Net Position
June 30, 2020

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Town of Canton ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,823,364	\$ 2,946,485	\$ 5,769,849	\$ 192,703
Accrued interest receivables on taxes	20,490	-	20,490	-
Taxes receivables (net)	39,434	-	39,434	-
Accounts receivable (net)	25,392	224,710	250,102	-
Due from other governments	498,221	332,904	831,125	-
Inventories	7,689	-	7,689	196,680
Prepaid expenses	6,000	-	6,000	7,768
Restricted cash and cash equivalents	487,244	6,335	493,579	-
Total current assets	3,907,834	3,510,434	7,418,268	397,151
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements, and construction in process	4,336,711	234,304	4,571,015	128,079
Other capital assets, net of depreciation	6,526,375	11,599,777	18,126,152	136,113
Total capital assets	10,863,086	11,834,081	22,697,167	264,192
Total assets	14,770,920	15,344,515	30,115,435	661,343
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	887,351	182,461	1,069,812	42,404
OPEB deferrals	369,672	92,417	462,089	-
Total deferred outflows of resources	1,257,023	274,878	1,531,901	42,404
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	123,922	27,006	150,928	180,196
Accrued interest payable	-	15,967	15,967	-
Payable from restricted assets	151,313	6,335	157,648	-
Current portion of long term debt	193,288	314,018	507,306	-
Total current liabilities	468,523	363,326	831,849	180,196
Long-term liabilities:				
Due in more than one year	818,519	1,712,127	2,530,646	-
Compensated absences payable	304,398	22,278	326,676	-
Net pension liability	936,723	205,622	1,142,345	40,691
Total pension liability	358,026	-	358,026	-
OPEB liability	8,310,527	2,077,632	10,388,159	-
Total liabilities	11,196,716	4,380,985	15,577,701	220,887
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	17,016	-	17,016	-
Prepaid taxes	3,868	-	3,868	-
OPEB deferrals	1,981,642	495,410	2,477,052	-
Total deferred inflows of resources	2,002,526	495,410	2,497,936	-
NET POSITION				
Net investment in capital assets	9,851,279	9,849,720	19,700,999	264,192
Restricted for:				
Stabilization by State Statute	529,613	-	529,613	-
Transportation	335,931	-	335,931	-
Public safety	37,900	-	37,900	-
ABC Board - working capital	-	-	-	55,241
Unrestricted	(7,926,022)	893,278	(7,032,744)	163,427
Total net position	\$ 2,828,701	\$ 10,742,998	\$ 13,571,699	\$ 482,860

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina
Statement of Activities
For the Year Ended June 30, 2020

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	\$ 1,145,992	\$ 27,250	\$ 27,314	\$ -	\$ (1,091,428)	\$ -	\$ (1,091,428)	\$ -
Public safety	2,672,186	194,102	-	-	(2,478,084)	-	(2,478,084)	-
Public Works	1,441,316	-	135,926	-	(1,305,390)	-	(1,305,390)	-
Environmental protection	261,211	251,843	-	-	(9,368)	-	(9,368)	-
Cultural and recreation	590,232	95,786	-	-	(494,446)	-	(494,446)	-
Interest on long-term debt	33,377	-	-	-	(33,377)	-	(33,377)	-
Total governmental activities	6,144,314	568,981	163,240	-	(5,412,093)	-	(5,412,093)	-
Business-type activities:								
Water and sewer	2,083,957	2,425,181	27,449	-	-	368,673	368,673	-
Total business-type activities	2,083,957	2,425,181	27,449	-	-	368,673	368,673	-
Total primary government	\$ 8,228,271	\$ 2,994,162	\$ 190,689	\$ -	(5,412,093)	368,673	(5,043,420)	-
Component Units:								
Canton ABC Board	1,880,200	1,859,086	-	-	-	-	-	(21,114)
Total Component Unit	\$ 1,880,200	\$ 1,859,086	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (21,114)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					3,095,353	-	3,095,353	-
Other taxes and licenses					2,751	-	2,751	-
Grants and contributions not restricted to specific programs					2,247,634	-	2,247,634	-
Unrestricted investment earnings					41,473	45,790	87,263	-
Gain (loss) on sale of asset					(5,644)	-	(5,644)	-
Miscellaneous					161,392	5,470	166,862	-
Total general revenues and transfers					5,542,959	51,260	5,594,219	-
Change in net position					130,866	419,933	550,799	(21,114)
Net position-beginning					2,697,835	10,323,065	13,020,900	503,974
Net position-ending					\$ 2,828,701	\$ 10,742,998	\$ 13,571,699	\$ 482,860

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

Exhibit 3

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,823,364
Restricted cash	487,244
Receivables, net:	
Taxes	59,924
Accounts	25,392
Due from other governments	498,221
Prepaid expenses	6,000
Inventories	7,689
Total assets	<u>\$ 3,907,834</u>
LIABILITIES AND FUND BALANCES	
Accounts payable and accrued liabilities	\$ 17,215
Salaries payable	106,707
Unearned grant revenue	125,000
Customer prepayments	26,313
Total liabilities	<u>275,235</u>
DEFERRED INFLOWS OF RESOURCES	
Property taxes receivable	\$ 59,924
Prepaid taxes	3,868
Total deferred inflows of resources	<u>63,792</u>
Fund balances:	
Non Spendable	
Inventories	7,689
Restricted:	
Stabilization by State Statute	529,613
Public Safety	37,900
Transportation	335,931
Assigned: Subsequent year's expenditures	865,776
Unassigned	1,791,898
Total fund balances	<u>3,568,807</u>
Total liabilities, deferred inflow of resources and fund balances	<u><u>\$ 3,907,834</u></u>

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

Total Fund Balance, Governmental Funds	3,568,807
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,863,086
Deferred outflows of resources - pension and OPEB	1,257,023
Liabilities for earned but deferred tax revenues considered deferred inflows of resources in fund statements.	59,924
Deferred inflows of resources - pension and OPEB	(1,998,658)
Long term liabilities used in governmental activities are not financial uses and therefore not reported in the funds	(10,921,481)
Net position of governmental activities	<u>2,828,701</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, 2020

Exhibit 4

	<u>General Fund</u>
REVENUES	
Ad valorem taxes	\$ 3,089,708
Other taxes and licenses	2,751
Unrestricted intergovernmental	2,247,634
Restricted intergovernmental	163,240
Permits and fees	-
Sales and services	568,981
Investment earnings	41,473
Miscellaneous	161,392
Total revenues	<u>6,275,179</u>
 EXPENDITURES	
Current:	
General government	1,056,347
Public safety	2,502,730
Public works	1,513,598
Environmental protection	261,211
Culture and recreation	567,241
Debt service:	
Principal	198,780
Interest	33,377
Total expenditures	<u>6,133,284</u>
Excess (deficiency) of revenues over expenditures	141,895
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	3,800
Total other financing sources	<u>3,800</u>
 Net change in fund balance	145,695
Fund balances-beginning of year	3,423,112
Fund balances-end of year	<u>\$ 3,568,807</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, 2020

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

Net changes in fund balances - total governmental funds	\$ 145,695
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(86,500)
Governmental funds report proceeds from the sale of capital assets as revenues. However, in the Statement of Activities the gain or loss from the sale is recorded as revenue. This is the amount by which the loss on the sale of capital assets exceeded the proceeds from the sale.	(9,444)
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	(16,904)
Deferred outflows of resources related to OPEB and pensions are not reported in the funds	11,908
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.	198,780
Deferred inflows of resources related to OPEB and pensions are not reported in the funds	(877,923)
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	22,928
Net pension liability	(199,969)
Total pension liability	(38,141)
OPEB liability	980,436
Total changes in net position of governmental activities	<u>\$ 130,866</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, 2020

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes			\$ 3,089,708	
Other taxes and licenses			2,751	
Unrestricted intergovernmental			2,247,634	
Restricted intergovernmental			163,240	
Permits and fees			-	
Sales and services			568,981	
Investment earnings			41,473	
Miscellaneous			161,392	
Total revenues	6,099,565	6,144,530	6,275,179	130,649
Expenditures:				
Current:				
General government	1,104,491	1,109,148	1,056,347	52,801
Public safety	2,554,090	2,570,283	2,502,730	67,553
Public works	1,963,790	1,894,288	1,513,598	380,690
Environmental protection	279,000	272,000	261,211	10,789
Cultural and recreation	830,200	835,200	567,241	267,959
Debt service:				
Principal	82,705	199,260	198,780	480
Interest	30,028	38,390	33,377	5,013
Total expenditures	6,844,304	6,918,569	6,133,284	785,285
Revenues over expenditures	(744,739)	(774,039)	141,895	915,934
Other Financing Sources (uses)				
Sale of capital assets	20,000	20,000	3,800	
Total other financing sources	20,000	20,000	3,800	(16,200)
Fund balance appropriated	724,739	754,039	-	(754,039)
Net change in fund balance	\$ -	\$ -	\$ 145,695	\$ 145,695
Fund balance, beginning			3,423,112	
Fund balances, end of year			\$ 3,568,807	

See independent auditor's report and accompanying notes.

Town of Canton, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2020

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,946,485
Accounts receivable (net) - billed	72,777
Accounts receivable (net) - unbilled	151,933
Due from other governments	332,904
Restricted cash and cash equivalents	6,335
Total current assets	<u>3,510,434</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	234,304
Other capital assets, net of depreciation	11,599,777
Capital assets (net)	<u>11,834,081</u>
Total noncurrent assets	<u>11,834,081</u>
Total assets	<u>15,344,515</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	182,461
OPEB deferrals	92,417
Total deferred outflows of resources	<u>274,878</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	2,951
Salaries payable	24,055
Accrued interest payable	15,967
Compensated absences - current	41,784
Installment purchase - current	272,234
Liabilities payable from restricted assets:	
Customer deposits	6,335
Total current liabilities	<u>363,326</u>
Noncurrent liabilities:	
Compensated absences	22,278
Installment purchase	1,712,127
Net pension liability	205,622
Total OPEB liability	2,077,632
Total noncurrent liabilities	<u>4,017,659</u>
Total liabilities	<u>4,380,985</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	-
OPEB deferrals	495,410
Total deferred inflows of resources	<u>495,410</u>
NET POSITION	
Net investment in capital assets	9,849,720
Unrestricted	893,278
Total net position	<u>\$ 10,742,998</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, 2020

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 2,339,027
Tap and reconnection fees	84,571
Other operating revenues	1,583
Total operating revenues	<u>2,425,181</u>
OPERATING EXPENSES	
Administration	243,835
Treatment and distribution	1,474,592
Depreciation	330,724
Total operating expenses	<u>2,049,151</u>
Operating income (loss)	<u>376,030</u>
NONOPERATING REVENUES (EXPENSES)	
Sale of materials and equipment	5,470
Grant revenue	27,449
Investment earnings	45,790
Interest and other charges	(34,806)
Total nonoperating revenue (expenses)	<u>43,903</u>
Income (loss) before contributions and transfers	419,933
Capital contributions	<u>-</u>
Change in net position	419,933
Total net position - beginning	10,323,065
Total net position - ending	<u><u>\$ 10,742,998</u></u>

See independent auditor's report and accompanying notes.

Exhibit 8

Town of Canton, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2020

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,618,269
Cash paid for goods and services	(856,717)
Cash paid to or on behalf of employees for services	(888,056)
Net cash provided by operations	<u>1,873,496</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sales of fixed assets	5,470
Acquisition and construction of capital assets	(1,763,258)
Capital contributions - State grant	855,196
Principal paid on installment purchase	(180,854)
Interest paid on installment purchase	(34,806)
Net cash used by capital and related financing activities	<u>(1,118,252)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	45,790
Purchase of investments	-
Net cash provided by investing activities	<u>45,790</u>
Net increase (decrease) in cash and cash equivalents	801,034
Balances-beginning of the year	2,151,786
Balances-end of the year	<u><u>\$ 2,952,820</u></u>

Reconciliation of operating income to net cash provided by

Operating income (loss)	\$ 376,030
Adjustments to reconcile operating income to net cash	
Depreciation	330,724
Changes in assets, deferred outflows of resources and liabilities:	
Decrease (Increase) in accounts receivable	2,766
Decrease (Increase) in due from other government	1,190,322
Decrease (Increase) in deferred outflows of resources	37,871
Increase (decrease) in deferred inflow of resources	220,730
Increase (Decrease) in accounts payable and accrued liabilities	(68,560)
Increase (Decrease) in pension liabilities	21,433
Increase (Decrease) in accrued interest payable	(26)
Increase (Decrease) in accrued compensated absences	7,315
Increase (Decrease) in other postemployment benefits	(245,109)
Total adjustments	<u>1,497,466</u>
Net cash provided by operating activities	<u><u>\$ 1,873,496</u></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, 2020**

	<u>Agency Fund</u>
Assets:	
Cash and Cash Equivalents	<u>\$ 10,770</u>
Liabilities:	
Payable to Employees Support Group Committee	<u>\$ 10,770</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's Water and Sewer Fund has the following capital project funds:

Crossroad Hill Water Association Water System Consolidation Project - This fund is used to account for improvements to the water system. This project was completed in the year ended June 30, 2019 but placed in service during the current year. The fixed assets from this project were transferred into the Water and Sewer Fund during the current year.

Spruce Street Area Water System Improvements Project - This fund is used to account for improvements to the water system. This project was completed and the fixed assets from this projected were transferred into the Water and Sewer Fund during the current year.

The Town reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Haywood County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs and then by general revenues, if allowable by the terms of the grant.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Water and Sewer Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for capital projects funds. The enterprise fund projects are consolidated with their respective operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Town's finance officer is authorized by the budget ordinance to transfer appropriations within a department. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the

North Carolina Capital Management Trust (NCCMT). The Town and the ABC Board's investments are generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Unexpended grant proceeds are classified as restricted assets because their use is restricted to the purpose for which the grants were awarded. Customer deposits and prepayments by customers held by the Town before any services are supplied are restricted to the service for which the deposit or monies was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Town of Canton Restricted Cash

Governmental Activities

General Fund	Streets	\$	335,931
	Cultural & recreational		143,019
	Public Works		8,294
Total Governmental Activities			<u>487,244</u>

Business-type Activities

Water and Sewer Fund	Customer Deposits	\$	6,335
Total Restricted Cash		\$	<u>493,579</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, 2018.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets, are reported at cost or estimated historical costs. No amounts have been recorded for general infrastructure assets acquired prior to July 1, 2003. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. Infrastructure assets acquired subsequent to that date are recorded at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The

Town has pension and OPEB deferrals for the 2020 fiscal year, which meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meets the criterion for this category – prepaid taxes, property taxes receivable and pension and OPEB deferrals.

9. Long-Term Obligations

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

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

10. Compensated Absences

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

The Town's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulation at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is taken, no accrual for sick leave has been made.

If an employee retires from the Town of Canton with at least 30 years of service and meets the requirements for retirement under the State Retirement System, they are eligible for a one-time longevity payment to be paid with their final paycheck. Longevity pay at retirement is calculated considering actual time worked and compensated absences paid during a retiree's years of service with the Town and creditable service hours (using the definition of creditable service hours used by the NC Retirement System). Creditable service hours considered for longevity pay at retirement is limited to twenty percent of outstanding

sick leave, or a maximum of 320 hours. The Town has recognized a liability based on the longevity accumulated at June 30, 2020, 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, 2020, no such approval was given; therefore, no accrual has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Stabilization by State statute – North Carolina G.S. 159-8 prohibits units of governments from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year preceding the

budget. Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted Fund Balance on the face of the balance sheet.

Restricted for 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. 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, 2020, the Town's deposits had a carrying amount of \$6,272,998 and a bank balance of \$6,306,152. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$6,056,152 was covered by collateral held under the pooling method. At June 30, 2020, the Town's petty cash fund totaled \$1,200. The bank balance includes \$2,921,448 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 \$189,503 and a bank balance of \$220,053. All of the bank balance was covered by federal depository insurance. The store also had cash on hand at June 30, 2020 of \$3,200.

2. Receivables - Allowances for Doubtful Accounts

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position includes penalties levied and outstanding in the amount of \$20,490. The accounts receivable amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2020 is net of the following allowances for doubtful accounts:

Fund	Allowance
General fund:	
Property taxes receivable	\$ 56,926
Water and sewer enterprise fund:	
Utility accounts receivable	<u>128,424</u>
Total	\$ 185,350

3. Capital Assets

Capital Asset Activity for the Primary Government for the year ended June 30, 2020 was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 156,256	\$ -	\$ 156,256
Land	4,189,898	-	9,444	4,180,454
Total capital assets not being depreciated	4,189,898	156,256	9,444	4,336,710
Capital assets being depreciated:				
Buildings	5,039,598	-	-	5,039,598
Infrastructure	2,654,423	5,894	-	2,660,317
Equipment	1,307,568	144,318	153,309	1,298,577
Vehicles and motorized equipment	1,737,518	42,333	34,071	1,745,780
Total capital assets being depreciated	10,739,107	192,545	187,380	10,744,272
Less accumulated depreciation for:				
Buildings	1,975,695	136,694	-	2,112,389
Infrastructure	260,270	72,598	-	332,868
Equipment	815,618	84,759	153,309	747,068
Vehicles and motorized equipment	918,392	141,250	34,071	1,025,571
Total accumulated depreciation	3,969,975	435,301	187,380	4,217,896
Total capital assets being depreciated, net	6,769,132			6,526,376
Governmental activity capital assets, net	\$ 10,959,030			\$ 10,863,086

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

General government	\$	90,176
Public safety		144,338
Public Works		66,762
Environmental protection		-
Cultural and recreational		134,025
Total depreciation expense	\$	435,301

	Beginning Balances	Additions	Retirements	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 220,279	\$ -	\$ -	\$ 220,279
Construction in progress	2,081,473	14,025	2,081,473	14,025
Total capital assets not being depreciated	2,301,752	14,025	2,081,473	234,304
Capital assets being depreciated:				
Plant and distribution systems	12,579,210	3,830,706	3,038	16,406,878
Vehicles and motorized equipment	302,373	-	15,900	286,473
Total capital assets being depreciated	12,881,583	3,830,706	18,938	16,693,351
Less accumulated depreciation for:				
Plant and distribution systems	4,606,844	305,451	3,038	4,909,257
Vehicles and motorized equipment	174,944	25,273	15,900	184,317
Total accumulated depreciation	4,781,788	330,724	18,938	5,093,574
Capital assets being depreciated, net	8,099,795			11,599,777
Business-type activities capital assets, net	\$ 10,401,547			\$ 11,834,081

Discretely Presented Component Unit:

Capital Asset Activity for the ABC Board for the year ended June 30, 2020, was as follows:

	Beginning Balances	Additions	Retirement	Ending Balances
Capital assets not being depreciated:				
Land	\$ 128,079	\$ -	\$ -	\$ 128,079
Total capital assets not being depreciated	128,079	-	-	128,079
Capital assets being depreciated:				
Buildings	227,129	10,270	-	237,399
Furniture and equipment	75,887	-	2,039	73,848
Computers	37,143	-	-	37,143
Total capital assets being depreciated	340,159	10,270	2,039	348,390
Less accumulated depreciation for:				
Buildings	100,155	7,960	-	108,115
Furniture and equipment	64,387	4,568	1,869	67,086
Computers	36,777	299	-	37,076
Total accumulated depreciation	201,319	12,827	1,869	212,277
Capital assets being depreciated, net	138,840			136,113
Business-type activities capital assets, net	\$ 266,919			\$ 264,192

B. Liabilities

1. Pension Plan and Postemployment Obligations
 - a. Local Governmental Employees' Retirement System

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

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 reach age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. This plan does not provide for automatic post-retirement benefits increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO 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's employees are

required to contribute 6% of their annual pay. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2020, was 9.7 % of covered payroll for law enforcement officers and 8.95% 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 \$369,416 for the year ended June 30, 2020.

Refunds of Contributions. Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other 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, 2020, the Town reported a liability of \$1,142,345 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan of participating LGERS employers, actuarially determined. At June 30, 2019 (the measurement date), the Town's proportion was .04183%, which was an increase of .00301% of its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$618,407. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual expense	\$ 195,598	\$ -
Changes of assumptions	186,183	-
Net difference between projected and actual earnings on pension plan investments	27,864	-
Changes in proportion and differences between contributions and proportionate share of contributions	234,610	-
Town's contributions subsequent to the measurement date	369,416	-
Total	\$ 1,013,671	\$ -

\$369,416 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, 2021. 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:

2021	\$ 296,090
2022	134,661
2023	154,467
2024	59,035
	<u>\$ 644,253</u>

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and 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, 2018 valuations were based on the results of an actuarial experience study for LGERS for the period January 1, 2010 through December 31, 2014.

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, 2019 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 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 3.0%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.0%. This 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's proportionate share of the net pension liability calculated using the discount rate of 7 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.0%)
Town's proportionate share of the net pension liability (asset)	2,612,751	1,142,345	(79,861)

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, 2018, 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, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	3.26%
Projected salary increases	3.50 – 7.35%
Inflation	2.50%

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

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$30,712 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, 2020 the Town reported a total pension liability of \$358,026. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020 the Town recognized pension expense of \$29,199.

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ 20,440	\$ 7,090
Changes of assumptions	16,291	9,926
Benefit payments and administrative expense subsequent to the measurement date	19,410	-
Total	\$ 56,141	\$17,016

\$19,410 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:

2021	\$ 23,026
2022	3,794
2023	3,981
2024	2,525
2025	5,072
Thereafter	(727)

Sensitivity of the Town's total pension liability to changes in the discount rate. The following represents the Town's total pension liability calculated using the discount rate of 3.26%, 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 (2.26%) or 1-percentage-point higher (4.26%) than the current rate:

	1% Decrease <u>(2.26%)</u>	Discount Rate <u>(3.26%)</u>	1% Increase <u>(4.26%)</u>
Total pension liability	\$385,643	\$358,026	\$332,776

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, 2018 valuation were based on the results of an actuarial experience study completed for LGERS for the five-year period ending December 31, 2014.

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

Beginning balance	\$319,885
Service cost	14,335
Interest	11,248
Change in benefit terms	-
Difference between expected and actuarial experience in the measurement of the total pension liability	24,425
Changes in assumptions and other inputs	9,866
Benefit payments	(21,733)
Other changes	-
Ending balance of the total pension liability	<u>\$358,026</u>

The plan currently uses mortality tables that vary by age, 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

**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	618,407	29,199	647,606
Pension Liability	1,142,345	358,026	1,500,371
Proportionate share of the net pension liability	.04183%	n/a	

Deferred of Outflows of Resources	LGERS	LEOSSA	Total
Differences between expected and actual experience	195,598	20,440	216,038
Change of Assumptions	186,183	16,291	202,474
Net difference between projected and actual earnings on plan investments	27,864	-	27,864
Changes in proportion and differences between contributions and proportionate share of contributions	234,610	-	234,610
Benefit payments and administrative cost paid subsequent to the measurement date	369,416	19,410	388,826

Deferred in Inflows of Resources

	-	7,090	7,090
Differences between expected and actual experience			
Change of assumptions	-	9,926	9,926
Net difference between projected and actual earnings on plan investments	-	-	-
Change in proportion and differences between contributions and proportionate share of contributions	-	-	-

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town contributed \$33,578. 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, 2020, the Board budgeted and paid \$35,882 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, 2020 the State contributed \$18,302,000 to the plan. The Town considers their proportionate share of the State's contributions to be immaterial.

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

e. Other Post-Employment Benefit Obligations

Healthcare Benefits

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

Benefits Provided: An employee who began service prior to July 1, 2011 and retires according to the Town of Canton Employees' Retirement Plan (ERP) requirements, with at least 15 year permanent active Town employment will receive health care insurance, dental

insurance, and life insurance paid by the Town, for said employee for the remainder of his or her lifetime and for his or her spouse until spouse reaches age 70; and should an employee retire on disability with at least five years permanent active Town employment, health care and dental insurance will be provided by the Town for said employee for the remainder of his or her lifetime and for his or her dependents until age 19 or until age 25 if a full-time student, and for his or her spouse until age of 70. Retirees and spouses reaching age 65, or otherwise eligible for Medicare, are transferred to a Medicare supplement plan. This benefit was established by Town ordinance. A separate report was not issued for this plan.

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

Membership of the ERP consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive members entitled but not yet receiving benefits	-
Active employees	59
Total	104

Total OPEB Liability

The Town's total OPEB liability of \$10,388,159 was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases	
General employees	3.5% - 7.75%
Firefighters	3.5% - 7.75%
Law enforcement officers	3.5% - 7.35%
Municipal Bond Index Rate	
Prior measurement date	3.89%
Measurement date	3.50%
Healthcare Cost Trends	
Pre-Medicare	7.0% for 2019 decreasing to an ultimate rate of 4.5% by 2026
Medicare	5.00% for 2019 decreasing to an ultimate rate of 4.5% by 2021

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	11,613,704
Changes for the year	
Service cost	430,960
Interest	443,986
Changes of benefit terms	-
Differences between expected and actual experience	(1,683,702)
Changes in assumptions or other inputs	(12,560)
Benefit payments and implicit subsidy credit	<u>(404,229)</u>
Balance at June 30, 2019	10,388,159

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

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014, adopted by the LGERS Board.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$12,176,059	\$10,388,159	\$8,973,682

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	\$8,877,317	\$10,388,159	\$12,336,110

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$315,921. At June 30, 2020, 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	\$ 112,103	\$ 1,385,702
Changes of assumptions	-	1,091,350
Benefit payments and administrative costs made subsequent to the measurement date	<u>349,986</u>	<u>-</u>
Total	\$ 462,089	\$ 2,477,052

\$349,986 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, 2021. 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:

2021	(909,011)
2022	(559,025)
2023	(559,025)
2024	(457,135)
2025	(230,739)
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	\$ 369,416
Benefit payments made and administrative costs for LEOSSA made subsequent to measurement date	19,410
Benefit payments made and administrative costs for OPEB made subsequent to measurement date	349,986
Difference between expected and actual experience	328,141
Changes of assumption	202,474
Net difference between projected and actual share of contributions	27,864
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>234,610</u>
Total	\$1,531,901

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ 3,868	\$ 3,868
Taxes receivable, less penalties		59,924
Differences between expected and actual expense	1,392,792	-
Change in assumptions	1,101,276	
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>-</u>
Total	\$2,497,936	\$ 63,792

4. Risk Management

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

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

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

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

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

5. Commitments

The Town rents parking lots and equipment under agreements which are operating leases. Most agreements are for 12 months or less. Total rent expense under operating leases was \$87,759.

Future minimum lease payments under operating leases at June 30, 2020 are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2020	\$ 18,632
2021	5,125
2022	-

6. Line of Credit

The ABC Board has a revolving line of credit with First Citizens Bank. The line of credit has a fixed annual interest rate of 17.90%, and the maximum amount of credit available is \$10,000. There were no amounts due on the line of credit on June 30, 2020.

7. Long-Term Obligationsa. Capital Leases

In August 2016 the Town entered into an agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

The lease agreement was entered into to lease maintenance equipment and requires one payment of \$2,936 and four annual payments of \$2,175. Title will pass to the Town at the end of the lease term. The following is an analysis of the asset recorded as a capital lease at June 30, 2020.

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Equipment	9,921	(8,929)	992

The future minimum lease obligation and net present value of these minimum payments as of June 30, 2020 is as follows:

<u>Year ending June 30</u>	
2021	\$ 2,175
Total minimum lease payments	2,175
Less amounts representing interest	(60)
Present value of the minimum lease payments	\$ 2,115

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, 2020 was \$159,635.

In September 2014, the Town entered into a direct borrowing contract for \$12,959 to finance the acquisition of fire department radios. The financing contract requires five annual payments of \$3,011.56, including interest at 5%. The remaining balance at June 30, 2020 was \$0.

In January 2015, the Town entered into a direct borrowing contract for \$37,190 to finance the acquisition of street sweeper. The financing contract requires seven annual payments of \$37,190, including interest at 14%. The remaining balance at June 30, 2020 was \$72,048.

In August 2015, the Town entered into a direct borrowing contract for \$9,920 to finance the acquisition of a John Deere Gator. The financing contract requires five annual payments of \$2,159 plus interest at 4%. The remaining balance at June 30, 2020 was \$0.

In November 2016, the Town entered into a direct borrowing contract for \$25,797 to finance the acquisition of a new truck. The financing contract requires forty-eight payments of \$556, including interest at 7%. The remaining balance at June 30, 2020 was \$2,770.

In December 2016, the Town entered into a direct borrowing contract for \$376,600 to finance the acquisition of new police vehicles. The financing contract requires five annual payments of \$79,516 plus interest at 1.8%. The remaining balance at June 30, 2020 was \$155,239.

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, 2020 was \$620,000.

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, 2020 was \$672,882.

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, 2020 was \$266,010.

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, 2020 was \$217,722.

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%. Only a portion of the loan proceeds were received during the current year. The remaining balance at June 30, 2020 was \$827,747.

Annual debt service payments of direct borrowings as of June 30, 2020 are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 191,173	\$ 28,251	\$ 219,424	\$ 272,234	\$ 61,705	\$ 333,939
2022	191,742	23,407	215,149	274,022	51,392	325,414
2023	77,763	18,489	96,252	275,856	45,204	321,060
2024	78,695	16,064	94,759	277,736	38,969	316,705
2025	79,660	13,606	93,266	279,664	32,687	312,351
2026-2030	287,326	36,498	323,824	604,849	13,852	618,701
2031-2035	103,333	3,733	107,066	-	-	-
Total	\$ 1,009,692	\$ 140,048	\$ 1,149,740	\$ 1,984,361	\$ 243,809	\$ 2,228,170

c. General Obligation Indebtedness

At June 30, 2020 the Town of Canton had no outstanding bonds and no authorized but unissued bonds. The Town had a legal debt margin of \$27,200,974.

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, 2020:

	Beginning Balance	Increases	Decreases	Ending Balances	Current Portion
Governmental activities:					
Direct borrowings	1,206,415	-	196,723	1,009,692	191,173
Compensated absences	327,326	-	22,928	304,398	-
Capital lease	4,172	-	2,057	2,115	2,115
Total pension liability (LEO)	319,885	38,141	-	358,026	-
Net pension liability	736,754	199,969	-	936,723	-
OPEB	9,290,963	-	980,436	8,310,527	-
Governmental activity long-term liabilities	\$ 11,885,515	238,110	\$ 1,202,144	\$ 10,921,481	\$ 193,288
Business-type activities:					
Direct borrowings	\$ 1,337,468	\$ 827,747	\$ 180,854	\$ 1,984,361	\$ 272,234
Compensated absences	56,747	7,315	-	64,062	41,784
Net pension liability	184,189	21,433	-	205,622	-
OPEB	2,322,741	-	245,109	2,077,632	-
Business-type activity long-term debt	\$ 3,901,145	\$ 856,495	\$ 425,963	\$ 4,331,677	\$ 314,018

C. Concentration Reporting

For the year ended June 30, 2020, one corporation comprised approximately 39% of ad valorem tax revenues and 14% of water sales.

D. Interfund Activity

Cash transfers to/from other funds at June 30, 2020, consist of the following:

From Water Fund to the Spruce Street Capital Project Fund	\$ 39,189
From Water Fund to Crossroad Hills Capital Project Fund	4,069

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

During the 2020 fiscal year, the Town transferred funds from the Water Fund to the capital project funds to provide matching funds and cover costs not covered by other sources. The Town also transferred fixed assets from the completed capital projects to the Water Fund. The value of fixed assets transferred were \$1,831,932 from Spruce Street Capital Project and \$1,913,568 from Crossroad Hills Capital Project Fund. The capital project funds are included in the Water Fund for reporting purposes.

E. Net Investment in Capital Assets

	Governmental	Business-Type
Capital assets	\$ 10,863,086	\$ 11,834,081
Less: long-term debt	1,011,807	1,984,361
Net investment in capital assets	\$ 9,851,279	\$ 9,849,720

F. Fund Balances

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

Total fund balance – General Fund	\$ 3,568,807
Less:	
Inventories	7,689
Stabilization by State Statute	529,613
Police	37,900
Streets – Powell Bill	335,931
Subsequent year's expenditures	865,776
Remaining fund balance	\$1,791,898

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, 2020.

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. Significant Effects of Subsequent Events

Subsequent events have been evaluated through November 20, 2020, the date the financial statements were available to be issued.

VI. Reclassifications

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

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) %	0.04183%	0.03882%	0.042%	0.038%	0.036%	0.038%	0.038%
Town's proportion of the net pension liability (asset)	\$ 1,142,345	\$ 920,943	\$ 648,366	\$ 797,786	\$ 163,316	\$ (221,450)	\$ 148,163
Town's covered-employee payroll	\$ 2,611,689	\$ 2,421,400	\$ 2,276,958	\$ 1,829,958	\$ 2,044,962	\$ 1,935,008	\$1,935,008
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	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	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

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 Seven Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$369,416	\$328,139	\$291,339	\$295,796	\$242,673	\$161,555	\$148,163
Contribution in relation to the contractually required contribution	369,416	328,139	291,339	295,796	242,673	161,555	148,163
Contribution deficiency (excess)	-	-	-	-	-	-	-
Town's covered-employee payroll	\$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	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, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 319,885	\$ 328,916	\$ 297,086	\$ 286,920
Service cost	14,335	16,069	13,750	13,460
Interest on the total pension liability	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	24,425	(7,284)	(4,613)	-
Changes of assumptions or other inputs	9,866	(11,652)	17,094	(6,506)
Benefit payments	(21,733)	(16,300)	(5,757)	(6,908)
Other changes	-	-	-	-
Ending Balance of the total pension liability	<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, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 358,026	\$ 319,885	\$ 328,916	\$ 297,086
Covered payroll	591,990	573,038	534,457	490,742
Total pension liability as a percentage of covered payroll	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, 2020

	Measurement Period Ending		
	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 430,960	\$ 458,628	\$ 522,024
Interest	443,986	410,663	366,147
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total OPEB liability	(1,683,702)	90,374	94,065
Changes of assumptions or other inputs	(12,560)	(659,828)	(1,180,950)
Net benefit payments and implicit subsidy credit	(404,229)	(439,394)	(421,654)
Other changes	-	-	-
Net change in total OPEB liability	(1,225,545)	(139,557)	(620,368)
Total OPEB liability - beginning	11,613,704	11,753,261	12,373,629
Total OPEB liability - ending	\$ 10,388,159	\$ 11,613,704	\$ 11,753,261
Covered payroll	2,192,556	2,512,768	2,512,768
Total OPEB liability as a percentage of covered payroll	473.79%	462.19%	467.74%

Notes to Schedule

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

Fiscal Year	Rate
2020	3.50%
2019	3.89%
2018	3.56%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Town of Canton, North Carolina
Comparative Balance Sheets
General Fund
June 30, 2020 and 2019

Exhibit A

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 2,823,364	\$ 2,583,784
Restricted cash	487,244	610,902
Receivables, net:		
Taxes	59,924	76,828
Accounts	25,392	66,278
Prepaid expenses	6,000	6,000
Due from other governments	498,221	468,086
Inventories	7,689	8,174
Total assets	<u>\$ 3,907,834</u>	<u>\$ 3,820,052</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 17,215	\$ 30,658
Salaries payable	106,707	108,986
Unearned grant revenue	125,000	127,860
Customer prepayments	26,313	48,360
Total liabilities	<u>275,235</u>	<u>315,864</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	59,924	76,828
Prepaid taxes	3,868	4,248
Total deferred inflows of resources	<u>63,792</u>	<u>81,076</u>
Fund balances:		
Nonspendable:		
Inventories	7,689	8,174
Restricted:		
Stabilization by state statute	529,613	540,364
Public Safety	37,900	35,549
Transportation	335,931	434,682
Assigned:		
Subsequent year's expenditures	865,776	724,739
Unassigned	1,791,898	1,679,604
Total fund balances	<u>3,568,807</u>	<u>3,423,112</u>
Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 3,907,834</u></u>	<u><u>\$ 3,820,052</u></u>

Town of Canton, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
Revenues:				
Ad valorem taxes:				
Taxes		\$ 3,080,327		\$ 3,018,735
Penalties and interest		9,381		16,982
Total ad valorem taxes	<u>3,011,765</u>	<u>3,089,708</u>	<u>77,943</u>	<u>3,035,717</u>
Other taxes and licenses:				
Gross receipts tax on short-term rental property		-		1,201
Privilege licenses		2,751		2,910
	<u>3,500</u>	<u>2,751</u>	<u>(749)</u>	<u>4,111</u>
Unrestricted intergovernmental:				
Local option sales taxes		1,083,632		938,743
Utility franchise tax		737,529		776,346
Piped natural gas tax		5,215		4,539
Beer and wine tax		18,925		19,241
Sales tax-communications		86,843		71,424
State hold-harmless distribution		261,625		241,360
ABC Profit distribution		53,865		36,800
Total unrestricted intergovernmental	<u>1,976,900</u>	<u>2,247,634</u>	<u>270,734</u>	<u>2,088,453</u>
Restricted intergovernmental:				
Powell Bill allocation		135,926		138,168
Miscellaneous grants - COVID		4,693		4,958
Government Crime Comm grant		22,621		24,500
Federal Equitable Shares grant		-		-
Total restricted intergovernmental	<u>187,500</u>	<u>163,240</u>	<u>(24,260)</u>	<u>167,626</u>
Permits and fees:				
Building permits and inspection fees		-		325
Plumbing and electrical fees		-		-
Total permits and fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>325</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, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
Revenues (continued)				
Sales and services:				
Refuse collection fees		\$ 248,513		\$ 230,473
Solid waste disposal tax		3,330		2,689
Sale of material and labor		3,150		2,385
Miscellaneous revenue-Police Department		106,268		99,687
Recreation admissions and concessions		74,076		132,337
Theater revenue		21,710		18,929
Other fees		6,175		6,254
Court facilities fees and forfeitures		4,649		2,474
Fire protection charges		83,185		87,865
Rents		17,925		15,988
Total sales and services	565,865	568,981	3,116	599,081
Investment earnings:				
Interest earnings		41,473		53,781
Total investment earnings	30,250	41,473	11,223	53,781
Miscellaneous:				
Special event fees		98,531		106,411
Donations		54,393		-
Other miscellaneous		8,468		24,697
Total miscellaneous	368,750	161,392	(207,358)	131,108
Total revenues	6,144,530	6,275,179	130,649	6,080,202
Expenditures:				
General government:				
Governing Board				
Other operating expenditures		34,717		28,262
Total governing board	37,500	34,717	2,783	28,262
Administration:				
Salaries and employee benefits		145,907		137,081
Other operating expenditures		9,367		2,484
Capital outlay		2,421		-
Total administration	164,886	157,695	7,191	139,565
Finance				
Salaries and employee benefits		260,210		259,689
Other operating expenditures		61,177		52,352
Capital outlay		2,172		-
Total finance	336,857	323,559	13,298	312,041
				(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, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
Expenditures (continued)				
Legal:				
Part-time salaries		-		-
Other operating expenditures		9,270		14,690
Total legal	9,300	9,270	30	14,690
Planning and Zoning				
Salaries and employee benefits		187,589		164,006
Other operating expenditures		182,908		165,611
Capital outlay		2,365		-
Total planning and zoning	385,290	372,862	12,428	329,617
Community Promotion				
Other operating expenditures		7,548		9,557
Capital Outlay		-		-
Total community promotion	12,000	7,548	4,452	9,557
Municipal Buildings:				
Salaries and employee benefits		4,671		4,659
Other operating expenditures		133,197		140,064
Capital outlay		12,828		-
Total municipal buildings	163,315	150,696	12,619	144,723
Total general government	1,109,148	1,056,347	52,801	978,455
Public Safety:				
Police:				
Salaries and employee benefits		1,428,233		1,363,460
Other operating expenditures		182,918		170,435
Capital outlay		51,090		49,071
Total police	1,674,733	1,662,241	12,492	1,582,966
Fire:				
Salaries and employee benefits		746,224		718,702
Other operating expenditures		82,098		128,873
Capital outlay		12,167		22,433
Total fire	895,550	840,489	55,061	870,008
Total public safety	2,570,283	2,502,730	67,553	2,452,974

(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, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
Expenditures (continued)				
Public Works:				
Traffic Engineering	1,059	1,059	-	1,059
Central Services:				
Salaries and employee benefits		112,164		110,166
Other operating expenditures		29,316		33,399
Capital outlay		-		-
Total central services	154,330	141,480	12,850	143,565
Streets:				
Salaries and employee benefits		746,109		792,101
Other operating expenditures		283,363		311,053
Capital outlay		42,333		-
Total streets	1,207,679	1,071,805	135,874	1,103,154
Street Cleaning and Sweeping:				
Salaries and employee benefits		44,977		44,488
Other operating expenditures		15,770		29,456
Capital outlay		-		-
Total street cleaning and sweeping	70,220	60,747	9,473	73,944
Powell Bill:				
Salaries and employee benefits		-		-
Other operating expenditures		125,837		55,894
Capital outlay		112,670		11,195
Total powell bill	461,000	238,507	222,493	67,089
Total public works	1,894,288	1,513,598	380,690	1,388,811
Environmental Protection:				
Sanitation:				
Salaries and employee benefits		-		1,553
Other operating expenditures		252,411		187,515
Total sanitation	259,000	252,411	6,589	189,068

(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, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
Expenditures (continued)				
Landfill:				
Other operating expenditures		\$ 8,800		\$ 26,004
Capital outlay		-		-
Total landfill	13,000	8,800	4,200	26,004
Total environmental protection	272,000	261,211	10,789	215,072
Cultural and Recreational:				
Canton Historical Museum:				
Salaries and employee benefits		17,601		18,208
Other operating expenditures		20,344		18,667
Total Canton Historical Museum	44,720	37,945	6,775	36,875
Recreational Areas and Facilities:				
Salaries and employee benefits		61,886		135,038
Other operating expenditures		162,818		162,984
Capital outlay		89,601		2,140
Total recreational areas and facilities	557,900	314,305	243,595	300,162
Colonial Pathway				
Salaries and employee benefits		73,109		71,164
Other operating expenditures		65,535		50,125
Capital outlay		21,154		-
Total recreation concessions	166,900	159,798	7,102	121,289
Armory				
Salaries and employee benefits		4,390		6,285
Other operating expenditures		50,803		49,493
Capital outlay		-		54,942
Total recreation concessions	65,680	55,193	10,487	110,720
Total cultural and recreational	835,200	567,241	267,959	569,046

(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, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
Expenditures (continued)				
Debt Service:				
Principal retirement		198,780		195,260
Interest and fees		33,377		38,390
Total debt service	<u>237,650</u>	<u>232,157</u>	<u>5,493</u>	<u>233,650</u>
Total expenditures	<u>6,918,569</u>	<u>6,133,284</u>	<u>785,285</u>	<u>5,838,008</u>
Revenue over (under) expenditures	<u>(774,039)</u>	<u>141,895</u>	<u>915,934</u>	<u>242,194</u>
Other Financing Sources:				
Sale of capital assets		3,800		25,800
Total other financing sources	<u>20,000</u>	<u>3,800</u>	<u>(16,200)</u>	<u>25,800</u>
Fund balance appropriated	754,039	-	(754,039)	-
Net change in fund balance	<u>\$ -</u>	<u>145,695</u>	<u>\$ 145,695</u>	<u>267,994</u>
Fund balance, beginning of year		<u>3,423,112</u>		<u>3,155,118</u>
Fund balance, end of year		<u>\$ 3,568,807</u>		<u>\$ 3,423,112</u>

Town of Canton, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2020
 With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
OPERATING REVENUES				
Charges for services:				
Water sales		\$ 1,875,921		\$ 1,877,187
Sewer charges		463,106		475,257
Taps and connection fees		66,896		50,350
Reconnection fees		17,675		20,250
Other operating revenues		1,583		1,244
Total operating revenues	2,290,000	2,425,181	135,181	2,424,288
NON-OPERATING REVENUES				
Interest on investments		45,790		50,073
Sale of materials and equipment		5,470		4,298
Total non-operating revenues	27,500	51,260	23,760	54,371
Total revenues	2,317,500	2,476,441	158,941	2,478,659
OPERATING EXPENDITURES				
Administration:				
Salaries and employee benefits		180,810		180,006
Repairs and maintenance		24		307
Other operating expenditures		51,504		36,769
Total administration	252,410	232,338	20,072	217,082
Water treatment				
Salaries and employee benefits		299,682		286,194
Repairs and maintenance		40,051		57,191
Other operating expenditures		278,349		322,963
Total water treatment	655,100	618,082	37,018	666,348
Water and sewer distribution				
Salaries and employee benefits		407,244		424,586
Repairs and maintenance		33,862		67,087
Other operating expenditures		165,838		260,666
Total water and sewer distribution	832,281	606,944	225,337	752,339
Sewer Treatment Plant:				
Repairs and maintenance		-		-
Other operating expenses		213,926		56,653
Total sewer treatment	235,000	213,926	21,074	56,653
Debt service:				
Principal retirement		180,854		179,154
Interest		34,806		39,516
Total debt service	216,186	215,660	526	218,670

(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, 2020

With comparative actual amounts for the year ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)	2019
OPERATING EXPENDITURES (continued)				
Capital Outlay:	146,800	99,231	47,569	27,062
Total expenditures	2,337,777	1,986,181	351,596	1,938,154
Revenues over (under) expenditures	(20,277)	490,260	510,537	540,505
OTHER FINANCING SOURCES (USES)				
Transfer to Crossroad Hills Project		(4,069)		-
Transfer to Spruce Street Project		(39,189)		-
Grant revenue		27,449		-
Total other financing sources (uses)	(39,189)	(15,809)	23,380	-
Budgetary appropriation	59,466	-	(59,466)	-
Revenues and other financing sources over (under)	\$ -	\$ 474,451	\$ 474,451	\$ 540,505
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Loan principal payments		180,854		179,154
Increase (decrease) in deferred outflows - pension		(27,190)		51,747
Increase (decrease) in deferred outflows - OPEB		(10,681)		87,225
(Increase) in interest accrued on long term debt		26		687
(Increase) decrease in accrued salaries and compensated absences		(8,169)		(7,224)
(Increase) decrease in pension liability		(21,433)		(54,516)
(Increase) decrease in deferred inflows - pension		953		(2,840)
(Increase) decrease in deferred inflows - OPEB		(221,683)		(74,442)
(Increase) decrease in accrued OPEB liability		245,109		27,911
Capital outlay		99,231		27,062
Depreciation		(330,724)		(286,913)
Transfers to capital project funds		43,258		-
Grant accounts receivable adjustment-Crossroad Hills capital project		(4,069)		
Capital contribution - Crossroad Hills capital project		-		1,864,284
Total reconciling items		(54,518)		1,812,135
Change in net position - Water and Sewer Fund	\$	419,933		\$ 2,352,640

Town of Canton, North Carolina
Water and Sewer Capital Project Fund
Crossroad Hill Water Association Water System Consolidation Project
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 From Inception and for the year ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental:					
NC Drinking Water State Revolving Fund	\$ 2,464,200	\$ 1,864,284	\$ (4,069)	\$ 1,860,215	\$ (603,985)
Total revenues	<u>2,464,200</u>	<u>1,864,284</u>	<u>(4,069)</u>	<u>1,860,215</u>	<u>(603,985)</u>
Expenditures:					
Capital Outlay					
Engineering design		10,000	-	10,000	
Design and permitting		160,000	-	160,000	
Bidding and awarding		10,000	-	10,000	
Construction administration		128,107	-	128,107	
Legal/Administration/Testing		32,361	-	32,361	
Construction cost		1,530,953	-	1,530,953	
Closing fee		42,147	-	42,147	
Contingency		-	-	-	
Total expenditures	<u>2,513,484</u>	<u>1,913,568</u>	<u>-</u>	<u>1,913,568</u>	<u>599,916</u>
Revenues under expenditures	<u>(49,284)</u>	<u>(49,284)</u>	<u>(4,069)</u>	<u>(53,353)</u>	<u>(4,069)</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund	<u>49,284</u>	<u>49,284</u>	<u>4,069</u>	<u>53,353</u>	<u>4,069</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Canton, North Carolina
Water and Sewer Capital Project Fund
Spruce Street Area Water System Improvements Project
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the year ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Restricted intergovernmental:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:					
Capital Outlay					
Engineering design	10,000	10,000	-	10,000	-
Design and permitting	98,600	98,600	-	98,600	-
Bidding and awarding	10,000	10,000	-	10,000	-
Construction administration	95,000	49,305	44,405	93,710	1,290
Legal/Administration/Testing	11,000	-	-	-	11,000
Construction cost	1,580,500	-	1,580,433	1,580,433	67
Closing fee	39,189	-	39,189	39,189	-
Contingency	133,151	-	-	-	133,151
Total expenditures	<u>1,977,440</u>	<u>167,905</u>	<u>1,664,027</u>	<u>1,831,932</u>	<u>145,508</u>
Revenues under expenditures	<u>(1,977,440)</u>	<u>(167,905)</u>	<u>(1,664,027)</u>	<u>(1,831,932)</u>	<u>145,508</u>
Other Financing Sources (Uses):					
NC Drinking Water State Reserve Loan	1,943,500	-	827,747	827,747	(1,115,753)
Transfer from Water and Sewer Fund	33,940	-	39,189	39,189	5,249
Total Other Financing Sources	<u>1,977,440</u>	<u>-</u>	<u>866,936</u>	<u>866,936</u>	<u>(1,110,504)</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>(167,905)</u>	<u>(797,091)</u>	<u>(964,996)</u>	<u>(964,996)</u>

Town of Canton, North Carolina
Employee Support Group Fund - Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2020

	Beginning Balance	Additions	Deductions	Ending Balance
Assets:				
Cash and Cash Equivalents	\$ -	\$ 11,255	\$ 485	\$ 10,770
Liabilities:				
Payable to Employees Support Group Committee	\$ -	\$ 11,255	\$ 485	\$ 10,770

OTHER SCHEDULES

Exhibit G

Town of Canton, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$ -	\$ 3,048,583	3,016,012	\$ 32,571
2018-2019	44,052	-	35,162	8,890
2017-2018	15,706	-	10,032	5,674
2016-2017	8,346	-	2,361	5,985
2015-2016	5,030	-	1,450	3,580
2014-2015	5,334	-	970	4,364
2013-2014	7,783	-	4,978	2,805
2012-2013	9,912	-	2,672	7,240
2011-2012	10,001	-	(909)	10,910
2010-2011	10,485	-	(164)	10,649
2009-2010	8,836	-	5,144	3,692
	<u>\$ 125,485</u>	<u>\$ 3,048,583</u>	<u>\$ 3,077,708</u>	<u>96,360</u>

Less: allowance for uncollectible accounts:

General Fund

(56,926)

Ad valorem taxes receivable - net

\$ 39,434Reconciliation with revenues:

Ad valorem taxes - General Fund

\$ 3,089,708

Reconciling items:

Interest collected

(9,381)

Releases and other

(7,518)

Taxes written off

4,899

Subtotal

(12,000)

Total collections and credits

\$ 3,077,708

Exhibit H

Town of Canton, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2020

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property - real and personal	490,208,620	0.58	\$ 2,843,210	\$ 2,843,210	\$ -
Registered motor vehicles	34,722,759	0.58	201,392	-	201,392
Advertising			1,872	1,872	-
Total			3,046,474	2,845,082	201,392
Discoveries:					
Current year taxes	363,621	0.58	2,109	2,109	-
Total property valuation	<u>525,295,000</u>				
Net levy			3,048,583	2,847,191	201,392
Uncollected taxes at June 30, 2020			(32,571)	(32,571)	-
Current year's taxes collected			<u>\$ 3,016,012</u>	<u>\$ 2,814,620</u>	<u>\$ 201,392</u>
Current levy collection percentage			<u>98.93%</u>	<u>98.86%</u>	<u>100.00%</u>

COMPLIANCE SECTION

SHEILA GAHAGAN, CPA

229 Penland Street

Clyde, NC 28721

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Canton, North Carolina (Town of Canton) as of and for the year ended June 30, 2020, 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 20, 2020. Other auditors audited the financial statements of the Town of Canton's ABC Board, as described in my report on the Town of Canton's financial statements. The financial statements of the Town of Canton's ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Canton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Canton's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Canton's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Canton's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Sheila Gahagan, CPA
November 20, 2020

SHEILA GAHAGAN, CPA

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Clyde, NC 28721

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Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the 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

I have audited the Town of Canton, North Carolina's (Town of Canton) compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Canton's major federal programs for the year ended June 30, 2020. The Town of Canton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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, 2020.


Report on Internal Control Over Compliance

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

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

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

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


Sheila Gahagan, CPA

November 20, 2020

**TOWN OF CANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

I. Summary of Auditor's Results

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

Internal control over financial reporting:

Material weakness identified _____ Yes _____ X No

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

Noncompliance material to financial statements noted _____ Yes _____ X 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 disclose that are required to be reported in accordance with 2 CFR 200.516(a) _____ Yes _____ X No

Identification of major federal programs:

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

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

Auditee qualified as low-risk auditee? _____ Yes _____ X No

**TOWN OF CANTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

II. Financial Statements Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

**TOWN OF CANTON, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2020**

II. Financial Statement Findings

None reported

III. Federal Award Findings and Questioned Costs

None reported

**TOWN OF CANTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020**

II. Financial Statement Finding

2019 - 1

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

Status: This finding has been corrected. The client made significant improvements in reviewing and making necessary amendments to the budget as needed.

2019 - 2

Finding: The Town of Canton's year-end reconciliations for accounts receivable and investment accounts were not reconciled prior to the audit for the year ended June 30, 2019.

Status: This finding has been corrected. The client reconciled subsidiary accounts with the general ledger timely.

III. Federal Award Findings and Questioned Costs

2019 - 3

Finding: The Town of Canton did not provide written procurement procedures that complied with federal requirements.

Status: This finding has been corrected. The client created and the Board approved procurement procedures that complied with state and federal requirements.

Town of Canton, North Carolina
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

	Federal CFDA Number	Federal Expenditures	State Number	Pass-Through to Sub- Recipients
<u>Environmental Protection Agency</u>				
Passed through the NC Division of Environmental Quality Division of Water Infrastructure: Capitalization Grants for Drinking Water State Revolving Funds Cluster:	66.468	\$ 1,624,838	H-SRP-D-17-0020	\$ -
<u>Department of Homeland Security</u>				
Passed through the Haywood County North Carolina: Disaster Grants - Public Assistance - COVID 19	97.036	\$ 4,693		-
<u>Department of Justice</u>				
Passed through NC Department of Public Safety Byrne Justice Assistance Grants	16.738	\$ 22,621	2018DJBX0041	-
Total expenditures of federal and state awards		<u>\$ 1,652,152</u>		<u>\$ -</u>

Notes to the Schedule of Expenditures of State Financial Awards:

1 Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state award activity of the Town of Canton under programs for the year ended June 30, 2020 in accordance with the requirements of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal awards (Uniform Guidance)*. Because the Schedule only presents a selective portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Town of Canton.

2 Summary of Significant Accounting Policies

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