

TOWN OF HOT SPRINGS, NORTH CAROLINA

Financial Statements, Management's Discussion and Analysis,
Supplemental Schedules, Independent Auditors' Report and Compliance Report
For the Year Ended June 30, 2024

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

TOWN OF HOT SPRINGS, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2024

Mayor & Board of Aldermen

Mayor	Abby Norton
Aldermen	Jeanne Caldwell Gentry Daniel Myers Wendy Stancil

Town Administration

Town Attorney	Ron Moore/Selena King
Town Clerk	Nancy Thomas
Tax Collector	Laura Holloway

TOWN OF HOT SPRINGS, NORTH CAROLINA

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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hot Springs, North Carolina, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Town of Hot Springs, North Carolina's basic financial statements as listed in the table of contents.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hot Springs, North Carolina, as of June 30, 2024, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Hot Springs, North Carolina and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Audit of the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Hot Springs, North Carolina's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Hot Springs, North Carolina's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hot Springs, North Carolina's basic financial statements. The accompanying individual fund financial statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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. In our opinion, the individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2025, on our consideration of the Town of Hot Springs, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our 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 Town of Hot Springs, North Carolina's 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 Hot Springs, North Carolina's internal control over financial reporting and compliance. .

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
June 20, 2025

Management's Discussion and Analysis

As management of the Town of Hot Springs, we offer readers of the Town of Hot Springs' financial statements this narrative overview and analysis of the financial activities of the Town of Hot Springs for the fiscal year ended June 30, 2024. We encourage readers to read the information presented here in conjunction with the additional information that we have furnished in the Town's financial statements, which follow this narrative.

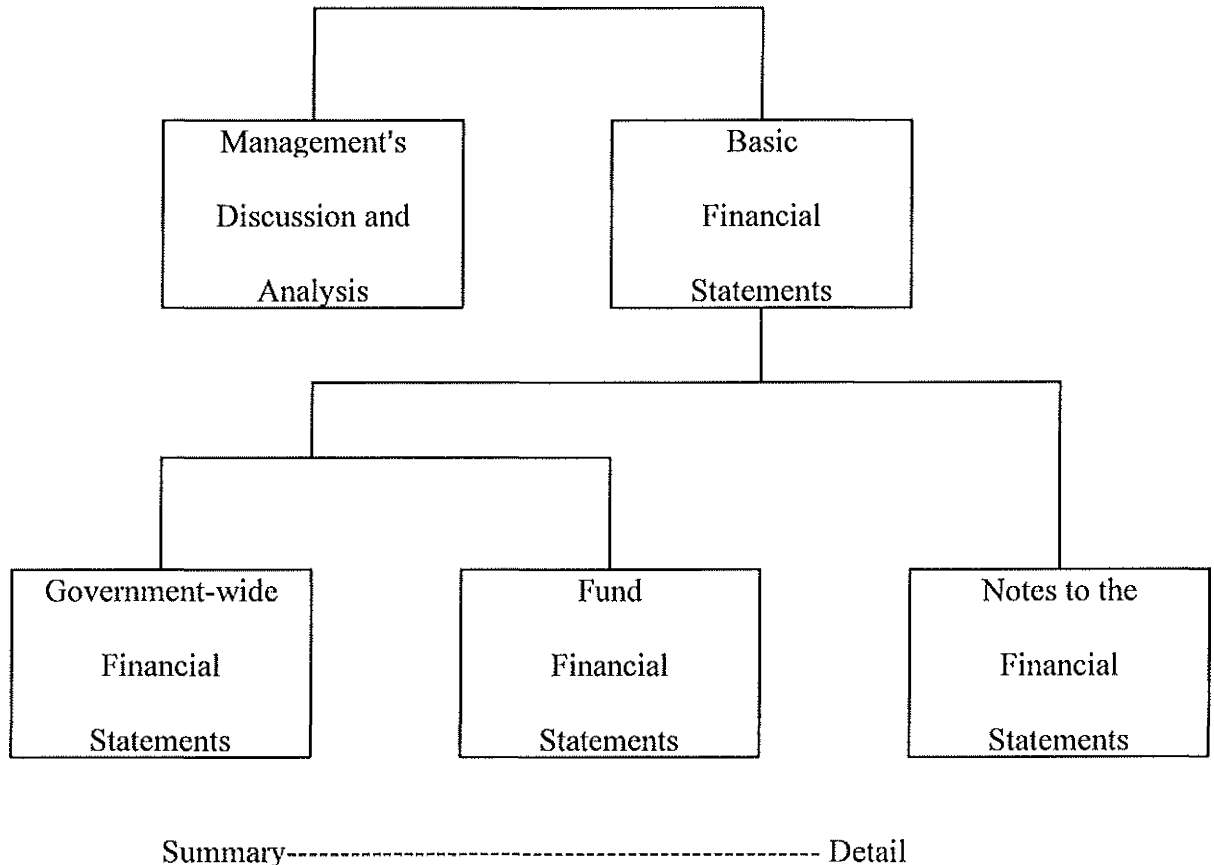
Financial Highlights

- The assets and deferred outflows of resources of the Town of Hot Springs exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$3,962,332 (net position).
- The government's total net position increased by \$299,133 due to an increase in the governmental-type activities and an increase in the business-type activities net position.
- As of the close of the current fiscal year, the Town of Hot Springs' governmental funds reported combined ending fund balances of \$1,347,722, with a net change of \$171,710 in fund balance. Approximately 14.06 percent of this total amount, or \$189,543, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$908,180, or 157.22 percent of total General Fund expenditures for the fiscal year.
- The Town of Hot Springs' total debt increased by \$23,878 (9.06%) during the current fiscal year. The key factor in this increase was the issuance of debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Hot Springs' 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 Hot Springs.

**Required Components of Annual Financial Report
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 of Hot Springs' financial status.

The next statements (Exhibits 3 through 10) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town of Hot Springs, North Carolina's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina 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 as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, public works, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Hot Springs, North Carolina.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) 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 Hot Springs, 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 Town of Hot Springs can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town'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 Hot Springs 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 Hot Springs has one 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 Hot Springs 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 also presents individual fund statements and schedules presented immediately following the notes.

Interdependence with Other Entities - The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

Town of Hot Springs' Net Position						
Figure 2						
	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 1,379,406	\$ 1,200,785	\$ 599,645	\$ 518,553	\$ 1,979,051	\$ 1,719,338
Capital assets	705,114	665,907	1,801,789	1,650,312	2,506,903	2,316,219
Total assets	2,084,520	1,866,692	2,401,434	2,168,865	4,485,954	4,035,557
Long-term liabilities	213,817	186,439	73,500	77,000	287,317	263,439
Other liabilities	25,775	16,253	208,530	91,917	234,305	108,170
Deferred outflows of resources	2,000	750	-	-	2,000	750
Total liabilities and deferred inflows of resources	241,592	203,442	282,030	168,917	523,622	372,359
Net Position:						
Net investment in capital assets	491,297	479,468	1,728,289	1,573,312	2,219,586	2,052,780
Restricted	180,181	171,934	-	-	180,181	171,934
Unrestricted	1,171,450	1,011,848	391,115	426,636	1,562,565	1,438,484
Total net position	\$ 1,842,928	\$ 1,663,251	\$ 2,119,404	\$ 1,999,948	\$ 3,962,333	\$ 3,663,198

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 Hot Springs exceeded liabilities and deferred inflows by \$3,962,333 as of June 30, 2024. The Town's net position increased by \$299,133 for the fiscal year ended June 30, 2024. However, the largest portion (56.02%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town of Hot Springs uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Hot Springs' 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 of Hot Springs' net position, \$180,181, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,562,565 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.69%, which is comparable to the statewide average for comparable size units without electrical systems of 99.12%.
- Slight increase in local option sales tax revenue and property taxes.
- Slight increase in overall expenditures.

	Town of Hot Springs' Changes in Net Position					
	Governmental Activity		Business-type Activity		Total	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 1,820	\$ 150	\$ 339,315	\$ 349,524	\$ 341,135	\$ 349,674
Operating grants and contributions	25,426	115,099	-	-	25,426	115,099
Capital grants and contributions	-	-	154,250	171,272	154,250	171,272
General revenues:						
Property taxes	390,652	374,965	-	-	390,652	374,965
Other taxes	292,160	281,464	-	-	292,160	281,464
Other	29,957	44,938	(123)	2,000	29,834	46,938
Gain on sale of assets	6,405	-	-	-	6,405	-
Total revenues	746,420	816,616	493,442	522,796	1,239,862	1,339,412
Expenses:						
General government	245,023	217,635	-	-	245,023	217,635
Public safety	129,140	111,297	-	-	129,140	111,297
Transportation	185,453	145,503	-	-	185,453	145,503
Economic and physical development	-	-	-	-	-	-
Interest	7,127	6,589	-	-	7,127	6,589
Water and sewer	-	-	373,986	332,822	373,986	332,822
Total expenses	566,743	481,024	373,986	332,822	940,729	813,846
Increase (decrease) in net position before transfers	179,677	335,592	119,456	189,974	299,133	525,566
Transfers	-	(91,944)	-	91,944	-	-
Increase (decrease) in net position	179,677	243,647	119,456	281,919	299,133	525,566
Net position, July 1	1,663,251	1,419,604	1,999,948	1,718,029	3,663,199	3,137,633
Net position, June 30	\$ 1,842,928	\$ 1,663,251	\$ 2,119,404	\$ 1,999,948	\$ 3,962,332	\$ 3,663,199

Governmental activities: Governmental activities increased the Town's net position by \$179,677, thereby increasing the net position of the Town of Hot Springs. Key elements of the changes are as follows:

- Property and other taxes increased.
- Overall revenues increased.

Business-type activities: Business-type activities increased the Town of Hot Springs' net position by \$119,456. Key elements for the changes are as follows:

- Operating revenues decreased approximately \$12,000.
- Depreciation expense of \$51,079.
- Grant revenues were received for the construction of water and wastewater projects.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Hot Springs' 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 Hot Springs' financing requirements.

The General Fund is the chief operating fund of the Town of Hot Springs. At the end of the current fiscal year, the Town of Hot Springs' fund balance available in the General Fund was \$1,197,179, while the total fund balance reached \$1,347,722. The Town currently has an available fund balance of 207.25 percent of General Fund expenditures, while the total fund balance represents 233.32 percent of that same amount.

At June 30, 2024, the governmental funds of the Town of Hot Springs reported a combined fund balance of \$1,347,722 with a net increase in fund balance of \$171,710.

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.

Highlights include the following:

Total budgeted expenditures increased due to the hiring of a Town Administrator and for capital outlay for a street department vehicle and emergency building repairs costs. Budget amendments were also utilized to transfer expenditures among line items in various departments.

Proprietary Funds. The Town of Hot Springs' proprietary fund provides 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 \$391,115. The total change in net position for this fund was an increase of \$119,456.

Capital Asset and Debt Administration

Capital assets. The Town of Hot Springs' investment in capital assets for its governmental and business-type activities as of June 30, 2024, totals \$2,506,903 (net of accumulated depreciation). These assets include buildings, infrastructure, land, machinery and equipment, distribution systems, and vehicles.

Major capital asset transactions during the year include the following additions and disposals:

Governmental Activities:

- Purchase of a utility truck and HVAC system for \$88,461. Disposal of various equipment and automotive equipment.

Business-type Activities:

- Purchase of equipment for \$48,956 and additional construction of \$153,600. No disposals.

Town of Hot Springs' Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land	\$ 221,016	\$ 221,016	\$ -	\$ -	\$ 221,016	\$ 221,016
Construction in progress	-	-	271,204	272,504	271,204	272,504
Easement	-	-	4,000	4,000	4,000	4,000
Building	192,409	180,181	151	246	192,560	180,428
Furniture and equipment	3,486	5,166	-	-	3,486	5,166
Infrastructure and distribution systems	108,583	117,824	1,526,434	1,373,562	1,635,017	1,491,386
Automotive equipment	179,620	141,720	-	-	179,620	141,720
Total	<u>\$ 705,114</u>	<u>\$ 665,907</u>	<u>\$ 1,801,789</u>	<u>\$ 1,650,312</u>	<u>\$ 2,506,903</u>	<u>\$ 2,316,219</u>

Additional information on the Town's capital assets can be found in Note I.E.7 and III.A.3 of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2024, the Town of Hot Springs had total debt outstanding of \$287,317. Of this, \$287,317 is debt backed by the full faith and credit of the Town.

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
General obligation bonds	\$ -	\$ -	\$ 73,500	\$ 77,000	\$ 73,500	\$ 77,000
Direct placement installment purchases	213,817	186,439	-	-	213,817	186,439
Total	<u>\$ 213,817</u>	<u>\$ 186,439</u>	<u>\$ 73,500</u>	<u>\$ 77,000</u>	<u>\$ 287,317</u>	<u>\$ 263,439</u>

Town of Hot Springs' Outstanding Debt

The Town of Hot Springs' total debt increased by \$23,878, or 9.06%, during the past fiscal year mainly due to the issuance of debt.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Hot Springs is \$6,341,160.

Additional information regarding Town of Hot Springs' long-term debt can be found in Note III.B.4 beginning on page 33 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the economic condition of the Town:

- High unemployment. Madison County, which includes the Town of Hot Springs, has an unemployment rate of 6.6%. This is compared to the State average of 3.7%.
- Employees received raises in varying percentages during the year.
- The Town continues to benefit from the a Viable Utility Reserve Grant in the amount of \$1,000,000 and a \$4,000,000 NC Innovative Highly Treated Wastewater Pilot Program Grant for expansion and upgrades to the wastewater system.

Budget Highlights for the Fiscal Year Ending June 30, 2025

Governmental Activities: The property tax rate declined to .45 per \$100. A revaluation was completed in 2024, which resulted in an increase in values; therefore, property taxes are expected to increase over the prior year.

Overall revenues are expected to increase over the prior year.

Budgeted expenditures are expected to increase approximately 47.0% to \$947,055. This is mainly due to an increase in the Street and Garbage collection department.

Business-type Activities: The water and sewer rates in the Town had the following changes:

Residential:

- **Water:**

Base Rates (Bi-monthly, 5,000 gallons or less):

Water: \$24.00

Sewer: \$24.00

Over 5,000 gallons: \$12.00, per 1,000 gallons

Bi-Monthly Billing / Base Rate Residential: \$96.00

- **Sewer:** Charges will equal water charges.

Business and Commercial:

- **Water:**

Base Rates (Bi-monthly for 2,000 gallons or less)

Water: \$29.00

Sewer: \$29.00

Over 4,000 gallons: \$18.00, per 1,000 gallons

Bi-Monthly Billing / Base Rate Business: \$116.00

- **Sewer:** Charges will equal water charges.

The Water and Sewer Fund budget is expected to increase 4.4% to \$356,500.

Hurricane Helene Impact

The effects of Hurricane Helene severely impacted the Town of Hot Springs with significant damage to buildings and infrastructure. Numerous budget amendments were necessary to cover the cost of recovery, which is ongoing.

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 Town Clerk, Town of Hot Springs, P. O. Box 218, Hot Springs, N. C. 28743-0218. You can also call 828-622-7591 or send an email to townofhotsprings.org.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements present a condensed overview of the financial position and results of operations of the Town as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Exhibit 1

Statement of Net Position June 30, 2024

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,179,901	\$ 359,934	\$ 1,539,835
Taxes receivable - net	8,059	-	8,059
Accrued interest receivable-taxes	1,521	-	1,521
Accounts receivable	6,179	30,828	37,007
Due from other governments	72,289	166,687	238,975
Internal balances	(29,231)	29,231	-
Prepaid items	9,362	-	9,362
Restricted cash and cash equivalents	131,326	12,965	144,291
Total current assets	<u>1,379,406</u>	<u>599,645</u>	<u>1,979,050</u>
Capital assets:			
Land, non-depreciable assets and construction in progress	221,016	275,204	496,220
Other capital assets, net of depreciation	484,098	1,526,585	2,010,683
Total capital assets	<u>705,114</u>	<u>1,801,789</u>	<u>2,506,903</u>
Total assets	<u>2,084,520</u>	<u>2,401,434</u>	<u>4,485,954</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and other current liabilities	20,103	195,565	215,668
Accrued interest payable	5,672	-	5,672
Due within one year	25,786	3,500	29,286
Payable from restricted assets	-	12,965	12,965
Long-term liabilities:			
Due in more than one year	188,031	70,000	258,031
Total liabilities	<u>239,593</u>	<u>282,030</u>	<u>521,622</u>
<u>Deferred Inflows of Resources</u>			
Deferred rental income	2,000	-	2,000
Total deferred inflows of resources	<u>2,000</u>	<u>-</u>	<u>2,000</u>
<u>Net Position</u>			
Net investment in capital assets	491,297	1,728,289	2,219,586
Restricted for:			
Stabilization by State Statute	141,181	-	141,181
Streets	38,927	-	38,927
Public Safety	73	-	73
Unrestricted	1,171,450	391,115	1,562,565
Total net position	<u>\$ 1,842,928</u>	<u>\$ 2,119,404</u>	<u>\$ 3,962,332</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Exhibit 2

Statement of Activities For the Year Ended June 30, 2024

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
Governmental activities:							
General government	\$ 245,023	\$ -	\$ -	\$ -	\$ (245,023)	\$ -	\$ (245,023)
Public safety	129,140	90	5	-	(129,045)	-	(129,045)
Transportation	185,453	-	25,421	-	(160,031)	-	(160,031)
Economic and physical development	-	1,730	-	-	1,730	-	1,730
Interest on long-term debt	7,127	-	-	-	(7,127)	-	(7,127)
Total governmental activities	<u>566,742</u>	<u>1,820</u>	<u>25,426</u>	<u>-</u>	<u>(539,496)</u>	<u>-</u>	<u>(539,496)</u>
Business-type activities:							
Water and Sewer	373,986	339,315	-	154,250	-	119,579	119,579
Total	<u>\$ 940,728</u>	<u>\$ 341,135</u>	<u>\$ 25,426</u>	<u>\$ 154,250</u>	<u>(539,496)</u>	<u>119,579</u>	<u>(419,917)</u>
General revenues:							
Taxes:							
Property taxes					390,652	-	390,652
Local option sales tax					228,854	-	228,854
Other taxes and licenses					63,306	-	63,306
Unrestricted investment earnings					98	-	98
Miscellaneous					29,859	(123)	29,736
Gain (loss) on sale of capital assets					6,405	-	6,405
Transfers					-	-	-
Total general revenues, special items and transfers					<u>719,174</u>	<u>(123)</u>	<u>719,050</u>
Change in net position					179,677	119,456	299,133
Net position - beginning					1,663,251	1,999,948	3,663,199
Net position - ending					<u>\$ 1,842,928</u>	<u>\$ 2,119,404</u>	<u>\$ 3,962,332</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 3****Balance Sheet
Governmental Funds
June 30, 2024**

	Major Funds		Total
	General	ARPA	Governmental
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,179,901	\$ -	\$ 1,179,901
Taxes receivables (net)	8,059	-	8,059
Accounts receivable	6,179	-	6,179
Due from other governments	72,289	-	72,289
Due from other funds	62,714	-	62,714
Prepaid items	9,362	-	9,362
Restricted cash and cash equivalents	39,381	91,944	131,326
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,377,885</u>	<u>\$ 91,944</u>	<u>\$ 1,469,829</u>
<u>Liabilities, Deferred Inflows of Resources</u>			
<u>and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 20,103	\$ -	\$ 20,103
Due to other funds	-	91,944	91,944
Total liabilities	<u>20,103</u>	<u>91,944</u>	<u>112,048</u>
Deferred inflows of resources:			
Property taxes receivable	8,059	-	8,059
Deferred rental income	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total deferred inflows of resources	<u>10,059</u>	<u>-</u>	<u>10,059</u>
Fund balances:			
Nonspendable:			
Prepaid expenditures	9,362	-	9,362
Restricted for:			
Stabilization by State Statute	141,181	-	141,181
Streets	38,927	-	38,927
Public safety - police	73	-	73
Assigned:			
Subsequent year's expenditures	250,000	-	250,000
Unassigned	<u>908,180</u>	<u>-</u>	<u>908,180</u>
Total fund balances	<u>1,347,722</u>	<u>-</u>	<u>1,347,722</u>
Liabilities, deferred inflows of resources and fund balances	<u>\$ 1,377,885</u>	<u>\$ 91,944</u>	<u>\$ 1,469,829</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 4****Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2024**

Total governmental fund balances	\$ 1,347,722
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	705,114
Other long-term assets are not available to pay for for current-period expenditures and, therefore, are inflows of resources in the funds.	
Accrued interest receivable from taxes	1,521
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	
Property taxes receivable	8,059
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.	
Accrued interest on long-term debt	(5,672)
Long-term debt	<u>(213,817)</u>
Net position of governmental activities	<u>\$ 1,842,928</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 5****Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2024**

	General Fund	ARPA Fund	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 393,594	\$ -	\$ 393,594
Other taxes and licenses	403	-	403
Unrestricted intergovernmental	291,757	-	291,757
Restricted intergovernmental	25,426	-	25,426
Permits and fees	1,830	-	1,830
Miscellaneous	29,849	-	29,849
Investment earnings	<u>98</u>	<u>-</u>	<u>98</u>
Total revenues	<u>742,957</u>	<u>-</u>	<u>742,957</u>
Expenditures:			
General government	250,953	-	250,953
Public safety	112,246	-	112,246
Transportation	235,624	-	235,624
Debt service:			
Principal retirement	17,622	-	17,622
Interest	<u>6,207</u>	<u>-</u>	<u>6,207</u>
Total expenditures	<u>622,651</u>	<u>-</u>	<u>622,651</u>
Revenues over (under) expenditures	<u>120,305</u>	<u>-</u>	<u>120,305</u>
Other Financing Sources (Uses):			
Operating transfers in (out)	-	-	-
Proceeds from sale of capital assets	6,405	-	6,405
Proceeds from borrowing	<u>45,000</u>	<u>-</u>	<u>45,000</u>
Total other financing sources (uses)	<u>51,405</u>	<u>-</u>	<u>51,405</u>
Net change in fund balance	171,710	-	171,710
Fund balance - beginning	<u>1,176,011</u>	<u>-</u>	<u>1,176,011</u>
Fund balance - ending	<u>\$ 1,347,722</u>	<u>\$ -</u>	<u>\$ 1,347,722</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 6****Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2024**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds \$ 171,710

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	88,461
Depreciation expense	(49,254)
Gain (loss) on sale of assets	6,405
Proceeds from sale of assets	(6,405)

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	(1,622)
Change in accrued interest receivable-taxes	(1,320)

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 the governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	(45,000)
Principal payments on long-term debt	17,622
Change in accrued interest payable	<u>(920)</u>

Total changes in net position of governmental activities \$ 179,677

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Exhibit 7

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2024

	General Fund			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Ad valorem taxes	\$ 338,180	\$ 338,180	\$ 393,594	\$ 55,414
Other taxes and licenses	1,400	1,400	403	(997)
Unrestricted intergovernmental	227,500	227,500	291,757	64,257
Restricted governmental	23,075	23,075	25,426	2,351
Permits and fees	445	445	1,830	1,385
Miscellaneous	34,610	34,610	29,849	(4,761)
Investment earnings	-	-	98	98
Total revenues	<u>625,210</u>	<u>625,210</u>	<u>742,957</u>	<u>117,747</u>
Expenditures:				
General government	295,917	350,917	250,953	99,964
Public safety	135,770	156,286	112,246	44,040
Transportation	188,104	233,104	235,624	(2,520)
Debt service	<u>24,384</u>	<u>24,384</u>	<u>23,829</u>	<u>555</u>
Total expenditures	<u>644,175</u>	<u>764,691</u>	<u>622,651</u>	<u>142,040</u>
Revenues over (under) expenditures	<u>(18,965)</u>	<u>(139,481)</u>	<u>120,305</u>	<u>259,786</u>
Other Financing Sources (Uses):				
Fund balance appropriated	18,965	94,481	-	(94,481)
Transfers from (to) other funds	-	-	-	-
Proceeds from sale of capital assets	-	-	6,405	6,405
Proceeds from borrowing	<u>-</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Total other financing sources (uses)	<u>18,965</u>	<u>139,481</u>	<u>51,405</u>	<u>(88,076)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>171,710</u>	<u>\$ 171,710</u>
Fund balance - beginning			<u>1,176,011</u>	
Fund balance - end of year			<u>\$ 1,347,722</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 8****Statement of Fund Net Position
Proprietary Fund
June 30, 2024**

Assets

Current assets:

Cash and cash equivalents	\$ 359,934
Accounts receivable (net)	30,828
Grants receivable	166,687
Restricted cash and cash equivalents	<u>12,965</u>

Total current assets	<u>570,414</u>
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Capital assets:

Land and construction in progress	275,204
Other capital assets, net of depreciation	<u>1,526,585</u>

Total capital assets	<u>1,801,789</u>
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Total assets	<u>2,372,203</u>
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Liabilities

Current liabilities:

Accounts payable and other accrued liabilities	195,565
Due to other funds	(29,231)
Installment purchase - current	3,500
Liabilities payable from restricted assets:	
Customer deposits	<u>12,965</u>

Total current liabilities	182,799
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Noncurrent liabilities:

Installment purchase - noncurrent	<u>70,000</u>
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Total liabilities	<u>252,799</u>
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Net Position

Net investment in capital assets	1,728,289
Unrestricted	<u>391,115</u>

Total net position	<u>\$2,119,404</u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 9****Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2024**

Operating Revenues:

Charges for services	\$ 339,315
Other receipts	<u>(123)</u>

Total operating revenues	<u>339,192</u>
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Operating Expenses:

Administration	6,908
Water treatment and distribution	312,631
Depreciation	<u>51,079</u>

Total operating expenses	<u>370,617</u>
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Operating income (loss)	<u>(31,425)</u>
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Nonoperating Revenues (Expenses):

Grant revenue from capital project	154,250
Interest expense	<u>(3,369)</u>

Total nonoperating revenues (expenses)	<u>150,881</u>
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Income (loss) before transfers	119,456
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Transfer from other fund	<u>-</u>
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Change in net position	119,456
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Total net position - beginning	<u>1,999,948</u>
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Total net position - ending	<u>\$2,119,404</u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Exhibit 10****Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2024**

Cash Flows From Operating Activities:

Cash received from customers	\$ 361,364
Customer deposits received	350
Cash paid for goods and services	(84,887)
Cash paid to or on behalf of employees for services	<u>(118,388)</u>
Net cash provided by (used in) operating activities	<u>158,439</u>

Cash Flows From Non-Capital Financing Activities:

Increase (decrease) in due to other fund	<u>10,012</u>
Net cash provided by (used in) non-capital financing activities	<u>10,012</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(202,556)
Grant receipts	107,467
Principal paid on long-term debt	(3,500)
Interest paid on long-term debt	<u>(3,369)</u>
Net cash provided by (used in) capital and related financing activities	<u>(101,958)</u>

Cash Flows From Investing Activities:

Net increase (decrease) in cash and cash equivalents	66,493
Balances - beginning of year	<u>306,406</u>
Balances - end of year	<u>\$ 372,899</u>

**Reconciliation of operating income (loss) to net cash provided by (used in)
operating activities:**

Operating income (loss)	\$ (31,425)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	51,079
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	22,172
Increase (decrease) in accounts payable and accrued liabilities	116,263
Increase (decrease) in customer deposits	<u>350</u>
Net cash provided by (used in) operating activities	<u>\$ 158,439</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Notes to the Financial Statements For the Fiscal Year Ended June 30, 2024

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Hot Springs conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Hot Springs is a municipal corporation governed by an elected mayor and a three-member Board of Aldermen.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the government. 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 are generally 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 specific 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. Separate statements for each fund category - governmental and proprietary - are presented. The Town has no fiduciary funds to report. 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 fund:

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, and general government.

American Rescue Plan Funds – This fund is used to account for the transactions related to the American Rescue Plan Funds.

The Town reports the following major enterprise fund:

Water and Sewer Fund - This fund is used to account for the Town's water and sewer operations. A Water and Sewer Capital Project Fund has been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Water and Sewer Capital Project Fund has been included in the supplemental information.

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses 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 operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for the enterprise fund include the cost 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 a revenue, because the amount is not susceptible to accrual. At June 30th, 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, and 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 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 of Hot Springs because the tax is levied by Madison 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. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. The Town does not have a formal policy on how to apply resources, but in practice, the Town would first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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 Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the ARPA Special Revenue Fund and Capital Project Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000. All amendments must be approved by the governing board.

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

1. Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the Town 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 nonguaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and mutual fund shares when the mutual fund is certified by the Local Government Commission. The Town's investments are reported at fair value.

The North Carolina Capital Management Trust (NCCMT) Government Portfolio is an SEC-registered money market mutual fund that is currently certified by the Local Government Commission under the provisions of G.S. 159-30(c)(8) and the North Carolina Administrative Code. The Government Portfolio is a 2a7 fund that invests in treasuries, government agencies, and repurchase agreements collateralized by treasuries. It is rated AAAm by S&P and AAA-mf by Moody's Investor Services and reported at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment, and to maximize investment income, and considers all cash and investments to be cash and cash equivalents. The Town 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

Powell Bill Funds are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Federal Asset Seizure Funds are also classified as restricted cash because it can be expended only for the purposes of expenses associated with forfeited operations or used to finance certain general investigative expenses. Unexpended loan proceeds are classified as restricted assets for the General Fund because their use is completely restricted to the purpose for which the loan was originally issued.

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Town of Hot Springs Restricted Cash

Governmental Activities

General Fund

Streets	\$ 39,309
Public Safety	73
	39,382
ARPA Fund	91,944
	131,326

Business-type Activities

Water and Sewer Fund customer deposits	12,965
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Total restricted cash	\$ 144,291
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4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2023.

5. Allowance 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. Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$1,000. Donated capital assets received prior to June 15, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired after July 1, 2003, consist of the road network and water and sewer system assets that were acquired, or received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that does not add to the value of the assets, or materially extend assets' lives, is not capitalized.

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

<u>Asset Class</u>	<u>Years</u>
Infrastructure	30
Buildings and improvements	24-40
Distribution systems	24-40
Vehicles	3-5
Furniture and equipment	10-50

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 no items that 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 two items that meet the criterion for this category - property taxes receivable and deferred rental income.

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.

10. Compensated Absences

The vacation policy of the Town provides up to three weeks of paid vacation leave, per year, depending on the years of service. The vacation policy does not provide for any hours to be carried from one year to the next.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, and any unused sick leave accumulated at the time of separation is forfeited. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or the 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:

Non-spendable 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.

Prepaid Items - the portion of fund balance that is not available for appropriation because it represents the year-end balance of prepaid items, which are not expendable available 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 government 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 next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net Position and Restricted Fund Balance on the face of the balance sheet.

Restricted for Streets - the 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 - the portion of fund balance that is restricted by revenue source for narcotic enforcement.

Committed Fund Balance - the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Hot Springs' Board of Aldermen (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the year-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 - the portion of fund balance that Town of Hot Springs intends to use for specific purposes.

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 Hot Springs does not have a revenue spending policy that provides guidance for programs with multiple revenue sources. However, in practice, the Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local, non-Town funds, Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance.

II. Stewardship, Compliance and Accountability

A. Significant Violations of Finance - Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

Excess Expenditures Over Appropriations

G.S. 159-28(a) states that all monies received and expended by a local government or public authority should be included in the budget ordinance. Funds were spent that exceeded the authorized appropriations in the General Fund – transportation by \$2,520 due to over expenditures. Management and the Board will review more closely the budget reports to ensure compliance in future years.

Insufficient Bond Coverage

G.S. 159-29 states that: “The finance officer shall give a true accounting and faithful performance bond with sufficient sureties in an amount to be fixed by the governing board.” The statute requires that the amount of the bond fixed by the governing board may not be less than the greater of \$50,000 or an amount equal to 10% of the unit’s annually budgeted funds, up to a million dollars. During the year, the town did not maintain sufficient bond coverage for the finance officer and was not in compliance with NC G.S. 159-29.

III. Detail Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits

All the deposits of the Town are insured using the Pooling Method. 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, these deposits are considered to be held by the Town’s agent in their name. 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 or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town 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 has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization 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.

At June 30, 2024, the Town's deposits had a carrying amount of \$1,683,003, and a bank balance of \$1,712,606. Of the bank balance, \$250,000 was covered by Federal Depository Insurance, and the remainder was covered by collateral held under the Pooling Method. At June 30, 2024, the Town's petty cash fund totaled \$200.

Investments

At June 30, 2024, the Town of Hot Springs had \$923 invested in the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's (S&P). The Town has no policy against credit risk. All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

2. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2024, are net of the following allowances for doubtful accounts:

General Fund:

Taxes receivable	\$ 699
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Water and Sewer Fund:

Accounts receivable	5,000
Total	<u>\$ 5,699</u>

3. Capital Assets

Capital asset activity for the year ended June 30, 2024, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 221,016	\$ -	\$ -	\$ 221,016
Construction in progress	-	-	-	-
	<u>221,016</u>	<u>-</u>	<u>-</u>	<u>221,016</u>
Capital assets being depreciated:				
Buildings and improvements	446,683	19,202	-	465,885
Furniture and equipment	115,887	-	6,175	109,712
Infrastructure	277,234	-	-	277,234
Vehicles and motorized equipment	497,693	69,259	175,860	391,093
Total capital assets being depreciated	<u>1,337,497</u>	<u>88,461</u>	<u>182,035</u>	<u>1,243,923</u>
Less accumulated depreciation for:				
Buildings and improvements	266,503	6,974	-	273,476
Furniture and equipment	110,722	1,680	6,176	106,226
Infrastructure	159,409	9,241	-	168,650
Vehicles and motorized equipment	355,974	31,360	175,860	211,474
Total accumulated depreciation	<u>892,608</u>	<u>\$ 49,254</u>	<u>\$ 182,036</u>	<u>759,827</u>
Total capital assets being depreciated, net	<u>444,891</u>			<u>484,096</u>
Governmental activity capital assets, net	<u>\$ 665,907</u>			<u>\$ 705,114</u>

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

General government	\$ 13,272
Public safety	16,894
Public works	19,089
Total depreciation expense	<u>\$ 49,254</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Water and Sewer Fund:				
Capital assets not being depreciated:				
Construction in progress	\$ 272,504	\$ 153,600	\$ 154,900	\$ 271,204
Easement	4,000	-	-	4,000
Total capital assets not being depreciated	<u>276,504</u>	<u>153,600</u>	<u>154,900</u>	<u>275,204</u>
Capital assets being depreciated				
Building and improvements	118,409	-	-	118,409
Plant and distribution systems	2,710,156	203,856	-	2,914,012
Vehicles and motorized equipment	23,283	-	-	23,283
Total capital assets being depreciated	<u>2,851,848</u>	<u>203,856</u>	<u>-</u>	<u>3,055,704</u>
Less accumulated depreciation				
Building and improvements	118,161	95	-	118,256
Plant and distribution systems	1,336,594	50,984	-	1,387,578
Vehicles and motorized equipment	23,284	-	-	23,284
Total accumulated depreciation	<u>1,478,039</u>	<u>\$ 51,079</u>	<u>\$ -</u>	<u>1,529,118</u>
Total capital assets being depreciated, net	<u>1,373,808</u>			<u>1,526,585</u>
Business-type activity capital assets, net	<u>\$ 1,650,312</u>			<u>\$ 1,801,789</u>

The Town has active construction projects as of June 30, 2024. At year-end, the Town's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant Expansion	\$ 104,649	\$ 374,451
Viable Utility Reserve Grant	166,555	10,345
Total	<u>\$ 271,204</u>	<u>\$ 384,796</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

The Town of Hot Springs is not a participating unit of the Local Governmental Employees' Retirement System administered by the State of North Carolina.

2. Deferred Outflows and Inflows of Resources

Deferred outflows of resources - the Town has no deferred outflows of resources.

Deferred inflows of resources at year-end is comprised of the following:

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable (General Fund)	\$ -	\$ 8,059
Deferred rental income	2,000	2,000
Total	<u>\$ 2,000</u>	<u>\$ 10,059</u>

3. 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 participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability 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. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large Workers' Compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance and the excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the N. C. League of Municipalities. The pools are audited by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town does not carry flood insurance. 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.

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 and tax collector are each individually bonded for \$50,000 and \$10,000, respectively. The remaining employees who have access to funds are bonded under a blanket bond for \$20,000.

4. Long-Term Obligations

a. Installment Purchases

The Town's direct placement installment purchases, serviced by the governmental funds, were issued for the acquisition of various equipment and land. The excavator and land is pledged as collateral for the debt while the debt is outstanding. Principal and interest requirements are appropriated when due.

Installment purchases at June 30, 2024, are comprised of the following:

\$275,000, real property installment purchase in annual installments of \$12,384, through October 2057, secured by the real property	\$ 107,839
\$70,000, fire truck installment purchase in yearly installments of \$11,445, through September 2029, secured by a fire truck	60,978
\$45,000, utility truck installment purchase in yearly installments of \$11,037, through February 2029, secured by a truck	45,000
	<u>\$ 213,817</u>

b. General Obligation Indebtedness

The Town's general obligation bonds are serviced by the governmental funds. The bonds were used to finance water and sewer system improvements, and the obligations are carried as liabilities of the Water and Sewer Enterprise Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2024, are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water and Sewer Fund:

\$128,000 - 1999 Water Bond due on June 1 in annual installments of \$2,000 plus interest through June 1, 2012, and \$2,500 plus interest from June 1, 2013 through June 1, 2019, and \$3,000 plus interest from June 1, 2020 through June 1, 2021, and \$3,500 plus interest from June 1, 2022 through June 1, 2025, and \$4,000 plus interest from June 1, 2026 through June 1, 2028, and \$4,500 plus interest through June 1, 2029 through June 1, 2031, and \$5,000 plus interest from June 1, 2032 through June 1, 2034, and \$5,500 at June 1, 2035, and \$6,000 plus interest from June 1, 2036 through June 1, 2039; interest is at 5.0%.

73,500
<u>\$ 73,500</u>

Annual debt service requirements to maturity for long-term obligations are as follows:

	General Obligation Bonds		Direct Placement Installment Purchases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
Governmental Activities:						
2025	\$ -	\$ -	\$ 25,786	\$ 9,080	\$ 25,786	\$ 9,080
2026	-	-	27,035	7,832	27,035	7,832
2027	-	-	28,264	6,602	28,264	6,602
2028	-	-	29,557	5,309	29,557	5,309
2029	-	-	30,914	3,952	30,914	3,952
2030-2034	-	-	72,262	7,585	72,262	7,585
2035-2038	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 213,817</u>	<u>\$ 40,360</u>	<u>\$ 213,817</u>	<u>\$ 40,360</u>
Business-type Activities						
2025	\$ 3,500	\$ 3,216	\$ -	\$ -	\$ 3,500	\$ 3,216
2026	4,000	3,063	-	-	4,000	3,063
2027	4,000	2,888	-	-	4,000	2,888
2028	4,000	2,713	-	-	4,000	2,713
2029	4,500	2,538	-	-	4,500	2,538
2030-2034	24,000	9,869	-	-	24,000	9,869
2035-2039	29,500	3,916	-	-	29,500	3,916
2040	-	-	-	-	-	-
Total	<u>73,500</u>	<u>28,200</u>	<u>-</u>	<u>-</u>	<u>73,500</u>	<u>28,200</u>
Total	<u>\$ 73,500</u>	<u>\$ 28,200</u>	<u>\$ 213,817</u>	<u>\$ 40,360</u>	<u>\$ 287,317</u>	<u>\$ 68,560</u>

c. Changes in Long-Term Liabilities

	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024	Current Portion of Balance
Governmental Activities:					
Direct Placement installment purchases	\$ 186,439	\$ 45,000	\$ 17,622	\$ 213,817	\$ 25,786
Governmental activity long-term liabilities	<u>\$ 186,439</u>	<u>\$ 45,000</u>	<u>\$ 17,622</u>	<u>\$ 213,817</u>	<u>\$ 25,786</u>
Business-type Activities:					
General Obligation bonds	\$ 77,000	\$ -	\$ 3,500	\$ 73,500	\$ 3,500
Direct Placement installment purchases	-	-	-	-	-
Business-type activity long-term liabilities	<u>\$ 77,000</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 73,500</u>	<u>\$ 3,500</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

At June 30, 2024, the Town had a legal debt margin of \$6,341,160.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2024, consist of the following:

Due the General Fund for the allocation of cost from the Water and Sewer Fund	\$ 31,008
Due the General Fund for capital project expenditures from the Water and Sewer Capital Project Funds	31,706
Due the Water and Sewer Fund for capital project expenditures from the Water and Sewer Capital Project Funds	37,576
Due the Water and Sewer Fund for revenue replacement from the ARPA Fund	<u>91,944</u>
Total	<u>\$ 192,233</u>

The interfund balances resulted from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2024, consist of the following:

From the Water and Sewer Fund to the Water and Sewer Capital Projects for project expenditures	<u>\$ 2,103</u>
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Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

During the 2024 fiscal year, the Town made a one-time transfer from the Water and Sewer Fund to the Water and Sewer Capital Projects fund for project expenditures.

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 705,114	\$ 1,801,789
Less: long-term debt	<u>(213,817)</u>	<u>(73,500)</u>
Net investment in capital assets	<u>\$ 491,297</u>	<u>\$ 1,728,289</u>

E. Fund Balance

The following schedule provides management and citizens with information on the portion of the General Fund balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 1,347,722
Less:	
Prepaid	9,362
Stabilization by State Statute	141,181
Streets - Powell Bill	38,927
Police	73
Appropriated Fund Balance in 2025 Budget	250,000
Remaining Fund Balance	<u>\$ 908,180</u>

IV. Joint Ventures

The Town and the members of the Town's volunteer fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2024. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustee's files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

V. Jointly Governed Organizations

The Town, in conjunction with four counties and fourteen other municipalities, established the Land of Sky Regional Council (the "Council"). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$-0- to the Council during the fiscal year ended June 30, 2024.

VI. Related Party Transactions

The Town regularly purchases supplies from Gentry Hardware. Jeanne Gentry, who is a Town Alderman, and who also acts in the capacity of finance director, is the business owner's wife. The Town purchased \$7,710 and \$3,985 in supplies during the fiscal year ended June 30, 2024, from the General Fund and the Water and Sewer Fund, respectively. As of June 30, 2024, there were \$-0- outstanding amounts due to Gentry Hardware.

VII. Summary of 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 monies.

VIII. Significant Effects of Subsequent Events

Management has evaluated subsequent events through June 20, 2025, the date on which the financial statements were available to be issued, and concluded that the following subsequent event has occurred that would require recognition in the financial statements or disclosure in the financial statements:

September 26, 2024, Hurricane Helene devastated much of the western part of North Carolina. The effects of that on the Town of Hot Springs, North Carolina were significant damage to the community as well to public property and equipment. The Town hasn't fully assessed the damages but will seek FEMA reimbursement to offset the damages incurred and not covered by insurance.

In December 2024, the Town was awarded an Emergency Bridge Loan for Hurricane Helene Damages from the North Carolina Department of Environmental Quality to repair damages to the Town's drinking water and/or wastewater infrastructure resulting from Hurricane Helene. The loan is \$1,000,000, 0% interest loan, payable by June 30, 2030, or upon receipt of federal disaster relief, whichever comes first. Requests for loan disbursements for eligible costs must be made by October 31, 2028. In addition to the bridge loan, the Town was awarded an additional \$200,000 in grant funds for engineering assessment, planning and design work associated with the scope of work for the referenced project.

GOVERNMENTAL ACTIVITIES

MAJOR FUNDS

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

CORONAVIRUS STATE LOCAL FISCAL RECOVERY FUNDS CFR 21.027(ARPA FUNDS)

The Coronavirus State Local Fiscal Recovery Fund CFR 21.027 (ARPA Funds) is used to account for grant funds to support urgent COVID-19 responses efforts and replace lost revenue.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 1
Page 1 of 4

General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

For the Fiscal Year Ended June 30, 2024

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2023)

	2024		Variance	2023
	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Ad valorem taxes:				
Current year	\$ 332,180	\$ 374,518	\$ 42,338	\$ 364,222
Prior years	5,000	13,217	8,217	10,858
Penalties and interest	1,000	5,859	4,859	4,549
Total	<u>338,180</u>	<u>393,594</u>	<u>55,414</u>	<u>379,629</u>
 Other taxes and licenses:				
Solid waste tax	400	403	3	419
Gasoline tax refund	1,000	-	(1,000)	-
Total	<u>1,400</u>	<u>403</u>	<u>(997)</u>	<u>419</u>
 Unrestricted intergovernmental:				
Franchise tax	30,000	42,299	12,299	40,411
Local option sales tax	180,000	228,854	48,854	221,533
Payment in lieu of taxes	15,000	18,091	3,091	16,743
Beer and wine tax	2,500	2,514	14	2,357
Total	<u>227,500</u>	<u>291,757</u>	<u>64,257</u>	<u>281,044</u>
 Restricted intergovernmental:				
Powell Bill State street aid allocation	23,000	25,421	2,421	23,155
Controlled substance taxes	75	5	(70)	-
Total	<u>23,075</u>	<u>25,426</u>	<u>2,351</u>	<u>23,155</u>
 Permits and fee:				
Public safety fees	95	100	5	22
Planning and zoning fees	250	1,730	1,480	130
Other permits and fees	100	-	(100)	-
Total	<u>445</u>	<u>1,830</u>	<u>1,385</u>	<u>152</u>

cont.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Schedule 1
Page 2 of 4****General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual****For the Fiscal Year Ended June 30, 2024****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2023)**

	2024		Variance	2023
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u>	<u>Actual</u>
			<u>(Negative)</u>	
Revenues (continued):				
Investment earnings	\$ -	\$ 98	\$ 98	\$ -
Miscellaneous:				
Rents and concessions	32,600	28,647	(3,953)	30,784
Sales and service	1,000	1,950	950	1,000
Other receipts	1,010	(748)	(1,758)	7,152
Donations	-	-	-	6,000
Total	<u>34,610</u>	<u>29,849</u>	<u>(4,761)</u>	<u>44,936</u>
Total revenues	<u>625,210</u>	<u>742,957</u>	<u>117,747</u>	<u>729,335</u>
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	20,025	20,726	(701)	18,492
Professional services	39,750	36,777	2,974	35,093
Other operating expenditures	<u>47,640</u>	<u>23,736</u>	<u>23,904</u>	<u>4,854</u>
Total	<u>107,415</u>	<u>81,238</u>	<u>26,177</u>	<u>58,439</u>
Administration and finance:				
Salaries and employee benefits	83,192	85,860	(2,668)	79,517
Utilities	100,300	38,475	61,825	29,464
Other operating expenditures	<u>26,450</u>	<u>22,262</u>	<u>4,188</u>	<u>31,304</u>
Total	<u>209,942</u>	<u>146,596</u>	<u>63,346</u>	<u>140,285</u>
Public buildings:				
Other operating expenditures	<u>31,560</u>	<u>22,118</u>	<u>9,442</u>	<u>4,498</u>
Total	<u>31,560</u>	<u>22,118</u>	<u>9,442</u>	<u>4,498</u>
Planning and zoning:				
Other operating expenditures	<u>2,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,700</u>
Total general government	<u>350,917</u>	<u>250,953</u>	<u>99,964</u>	<u>204,923</u>

cont.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 1
Page 3 of 4

General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

For the Fiscal Year Ended June 30, 2024

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2023)

	2024		Variance	2023
	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>	<u>Actual</u>
Expenditures (continued):				
Public safety:				
Police:				
Salaries and employee benefits	\$ 81,650	\$ 68,552	\$ 13,098	\$ 52,966
Capital outlay	6,000	-	6,000	-
Other operating expenditures	37,636	12,284	25,352	17,356
Total	<u>125,286</u>	<u>80,836</u>	<u>44,450</u>	<u>70,322</u>
Fire:				
Capital outlay	5,000	-	5,000	70,000
Other operating expenditures	26,000	31,410	(5,410)	25,249
Total	<u>31,000</u>	<u>31,410</u>	<u>(410)</u>	<u>95,249</u>
Total public safety	<u>156,286</u>	<u>112,246</u>	<u>44,040</u>	<u>165,570</u>
Transportation:				
Powell Bill expenditures	23,000	23,506	(506)	18,286
Salaries and employee benefits	91,054	92,966	(1,912)	90,413
Capital outlay	75,000	69,259	5,741	53,678
Other operating expenditures	44,050	49,891	(5,841)	29,469
Total transportation	<u>233,104</u>	<u>235,624</u>	<u>(2,520)</u>	<u>191,847</u>
Debt service:				
Principal retirement	18,174	17,622	552	11,134
Interest and other charges	6,210	6,207	3	4,070
Total debt service	<u>24,384</u>	<u>23,829</u>	<u>555</u>	<u>15,204</u>
Total expenditures	<u>764,691</u>	<u>622,651</u>	<u>142,040</u>	<u>577,544</u>
Revenues over (under) expenditures	<u>(139,481)</u>	<u>120,305</u>	<u>259,787</u>	<u>151,792</u>

cont.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Schedule 1
Page 4 of 4**

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2024
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2023)

	<u>2024</u>		<u>Variance Positive (Negative)</u>	<u>2023 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Other Financing Sources (Uses):				
Appropriated fund balance	\$ 94,481	\$ -	\$ (94,481)	\$ -
Proceeds from borrowing	45,000	45,000	-	70,000
Sale of capital assets	<u>-</u>	<u>6,405</u>	<u>6,405</u>	<u>-</u>
Total other financing sources (uses)	<u>139,481</u>	<u>51,405</u>	<u>(88,076)</u>	<u>70,000</u>
Net change in fund balance	<u>\$ -</u>	171,710	<u>\$ 171,710</u>	221,792
Fund balance - beginning		<u>1,176,011</u>		<u>954,220</u>
Fund balance - ending		<u>\$ 1,347,722</u>		<u>\$ 1,176,011</u>

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 2

Coronavirus State Local Fiscal Recovery Funds CFR 21.027 (ARPA Funds) Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual From Inception and for the Fiscal Year Ended June 30, 2024

	Actual				Variance
	Project	Prior	Current	Total to	Positive
	Authorization	Years	Year	Date	(Negative)
Revenues:					
ARPA Funds	\$ 183,888	\$ 183,888	\$ -	\$ 183,888	\$ -
Total revenues	183,888	183,888	-	183,888	-
Expenditures:					
ARPA expenditures	-	-	-	-	-
Total expenditures	-	-	-	-	-
Revenues over (under) expenditures	183,888	183,888	-	183,888	-
Other Financing Sources (Uses):					
Transfer out - Water and Sewer Fund	(183,888)	(183,888)	-	(183,888)	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	-	\$ -	\$ -
Fund balance - beginning			-		
Fund balance - ending			\$ -		

BUSINESS-TYPE ACTIVITIES

ENTERPRISE FUND

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the government's governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Sewer Fund - This fund is used to account for the activities associated with the operation and maintenance of the Town's water and sewer systems.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 3
Page 1 of 2

Water and Sewer Fund Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) For the Fiscal Year Ended June 30, 2024 (With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2023)

	2024		Variance	2023
	Budget	Actual	Positive (Negative)	Actual
Revenues:				
Operating revenue:				
Charges for services	\$ 340,000	\$ 339,315	\$ (685)	\$ 349,524
Other receipts	1,500	(123)	(1,623)	2,000
	<u>341,500</u>	<u>339,192</u>	<u>(2,308)</u>	<u>351,524</u>
Nonoperating revenue:				
Interest earned	-	-	-	-
Total revenues	<u>341,500</u>	<u>339,192</u>	<u>(2,308)</u>	<u>351,524</u>
Expenditures:				
Water and sewer distribution:				
Salaries and employee benefits	121,330	115,832	5,498	100,495
Utilities	36,300	30,312	5,988	28,165
Repairs and maintenance	1,000	3,931	(2,931)	2,548
Supplies and testing	58,590	69,362	(10,772)	60,659
Professional services	85,500	87,247	(1,747)	87,517
Other expenditures	16,080	5,946	10,134	16,574
Administrative expenses	15,700	6,908	8,792	3,489
	<u>334,500</u>	<u>319,538</u>	<u>14,962</u>	<u>299,448</u>
Debt service:				
Principal retirement	3,500	3,500	-	3,500
Interest and other charges	3,500	3,369	131	3,522
Total debt service	<u>7,000</u>	<u>6,869</u>	<u>131</u>	<u>7,022</u>
Capital outlay:				
Water and sewer lines, equipment	50,000	48,956	1,044	8,245
Total expenditures	<u>391,500</u>	<u>375,363</u>	<u>16,137</u>	<u>314,715</u>
Revenues over (under) expenditures	(50,000)	(36,171)	13,829	36,810
Other Finances Sources (Uses):				
Appropriated fund balance	50,000	-	(50,000)	-
Transfer from (to) Capital Project Fund	-	(2,103)	(2,103)	(7,386)
Transfer from (to) Special Revenue Fund	-	-	-	91,944
Revenues and other financing sources over (under) other expenditures (uses)	<u>\$ -</u>	<u>(38,274)</u>	<u>\$ (38,274)</u>	121,367 cont.

TOWN OF HOT SPRINGS, NORTH CAROLINA**Schedule 3****Page 2 of 2****Water and Sewer Fund****Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)****For the Fiscal Year Ended June 30, 2024****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2023)**

	<u>2024</u>		<u>Variance Positive (Negative)</u>	<u>2023 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Reconciliation from Budgetary Basis (modified accrual) to Full Accrual:				
Reconciling items:				
Grant revenue from Water and Sewer Capital Project		\$ 154,250		\$ 171,272
Transfer to capital project		2,103		7,386
Principal retirement		3,500		3,500
Capital outlay		48,956		8,245
Depreciation		<u>(51,079)</u>		<u>(29,852)</u>
Change in net position		<u>\$ 119,456</u>		<u>\$ 281,919</u>

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 4

**Water and Sewer Capital Project Fund
Water System Capital Improvements
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2024**

	Actual				Variance
	Project	Prior	Current	Total to	Positive
	Authorization	Years	Year	Date	(Negative)
Revenues:					
Restricted contributions					
Water System H-AIA-D-20-0202 *	\$ 150,000	\$ 144,647	\$ 650	\$ 145,297	\$ (4,703)
Water System H-AIA-D-20-0202-local *	7,500	5,250	-	5,250	(2,250)
Wastewater Treatment Plant Expansion	4,000,000	-	104,649	104,649	(3,895,351)
Viable Utility Reserve Grant	<u>1,000,000</u>	<u>117,604</u>	<u>48,951</u>	<u>166,555</u>	<u>(833,445)</u>
Total revenues	<u>5,157,500</u>	<u>267,501</u>	<u>154,250</u>	<u>421,751</u>	<u>(4,735,749)</u>
Expenditures:					
Water System H-AIA-D-20-0202 *	157,500	154,900	-	154,900	2,600
Wastewater Treatment Plant Expansion	4,000,000	-	104,649	104,649	3,895,351
Viable Utility Reserve Grant	<u>1,000,000</u>	<u>117,604</u>	<u>48,951</u>	<u>166,555</u>	<u>833,445</u>
Total expenditures	<u>5,157,500</u>	<u>272,504</u>	<u>153,600</u>	<u>426,104</u>	<u>4,731,396</u>
Revenues over (under) expenditures	<u>-</u>	<u>(5,003)</u>	<u>650</u>	<u>(4,353)</u>	<u>(4,353)</u>
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund for:					
Water System H-AIA-D-20-0202 *	<u>-</u>	<u>2,250</u>	<u>2,103</u>	<u>4,353</u>	<u>4,353</u>
Total other financing sources (uses):	<u>-</u>	<u>2,250</u>	<u>2,103</u>	<u>4,353</u>	<u>4,353</u>
Revenues and other financing sources					
over (under) expenditures and other					
financing uses	<u>\$ -</u>	<u>\$ (2,753)</u>	<u>\$ 2,753</u>	<u>\$ -</u>	<u>\$ -</u>

* Project complete at June 30, 2024.

OTHER SCHEDULES

This section contains additional information required on property taxes and transfers

- Schedule of Ad Valorem Taxes Receivable
 - Analysis of Current Tax Levy
-

TOWN OF HOT SPRINGS, NORTH CAROLINA**Schedule 5****Schedule of Ad Valorem Taxes Receivable
June 30, 2024**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2023</u>	<u>Additions/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2024</u>
2023 - 2024	\$ -	\$ 380,470	\$ 375,472	\$ 4,998
2022 - 2023	3,633	790	3,715	708
2021 - 2022	2,483	765	2,370	877
2020 - 2021	1,552	899	1,611	840
2019 - 2020	958	849	1,346	462
2018 - 2019	699	711	870	539
2017 - 2018	486	(2)	317	168
2016 - 2017	337	(36)	192	108
2015 - 2016	382	(39)	285	58
2014 - 2015	332	(47)	285	-
2013 - 2014	<u>482</u>	<u>-</u>	<u>482</u>	<u>-</u>
Total	<u>\$ 11,345</u>	<u>\$ 384,359</u>	<u>\$ 386,945</u>	8,758
Less allowance for uncollectibles				<u>699</u>
Balance				<u>\$ 8,059</u>
Reconciliation With Revenues:				
Taxes - Ad valorem - General Fund				\$ 393,594
Amounts written off for fiscal year 2013 - 2014				<u>290</u>
				393,883
Less interest collected				(5,859)
Collections on years prior to 2013				<u>(1,079)</u>
Total collections and credits				<u>\$ 386,945</u>

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 6

**Analysis of Current Tax Levy
June 30, 2024**

	<u>City - wide</u>			<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>		
Original levy:					
Property taxes at current year's rate	\$ 66,925,960	0.48	\$ 321,245	\$ 321,245	\$ -
Registered motor vehicles taxed at current year's rate	<u>10,963,542</u>	0.48	<u>52,625</u>	<u>-</u>	<u>52,625</u>
Total	<u>77,889,502</u>		<u>373,870</u>	<u>321,245</u>	<u>52,625</u>
Discoveries-property	8,454,167	0.48	40,580	40,580	-
Discoveries-motor vehicles	-	0.48	-	-	-
Releases-property	(7,079,169)	0.48	(33,980)	(33,980)	-
Releases-registered motor vehicles	<u>-</u>	0.48	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>1,374,998</u>		<u>6,600</u>	<u>6,599</u>	<u>-</u>
Total property valuation	<u><u>\$ 79,264,500</u></u>				
Net Levy			380,470	327,844	52,625
Less uncollected taxes at June 30, 2024			<u>(4,998)</u>	<u>(4,998)</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 375,472</u></u>	<u><u>\$ 322,846</u></u>	<u><u>\$ 52,625</u></u>
Current levy collection percentage			<u><u>98.69%</u></u>	<u><u>98.48%</u></u>	<u><u>100.00%</u></u>

COMPLIANCE SECTION

**Independent Auditors' 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**

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 North Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

**Independent Auditors' 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 Hot Springs, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Hot Springs, North Carolina, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Town of Hot Springs, North Carolina's basic financial statements and have issued our report thereon dated June 20, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Hot Springs, North Carolina's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Hot Springs, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Hot Springs, North Carolina'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items, 2024-001, 2024-002, 2024-003 and 2024-004 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Hot Springs, North Carolina's financial statements are free from material misstatement, we 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as 2004-005 and 2004-006.

Town of Hot Springs, North Carolina's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town of Hot Springs, North Carolina's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Town of Hot Springs, North Carolina's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control 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.

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
June 20, 2025

TOWN OF HOT SPRINGS, NORTH CAROLINA

**Schedule of Findings and Responses
For the Year Ended June 30, 2024**

1. Financial Statement Findings:

Significant Deficiencies:

Finding: 2024-001:
Significant Deficiency
Segregation of Duties

Criteria: Duties need to be segregated to provide efficient internal controls.

Condition: The size of the Town's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Cause: Limited number of accounting and administrative staff are available to segregate duties.

Effect: Material misstatements could occur, whether due to fraud or error, and not be detected on a timely basis.

Recommendation: The Mayor and the Board of Aldermen should be engaged in the ongoing review of the financial affairs of the Town to provide oversight.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will adhere to the corrective action plan on pages 53-54 of this report.

Finding: 2024-002:
Significant Deficiency
Lack of Supporting Documentation

Criteria: Documentation needs to be maintained to support transactions.

Condition: Documentation was not available to support some of the transactions reviewed during the audit and the manner in which the documentation was filed was not in a consistent manner to be able to locate the documentation.

Cause: Documentation was not retained for all transactions and the filing system is not conducive to the location of documentation due to the filing of multiple years together and the inconsistency of filing the same vendor in various files.

Effect: Material misstatements could occur, whether due to fraud or error, and not be detected on a timely basis.

Recommendation: The Town should retain supporting documentation for all transactions and should establish a policy for the organization and maintenance of records.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will adhere to the corrective action plan on page 53-54 of this report.

Finding: 2024-003:
Significant Deficiency
Lost Revenue

Criteria: Municipalities are entitled to the reimbursement of sale taxes paid on purchases.

Condition: Municipalities should separate the sales taxes paid on purchases and request reimbursement of the sales taxes paid through the filing of form E-585, Request for Nonprofit and Governmental Entity Claim for Refund State, County, and Transit Sales and Use Taxes.

Cause: The Town is not maintaining records of sales taxes paid and not filing reports to request reimbursements of sales taxes and therefore is losing a revenue source.

Effect: The Town is losing a source of revenue.

Recommendation: The Town should record the sales taxes paid on purchases separately and request reimbursement of sales taxes by filing form E-585.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will adhere to the corrective action plan on page 53-54 of this report.

Finding: 2024-004:
Significant Deficiency
Bank Reconciliation Not Performed Timely

Criteria: Bank reconciliations should be performed timely on all accounts.

Condition: One of the bank accounts had not been reconciled all year.

Cause: The bank statements were not being obtained and therefore, the account was not being reconciled.

Effect: Material misstatements could occur, whether due to fraud or error, and not be detected on a timely basis.

Recommendation: All bank statements should be obtained and all of your accounts should be reconciled on a timely basis.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will adhere to the corrective action plan on page 53-54 of this report.

Noncompliance:

Finding: 2024-005

Noncompliance with North Carolina General Statute
Excess Expenditure Over Appropriations

Criteria: G.S. 159-28(a) states that no obligation may be incurred in a program, function or activity accounted for in a fund included in the budget ordinance, unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Condition: The Town expended more than appropriated in the annual budget ordinance in the General Fund, transportation by \$2,520.

Effect: Moneys were spent that had not been obligated and appropriated.

Recommendation: Before an obligation is to occur that will exceed the amount that was previously approved in the budget ordinance, an amendment to the budget should be adopted.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will adhere to the corrective action plan on page 53-54 of this report.

Finding: 2024-006

Noncompliance with North Carolina General Statute
Insufficient Bond Coverage

Criteria: Performance bond required by NC G.S. 159-29.

Condition: NC G.S. 159-29 requires that the amount of the bond fixed by the governing board may not be less than the greater of \$50,000 or an amount equal to 10% of the unit's annually budgeted funds, up to a million dollars. The Town did not maintain sufficient bond coverage during the year.

Effect: The Town's bond coverage was not sufficient to be in compliance with NC G.S. 159-29 and if losses had occurred, they may not have been adequately covered.

Cause: The Town did not increase its bond coverage to cover 10% of the annually budgeted funds.

Identification of repeat finding: None.

Recommendation: The Mayor and the Board of Aldermen should review the bond coverage annually and verify that the coverage is within the statutory limits.

Views of responsible officials and planned corrective action: The Town agrees with this finding and will adhere to the corrective action plan on page 53-54 of this report.

Town of Hot Springs
City Hall
186 Bridge Street
PO Box 218
Hot Springs, NC 28743
(828) 622-7591

Corrective Action Plan
For the Year Ended June 30, 2024

Finding 2024-001:

Name of contact person:
Corrective action:

Jeanne Caldwell Gentry, Finance Officer
The Mayor and the Board of Aldermen will provide ongoing review of the financial affairs of the Town to provide oversight. The Town is in the process of hiring an outside Finance Officer for ongoing review of the Town's financial affairs in order to keep current with all proper procedures. In addition, an outside consultant will provide some additional internal controls.

Proposed completion date:

The Town will implement this immediately.

Finding 2024-002:

Name of contact person:
Corrective action:

Jeanne Caldwell Gentry, Finance Officer
The town implemented all computer files to be backed up by an outside IT firm which is done nightly. This began for the 2024-2025 budget year. The Town Board is planning to hire a Town Administrator within the next fiscal year, and the goal is to implement a new filing system. That position would be responsible for implementing, training and overseeing a successful filing system that would be consistent and easy to locate the file needed.

Proposed completion date:

The Town will implement this immediately.

Finding 2024-003:

Name of contact person:
Corrective action:

Jeanne Caldwell Gentry, Finance Officer
The Town Clerk will prepare and submit the required forms to request the reimbursement of sales tax.

Proposed completion date:

The Town will implement this immediately.

Finding 2024-004:

Name of contact person:

Jeanne Caldwell Gentry, Finance Officer

Corrective action:

Reconciliations will be performed for all accounts in a timely manner in the future.

Proposed completion date:

The Town will implement this immediately.

Finding 2024-005:

Name of contact person:

Jeanne Caldwell Gentry, Finance Officer

Corrective action:

Before an obligation is to occur the Mayor and Finance Officer will verify that expenditure will not exceed the amount that was previously approved in the budget ordinance or adopt an amendment to the budget.

Proposed completion date:

The Town will implement this immediately.

Finding 2024-006:

Name of contact person:

Jeanne Caldwell Gentry, Finance Officer

Corrective action:

The bond coverage will be increased to be in compliance with NC G.S. 159-29.

Proposed completion date:

The Town will implement this immediately.