

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, 2023

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

TOWN OF HOT SPRINGS, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2023

Mayor & Board of Aldermen

Mayor

Abby Norton

Aldermen

Vaughn Barnett
Jeanne Caldwell Gentry
Jimmy Moore

Town Administration

Town Attorney

Ron Moore

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, 2023, 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, 2023, 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 Auditors' 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 auditors' 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 November 27, 2023, 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
November 27, 2023

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, 2023. 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.

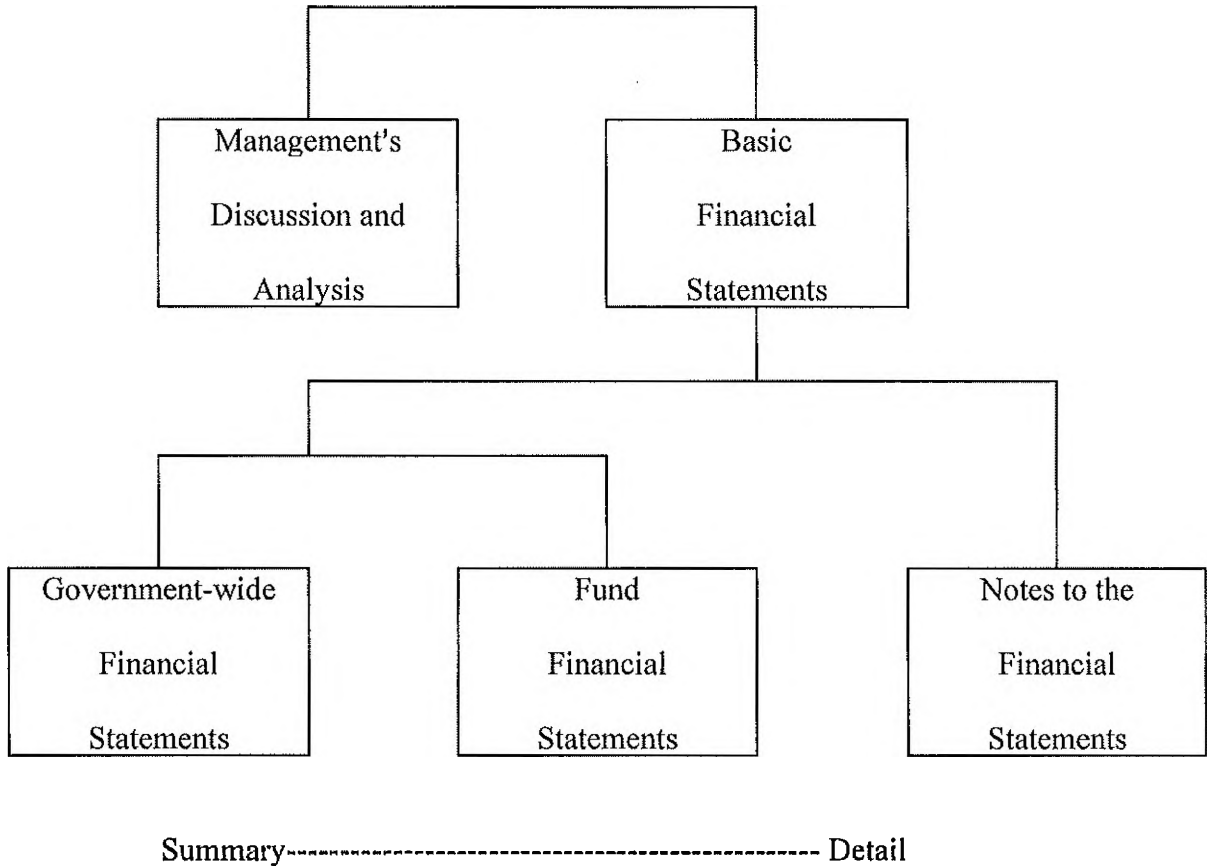
Financial Highlights

- 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 \$3,663,199 (net position).
- The government's total net position increased by \$525,565 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 \$1,176,011, with a net change of \$221,792 in fund balance. Approximately 15.73 percent of this total amount, or \$184,937, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$972,109, or 191.545 percent of total General Fund expenditures for the fiscal year.
- The Town of Hot Springs' total debt increased by \$56,306 (27.18%) 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	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 1,200,785	\$ 1,024,272	\$ 518,553	\$ 409,318	\$ 1,719,338	\$ 1,433,590
Capital assets	665,907	578,003	1,650,312	1,499,198	2,316,219	2,077,201
Total assets	1,866,692	1,602,275	2,168,865	1,908,516	4,035,557	3,510,791
Long-term liabilities	186,439	126,633	77,000	80,500	263,439	207,133
Other liabilities	16,253	53,688	91,917	109,987	108,170	163,675
Deferred outflows of resources	750	2,350	-	-	750	2,350
Total liabilities and deferred inflows of resources	203,442	182,671	168,917	190,487	372,359	373,158
Net Position:						
Net investment in capital assets	479,468	451,369	1,573,312	1,418,698	2,052,780	1,870,067
Restricted	171,934	162,227	-	-	171,934	162,227
Unrestricted	1,011,848	806,008	426,636	299,331	1,438,484	1,105,339
Total net position	\$ 1,663,251	\$ 1,419,604	\$ 1,999,948	\$ 1,718,029	\$ 3,663,199	\$ 3,137,633

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 \$3,663,199 as of June 30, 2023. The Town's net position increased by \$525,565 for the fiscal year ended June 30, 2023. However, the largest portion (56.04%) 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, \$171,934, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,438,484 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 99.01%, which is comparable to the statewide average for comparable size units without electrical systems of 99.12%.
- Increase in local option sales tax revenue, property taxes and grant revenues.
- Increase in other revenues.

Town of Hot Springs' Changes in Net Position

Figure 3

	Governmental Activity		Business-type Activity		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	\$ 150	\$ 1,545	\$ 349,524	\$ 312,927	\$ 349,674	\$ 314,472
Operating grants and contributions	115,099	115,308	-	-	115,099	115,308
Capital grants and contributions	-	-	171,272	161,004	171,272	161,004
General revenues:						
Property taxes	374,965	359,211	-	-	374,965	359,211
Other taxes	281,464	261,868	-	-	281,464	261,868
Other	44,938	25,441	2,000	-	46,938	25,441
Gain on sale of assets	-	8,600	-	-	-	8,600
Total revenues	816,616	771,973	522,796	473,932	1,339,412	1,245,905
Expenses:						
General government	217,635	211,674	-	-	217,635	211,674
Public safety	111,297	105,070	-	-	111,297	105,070
Transportation	145,503	167,716	-	-	145,503	167,716
Economic and physical development	-	-	-	-	-	-
Interest	6,589	4,766	-	-	6,589	4,766
Water and sewer	-	-	332,822	347,762	332,822	347,762
Total expenses	481,024	489,226	332,822	347,762	813,846	836,988
Increase (decrease) in net position before transfers	335,592	282,747	189,974	126,170	525,566	408,917
Transfers	(91,944)	(91,944)	91,944	91,944	-	-
Increase (decrease) in net position	243,647	190,803	281,919	218,114	525,566	408,917
Net position, July 1	1,419,604	1,228,801	1,718,029	1,499,915	3,137,633	2,728,716
Net position, June 30	\$ 1,663,251	\$ 1,419,604	\$ 1,999,948	\$ 1,718,029	\$ 3,663,199	\$ 3,137,633

Governmental activities: Governmental activities increased the Town's net position by \$243,647, thereby increasing the net position of the Town of Hot Springs. Key elements of this increase 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 \$281,919. Key elements for this increase are as follows:

- Operating revenues increased approximately \$36,600 due to an increase in the rates charged.
- Depreciation expense of \$29,852.
- 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 \$1,028,159, while the total fund balance reached \$1,176,011. The Town currently has an available fund balance of 202.57 percent of General Fund expenditures, while the total fund balance represents 231.71 percent of that same amount.

At June 30, 2023, the governmental funds of the Town of Hot Springs reported a combined fund balance of \$1,176,011 with a net increase in fund balance of \$221,792.

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 capital outlay for firefighting equipment and street department equipment along with building renovation 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 \$426,636. The total change in net position for this fund was an increase of \$281,919.

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, 2023, totals \$2,316,219 (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 fire truck and vehicle for \$123,678. Disposal of some equipment.

Business-type Activities:

- Purchase of a trailer for \$8,245 and additional construction of \$172,721. Disposal of some equipment.

Town of Hot Springs' Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 221,016	\$ 221,016	\$ -	\$ -	\$ 221,016	\$ 221,016
Construction in progress	-	-	272,504	752,170	272,504	752,170
Easement	-	-	4,000	4,000	4,000	4,000
Building	180,181	186,595	246	342	180,428	186,937
Furniture and equipment	5,166	6,924	-	-	5,166	6,924
Infrastructure and distribution systems	117,824	127,065	1,373,562	742,686	1,491,386	869,752
Automotive equipment	141,720	36,402	-	-	141,720	36,402
Total	\$ 665,907	\$ 578,003	\$ 1,650,312	\$ 1,499,198	\$ 2,316,219	\$ 2,077,201

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, 2023, the Town of Hot Springs had total debt outstanding of \$263,439. Of this, \$263,439 is debt backed by the full faith and credit of the Town.

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
General obligation bonds	\$ -	\$ -	\$ 77,000	\$ 80,500	\$ 77,000	\$ 80,500
Direct placement installment purchases	186,439	126,633	-	-	186,439	126,633
Total	\$ 186,439	\$ 126,633	\$ 77,000	\$ 80,500	\$ 263,439	\$ 207,133

Town of Hot Springs' Outstanding Debt

The Town of Hot Springs' total debt increased by \$56,306, or 27.18%, 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 \$6,134,863.

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 3.3%. This is equal to the State average of 3.3%.
- Employees received raises in varying percentages during the year.
- The Town continues to benefit from the Hometown Strong grants from the North Carolina Department of Environmental Quality, Division of Water Infrastructure, for improvements to the public water and sewer system. In addition, the Town received 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, 2024

Governmental Activities: The property tax rate remained at .48 per \$100; therefore, property taxes are expected to remain approximately the same.

Overall revenues are expected to increase slightly over the prior year.

Budgeted expenditures are expected to increase approximately 6.7% to \$644,175. This is mainly due to increased payroll expenses and renovations to the Community Center.

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

Residential:

- Water: Increase as follows:

New Water Rates (Bi-monthly, 5,000 gallons or less): (rounded down from 8%)

Water: \$45.00

Sewer: \$45.00

Over 5,000 gallons: \$10.00, per 1,000 gallons

Bi-Monthly Billing / Base Rate Residential: \$90.00

- Sewer: Charges will equal water charges.

Business and Commercial:

- Water: Increase as follows:

New Water Rates / Business (rounded down from 8%)

Water: \$55.00 Bi-Monthly

Sewer: \$55.00 Bi-Monthly

Over 4,000 gallons: \$15.00, per 1,000 gallons (same)

Bi-Monthly Billing / Base Rate Business: \$110.00

- Sewer: Charges will equal water charges.

The Water and Sewer Fund budget is expected to increase 13% to \$341,500.

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, 2023**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,003,325	\$ 293,791	\$ 1,297,116
Taxes receivable - net	9,682	-	9,682
Accrued interest receivable-taxes	2,841	-	2,841
Accounts receivable	11,700	53,000	64,700
Due from other governments	70,448	119,904	190,352
Internal balances	(39,243)	39,243	-
Prepaid items	13,003	-	13,003
Restricted cash and cash equivalents	129,029	12,615	141,644
Total current assets	<u>1,200,785</u>	<u>518,553</u>	<u>1,719,338</u>
Capital assets:			
Land, non-depreciable assets and construction in progress	221,016	276,504	497,520
Other capital assets, net of depreciation	444,891	1,373,808	1,818,699
Total capital assets	<u>665,907</u>	<u>1,650,312</u>	<u>2,316,219</u>
Total assets	<u>1,866,692</u>	<u>2,168,865</u>	<u>4,035,557</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and other current liabilities	11,501	79,302	90,803
Accrued interest payable	4,752	-	4,752
Due within one year	17,487	3,500	20,987
Payable from restricted assets	-	12,615	12,615
Long-term liabilities:			
Due in more than one year	168,952	73,500	242,452
Total liabilities	<u>202,692</u>	<u>168,917</u>	<u>371,609</u>
<u>Deferred Inflows of Resources</u>			
Deferred rental income	750	-	750
Total deferred inflows of resources	<u>750</u>	<u>-</u>	<u>750</u>
<u>Net Position</u>			
Net investment in capital assets	479,468	1,573,312	2,052,780
Restricted for:			
Stabilization by State Statute	134,849	-	134,849
Streets	37,012	-	37,012
Public Safety	73	-	73
Unrestricted	1,011,848	426,636	1,438,485
Total net position	<u>\$ 1,663,251</u>	<u>\$ 1,999,948</u>	<u>\$ 3,663,199</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, 2023**

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charge for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 217,635	\$ -	\$ 91,944	\$ -	\$ (125,690)	\$ -	\$ (125,690)
Public safety	111,297	20	-	-	(111,277)	-	(111,277)
Transportation	145,503	-	23,155	-	(122,347)	-	(122,347)
Economic and physical development	-	130	-	-	130	-	130
Interest on long-term debt	6,589	-	-	-	(6,589)	-	(6,589)
Total governmental activities	<u>481,024</u>	<u>150</u>	<u>115,099</u>	<u>-</u>	<u>(365,775)</u>	<u>-</u>	<u>(365,775)</u>
Business-type activities:							
Water and Sewer	332,822	349,524	-	171,272	-	187,975	187,975
Total	<u>\$ 813,846</u>	<u>\$ 349,674</u>	<u>\$ 115,099</u>	<u>\$ 171,272</u>	<u>(365,775)</u>	<u>187,975</u>	<u>(177,801)</u>
General revenues:							
Taxes:							
					374,965	-	374,965
					221,533	-	221,533
					59,931	-	59,931
					-	-	-
					44,938	2,000	46,938
					(91,944)	91,944	-
					<u>609,422</u>	<u>93,944</u>	<u>703,365</u>
					243,647	281,919	525,565
					1,419,604	1,718,029	3,137,633
					<u>\$ 1,663,251</u>	<u>\$ 1,999,948</u>	<u>\$ 3,663,199</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, 2023**

	Major Funds		Total
	General Fund	ARPA Fund	Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 1,003,325	\$ -	\$ 1,003,325
Taxes receivables (net)	9,682	-	9,682
Accounts receivable	11,700	-	11,700
Due from other governments	70,448	-	70,448
Due from other funds	52,701	-	52,701
Prepaid items	13,003	-	13,003
Restricted cash and cash equivalents	37,085	91,944	129,029
 Total assets	 \$ 1,197,944	 \$ 91,944	 \$ 1,289,888
 <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 11,501	\$ -	\$ 11,501
Due to other funds	-	91,944	91,944
Total liabilities	11,501	91,944	103,445
 Deferred inflows of resources:			
Property taxes receivable	9,682	-	9,682
Deferred rental income	750	-	750
Total deferred inflows of resources	10,432	-	10,432
 Fund balances:			
Nonspendable:			
Prepaid expenditures	13,003	-	13,003
Restricted for:			
Stabilization by State Statute	134,849	-	134,849
Streets	37,012	-	37,012
Public safety - police	73	-	73
Assigned:			
Subsequent year's expenditures	18,965	-	18,965
Unassigned	972,109	-	972,109
Total fund balances	1,176,011	-	1,176,011
 Liabilities, deferred inflows of resources and fund balances	 \$ 1,197,944	 \$ 91,944	 \$ 1,289,888

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, 2023**

Total governmental fund balances	\$ 1,176,011
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.	665,907
Other long-term assets (accrued interest receivable from taxes are not available to pay for current-period expenditures and therefore are inflows of resources in the funds. .	2,841
Liabilities for earned revenues considered deferred inflows of resources in fund statements. Property taxes receivable	9,682
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	(4,752)
Long-term debt	<u>(186,439)</u>
Net position of governmental activities	<u>\$ 1,663,251</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, 2023**

	<u>General Fund</u>	<u>ARPA Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 379,629	\$ -	\$ 379,629
Other taxes and licenses	419	-	419
Unrestricted intergovernmental	281,044	-	281,044
Restricted intergovernmental	23,155	91,944	115,099
Permits and fees	152	-	152
Miscellaneous	44,936	-	44,936
Investment earnings	-	-	-
Total revenues	729,335	(91,944)	821,280
Expenditures:			
General government	204,923	-	204,923
Public safety	165,570	-	165,570
Transportation	191,847	-	191,847
Debt service:			
Principal retirement	10,194	-	10,194
Interest	5,010	-	5,010
Total expenditures	577,544	-	577,544
Revenues over (under) expenditures	151,792	(91,944)	243,736
Other Financing Sources (Uses):			
Operating transfers in (out)	-	(91,944)	(91,944)
Proceeds from borrowing	70,000	-	70,000
Total other financing sources (uses)	70,000	(91,944)	(21,944)
Net change in fund balance	221,792	-	221,792
Fund balance - beginning	954,220	-	954,220
Fund balance - ending	\$ 1,176,011	\$ -	\$ 1,176,011

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, 2023**

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

Net changes in fund balances - total governmental funds \$ 221,792

Governmental funds report capital outlays as expenditures. How Statement of Activities, the cost of those assets is allocated over t useful lives and reported as depreciation expense. This is the am capital outlays exceeded depreciation in the current period.

Capital outlay	123,678
Depreciation expense	(35,774)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	(3,928)
Change in accrued interest receivable-taxes	(737)

The issuance of long-term debt provides current financial resource governmental funds, while the repayment of the principal of long-consumes the current financial resources of the governmental fun transaction has any effect on net position. This amount is the net these differences in the treatment of long-term debt and related it

New long-term debt issued	(70,000)
Principal payments on long-term debt	10,195
Change in accrued interest payable	<u>(1,579)</u>

Total changes in net position of governmental activities \$ 243,647

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, 2023**

	<u>General Fund</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Ad valorem taxes	\$ 326,000	\$ 326,000	\$ 379,629	\$ 53,629
Other taxes and licenses	1,400	1,400	419	(981)
Unrestricted intergovernmental	216,000	216,000	281,044	65,044
Restricted governmental	23,075	23,000	23,155	155
Permits and fees	445	520	152	(368)
Miscellaneous	36,410	53,827	44,936	(8,891)
Total revenues	<u>603,330</u>	<u>620,747</u>	<u>729,335</u>	<u>108,588</u>
Expenditures:				
General government	242,946	255,546	204,923	50,623
Public safety	126,530	209,947	165,570	44,377
Transportation	189,010	217,710	191,847	25,863
Debt service	16,144	16,144	15,204	940
Total expenditures	<u>574,630</u>	<u>699,347</u>	<u>577,544</u>	<u>121,803</u>
Revenues over (under) expenditures	<u>28,700</u>	<u>(78,600)</u>	<u>151,792</u>	<u>230,392</u>
Other Financing Sources (Uses):				
Transfers from (to) other funds	-	-	-	-
Proceeds from sale of capital assets	-	8,600	-	(8,600)
Proceeds from borrowing	-	70,000	70,000	-
Contingency	(28,700)	-	-	-
Total other financing sources (uses)	<u>(28,700)</u>	<u>78,600</u>	<u>70,000</u>	<u>(8,600)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	221,792	<u>\$ 221,792</u>
Fund balance - beginning			954,220	
Fund balance - end of year			<u>\$ 1,176,011</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, 2023**

Assets

Current assets:	
Cash and cash equivalents	\$ 293,791
Accounts receivable (net)	53,000
Grant receivable	119,904
Restricted cash and cash equivalents	<u>12,615</u>
Total current assets	<u>479,310</u>
Capital assets:	
Land and construction in progress	276,504
Other capital assets, net of depreciation	<u>1,373,808</u>
Total capital assets	<u>1,650,312</u>
Total assets	<u>2,129,622</u>

Liabilities

Current liabilities:	
Accounts payable and other accrued liabilities	79,302
Due to other funds	(39,243)
Installment purchase - current	3,500
Liabilities payable from restricted assets:	
Customer deposits	<u>12,615</u>
Total current liabilities	56,174
Noncurrent liabilities:	
Installment purchase - noncurrent	<u>73,500</u>
Total liabilities	<u>129,674</u>

Net Position

Net investment in capital assets	1,573,312
Unrestricted	<u>426,636</u>
Total net position	<u>\$1,999,948</u>

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, 2023**

Operating Revenues:	
Charges for services	\$ 349,524
Other receipts	<u>2,000</u>
Total operating revenues	<u>351,524</u>
Operating Expenses:	
Administration	3,489
Water treatment and distribution	295,959
Depreciation	<u>29,852</u>
Total operating expenses	<u>329,300</u>
Operating income (loss)	<u>22,224</u>
Nonoperating Revenues (Expenses):	
Grant revenue from capital project	171,272
Interest expense	<u>(3,522)</u>
Total nonoperating revenues (expenses)	<u>167,750</u>
Income (loss) before transfers	189,975
Transfer from other fund	<u>91,944</u>
Change in net position	281,919
Total net position - beginning	<u>1,718,029</u>
Total net position - ending	<u>\$1,999,948</u>

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, 2023**

Cash Flows From Operating Activities:

Cash received from customers	\$ 347,031
Customer deposits received	950
Cash paid for goods and services	(219,579)
Cash paid to or on behalf of employees for services	(98,888)
Net cash provided by (used in) operating activities	<u>29,514</u>

Cash Flows From Non-Capital Financing Activities:

Transfers - in (out)	91,944
Increase (decrease) in due to other fund	6,193
Net cash provided by (used in) non-capital financing activities	<u>98,137</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(180,966)
Grant receipts	125,523
Principal paid on long-term debt	(3,500)
Interest paid on long-term debt	(3,522)
Net cash provided by (used in) capital and related financing activities:	<u>(62,465)</u>

Cash Flows From Investing Activities:

Net increase (decrease) in cash and cash equivalents	65,186
Balances - beginning of year	<u>241,220</u>
Balances - end of year	<u>\$ 306,406</u>

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

Operating income (loss)	\$ 22,224
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	29,852
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,493)
Increase (decrease) in accounts payable and accrued liabilities	(19,019)
Increase (decrease) in customer deposits	950
Net cash provided by (used in) operating activities	<u>\$ 29,514</u>

Schedule of Noncash Investing and Financing Activities:

Construction of fixed assets through in-kind donation	<u>\$ 7,650</u>
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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, 2023

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 Fund – 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. 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, and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

All deposits of the Town 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 the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating, interest-earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating, and is measured at fair value. As of June 30, 2023, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment, and to maximize investment income, and considers all cash and investments to be cash and cash equivalents. The 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	\$ 37,012
Public Safety	<u>73</u>
	37,085
ARPA Fund	<u>91,944</u>
	129,029
Business-type Activities	
Water and Sewer Fund customer deposits	<u>12,615</u>
Total restricted cash	<u><u>\$ 141,644</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 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, 2022.

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 for one week of paid vacation leave, per year. 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.

12. Reimbursements for Pandemic-related Expenditures

In FY 2020-21, the American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to support urgent COVID-19 response efforts and replace lost revenue for the eligible state, local, territorial, and tribal governments. The Town was allocated \$183,888 of fiscal recovery funds to be paid in two equal installments. The first installment of \$91,944 was received in August 2021. The second installment was received in July 2022. The Town and the Board of Aldermen elected to use \$183,888 of the ARPA funds for revenue replacement.

II. Stewardship, Compliance and Accountability

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

Noncompliance with North Carolina General Statutes

None.

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, 2023, the Town's deposits had a carrying amount of \$1,437,730, and a bank balance of \$1,535,751. 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, 2023, the Town's petty cash fund totaled \$200.

Investments

At June 30, 2023, the Town of Hot Springs had \$830 invested in the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of Aam by Standard and Poor's. 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, 2023, are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 1,663
Water and Sewer Fund:	
Accounts receivable	5,000
Total	<u>\$ 6,663</u>

3. Capital Assets

Capital asset activity for the year ended June 30, 2023, 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	-	-	446,683
Furniture and equipment	145,176	-	29,289	115,887
Infrastructure	277,234	-	-	277,234
Vehicles and motorized equipment	374,015	123,678	-	497,693
Total capital assets being depreciated	<u>1,243,108</u>	<u>123,678</u>	<u>29,289</u>	<u>1,337,497</u>
Less accumulated depreciation for:				
Buildings and improvements	260,089	6,414	-	266,503
Furniture and equipment	138,252	1,759	29,289	110,722
Infrastructure	150,168	9,241	-	159,409
Vehicles and motorized equipment	337,613	18,361	-	355,974
Total accumulated depreciation	<u>886,122</u>	<u>\$ 35,774</u>	<u>\$ 29,289</u>	<u>892,607</u>
Total capital assets being depreciated, net	<u>356,986</u>			<u>444,891</u>
Governmental activity capital assets, net	<u>\$ 578,002</u>			<u>\$ 665,907</u>

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

General government	\$ 12,712
Public safety	15,727
Public works	7,335
Total depreciation expense	<u>\$ 35,774</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	\$ 752,170	\$ 172,966	\$ 652,632	\$ 272,504
Easement	4,000	-	-	4,000
Total capital assets not being depreciated	<u>756,170</u>	<u>172,966</u>	<u>652,632</u>	<u>276,504</u>
Capital assets being depreciated				
Building and improvements	118,409	-	-	118,409
Plant and distribution systems	2,049,524	660,632	-	2,710,156
Vehicles and motorzied equipment	29,283	-	6,000	23,283
Total capital assets being depreciated	<u>2,197,216</u>	<u>660,632</u>	<u>6,000</u>	<u>2,851,848</u>
Less accumulated depreciation				
Building and improvements	118,066	95	-	118,161
Plant and distribution systems	1,306,837	29,757	-	1,336,594
Vehicles and motorzied equipment	29,284	-	6,000	23,284
Total accumulated depreciation	<u>1,454,187</u>	<u>\$ 29,852</u>	<u>\$ 6,000</u>	<u>1,478,039</u>
Total capital assets being depreciated, net	<u>743,029</u>			<u>1,373,808</u>
Business-type activity capital assets, net	<u>\$ 1,499,199</u>			<u>\$ 1,650,312</u>

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

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Water System AIA Project	\$ 154,900	\$ 2,850
Viable Utility Reserve Grant	117,604	-
Total	<u>\$ 272,504</u>	<u>\$ 2,850</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 administrated 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:

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Taxes receivable (General Fund)	\$ -	\$ 9,682
Deferred rental income	750	750
Total	<u>\$ 750</u>	<u>\$ 10,432</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 carries flood insurance through the National Flood Insurance Plan (the NFIP). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town currently has flood insurance coverage of \$48,700.

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 \$60,000 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, 2023 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	\$ 116,439
\$70,000, fire truck installment purchase in yearly installments of \$11,445, through September 2029, secured by a fire truck	70,000
	<u>\$ 186,439</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, 2023 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%.

77,000
<u>\$ 77,000</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:						
2024	\$ -	\$ -	17,487	6,342	\$ 17,487	\$ 6,342
2025	-	-	18,045	5,784	18,045	5,784
2026	-	-	18,661	5,168	18,661	5,168
2027	-	-	19,291	4,538	19,291	4,538
2028	-	-	19,943	3,886	19,943	3,886
2029-2033	-	-	74,740	10,070	74,740	10,070
2034-2037	-	-	18,272	729	18,272	729
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186,439</u>	<u>\$ 36,517</u>	<u>\$ 186,439</u>	<u>\$ 36,517</u>
Business-type Activities						
2024	3,500	3,369	\$ -	\$ -	\$ 3,500	\$ 3,369
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
2029-2033	23,500	10,697	-	-	23,500	10,697
2034-2038	28,500	5,163	-	-	28,500	5,163
2039	6,000	263	-	-	6,000	263
Total	<u>77,000</u>	<u>31,369</u>	<u>-</u>	<u>-</u>	<u>77,000</u>	<u>31,369</u>
Total	<u>\$ 77,000</u>	<u>\$ 31,369</u>	<u>\$ 186,439</u>	<u>\$ 36,517</u>	<u>\$ 263,439</u>	<u>\$ 67,885</u>

c. Changes in Long-Term Liabilities

	Balance			Balance June 30, 2023	Current Portion of Balance
	July 1, 2022	Increases	Decreases		
Governmental Activities:					
Direct Placement installment purchases	126,634	70,000	10,195	186,439	17,487
Governmental activity long-term liabilities	<u>\$ 126,634</u>	<u>\$ 70,000</u>	<u>\$ 10,195</u>	<u>\$ 186,439</u>	<u>\$ 17,487</u>
Business-type Activities:					
General Obligation bonds	\$ 80,500	\$ -	\$ 3,500	\$ 77,000	\$ 3,500
Direct Placement installment purchases	-	-	-	-	-
Business-type activity long-term liabilities	<u>\$ 80,500</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 77,000</u>	<u>\$ 3,500</u>

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

At June 30, 2023, the Town had a legal debt margin of \$6,134,863.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2023 consist of the following:

Due to the General Fund for the allocation of cost from the Water and Sewer Fund	\$ 18,695
Due to the General Fund for capital project expenditures from the Water and Sewer Capital Project Fund	34,006
From the APRA Fund to the Water and Sewer Fund for revenue replacement	91,944
From the Water and Sewer Fund to the Water and Sewer Capital Project fund for project expenditures	<u>39,679</u>
Total	<u>\$ 184,323</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, 2023 consist of the following:

From the ARPA Fund to the Water and Sewer Fund for revenue replacement	<u>\$ 91,944</u>
From the Water and Sewer Fund to the Water and Sewer Capital Projects for project expenditures	<u>\$ 7,386</u>

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 2023 fiscal year, the Town made a one-time transfer from the ARPA Fund of \$91,944 to the Water and Sewer Fund for revenue replacement. The Town also made transfers 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	\$ 665,907	\$ 1,650,312
Less: long-term debt	<u>(186,439)</u>	<u>(77,000)</u>
Net investment in capital assets	<u>\$ 479,468</u>	<u>\$ 1,573,312</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	\$ 1,176,011
Less:	
Prepaid expenditures	13,003
Stabilization by State Statute	134,849
Streets-Powell Bill	37,012
Police	73
Subsequent Year's Expenditures	<u>18,965</u>
Remaining Fund Balance	<u>\$ 972,109</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 lightning 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, 2023. 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, 2023.

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 \$9170 and \$3,076 in supplies during the fiscal year ended June 30, 2023, from the General Fund and the Water and Sewer Fund, respectively. As of June 30, 2023, 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 November 27, 2023, 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:

The Town has been awarded a \$4,000,000 federal Innovative Highly Treated Wastewater Pilot Program Grant from The North Carolina Collaboratory at the University of North Carolina at Chapel Hill for the expansion and upgrade of the Wastewater Treatment Plant. Funding for this program has been appropriated to the Collaboratory by the North Carolina General Assembly from the Coronavirus State & Local Fiscal Recovery Fund ("CSLRL").

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

For the Fiscal Year Ended June 30, 2023

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2022)

	2023		Variance Positive (Negative)	2022 Actual
	Budget	Actual		
Revenues:				
Ad valorem taxes:				
Current year	\$ 320,000	\$ 364,222	\$ 44,222	\$ 350,373
Prior years	5,000	10,858	5,858	14,540
Penalties and interest	1,000	4,549	3,549	3,786
Total	<u>326,000</u>	<u>379,629</u>	<u>53,629</u>	<u>368,699</u>
Other taxes and licenses:				
Solid waste tax	400	419	19	392
Gasoline tax refund	1,000	-	(1,000)	-
Total	<u>1,400</u>	<u>419</u>	<u>(981)</u>	<u>392</u>
Unrestricted intergovernmental:				
Franchise tax	30,000	40,411	10,411	37,957
Local option sales tax	170,000	221,533	51,533	206,428
Payment in lieu of taxes	13,500	16,743	3,243	15,031
Beer and wine tax	2,500	2,357	(143)	2,060
Total	<u>216,000</u>	<u>281,044</u>	<u>65,044</u>	<u>261,476</u>
Restricted intergovernmental:				
Powell Bill State street aid allocation	23,000	23,155	155	23,363
Total	<u>23,000</u>	<u>23,155</u>	<u>155</u>	<u>23,363</u>
Permits and fee:				
Public safety fees	170	22	(148)	77
Planning and zoning fees	250	130	(120)	-
Other permits and fees	100	-	(100)	1,490
Total	<u>520</u>	<u>152</u>	<u>(368)</u>	<u>1,567</u>

cont.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 1
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**General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

For the Fiscal Year Ended June 30, 2023

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2022)

	<u>2023</u>		Variance Positive (Negative)	2022 Actual
	<u>Budget</u>	<u>Actual</u>		
Revenues (continued):				
Miscellaneous:				
Rents and concessions	35,000	30,784	(4,216)	24,400
Sales and service	410	1,000	590	-
Other receipts	18,417	7,152	(11,265)	1,019
Donations	-	6,000	6,000	-
Total	<u>53,827</u>	<u>44,936</u>	<u>(8,891)</u>	<u>25,419</u>
Total revenues	<u>620,747</u>	<u>729,335</u>	<u>108,589</u>	<u>680,916</u>
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	18,750	18,492	258	16,013
Professional services	38,900	35,093	3,807	34,422
Other operating expenditures	6,270	4,854	1,416	9,253
Total	<u>63,920</u>	<u>58,439</u>	<u>5,481</u>	<u>59,688</u>
Administration and finance:				
Salaries and employee benefits	79,415	79,517	(102)	79,716
Utilities	40,600	29,464	11,136	31,811
Capital Outlay	2,000	-	2,000	-
Other operating expenditures	33,451	31,304	2,147	33,653
Total	<u>155,466</u>	<u>140,285</u>	<u>15,181</u>	<u>145,181</u>
Public buildings:				
Other operating expenditures	34,160	4,498	29,662	5,257
Total	<u>34,160</u>	<u>4,498</u>	<u>29,662</u>	<u>5,257</u>
Planning and zoning:				
Other operating expenditures	2,000	1,700	300	7,613
Total general government	<u>255,546</u>	<u>204,923</u>	<u>50,624</u>	<u>217,739</u>

cont.

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 1
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**General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual**

For the Fiscal Year Ended June 30, 2023

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2022)

	2023		Variance Positive (Negative)	2022 Actual
	Budget	Actual		
Expenditures (continued):				
Public safety:				
Police:				
Salaries and employee benefits	\$ 64,160	\$ 52,966	\$ 11,194	\$ 48,617
Capital outlay	6,000	-	6,000	-
Other operating expenditures	20,120	17,356	2,764	20,916
Total	<u>90,280</u>	<u>70,322</u>	<u>19,958</u>	<u>69,534</u>
Fire:				
Capital outlay	84,417	70,000	14,417	-
Other operating expenditures	35,250	25,249	10,001	25,643
Total	<u>119,667</u>	<u>95,249</u>	<u>24,418</u>	<u>25,643</u>
Total public safety	<u>209,947</u>	<u>165,570</u>	<u>44,377</u>	<u>95,176</u>
Transportation:				
Powell Bill expenditures	23,000	18,286	4,714	36,144
Salaries and employee benefits	97,710	90,413	7,297	81,816
Capital outlay	54,000	53,678	322	18,777
Other operating expenditures	43,000	29,469	13,531	24,116
Total transportation	<u>217,710</u>	<u>191,847</u>	<u>25,863</u>	<u>160,853</u>
Debt service:				
Principal retirement	11,134	10,194	940	19,591
Interest and other charges	5,010	5,010	-	4,070
Total debt service	<u>16,144</u>	<u>15,204</u>	<u>940</u>	<u>23,661</u>
Total expenditures	<u>699,347</u>	<u>577,544</u>	<u>121,803</u>	<u>497,430</u>
Revenues over (under) expenditures	<u>(78,600)</u>	<u>151,792</u>	<u>230,392</u>	<u>183,486</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, 2023

(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2022)

	<u>2023</u>		<u>Variance Positive (Negative)</u>	<u>2022 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Other Financing Sources (Uses):				
Proceeds from borrowing	70,000	70,000	-	-
Sale of capital assets	<u>8,600</u>	<u>-</u>	<u>(8,600)</u>	<u>8,600</u>
Total other financing sources (uses)	<u>78,600</u>	<u>70,000</u>	<u>(8,600)</u>	<u>8,600</u>
Net change in fund balance	<u>\$ -</u>	221,792	<u>\$ 221,792</u>	192,086
Fund balance - beginning		<u>954,220</u>		<u>762,134</u>
Fund balance - ending		<u>\$ 1,176,011</u>		<u>\$ 954,220</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, 2023**

	Actual			Total to Date	Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year		
Revenues:					
ARPA Funds	\$ 183,888	\$ 91,944	\$ 91,944	\$ 183,888	\$ -
Total revenues	<u>183,888</u>	<u>91,944</u>	<u>91,944</u>	<u>183,888</u>	<u>-</u>
Expenditures:					
ARPA expenditures	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	183,888	91,944	91,944	183,888	-
Other Financing Sources (Uses):					
Transfer out - Water and Sewer Fund	<u>(183,888)</u>	<u>(91,944)</u>	<u>(91,944)</u>	<u>(183,888)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balance - beginning			-		
Fund balance - ending			<u>\$ -</u>		

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, 2023
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2022)

	<u>2023</u>		Variance Positive (Negative)	2022 Actual
	<u>Budget</u>	<u>Actual</u>		
Revenues:				
Operating revenue:				
Charges for services	\$ 300,370	\$ 349,524	\$ 49,154	\$ 312,927
Other receipts	1,500	2,000	500	-
	<u>301,870</u>	<u>351,524</u>	<u>49,654</u>	<u>312,927</u>
Nonoperating revenue:				
Interest earned	-	-	-	-
Total revenues	<u>301,870</u>	<u>351,524</u>	<u>49,654</u>	<u>312,927</u>
Expenditures:				
Water and sewer distribution:				
Salaries and employee benefits	113,809	100,495	13,314	108,072
Utilities	36,300	28,165	8,135	30,673
Repairs and maintenance	1,900	2,548	(648)	992
Supplies and testing	67,000	60,659	6,341	64,392
Professional services	112,000	87,517	24,483	95,862
Other expenditures	28,500	16,574	11,926	3,414
Administrative expenses	7,130	3,489	3,641	6,830
	<u>366,639</u>	<u>299,448</u>	<u>67,191</u>	<u>310,234</u>
Debt service:				
Principal retirement	3,500	3,500	-	5,000
Interest and other charges	3,675	3,522	153	3,750
Total debt service	<u>7,175</u>	<u>7,022</u>	<u>153</u>	<u>8,750</u>
Capital outlay:				
Water and sewer lines, equipment	20,000	8,245	11,755	-
Total expenditures	<u>393,814</u>	<u>314,715</u>	<u>79,099</u>	<u>318,984</u>
Revenues over (under) expenditures	(91,944)	36,810	128,754	(6,057)
Other Finances Sources (Uses):				
Transfer from (to) Special Revenue Fund	<u>91,944</u>	<u>91,944</u>	<u>-</u>	<u>91,944</u>
Revenues and other financing sources over (under) other expenditures (uses)	<u>\$ -</u>	128,753	<u>\$ 128,753</u>	85,887

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, 2023
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2022)**

	2023		Variance	
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)	<u>2022 Actual</u>
Reconciliation from Budgetary Basis (modified accrual) to Full Accrual:				
Reconciling items:				
Grant revenue from Water and Sewer Capital Project		\$ 163,887		\$ 161,004
Transfer to capital project		7,386		-
Principal retirement		3,500		5,000
Capital outlay		8,245		-
Depreciation		<u>(29,852)</u>		<u>(33,777)</u>
Change in net position		<u>\$ 281,919</u>		<u>\$ 218,114</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, 2023**

	Actual			Total to Date	Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year		
Revenues:					
Restricted contributions					
DWI Home Town Strong Grant *	\$ 500,000	\$ 488,586	\$ (435)	\$ 488,151	\$ (11,849)
Water System H-AIA-D-20-0202	150,000	142,347	2,300	144,647	(5,353)
Water System H-AIA-D-20-0202-local	7,500	3,047	2,203	5,250	(2,250)
Wastewater E-AIA-W-21-0233 *	150,000	105,000	44,153	149,153	(847)
Wastewater E-AIA-W-21-0233-local	7,500	-	5,447	5,447	(2,053)
Viable Utility Reserve Grant	1,000,000	-	117,604	117,604	(882,396)
Total revenues	1,815,000	738,980	171,272	910,251	(904,749)
Expenditures:					
DWI Home Town Strong	500,000	495,073	(186)	494,887	5,113
Water System H-AIA-D-20-0202	157,500	149,847	5,053	154,900	2,600
Wastewater E-AIA-W-21-0233	159,750	107,250	50,250	157,500	2,250
Viable Utility Reserve Grant	1,000,000	-	117,604	117,604	882,396
Total expenditures	1,817,250	752,170	172,721	924,891	892,359
Revenues over (under) expenditures	(2,250)	(13,190)	(1,449)	(14,639)	(12,389)
Other Financing Sources (Uses):					
Transfer from Water and Sewer Fund for:					
DWI Home Town Strong Grant	-	-	6,736	6,736	6,736
Water System H-AIA-D-20-0202	2,250	2,250	-	2,250	-
Wastewater E-AIA-W-21-0233	-	2,250	650	2,900	2,900
Total other financing sources (uses):	2,250	4,500	7,386	11,886	9,636
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ (8,690)	\$ 5,937	\$ (2,753)	\$ (2,753)

* Project complete at June 30, 2023.

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, 2023**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2022</u>	<u>Additions/ Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2023</u>
2022 - 2023	\$ -	\$ 368,091	\$ 364,458	\$ 3,633
2021 - 2022	7,285	1,953	6,754	2,484
2020 - 2021	3,101	1,357	2,906	1,552
2019 - 2020	1,394	36	472	958
2018 - 2019	923	32	256	699
2017 - 2018	563	4	81	486
2016 - 2017	334	3	-	337
2015 - 2016	531	4	153	382
2014 - 2015	329	2	-	331
2013 - 2014	481	2	-	483
2012 - 2013	<u>1,015</u>	<u>-</u>	<u>1,015</u>	<u>-</u>
 Total	 <u>\$ 15,956</u>	 <u>\$ 371,484</u>	 <u>\$ 376,095</u>	 11,345
 Less allowance for uncollectibles				 <u>1,663</u>
 Balance				 <u>\$ 9,682</u>
 Reconcilement With Revenues:				
Taxes - Ad valorem - General Fund				\$ 379,629
Amounts written off for fiscal year 2021 - 2013				<u>1,015</u>
				380,644
Less interest collected				<u>(4,549)</u>
 Total collections and credits				 <u>\$ 376,095</u>

TOWN OF HOT SPRINGS, NORTH CAROLINA

Schedule 6

**Analysis of Current Tax Levy
June 30, 2023**

	<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	\$ 65,886,250	0.48	\$ 316,254	\$ 316,254	\$ -
Registered motor vehicles taxed at current year's rate	<u>10,958,754</u>	0.48	<u>52,602</u>	<u>-</u>	<u>52,602</u>
Total	<u>76,845,004</u>		<u>368,856</u>	<u>316,254</u>	<u>52,602</u>
Discoveries-property	513,408	0.48	2,464	2,464	-
Discoveries-motor vehicles	-	0.48	-	-	-
Releases-property	(672,630)	0.48	(3,229)	(3,229)	-
Releases-registered motor vehicles	<u>-</u>	0.48	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>(159,222)</u>		<u>(764)</u>	<u>(765)</u>	<u>-</u>
Total property valuation	<u>\$ 76,685,782</u>				
Net Levy			368,091	315,489	52,602
Less uncollected taxes at June 30, 2023			<u>(3,633)</u>	<u>(3,633)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 364,458</u>	<u>\$ 311,856</u>	<u>\$ 52,602</u>
Current levy collection percentage			<u>99.01%</u>	<u>98.85%</u>	<u>100.00%</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

**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, 2023, 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 November 27, 2023.

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, 2023-001 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
November 27, 2023

TOWN OF HOT SPRINGS, NORTH CAROLINA

**Schedule of Findings and Responses
For the Year Ended June 30, 2023**

1. Financial Statement Findings:

Significant Deficiencies:

Finding: 2023-001:
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 page 51 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, 2023**

Finding 2023-001:

Name of contact person:

Jeanne Caldwell Gentry, Finance Officer

Corrective action:

The Mayor and the Board of Aldermen will provide ongoing review of the financial affairs of the Town to provide oversight. In addition, an outside consultant will provide some additional internal controls.

Proposed completion date:

The Town will implement this immediately.