



S. Preston Douglas & Associates, LLP
Certified Public Accountants

Town of North Topsail Beach, North Carolina

**Report to the Mayor and
Members of the Board of Aldermen**

Year Ended June 30, 2025



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Contacts

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S. Preston Douglas & Associates, LLP
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To the Honorable Mayor and
Members of the Board of Aldermen
Town of North Topsail Beach, North Carolina

We have audited the financial statements of the Town of North Topsail Beach for the year ended June 30, 2025, and have issued our report thereon dated November 25, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 11, 2025. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of North Topsail Beach are described in the first note to the financial statements. No new accounting policies were adopted and the application of existing policies did not change during 2024-2025. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about the past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allowance for doubtful accounts,
- Depreciable lives used for depreciation,
- Pension liabilities and
- Deferred outflows and inflows of resources

Management's estimates are based on an analysis of historical collection trends, industry factors, and current and anticipated economic conditions, the category of individual capital assets, and the actuarial reports by independent third parties.

We evaluated the key factors and assumptions used to develop these estimates to determine that they seemed reasonable in relation to the financial statements of the Town for the year ended June 30, 2025, taken as a whole. While the procedures used by management and the amount of these estimates seem reasonable at this time, there will usually be differences between the estimates and actual results and these differences may be material.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We did not propose any adjusting journal entries nor did we have any passed adjusting journal entries.



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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 25, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Financial Statement Findings:

Finding: 2025 – 001 Material Prior Period Adjustments

The June 30, 2024 audited financial statements included materially misstated balances. During the fiscal year, the Town identified errors in previously reported fund balance amounts related to year-end accruals for sales tax and utility franchise taxes and capital project activity. These misstatements could have led users to draw incorrect conclusions about the Town's financial position and operating results. To correct the errors, restatements of beginning fund balance were required totaling \$37,475 for the General Fund, \$1,222,680 for the Shoreline Project Fund, and \$279,356 for the Capital Improvement Fund.

The material prior period adjustments resulted from deficiencies in internal controls over financial reporting, including inadequate year-end review procedures and insufficient reconciliation processes. These control weaknesses allowed errors in the recognition and recording of revenues, expenditures, and capital project activity to go undetected during the normal financial statement preparation process.

Management should improve internal controls over year-end financial reporting by strengthening review and reconciliation processes to ensure balances are complete and accurate. Staff responsible for closing and financial reporting should receive additional training on project fund accounting. Complex or unusual transactions should be reviewed by appropriately qualified personnel.



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OTHER MATTERS

We applied certain limited procedures to the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions (LGERS), the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll (LEO), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

RESTRICTION ON USE

This information is intended solely for the use of the Board of Aldermen and management of the Town of North Topsail Beach, other cognizant agencies, and the North Carolina Department of State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully yours,

A handwritten signature in black ink that reads "S. Preston Douglas & Associates, LLP". The signature is written in a cursive, flowing style.

S. Preston Douglas & Associates, LLP
Ocean Isle Beach, North Carolina
December 2, 2025

Financial Performance Indicators – Local Government Commission

The Local Government Commission utilizes a Data Input Sheet that enables local units to self-report key trend and performance indicators. For the Town's 2025 audit, the information reported in this Data Input Sheet was used to generate the trend analyses and performance indicators beginning on page 5 of this document.

If any of the Town's indicators appear highlighted in red, the Town is required to submit a *“Response to the Auditor's Findings, Recommendations, and Fiscal Matters”* within 60 days of the auditor's presentation to the governing board. This response must specifically address each performance indicator identified in red.

Financial Performance Indicators

The self-reported information from your unit's audit report was used to generate the following trends and performance indicators. We have created this Performance Indicator tab to make these indicators available to auditors and local governments when your audit is conducted. Per [20 NCAC 03 .0508](#), the unit must submit a Response to the Auditor's Findings, Recommendations, and Fiscal Matters within 60 days from the auditor's presentation to the unit's governing board. The unit's response shall address each significant deficiency, material weakness and other audit finding presented to the governing body and shall provide a plan to address each Financial Performance Indicator of Concern reported to the governing body. Responses can be submitted via the [LGC File Transfer Portal](#).

Financial Performance Indicators

Account #	Question	2025
980	Date the auditor presented or plans to present Financial Performance Indicators of Concern (FPIC) to the Governing Board.	12/02/2025

Summary

Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Number of Financial Performance Indicators of Concern (FPICs)	2	2	1	Greater Than 0	Fail

General Fund

Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Fund Balance Available as Percent of Expenditures & Transfers Out Without Powell Bill	117.26%	194.51%	153.25%	Less Than 34.00%	Pass
Use of Fund Balance for Operations	No	No	No	Equal Yes	Pass
Total Fund Balance	\$7,747,483	\$12,094,357	\$13,851,888	Less Than \$0	Pass

Water & Sewer Fund

Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Quick Ratio	Data Not Available	Data Not Available	Data Not Available	Less Than 1.00	Not Applicable
Operating Net Income Excluding Depreciation; Including Debt Service Principal and Interest	\$0	\$0	\$0	Less Than \$0	Pass
Unrestricted Cash as a Percentage of Expenses	Data Not Available	Data Not Available	Data Not Available	Less Than 16.00%	Not Applicable
Transfers in > 3% of Total of Operating and Non-Operating Expenses	\$0	\$0	\$0	Less Than \$0	Pass
Capital Assets Condition Ratio	Data Not Available	Data Not Available	Data Not Available	Less Than or Equal To 50.00%	Not Applicable

Electric Fund

Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Quick Ratio	Data Not Available	Data Not Available	Data Not Available	Less Than 1.00	Not Applicable
Operating Net Income Excluding Depreciation; Including Debt Service Principal and Interest	\$0	\$0	\$0	Less Than \$0	Pass
Unrestricted Cash as a Percentage of Expenses	Data Not Available	Data Not Available	Data Not Available	Less Than 16.00%	Not Applicable

Is Unit following G.S. § 159B-39 or the unit's transfer policy?	Yes	Yes	Yes	Equal No	Pass
Debt/Liabilities					
Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Late Debt Service Payments and/or Bond Covenants Not Met	No	N/A	N/A	Equal Yes	Pass
Internal Controls					
Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Adopted Ordinance Level Budget Violations	Yes	Yes	No	Equal Yes	Pass
Material weaknesses, significant deficiencies, and/or statutory violations	Yes	Yes	Yes	Equal Yes	Fail
Appointed Finance Officer Exists During Fiscal Year per G.S. § 159-24 (Local Governments & Public Authorities) or G.S. § 115C-435 (Board of Education)	Yes	Yes	Yes	Equal No	Pass
Appointed Finance Officer Bonded per G.S. § 159-29 (Local Governments & Public Authorities) or G.S. § 115C-442 (Board of Education)	Yes	Yes	Yes	Equal No	Pass
Financial Statements - Auditor Opinion Unmodified	Yes	Yes	Yes	Equal No	Pass
Going Concern	No	No	No	Equal Yes	Pass
General Qualifying Factors					
Indicator Name	2023	2024	2025	Fail Condition	2025 Status
Date Audit Submitted	10/30/2023	11/22/2024	11/25/2025	Greater Than 12/31/2025	Pass
Collected Ad Valorem Tax as Percent of Budgeted Ad Valorem Tax	10.77%	5.22%	3.79%	Less Than -3.00%	Pass
Expected Property Revaluation Direction	N/A	N/A	No Change	Equal Decrease	Pass
Other Issues	0	0	0	Greater Than 0	Pass

***** Finding: 2025 – 001 Material Prior Period Adjustments.**

Refer to page 67 of the Audited Financial Statements for the fiscal year ended June 30, 2025, for additional details related to this finding.

Financial Performance Indicators - Descriptions: For Informational Purposes Only

Summary

Indicator Name	Formula	Description
Number of Financial Performance Indicators of Concern (FPICs)	Number of Financial Performance Indicators of Concern (FPICs) Unit has	

General Fund

Indicator Name	Formula	Description
Fund Balance Available as Percent of Expenditures & Transfers Out Without Powell Bill	$(506+536+647-11-4-6-5)/(532+20+509-533-508-1050)$	Fund balance available for appropriation is an important reserve for local governments to provide cash flow during periods of declining revenues and to be used for emergencies and unforeseen expenditures. The information indicates the amount of available cash on hand. Note that 8.33% represents enough fund balance to cover only one month of expenditures. Normally, a unit has to either increase revenues or decrease expenditures to increase fund balance available. This calculation looks at fund balance available plus debt service fund balance (if applicable) less Powell Bill restricted fund balance. This number is then divided by the total of total expenditures plus transfers out less bond proceeds and less amount expended for Powell Bill Expenditures. Units of government are grouped by General Fund expenditures for purposes of evaluating available fund balance as a percentage of expenditures (GF FBA %). Each grouping category has its own minimum threshold. If you are in the lower quartile your GF FBA% may be considered a performance indicator of concern and you may be asked to communicate to us. Municipality General Fund Expenditures Groups Minimum Threshold FBA as % of Expenditures: 1. Less Than Or Equal To \$99,999 100% 2. \$100,000 To \$999,999 71% 3. \$1,000,000 To \$9,999,999 34% 4. Greater Than Or Equal To \$10,000,000 25% County General Fund Expenditures Groups Minimum Threshold FBA as % of Expenditures: 1. Less Than Or Equal To \$99,999,999 20% 2. Greater Than Or Equal To \$100,000,000 16%
Use of Fund Balance for Operations	$23 < 0 \ \& \ 590 = \text{Operations}$	If the General Fund has more expenditures than revenues because of operational issues and fund balance was appropriated to cover the loss, the continuation of this practice could result in deterioration of a unit's fund balance available.

Total Fund Balance	9	If the General Fund is negative, that means the unit's revenues and other receipts are inadequate to support its operations. G.S. § 159 13(b)(2) requires that the board fund the full amount of a prior fiscal year's deficit in the current fiscal year's budget. Therefore, this deficit should have been funded immediately after the June 30 fiscal year end. The law requires such action be taken to stop any further deterioration of the overall financial condition of the fund. Please let us know if the deficit was funded in the budget, and what actions the unit plans to take to bring the General Fund balance up to an acceptable level.
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Water & Sewer Fund

Indicator Name	Formula	Description
Quick Ratio	$(654-655-510-579^*) / (633-634-635-636-637-638-578^*) * 579 \text{ \& } 578 \text{ Used FY 20-23}$	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the water and/or sewer system may not be sustainable.
Operating Net Income Excluding Depreciation; Including Debt Service Principal and Interest	84-85+49-331-89	Formula subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses and debt service payments.
Unrestricted Cash as a Percentage of Expenses	$80 / (85+351-49+331)$	Formula calculates how many month's worth of expenses (including debt principal but not depreciation) a unit can pay based on the amount of unrestricted cash at year end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.
Transfers in > 3% of Total of Operating and Non-Operating Expenses	$((85+351) * 0.03) - 986$	The rate structure of the Water and Sewer Fund should support the operating expenses of the fund without operating subsidies or transfers from other funds.
Capital Assets Condition Ratio	$1 - ((523+524+525+526) / (515+516+517+518))$	This capital assets condition ratio formula calculates the remaining useful life. A remaining useful life asset value less than or equal to 0.50 may signal the need to replace the assets in the near future.

Electric Fund

Indicator Name	Formula	Description
Quick Ratio	$(657-658-511-581^*) / (639-640-641-642-643-644-580^*) * 581 \text{ \& } 580 \text{ Used FY 20-23}$	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the electric system may not be sustainable.
Operating Net Income Excluding Depreciation; Including Debt Service Principal and Interest	93-94+52-100-98	Formula subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses and debt service payments.
Unrestricted Cash as a Percentage of Expenses	$90 / (364+94-52+100)$	Formula calculates how many month's worth of expenses (including debt principal but not depreciation) a unit can pay based on the amount of unrestricted cash at year end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.

Is Unit following G.S. § 159B-39 or the unit's transfer policy?	IF Electric - Total Transfers Out to all funds <= 0 then "Yes". If Amount Transferred minus PILOT and Transfers to Electric Capital Projects <= Allowable Transfer per statute Then "Yes"	This indicator advises if there were electric transfers in violation of G.S. § 159B-39 or in violation of the unit's transfer policy.
Debt/Liabilities		
Indicator Name	Formula	Description
Late Debt Service Payments and/or Bond Covenants Not Met	974	This indicator advises whether or not the unit has issues with debt service payments or bond covenants.
Internal Controls		
Indicator Name	Formula	Description
Adopted Ordinance Level Budget Violations	1057	Unit has expenditures that exceed the legal budget ordinance. This indicates that the unit's purchase order system, contract approval process and / or payment process is not in compliance with North Carolina General Statute Chapter 159.
Material weaknesses, significant deficiencies, and/or statutory violations	1055, 1056, 1058, 955, 957	This indicator identifies whether the unit has any material weaknesses, significant deficiencies, management letter comments or items identified on the Transmittal Document Information tab.
Appointed Finance Officer Exists During Fiscal Year per G.S. § 159-24 (Local Governments & Public Authorities) or G.S. § 115C-435 (Board of Education)	1059	The indicator is to determine if any time during the fiscal year, the unit was without an appropriately appointed finance officer.
Appointed Finance Officer Bonded per G.S. § 159-29 (Local Governments & Public Authorities) or G.S. § 115C-442 (Board of Education)	1067	The indicator is to determine if at any time during the fiscal year, the unit was without a properly bonded, board-appointed finance officer.
Financial Statements - Auditor Opinion Unmodified	906	
Going Concern	953	
General Qualifying Factors		
Indicator Name	Formula	Description
Date Audit Submitted	1066	As stewards of the public's resources, the governing body is responsible for ensuring that the audited financial statements are available to the public in a timely manner. External groups such as the North Carolina General Assembly, federal and State agencies that provide funding, and other public associations need current financial information about your local government as well.
Collected Ad Valorem Tax as Percent of Budgeted Ad Valorem Tax	(984-985)/985	This percent shows that the local government did not collect 3% (or more) of its budgeted ad valorem taxes. This could be an indicator of negative economic events, inaccurate budgeting, and/or issues with the collection process. Uncollected revenues at the 3% level represent several pennies of the tax rate.
Expected Property Revaluation Direction	991	Indicator using reported expected decrease in property value for unit's next property revaluation which could result in lost tax revenue.
Other Issues	973	This indicator advises if any other issues that the unit should address in the FPIC response letter.

* Please note that not all account numbers are applicable for all unit types. Account number(s) shown in formula(s) that are not available for data entry are not applicable for your unit type.