

Memo:

November 12, 2025

Connie Forand

Finance Director

Explanation of Town Funds

The Town of Topsail Beach fund balances are created by several Primary Funds

- (10) General Fund that is used to pay all expenses,
- (24) CIP Fund that is used for capital improvements; sometimes called the reserve fund by residents,
- (25) Beach Inlet and Sound that covers our BIS expenditures, and
- (30) Enterprise Fund (Water) that covers our water operations.

The Town Board has a fund Balance policy that list the requirements to maintain the minimum balance for these funds. The reason behind establishing a Fund Balance Policy is in 2015 the Town received a letter from the State stating the Fund Balance for our General Fund had dropped down to 15%, a large decline from previous years. The Town was instructed to develop a plan moving to immediately address the decline. The decline was due to a \$10.3 million Beach Project that had just been finished. The Town was due \$1,583,173 from FEMA but these funds were not received by the Town until after July 1st, our fiscal year end. The Town was responsible for paying the bill from Town Funds until we received Fema reimbursement.

Each municipality must establish their own fund balance Policy based on their specific needs and circumstances using the Local Government Commission guidance. Our needs are very different because of our coastal location than say Wallace or Raleigh.

A Cash Fund Balance Policy was adopted on July 13, 2016 by the Town Board designating that 50% of the budgeted expenses coming out of the general fund would be set as our minimum reserve. This is similar to what financial planners suggest for families which is to have six months of your household expenses in an emergency fund. The Policy addresses the General Fund as well as Water Fund. This Policy didn't include Beach Inlet and Sound Reserves, the allocations to the BIS fund are set by the Town board based on the 30-year Beach Management Plan.

In 2015, if the General Fund had not had the money to pay to finish the beach project bills would have been delayed and punitive damages to the town would have incurred at a high rate each day based on the terms of the contract. Another example of why we maintain reserves in the General Fund is when the Beach project bill came in March 2024 in the

amount of \$5,307,328.96, there were insufficient funds in the BIS Fund so the General Fund paid this bill. The expectation was that we would receive FEMA Funds to reimburse us. Based on historical reimbursement for sand loss, we calculated that we would receive \$6,000,000 in FEMA funds for Hurricane Isaias. After the claim was submitted, FEMA developed different guidelines to calculate our loss of sand. We only received reimbursement of \$1,619,600.34. That created an unexpected and unbudgeted expense for the Beach Inlet and Sound Fund in the amount of \$4,380,399.66. Thankfully, we had our policy and we could absorb this.

To borrow money the Local Government Commission has to give the Town approval to obtain a loan for the expense. This process is thirty days or more and we did not have the luxury of time. Again, if the Town had not had unassigned Fund Balance we would have been in a very bad position. The Town must be ready for a disaster when it occurs. It is not a question of if but when we will have a storm. The town must have funds for general operations as well as funding up to 75% of any anticipated FEMA reimbursement. This reimbursement could take months to be received.

The town has checks and balances in place for your protection. The mayor and commissioners get a monthly bank reconciliation and statement of fund balances. The mayor countersigns every check with the Town Manager. As well, the Town is audited at the end of every fiscal year. A separate audit is performed for grant money received from both the Federal Government and State (OSBM). In addition, the Town contracts with Goodson and Taylor to review Bank Reconciliation and other Financials during the quarter or earlier. This is required by the state's Local Government Commission. Bear in mind that special funding such as that received for the Public Safety Building is in its own segregated account.

Lastly, the town of Topsail Beach is like many of our seasonal businesses, we get the bulk of our revenue from ad valorem taxes. Bills are sent out the end of September or the first of October. The money is collected mostly in December through February with more than 50% of our annual revenue coming in November through January. So, not only do we need the requisite 50% minimum dictated by the board in our general fund and water fund at all times, at our fiscal year end of June 30, The Town needs cash on hand to pay the bills in July through November when expenses exceed revenue. We will always have more cash on hand at year end than the reserves in the fund for the cash flow timing

Our goal is complete financial transparency. The Town Web page provides a wealth of information. The Audit, Budget Message, Budget Ordinance, and Approved Budget are all

on the Town Web page under the Finance tab. The monthly Financials, and the breakdown of each Fund Balance are also found on the town website.