

In the opinion of Parker Poe Adams & Bernstein LLP, Bond Counsel, under existing law (1) assuming compliance by the Town with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the 2024 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal individual alternative minimum tax; provided, however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022, and (2) interest on the 2024 Bonds is exempt from State of North Carolina income taxation. See "TAX TREATMENT" herein.



\$66,865,000
TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Enterprise Systems Revenue Bonds
Series 2024

Dated: Date of Delivery

Due: November 1, as shown on the inside cover

The bonds offered hereby (the "2024 Bonds") will be special obligations of the Town of Holly Springs, North Carolina ("Town"), secured by and payable from the Net Revenues (as defined herein) of the Town's Enterprise Systems (as defined herein), currently composed of the Town's water and sanitary sewer systems, and, under certain circumstances, the proceeds of the 2024 Bonds, investment earnings and certain net insurance and other proceeds. The 2024 Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) pay the cost of certain improvements to the Enterprise Systems as described herein, (b) pay interest on the 2024 Bonds through May 1, 2026, and (c) pay the fees and expenses incurred in connection with the sale and issuance of the 2024 Bonds. **Neither the faith and credit nor the taxing power of the Town is pledged for the payment of principal of or interest on the 2024 Bonds, and no registered owner of the 2024 Bonds has the right to compel the exercise of the taxing power by the Town or the forfeiture of any of its property other than Net Revenues in connection with any default on the 2024 Bonds.**

The 2024 Bonds will be initially issued as fully registered bonds and when delivered will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"). DTC will act as the initial securities depository for the 2024 Bonds. Individual purchases of the 2024 Bonds by the beneficial owners will be made in denominations of \$5,000 or any whole multiple thereof. So long as Cede & Co. is the registered owner of the 2024 Bonds, as nominee for DTC, references herein to registered owners or Owners shall mean Cede & Co. and shall not mean the beneficial owners of the 2024 Bonds. So long as Cede & Co. is the registered owner of the 2024 Bonds, the principal of and interest on the 2024 Bonds are payable by the Trustee (as defined herein) to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners. See Appendix H hereto.

The 2024 Bonds are subject to optional and mandatory sinking fund redemption as described herein.

The 2024 Bonds are offered subject to prior sale, when, as and if issued and accepted by the Underwriter, subject to the approval of their validity and certain other matters by Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel. Certain legal matters will be passed upon for the Town by John Schifano, Esq., Holly Springs, North Carolina, Town Attorney, and for the Underwriter by Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, counsel to the Underwriter. DEC Associates Inc., Charlotte, North Carolina, is acting as financial advisor to the Town in connection with the sale and issuance of the 2024 Bonds. NewGen Strategies and Solutions, LLC, Annapolis, Maryland, has prepared the financial feasibility report included in Appendix D hereto. It is expected that delivery of the 2024 Bonds will be made through the facilities of DTC on or about July 30, 2024.

PNC Capital Markets LLC

July 16, 2024

MATURITY SCHEDULE

<u>Due November 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP No.*</u>
2026	\$1,155,000	5.00%	2.90%	104.543%	436084 AA5
2027	1,215,000	5.00	2.87	106.565	436084 AB3
2028	1,275,000	5.00	2.87	108.465	436084 AC1
2029	1,340,000	5.00	2.86	110.364	436084 AD9
2030	1,410,000	5.00	2.89	111.986	436084 AE7
2031	1,480,000	5.00	2.92	113.502	436084 AF4
2032	1,555,000	5.00	2.96	114.835	436084 AG2
2033	1,635,000	5.00	2.97	116.313	436084 AH0
2034	1,720,000	5.00	2.97	117.825	436084 AJ6
2035	1,810,000	5.00	3.03 ^C	117.245	436084 AK3
2036	1,900,000	5.00	3.07 ^C	116.861	436084 AL1
2037	2,000,000	5.00	3.13 ^C	116.287	436084 AM9
2038	2,100,000	5.00	3.14 ^C	116.192	436084 AN7
2039	2,210,000	5.00	3.19 ^C	115.717	436084 AP2
2040	2,325,000	5.00	3.31 ^C	114.586	436084 AQ0
2041	2,440,000	5.00	3.42 ^C	113.562	436084 AR8
2042	2,565,000	5.00	3.48 ^C	113.007	436084 AS6
2043	2,700,000	5.00	3.54 ^C	112.456	436084 AT4
2044	2,825,000	4.00	4.00	100.000	436084 AU1

\$15,950,000 4.00% Term Bonds Due November 1, 2049 – Yield 4.11% – Price 98.276%; CUSIP 436084 AV9

\$15,255,000 4.00% Term Bonds Due November 1, 2053 – Yield 4.18% – Price 96.972%; CUSIP 436084 AW7

^C Yield to November 1, 2034 call date at 100%.

* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by FactSet Research Systems, Inc. Copyright ©2024 CUSIP Global Services. All rights reserved. The Town, the Underwriter and the LGC do not take responsibility for the accuracy of such data. Also, investors should be aware that under certain circumstances the CUSIP identification number assigned to a maturity of the 2024 Bonds may be changed to a new replacement number.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2024 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2024 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the 2024 Bonds implies that the information herein is correct as of any date subsequent to the date thereof.

The information contained herein has been obtained from the Town and other sources believed to be reliable. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 ("Rule 15c2-12") promulgated by the Securities and Exchange Commission.

This Official Statement is deemed to be a final official statement with respect to the 2024 Bonds within the meaning of Rule 15c2-12, except, when it is in preliminary form, for the omission of certain pricing and other information authorized to be omitted by Rule 15c2-12.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2024 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Town disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Town's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
THE 2024 BONDS	3
Authorization	3
General	3
Redemption Provisions	4
SECURITY AND SOURCES OF PAYMENT FOR THE 2024 BONDS	5
General	5
Pledge of Net Revenues	6
Rate Covenant	6
Funds and Accounts	7
Additional Bonds and Other Obligations Secured by or Payable from Net Revenues	10
THE 2024 PROJECT	11
ESTIMATED SOURCES AND USES OF FUNDS	12
ANNUAL DEBT SERVICE REQUIREMENTS	13
FINANCIAL FEASIBILITY REPORT	14
THE ENTERPRISE SYSTEMS	15
THE TOWN	15
CONTINUING DISCLOSURE	15
LEGAL MATTERS	18
LITIGATION	18
TAX TREATMENT	18
General	18
Original Issue Discount	20
Original Issue Premium	21
LEGALITY FOR INVESTMENT	21
RATING	21
UNDERWRITING	21
FINANCIAL ADVISOR	22
MISCELLANEOUS	22
 APPENDIX A The Enterprise Systems	
APPENDIX B The Town	
APPENDIX C Financial Information of the Town	
APPENDIX D Financial Feasibility Report	
APPENDIX E Summary of the General Indenture and Series Indenture	
APPENDIX F The North Carolina Local Government Commission	
APPENDIX G Proposed Form of Opinion of Bond Counsel	
APPENDIX H DTC's Book-Entry-Only System	

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NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION

**Official Statement
of the North Carolina**

**Local Government Commission
Concerning**

**\$66,865,000
TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Enterprise Systems Revenue Bonds
Series 2024**

INTRODUCTION

The purpose of this Official Statement, which includes the appendices, is to provide certain information in connection with the issuance by the Town of Holly Springs, North Carolina (the "Town") of \$66,865,000 Enterprise Systems Revenue Bonds, Series 2024 (the "2024 Bonds"). The 2024 Bonds are being issued pursuant to a General Trust Indenture, dated as of July 1, 2024 (the "General Indenture"), between the Town and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), and a Series Indenture, Number 1, dated as of July 1, 2024 (the "Series Indenture"), between the Town and the Trustee.

Pursuant to a bond order adopted by the Town Council of the Town on August 5, 2008 (the "2008 Bond Order"), the Town issued its (a) \$16,100,000 Water and Sewer Revenue Bond, Series 2008 (the "2008 Bond"), of which \$5,471,264.05 is currently outstanding, and (b) \$5,600,000 Water and Sewer Revenue Refunding Bond, Series 2020 (the "2020 Bond"), of which \$2,700,687.36 is currently outstanding. Upon the execution and delivery of the General Indenture, all terms, conditions and covenants in the 2008 Bond Order will be deleted in their entirety and the 2008 Bond Order will be amended to incorporate all of the terms, conditions and covenants of the General Indenture, which will thereafter apply to the 2008 Bond and the 2020 Bond.

This introduction provides certain limited information to serve as a guide to the Official Statement and is expressly qualified by the Official Statement as a whole. Investors should make a full review of the entire Official Statement and the documents summarized or described herein.

Capitalized terms used herein and not otherwise defined shall have the same meanings given such terms in the General Indenture and Series Indenture unless otherwise indicated. For the definition of certain terms used herein and a summary of certain provisions of the General Indenture and the Series Indenture, see Appendix E hereto.

Authorization. The 2024 Bonds are being authorized and issued under The State and Local Government Revenue Bond Act, Article 5 of Chapter 159, as amended, of the General Statutes of North Carolina (the “Act”) and a bond order adopted by the Town Council on June 18, 2024. The issuance of the 2024 Bonds has been approved by the North Carolina Local Government Commission (the “Commission”). See Appendix F for certain information concerning the Commission and its functions.

Purpose. The 2024 Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) pay the cost of certain improvements to the Town’s Enterprise Systems (as defined herein) as described under “THE 2024 PROJECT” herein (the “2024 Project”), (b) pay interest on the 2024 Bonds through May 1, 2026, and (c) pay the fees and expenses incurred in connection with the sale and issuance of the 2024 Bonds.

Security. The 2024 Bonds will be special obligations of the Town, secured by and payable from the Net Revenues of the Enterprise Systems (as defined below), and, under certain circumstances, the proceeds of the 2024 Bonds, investment earnings and certain net insurance and other proceeds. The Enterprise Systems means (1) initially, the Town's water and sewer system, providing water and sewer services inside and outside the incorporated limits of the Town, including any and all additions, modifications, replacements and parts thereof and including any portion thereof owned by a public authority or agency or a nonprofit corporation organized solely for the purpose of assisting the Town and (2) thereafter, any revenue-producing enterprise of the Town that qualifies as a “revenue bond project” under Section 159-81(3) of the General Statutes of North Carolina, as amended from time to time, and added to the Enterprise Systems pursuant to the provisions of the General Indenture, but (3) less any portion of the Enterprise Systems removed therefrom or designated otherwise pursuant to the provisions of the General Indenture. The 2024 Bonds will be additionally secured by certain funds and accounts created under the General Indenture and the Series Indenture. The General Indenture provides that the 2024 Bonds will be secured by a pledge of the Net Revenues on a parity with the outstanding 2008 Bond, 2020 Bond and any additional bonds hereafter issued under the General Indenture (the 2008 Bond, 2020 Bond, 2024 Bonds and any such additional bonds being collectively referred to herein as the “Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2024 BONDS” herein.

Details of Bonds. The 2024 Bonds will be dated as of the date of delivery thereof. Interest on the 2024 Bonds will be payable on May 1 and November 1, beginning November 1, 2024, at the rates shown on the inside front cover hereof. Principal of the 2024 Bonds will be payable, subject to prior redemption as described herein, on November 1 in the years and amounts shown on the inside front cover hereof.

The 2024 Bonds will be issued as fully registered bonds in book-entry-only form, without physical delivery of bond certificates to the beneficial owners of the 2024 Bonds. The Trustee will make payment of principal of and interest on the 2024 Bonds to The Depository Trust Company (“DTC”), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the 2024 Bonds. Individual purchases of the 2024 Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof. See Appendix H hereto for a further description of DTC and its book-entry-only system.

Enterprise Systems and the Town. See Appendix A hereto for particular information regarding the Town’s Enterprise Systems and Appendix B hereto for particular information regarding the Town.

Tax Status. See “TAX TREATMENT” herein.

Professionals. PNC Capital Markets LLC, Charlotte, North Carolina, (the “Underwriter”), is underwriting the 2024 Bonds. Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, is serving as Bond Counsel. Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, is serving as counsel to the Underwriter. John Schifano, Esq., Holly Spring, North Carolina, is the Town Attorney. U.S. Bank Trust Company, National Association, Charlotte, North Carolina, is serving as the Trustee. DEC Associates Inc., Charlotte, North Carolina, is serving as financial advisor to the Town in connection with the sale and issuance of the 2024 Bonds. NewGen Strategies and Solutions, LLC, Annapolis, Maryland, has prepared the financial feasibility report included in Appendix D hereto.

Continuing Disclosure. The Town has undertaken in the Supplemental Indenture to provide certain annual financial information and operating data and to provide notice of certain material events. See “CONTINUING DISCLOSURE” herein.

THE 2024 BONDS

Authorization

The 2024 Bonds will be issued pursuant to the General Indenture and the Series Indenture. The 2024 Bonds will be issued pursuant to the Act and a bond order which was adopted by the Town Council on June 18, 2024.

The issuance of the 2024 Bonds will be considered for approval by the Commission on July 9, 2024. The Commission is a division of the State Treasurer’s office charged with general oversight of local government finance in North Carolina. Its approval is required for all local government bond issues and substantially all other local government financing arrangements in North Carolina. In determining whether to allow bonds to be issued under the Act, the Commission has been given wide statutory discretion to consider the local government’s capability to repay the amount financed from the pledged revenue sources and the local government’s general compliance with State budget and finance laws. Under the Act, the Commission is also responsible, with the issuing unit’s approval, for selling bonds issued pursuant to the Act. See Appendix F hereto for additional information on the Commission and its powers and duties.

General

The 2024 Bonds will be dated as of the date of delivery thereof, will bear interest from their date payable on each May 1 and November 1, beginning November 1, 2024, at the rates shown on the inside front cover hereof and will mature, subject to prior redemption as described below, on November 1 in the years and amounts shown on the inside front cover hereof. The 2024 Bonds will be issued as fully registered bonds and will be subject to the provisions of the book-entry-only system described below. Individual purchases of the 2024 Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof.

The 2024 Bonds will be issued as fully registered bonds in book-entry-only form without physical delivery of bonds to the beneficial owners of the 2024 Bonds. The Trustee will make payments of principal of and interest on the 2024 Bonds to DTC, which will in turn remit such payments to DTC participants for subsequent distribution to the beneficial owners of the 2024 Bonds. See Appendix H hereto for more information regarding DTC and its book-entry-only system.

Redemption Provisions

Optional Redemption. The 2024 Bonds maturing on or before November 1, 2034 are not subject to redemption prior to maturity. The 2024 Bonds maturing on or after November 1, 2035 will be subject to redemption, at the option of the Town, from any funds that may be available for such purpose, either in whole or in part on any date on or after November 1, 2034. The 2024 Bonds called for optional redemption will be redeemed at a Redemption Price of 100% of the principal amount thereof, plus accrued interest to the redemption date, without premium, in the manner provided in the Series Indenture.

Mandatory Sinking Fund Redemption. The 2024 Bonds maturing on November 1, 2049 (the “2049 Term Bonds”) are subject to mandatory sinking fund redemption before their scheduled maturity, without premium, at the Redemption Price equal to 100% of the principal amount thereof being redeemed in the principal amounts and in the years as follows:

<u>November 1</u>	<u>Principal Amount</u>
2045	\$2,940,000
2046	3,060,000
2047	3,185,000
2048	3,315,000
2049*	3,450,000

* Maturity

The 2024 Bonds maturing on November 1, 2053 (the “2053 Term Bonds” and, together with the 2049 Term Bonds, the “Term Bonds”) are subject to mandatory sinking fund redemption before their scheduled maturity, without premium, at the Redemption Price equal to 100% of the principal amount thereof being redeemed in the principal amounts and in the years as follows:

<u>November 1</u>	<u>Principal Amount</u>
2050	\$3,590,000
2051	3,735,000
2052	3,885,000
2053*	4,045,000

* Maturity

Redemption Provisions. Notice of redemption will be given by the Trustee not less than 30 days nor more than 60 days before the Redemption Date (1) to the Commission by Mail or Electronic Means transmission, (2)(a) to DTC or its nominee by registered or certified mail at the address provided to the Trustee by DTC or as otherwise permitted by DTC’s rules and procedures or (b) if DTC or its nominee is no longer the Owner of the 2024 Bonds, by Mail to the then-registered Owners of 2024 Bonds to be redeemed at the last address shown on the registration books kept by the Trustee and (3) to the Municipal Securities Rulemaking Board (the “MSRB”) through the MSRB’s Electronic Municipal Market Access System pursuant to the procedures promulgated by the MSRB.

Such notice must (1) specify the 2024 Bonds to be redeemed, the Redemption Date, the Redemption Price and the place or places where amounts due on such redemption must be payable (which must be the designated office of the Paying Agent) and if less than all of the 2024 Bonds are to be redeemed, the portions of 2024 Bonds to be redeemed, (2) if sufficient money is not then on deposit in the Debt Service Fund to pay the full Redemption Price of the 2024 Bonds, state that the proposed optional

redemption is conditioned on there being sufficient money on deposit in the Debt Service Fund to pay the Redemption Price of the 2024 Bonds called for redemption, and (3) state that on the Redemption Date, the 2024 Bonds to be redeemed will cease to bear interest. The Town may revoke any optional redemption for which notice has been given on written instruction to the Trustee delivered in sufficient time for the Trustee to give notice thereof at least five days before the Redemption Date (or if DTC or its nominee is the registered Owner of the 2024 Bonds, such shorter time as permitted by DTC's rules and procedures) to the persons to whom and in the manner in which the notice of redemption was given.

The actual receipt by any Owner of a 2024 Bond of notice of redemption is not a condition precedent to redemption, and failure to receive notice will not affect the validity of the proceedings for the redemption of the 2024 Bonds or the cessation of interest on the Redemption Date.

If less than all of the 2024 Bonds are called for redemption, the Town will determine the maturities and amounts thereof to be redeemed. If a book-entry system through DTC is used for determining beneficial ownership of the 2024 Bonds and less than all the 2024 Bonds of any maturity are called for redemption, DTC will select the 2024 Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system through DTC or any other securities depository for determining beneficial ownership of the 2024 Bonds has been discontinued, the Trustee will select the 2024 Bonds to be redeemed by lot in such manner at the Trustee in its discretion may deem proper, but, in any event, the portion of any 2024 Bond to be redeemed must be in an Authorized Denomination.

If moneys are on deposit in the Debt Service Fund to pay the Redemption Price of the 2024 Bonds called for redemption and premium, if any, thereon on a redemption date, 2024 Bonds or portions thereof so called for redemption as provided above will not bear interest after such redemption date and will not be considered Outstanding or as having any other rights under the General Indenture other than the right to receive payment. If a portion of a 2024 Bond is called for redemption, a new 2024 Bond in principal amount equal to the unredeemed portion thereof will be issued to the Owner thereof upon surrender thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE 2024 BONDS

General

The 2024 Bonds will be special obligations of the Town, secured by and payable from the Net Revenues of the Enterprise Systems and, under certain circumstances, the proceeds of the 2024 Bonds, investment earnings and certain net insurance and other proceeds. The 2024 Bonds are not payable from the Town's general funds and do not constitute a legal or equitable pledge, charge, lien or encumbrance on any of the Town's property or on any of its income, receipts or revenues, except for the Net Revenues and other funds pledged to their payment. Neither the credit nor the taxing power of the Town is pledged for the payment of principal of, premium, if any, or interest on the 2024 Bonds, and no Owner of the 2024 Bonds has the right to compel the exercise of the taxing power by the Town or the forfeiture of any of its property other than Net Revenues in connection with any default on the 2024 Bonds.

As of the date of this Official Statement, the Enterprise Systems are composed of the Town's water system and sanitary sewer system. See "THE ENTERPRISE SYSTEMS" in Appendix A. The General Indenture authorizes, under certain circumstances, the addition to the Enterprise Systems of any revenue-producing enterprise of the Town that qualifies as a "revenue bond project" under Section 159-81(3) of the General Statutes of North Carolina, as amended from time to time. The Town may also sell, mortgage, lease or otherwise dispose of all or certain components of the Enterprise Systems upon

compliance with certain provisions set forth in the General Indenture. See “COVENANTS OF THE CITY - *Adding to or Removing from the System*” and “*Liens or Charges*” in Appendix E.

Pledge of Net Revenues

The Net Revenues of the Enterprise Systems are pledged to the payment of, and as security for the 2024 Bonds, the 2020 Bond, the 2008 Bond and any other Bonds hereafter issued under the General Indenture. Net Revenues for any particular period means the excess of Revenues over Current Expenses. Revenues means all rates, fees, rentals, assessments, capacity fees, system development fees or other charges or other money received by the Town in connection with the ownership, management and operation of the Enterprise Systems, and all parts thereof, including amounts received from the investment of money in any Fund or Account (but not including amounts received from interest or other investment income earned in the Construction Fund and, during the construction period, the Reserve Fund), all as calculated in accordance with generally accepted accounting principles, but shall not include (1) net proceeds of insurance or condemnation awards or other extraordinary items, (2) any amounts collected by the Town representing sales or use taxes which may be required by law or agreement to be paid to the State or a governmental unit thereof, (3) refundable deposits made by customers of the Enterprise Systems, (4) any proceeds or any gain or loss from the extinguishment of debt or the sale, exchange or other disposition of capital assets, (5) Released Revenues, which are Revenues released from the grant of security for the Bonds under the General Indenture, (6) proceeds of assessments, capacity fees, system development fees or similar charges identified in a Certificate of a Town Representative filed with the Trustee stating that such are not to be Revenues because the proceeds thereof are to be utilized exclusively for the payment of the cost of the capital projects for which they were collected, or (7) any amounts otherwise included under this definition as Revenues but not permitted by law to be pledged under the General Indenture. Current Expenses generally means the Town’s current expenses for the operation, maintenance and current repair of the Enterprise Systems as calculated in accordance with generally accepted accounting principles except as otherwise provided in the General Indenture, except that Current Expenses do not include (a) any allowance for depreciation or replacements of capital assets of the Enterprise Systems, (b) moneys payable as interest on the Bonds or on General Obligation Indebtedness, Subordinate Indebtedness or Other Indebtedness, (c) moneys deposited or transferred to the Reserve Fund, if any, pursuant to the applicable Series Indenture, (d) any loss from extinguishment of debt or the sale, exchange or other disposition of capital assets and (e) any accrued expenses for other post-retirement benefits not resulting in (i) payments of such benefits to current or future retired employees or (ii) deposits of funds into an irrevocable trust for the purpose of making future payments of such benefits to current or future retired employees. When generally accepted accounting principles provide that amounts be treated as Current Expenses but (1) the timing of the required payment of the expense or a portion thereof, while known, is more than one year in the future or (2) the actual timing of the required payment of the expense is not readily determinable (such as post-employment benefits calculated actuarially), the Town may include as a Current Expense the amount required to be paid for in the current period rather than the entirety of amounts required to be expensed. See Appendix E for complete definitions of Revenues and Current Expenses.

Rate Covenant

Under the General Indenture, before the beginning of each Fiscal Year, the Town is required to fix, establish or maintain or cause to be fixed, established and maintained such rates and charges for the provision of services of the Enterprise Systems, and to revise or cause to be revised the same, as necessary, as will produce:

(1) Revenues, which together with 20% of the balance in the Surplus Fund at the end of the preceding Fiscal Year, at least equal in such Fiscal Year to the total of (a) the Current Expenses budgeted

for such Fiscal Year, as may be amended from time to time, plus (b) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year, plus (c) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Year, plus (d) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Year, plus (e) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year, plus (f) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing thereunder; and

(2) Revenues at least equal in such Fiscal Year to the total of (a) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (b) 110% of (1.10 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year, plus (c) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Year, plus (d) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Year, plus (e) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year, plus (f) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, for any amounts owing thereunder, provided that, for purposes of calculating compliance with the rate covenant in (a) and (b) above, the exception with respect to Balloon Indebtedness in the definition of Principal and Interest Requirements on the Bonds shall not apply.

All users, including political subdivisions and public bodies (State or federal) who receive services from the Enterprise Systems will pay therefor at the established rates, fees and charges, unless otherwise prohibited by law, but the Town may adopt specific policies with respect to use by persons of low income and the rates, fees and charges need not be uniform.

If the Town fails to comply with the covenants set forth in clause (1) and (2) above, the Town will, within 30 days of the receipt by the Town of its audit report required by the General Indenture, request a Financial Consultant to make its recommendations, if any, as to a revision of the Town's rates and charges, Current Expenses or the method of operation of the Enterprise Systems in order to satisfy the foregoing requirements of the General Indenture. Copies of such request and of the recommendations of the Financial Consultant, if any, will be filed by the Town with the Trustee and the LGC. Promptly on its receipt of the recommendations of the Financial Consultant, the Town will, after giving due consideration to the recommendations, revise its rates and charges or Current Expenses or alter its methods of operation, which revisions or alterations need not comply with all of the Financial Consultant's recommendations but which are projected by the Town to result in compliance with the covenants in clause (1) and (2) above. If the Town complies with the recommendations of the Financial Consultant which are projected by the Town to result in compliance with the covenants in clause (1) and (2) above, failure to comply with the provisions of clause (1) and (2) above will not constitute an Event of Default under the provisions of the General Indenture.

The Town is required to deliver to the Trustee an audited calculation demonstrating compliance with the rate covenant within 180 days after the end of each Fiscal Year.

Funds and Accounts

Pursuant to the General Indenture, the Town has established the following funds:

- (1) Enterprise Systems Operating Fund,
- (2) Debt Service Fund,

- (3) Extension and Replacement Fund,
- (4) Construction Fund,
- (5) Reserve Fund, if required, and
- (6) Surplus Fund.

The Debt Service Fund, the Construction Fund and the Reserve Fund are held by the Trustee. The remaining funds are held by one or more financial institutions determined by the Town. For administrative convenience, each fund may be subdivided by the Town or the Trustee in separate accounts with appropriate identification.

The moneys and securities held in the Debt Service Fund, the Construction Fund and the Reserve Fund are pledged under the General Indenture to secure payment of the Bonds. The moneys and securities held in the Enterprise Systems Operating Fund, the Extension and Replacement Fund and the Surplus Fund are not pledged to secure payment of the Bonds. However, to the extent that there is a deficiency at any time in the Debt Service Fund, the Town is required to cure such deficiency from moneys held in the Enterprise Systems Operating Fund, the Surplus Fund, the Extension and Replacement Fund, the applicable account of the Reserve Fund, if any, and the Construction Fund and in the manner provided in the General Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2024 BONDS - Funds and Accounts - Debt Service Fund” herein.

Upon the occurrence and continuance of any Event of Default under the General Indenture, the Trustee in its discretion may, and upon the written direction of the registered Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding, the Trustee must, take custody of the Enterprise Systems Operating Fund, the Extension and Replacement Fund and the Surplus Fund. See “COVENANTS OF THE CITY - *Rate Covenant*” and “DEFAULTS AND REMEDIES - *Remedies on Default*” in Appendix E.

Enterprise Systems Operating Fund. The Town is required to deposit all Revenues in the Enterprise Systems Operating Fund. The Town will cause disbursements to be made from the Enterprise Systems Operating Fund as follows:

- (1) Directly to the Persons entitled thereto at any time as may be required, the amount required to pay the Current Expenses as shown in the Annual Budget for the current Fiscal Year;
- (2) To the Debt Service Fund, on or before the fifth day preceding each Interest Payment Date, an amount such that, after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Interest on the Bonds, there will be in the Debt Service Fund an amount equal to the Interest due on that Interest Payment Date;
- (3) To the Debt Service Fund, on or before the fifth day preceding each Principal Payment Date, an amount such that, after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Principal of the Bonds, there will be in the Debt Service Fund an amount equal to the Principal due on that Principal Payment Date;
- (4) At any time as may be required, to the provider of any Qualified Reserve Fund Substitute in satisfaction of the then-current obligations of the Town incurred in connection therewith;

(5) At any time as may be required, to the Trustee for deposit in the Reserve Fund, if any, (a) the amount necessary for the balance therein to equal the Reserve Requirement, but if the Revenues are insufficient therefor, to each account of the Reserve Fund pro rata on the basis of the Reserve Requirement for each Series of Bonds secured by an account of the Reserve Fund or (b) if the Reserve Fund is less than 90% of the Reserve Requirement as a result of a valuation of investments therein, the amount necessary for the balance therein to equal the Reserve Requirement; but the Town is not required to transfer in any month more than an amount such that if the same amount were deposited in equal monthly installments over the subsequent 11 months, the Reserve Fund would equal the Reserve Requirement;

(6) At any time as may be required, to the Persons entitled to payment of any principal, premium, if any, or interest on any Subordinate Indebtedness in any amount necessary to pay the principal, premium or interest then due and owing;

(7) At any time as may be required, to the paying agent or directly to the registered owners of General Obligation Indebtedness in an amount necessary to pay when due the principal of, premium, if any, and interest on the General Obligation Indebtedness;

(8) At any time as may be required, to the Persons entitled to payment with respect to any Other Indebtedness, an amount equal to the payment then due and owing;

(9) On the last day of each month, to the Extension and Replacement Fund, the amount necessary for the following month, if any, as shown in the Annual Budget; and

(10) On the first day of each Fiscal Year, to the Surplus Fund, the balance remaining in the Enterprise Systems Operating Fund as of the last day of the preceding Fiscal Year.

Debt Service Fund. Amounts held in the Debt Service Fund will be used first to pay the interest on and then the principal or Redemption Price of all Bonds Outstanding under the General Indenture, all on a pro rata basis. If on any Interest Payment Date or principal payment date, there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following funds in the following order or priority: (1) Enterprise Systems Operating Fund, (2) Surplus Fund, (3) Extension and Replacement Fund, (4) the account of the Reserve Fund securing a particular Series of Bonds to the extent such deficiency is attributable to such Series of Bonds and (5) Construction Fund.

Reserve Fund. The General Indenture establishes the Reserve Fund and provides that the related series indenture for each series of Bonds will establish the provisions for use of the Reserve Fund. **THE 2024 BONDS WILL NOT BE SECURED BY THE RESERVE FUND, AND THE SERIES INDENTURE DOES NOT PROVIDE FOR THE FUNDING OF THE RESERVE FUND FOR THE 2024 BONDS.**

Construction Fund. Certain proceeds of the 2024 Bonds will be deposited in the Construction Fund held by the Trustee at closing. Amounts deposited in the Construction Fund, including investment earnings on the Construction Fund during construction of the 2024 Project, will be used to pay a portion of the costs of the Project or will be transferred to the Debt Service Fund to make up any deficiency therein in accordance with the priorities described under the subheading “Debt Service Fund” above. Amounts on deposit in the Construction Fund are subject to a lien and charge in favor of the Owners of all Outstanding Bonds pending the application of such amounts to pay costs of the Project and other lawful charges against the Construction Fund.

Extension and Replacement Fund. Amounts deposited in the Extension and Replacement Fund may be applied for the following purposes:

- (1) paying the cost of extensions, additions and capital improvements to, or the renewal or replacements of capital assets of, or purchasing and installing new equipment for, the Enterprise Systems, or paying any extraordinary maintenance and repair or any expenses which are not Current Expenses;
- (2) transfer to the Debt Service Fund to make up any deficiency therein in accordance with the priorities described under the subheading "Debt Service Fund" above;
- (3) repayment of Subordinate Indebtedness, General Obligation Indebtedness or Other Indebtedness; and
- (4) any other purpose authorized by law.

Surplus Fund. Moneys held in the Surplus Fund will be applied in the following order of priority: (1) first, to the Enterprise Systems Operating Fund and the Debt Service Fund to make up any deficiency therein to meet the obligations therefor; (2) second, to pay the Persons entitled thereto a termination payment under a Derivative Agreement; (3) third, to the Persons entitled to payment of any principal, premium, if any, or interest on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing; (4) fourth, to the paying agent or directly to the registered owners of General Obligation Indebtedness an amount necessary to pay when due the principal of, premium, if any, and interest on the General Obligation Indebtedness; (5) fifth, to the entities entitled to payment with respect to any Other Indebtedness, an amount equal to the payment then due and owing; and (6) sixth, for any lawful purpose from time to time authorized by the Town.

Additional Bonds and Other Obligations Secured by or Payable from Net Revenues

The 2008 Bond and the 2020 Bond are secured by a pledge on the Net Revenues on a parity with the 2024 Bonds. Under the conditions and limitations set forth in the General Indenture and without the approval or consent of the Owners of any Outstanding Bonds, the Town may issue additional Bonds secured by a pledge of the Net Revenues on a parity with the 2008 Bond, the 2020 Bond and the 2024 Bonds. See "COVENANTS OF THE CITY – *Issuance of Additional Bonds*" in Appendix E. In addition, the Town has Subordinate Indebtedness currently outstanding in the amount of \$7,618,082. "Subordinate Indebtedness" is secured by a lien on Net Revenues that is subordinate to the lien on Net Revenues securing the payment of the 2008 Bond, the 2020 Bond and the 2024 Bonds, including any loan or other obligation payable to the State under a State loan program unless by its terms it is stated to be on parity with the Bonds.

The Town also has General Obligation Indebtedness currently outstanding in the amount of \$6,137,874 and Other Indebtedness currently outstanding in the amount of \$1,595,856. There are no restrictions contained in the General Indenture or the Series Indenture on the issuance or incurrence of General Obligation Indebtedness or Other Indebtedness of the Town for projects related to the Enterprise Systems, and such General Obligation Indebtedness and Other Indebtedness may be paid from Revenues of the Enterprise Systems as provided in the General Indenture. The General Indenture includes certain covenants and limitations regarding the placement of liens related to Other Indebtedness on the assets comprising the Enterprise Systems. See "COVENANTS OF THE CITY – *Liens or Charges*" in Appendix E.

See "ANNUAL DEBT SERVICE REQUIREMENTS" herein.

THE 2024 PROJECT

The Town has entered into an interlocal agreement (the “WFF Expansion ILA”) with the Towns of Fuquay-Varina and Pittsboro and the City of Sanford (collectively, the “Participating Municipalities”) providing for the expansion of the City of Sanford’s Water Filtration Facility (the “WFF”) from 12 MGD to 30 MGD (the “WFF Expansion Project”). Pursuant to the terms of the WFF Expansion ILA, the Town and the Participating Municipalities will share the costs associated with the WFF Expansion Project and the costs associated with the ongoing operation and maintenance of the WFF as expanded. Upon completion of the WFF Expansion Project, the Town and the Participating Municipalities will jointly own the WFF as expanded at the following percentages with the following water capacities:

	<u>Ownership Share</u>	<u>Capacity (MGD)</u>
City of Sanford ¹	66.67%	20.0
Town of Fuquay-Varina	20.00	6.0
Town of Holly Springs	<u>13.33</u>	<u>4.0</u>
Totals	<u>100.0%</u>	<u>30.0</u>

Under the WFF Expansion ILA, which has an initial term of 99 years, the City of Sanford is responsible for bidding, awarding, holding and managing all construction contracts related to the WFF Expansion Project. Additionally, upon completion, the City of Sanford will control all management and operations of the WFF as expanded for all parties.

The total estimated cost of the WFF Expansion Project (excluding design costs) is \$390,677,680. The parties to the WFF Expansion ILA are responsible for the construction costs as follows under the WFF Expansion ILA:

	<u>Percentage</u>	<u>Estimated Dollar Amount</u>
City of Sanford ²	47.5%	\$185,852,350
Town of Fuquay-Varina	31.5	122,895,198
Town of Holly Springs	<u>21.0</u>	<u>81,930,132</u>
Totals	<u>100.0%</u>	<u>\$390,677,680</u>

The Participating Municipalities plan to pay for their costs of construction with the proceeds of revenue bonds, grant funds and other available sources. The Town plans to pay for its costs of construction (the “2024 Project”) with the proceeds of the 2024 Bonds (\$64,730,132) and State grant funds and certain other available funds of the Town (\$19,900,000).

¹ Effective July 1, 2024, the Town of Pittsboro’s utility system merged into the City of Sanford’s utility system as provided for in an interlocal agreement between the Town of Pittsboro and the City of Sanford. Under the terms of the merger, the Town of Pittsboro transferred its rights and obligations under the WFF Expansion ILA to the City of Sanford. Therefore, the prior costs, ownership shares and capacity allocations of the Town of Pittsboro set forth in the WFF Expansion ILA are now the costs, ownership shares and capacity allocations of the City of Sanford.

To aid in the administration of the construction of the WFF Expansion Project, the Town and the Participating Municipalities have entered into a Construction Management Agreement (the “CMA”) with Regions Bank, as escrow agent (in such capacity, the “Escrow Agent”). Pursuant to the terms of the CMA, the Town and the Participating Municipalities will deposit their share of the construction costs with the Escrow Agent in an Acquisition and Construction Fund. The funds in the Acquisition and Construction Fund will be applied to pay the costs of the WFF Expansion Project through a requisition process directed solely by the City of Sanford. The proceeds of the 2024 Bonds deposited in the Acquisition and Construction Fund under the CMA will be set aside in a separate subaccount by the Escrow Agent and remain pledged as security for the 2024 Bonds pursuant to the General Indenture until such funds are expended. Likewise, any revenue bond proceeds deposited by the Participating Municipalities into the Acquisition and Construction Fund will remain pledged as security to the revenue bond holders of the respective Participating Municipalities.

ESTIMATED SOURCES AND USES OF FUNDS

The Town estimates the sources and uses for the 2024 Project to be as follows:

Sources:

Par Amount of 2024 Bonds	\$66,865,000
Net Original Issue Premium	3,800,557
Town Contribution	<u>19,900,000</u>
Total	<u>\$90,565,557</u>

Uses:

2024 Project Costs	\$84,633,863
Capitalized Interest	5,263,504
Costs of Issuance ¹	<u>668,190</u>
Total	<u>\$90,565,557</u>

¹ Includes underwriter’s discount, legal fees, printing costs, rating agency fees, financial advisor fees, feasibility consultant fees, fees and expenses of the Trustee and miscellaneous fees and expenses.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each Fiscal Year ending June 30, the amounts required for the payment of debt service related to the 2024 Bonds, the 2008 Bond, the 2020 Bond, the Subordinate Indebtedness, the General Obligation Indebtedness and the Other Indebtedness.

Fiscal Year Ending June 30,	<u>2024 Bonds</u>		2008 Bond and 2020 Bond ¹	Subordinate Indebtedness ¹	General Obligation Indebtedness and Other Indebtedness ¹	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>				
2025		\$2,260,554 ²	\$1,775,364	\$1,217,636	\$1,440,776	\$6,694,330
2026		3,002,950 ²	1,807,693	1,199,260	1,841,315	7,851,218
2027	\$1,155,000	2,974,075	1,841,516	1,180,885	2,493,588	9,645,064
2028	1,215,000	2,914,825	1,876,901	1,162,511	2,479,139	9,648,376
2029	1,275,000	2,852,575	<u>1,913,351</u>	1,144,136	2,417,343	9,602,405
2030	1,340,000	2,787,200		1,125,761	2,403,782	7,656,743
2031	1,410,000	2,718,450		230,718	2,389,727	6,748,895
2032	1,480,000	2,646,200		230,719	2,374,267	6,731,186
2033	1,555,000	2,570,325		230,718	2,353,012	6,709,055
2034	1,635,000	2,490,575		230,718	1,955,051	6,311,344
2035	1,720,000	2,406,700		230,718	1,954,066	6,311,484
2036	1,810,000	2,318,450		<u>85,935</u>	1,935,671	6,150,056
2037	1,900,000	2,225,700			1,922,406	6,048,106
2038	2,000,000	2,128,200			1,677,435	5,805,635
2039	2,100,000	2,025,700			1,673,935	5,799,635
2040	2,210,000	1,917,950			1,670,435	5,798,385
2041	2,325,000	1,804,575			1,667,241	5,796,816
2042	2,440,000	1,685,450			1,664,353	5,789,803
2043	2,565,000	1,560,325			1,658,975	5,784,300
2044	2,700,000	1,428,700			<u>1,656,106</u>	5,784,806
2045	2,825,000	1,304,700				4,129,700
2046	2,940,000	1,189,400				4,129,400
2047	3,060,000	1,069,400				4,129,400
2048	3,185,000	944,500				4,129,500
2049	3,315,000	814,500				4,129,500
2050	3,450,000	679,200				4,129,200
2051	3,590,000	538,400				4,128,400
2052	3,735,000	391,900				4,126,900
2053	3,885,000	239,500				4,124,500
2054	<u>4,045,000</u>	<u>80,900</u>				<u>4,125,900</u>
Total	<u>\$66,865,000</u>	<u>\$53,971,879</u>	<u>\$9,214,824</u>	<u>\$8,269,714</u>	<u>\$39,628,624</u>	<u>\$177,950,042</u>

¹ Includes principal and interest.

² Amounts paid from capitalized interest.

Note: Totals may not foot due to rounding.

FINANCIAL FEASIBILITY REPORT

The Financial Feasibility Report, which has been prepared by NewGen Strategies and Solutions, LLC is included in Appendix D hereto and should be read in its entirety. The forecasted operating results for the Fiscal Years ending June 30, 2025 through 2029 contained therein are based on certain assumptions discussed in the Financial Feasibility Report. Certain of these assumptions may not materialize and unforeseen events and circumstances may occur subsequent to the date of the Financial Feasibility Report. Therefore, there will usually be differences between the forecasted operating results and the actual operating results and these differences may be material.

The following table, derived from the Financial Feasibility Report included as Appendix D, shows the projected debt service coverage ratios for the Fiscal Years ending June 30, 2025 to 2029, inclusive. **The Financial Feasibility Report included in the Preliminary Official Statement, dated July 9, 2024, relating to the 2024 Bonds, has been updated for purposes of this Official Statement to reflect the actual debt service on the 2024 Bonds.**

See the Financial Feasibility Report included as Appendix D for the assumptions, adjustments and notes related to the information provided in the table below.

	2024 (Estimated)	2025 (Forecasted)	2026 (Forecasted)	2027 (Forecasted)	2028 (Forecasted)	2029 (Forecasted)
Operating Revenues	\$22,570,080	\$27,738,801	\$34,024,907	\$38,030,697	\$42,513,603	\$47,515,270
Operating Expenses	<u>(22,536,032)</u>	<u>(23,801,140)</u>	<u>(24,555,874)</u>	<u>(25,578,513)</u>	<u>(26,389,351)</u>	<u>(27,786,175)</u>
Operating Income	34,048	3,937,661	9,469,034	12,452,183	16,124,253	19,729,095
Non-Operating Revenues/(Expenses)	5,754,252	5,454,370	5,231,473	2,086,779	(1,047,995)	(5,986,474)
Adjustments:						
Plus: Depreciation and Amortization	5,036,032	5,287,834	5,552,225	5,829,837	6,121,328	6,427,395
Plus: Interest Expense	<u>620,777</u>	<u>1,019,656</u>	<u>1,383,974</u>	<u>4,286,044</u>	<u>7,501,015</u>	<u>12,709,976</u>
Net Revenues	11,445,109	15,699,521	21,636,706	24,654,844	28,698,601	32,879,991
20% of Surplus Fund	10,758,557	8,197,234	8,104,383	4,022,071	4,824,027	7,528,847
Total Parity Indebtedness Debt Service	1,744,463	1,775,364	1,807,693	5,970,591	10,532,851	17,848,051
Debt Service Coverage Ratio for Parity Indebtedness						
Excludes 20% of Surplus Fund	6.56	8.84	11.97	4.13	2.72	1.84
Includes 20% of Surplus Fund	12.73	13.46	16.45	4.80	3.18	2.26
Total Debt Service (including Parity, Subordinate, General Obligation and Other Indebtedness)	\$3,963,615	\$4,433,776	\$4,848,269	\$9,645,064	\$14,174,501	\$21,409,530
Debt Service Coverage Ratio for Total Debt Service	2.89	3.54	4.46	2.56	2.02	1.54

For information on the historical financial performance for the Fiscal Years ended June 30, 2019 to June 30, 2023, see the Financial Feasibility Report included in Appendix D.

THE ENTERPRISE SYSTEMS

Information about the Enterprise Systems is contained in Appendix A to this Official Statement.

THE TOWN

Information about the Town is contained in Appendix B to this Official Statement.

The Town's basic financial statements have been audited by independent certified public accountants for each Fiscal Year through June 30, 2023. The Town's basic financial statements and the notes thereto, drawn from the Town's annual comprehensive financial report for the Fiscal Year ended June 30, 2023, are included as Appendix C to this Official Statement. The Town has not requested nor obtained the consent of its auditor to the inclusion these financial statements in this Official Statement.

CONTINUING DISCLOSURE

In the Series Indenture, the Town will undertake, in accordance with Rule 15c2-12 ("Rule 15c2-12") promulgated by the Securities and Exchange Commission (the "SEC") and for the benefit of the Owners and the beneficial owners of the 2024 Bonds, as follows, to provide to the MSRB the following:

(a) by not later than seven months after the end of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2024, the audited financial statements of the Town for the preceding Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or if such audited financial statements are not then available, unaudited financial statements of the Town for such Fiscal Year to be replaced subsequently by audited financial statements to the Town to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months after the end of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2024, the financial and statistical data as of the date not earlier than the end of the preceding Fiscal Year for the type of information included under the following headings in this Official Statement to the extent such items are not included in the audited financial statements referred to in (a) above:

(1) "FINANCIAL FEASIBILITY REPORT (table contained therein including calculation of debt service coverage ratios for the completed Fiscal Year)"; and

(2) "APPENDIX A - THE ENTERPRISE SYSTEMS" – The Water System – Water Rates (tables contained therein), Number of Active Customer Accounts (table contained therein) and Major Water Customer Accounts (table contained therein), and - The Sanitary Sewer System – Sanitary Sewer Rates (tables contained therein), Number of Active Customer Accounts (table contained therein) and Major Sanitary Sewer Customer Accounts (table therein)";

(c) in a timely manner, not in excess of 10 business days after the occurrence of the event, notice of any of the following events with respect to the 2024 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2024 Bonds or other material events affecting the tax status of the 2024 Bonds;
- (7) modification of the rights of the beneficial owners of the 2024 Bonds, if material;
- (8) call of any of the 2024 Bonds, other than mandatory sinking fund redemption, if material, and tender offers;
- (9) defeasance of any of the 2024 Bonds;
- (10) release, substitution, or sale of any property securing repayment of the 2024 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Town;
- (13) the consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material;
- (14) the appointment of a successor or additional trustee or the change in the name of a trustee, if material;
- (15) incurrence of a financial obligation of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the County, any of which affect security holders, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Town, any of which reflect financial difficulties; and

(d) in a timely manner, notice of a failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

At present, Section 159-34 of the General Statutes of North Carolina requires the Town's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

“Financial obligation” means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of either clause (a) or (b) above. The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

Pursuant to the Series Indenture, the Town will agree to provide all documents described above in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Town agrees in the Series Indenture that its undertaking described above is intended to be for the benefit of the Owners and the beneficial owners of the 2024 Bonds and is enforceable by the Trustee or by any of them, including an action for specific performance of the Town’s described above, but a failure to comply will not be an Event of Default under the General Indenture and will not result in acceleration of the payment of the 2024 Bonds. An action must be instituted, had and maintained in the manner provided in this paragraph for the benefit of all of the Owners and beneficial owners of the 2024 Bonds.

The Town may modify from time to time, consistent with Rule 15c2-12, the information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Town, but:

- (1) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Town;
- (2) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement relating to the 2024 Bonds, after taking into account any amendments or interpretations of Rule 15c2-12 as well as any changes in circumstances;
- (3) any such modification does not materially impair the interest of the Owners or the beneficial owners, as determined by nationally recognized bond counsel or by the approving vote of the Owners of a majority in principal amount of the 2024 Bonds pursuant to the General Indenture as may be amended from time to time.

Any annual financial information containing modified operating data or financial information will explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the 2024 Bonds.

On May 14, 2021, Moody’s Investors Service upgraded the rating on the Town’s outstanding general obligation bonds and limited obligation bonds. The Town posted notice of the upgrades to the MSRB’s Electronic Municipal Market Access (EMMA) website on June 1, 2021, eleven (11) business days after the rating upgrades were released to the public. Except to the extent described in the preceding sentences, the Town has complied in all material respects with its previous undertakings pursuant to the requirements of Rule 15c2-12.

LEGAL MATTERS

Legal matters related to the authorization, execution, sale and delivery of the 2024 Bonds are subject to the approval of Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel. Certain legal matters will be passed upon for the Town by John Schifano, Esq., Holly Springs, North Carolina, Town Attorney, and for the Underwriter by Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, counsel to the Underwriter.

Parker Poe Adams & Bernstein LLP serves as Bond Counsel to the Town and, from time to time, it and Womble Bond Dickinson (US) LLP, counsel to the Underwriter, have represented the Underwriter as counsel in other financing transactions. Neither the Town nor the Underwriter have conditioned the future employment of either of these firms in connection with any proposed financing issues for the Town or for the Underwriter on the successful execution and delivery of the 2024 Bonds.

LITIGATION

No litigation is now pending or, to the best of the Town's knowledge, threatened, against or affecting the Town seeking to restrain or enjoin the adoption, authorization, execution or delivery of the 2024 Bonds, the General Indenture or the Series Indenture, or contesting the validity or the authority or proceedings for the adoption, authorization, execution or delivery of the 2024 Bonds, the General Indenture or the Series Indenture, or the Town's creation, organization or corporate existence, or the title of any of the Town's present officers to their respective offices, or the Town's authority to carry out its obligations thereunder, or which would have a material adverse affect on the Town's condition, financial or otherwise.

TAX TREATMENT

General

On the date of issuance of the 2024 Bonds, Parker Poe Adams & Bernstein LLP ("Bond Counsel") will render an opinion that, under existing law (1) assuming compliance by the Town with certain provisions of the Code, interest on the 2024 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal individual alternative minimum tax, provided, however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

The Code imposes various restrictions, conditions and requirements relating to the exclusion of interest on obligations, such as the 2024 Bonds, from gross income for federal income tax purposes, including, but not limited to, the requirement that the Town rebate certain excess earnings on proceeds and amounts treated as proceeds of the 2024 Bonds to the United States Treasury, restrictions on the investment of such proceeds and other amounts, and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the 2024 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Town subsequent to issuance of the 2024 Bonds to maintain the excludability of the interest on the 2024 Bonds from gross income for federal income tax purposes. Bond Counsel's opinion is given in reliance on certifications by representatives of the Town as to certain facts material to the opinion and the requirements of the Code.

The Town has covenanted to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2024 Bonds in order that the interest on the 2024 Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel assumes compliance by the Town such covenants, and Bond Counsel has not been retained to monitor compliance by the Town with such covenants subsequent to the date of issuance of the 2024 Bonds. Failure to comply with certain of such requirements may cause the interest on the 2024 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2024 Bonds. No other opinion is expressed by Bond Counsel regarding the federal tax consequences of the ownership of or the receipt, accrual or amount of interest with respect to, the 2024 Bonds.

If the interest on the 2024 Bonds subsequently becomes included in gross income for federal income tax purposes due to a failure by the Town to comply with any requirements described above, the Town is not required to prepay the 2024 Bonds or to pay any additional interest or penalty.

The Internal Revenue Service has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includible in gross income for federal income tax purposes. Bond Counsel cannot predict whether the Internal Revenue Service will commence an audit of the 2024 Bonds. Prospective purchasers and owners of the 2024 Bonds are advised that, if the Internal Revenue Service does audit the 2024 Bonds, under current Internal Revenue Service procedures, at least during the early stages of an audit, the Internal Revenue Service will treat the Town as the taxpayer, and the owners of the 2024 Bonds may have limited rights, if any, to participate in such audit. The commencement of an audit could adversely affect the market value and liquidity of the 2024 Bonds until the audit is concluded, regardless of the ultimate outcome.

Prospective purchasers of the 2024 Bonds should be aware that ownership of the 2024 Bonds and the accrual or receipt of interest on the 2024 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property or casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S Corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2024 Bonds. Bond Counsel does not express any opinion as to any such collateral tax consequences. Prospective purchasers of the 2024 Bonds should consult their own tax advisors as to collateral tax consequences.

Proposed legislation is considered from time to time by the United States Congress that, if enacted, would affect the tax consequences of owning the 2024 Bonds. No assurance can be given that any future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could cause interest on the 2024 Bonds to be subject directly or indirectly to federal, state, or local income taxation, adversely affect the market price or marketability of the 2024 Bonds or otherwise prevent the owners of the 2024 Bonds from realizing the full current benefit of the status of the portion of the interest on the 2024 Bonds.

Bond Counsel is further of the opinion that under existing law, the interest on the 2024 Bonds is exempt from State of North Carolina income taxation.

Bond Counsel’s opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinion is not a guarantee of a particular result, and is not binding on the Internal Revenue Service or the courts; rather, such opinion represents Bond Counsel’s

professional judgment based on its review of existing law, and in reliance on the representations and covenants that Bond Counsel deems relevant to such opinion. Bond Counsel's opinion expresses the professional judgment of the attorneys rendering the opinion regarding the legal issues expressly addressed therein. By rendering its opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of the Town, nor does the rendering of such opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Original Issue Discount

As indicated on the inside cover page, the 2024 Bonds maturing on November 1, 2049 and 2053 (the "OID Bonds"), are being sold at initial offering prices which are less than the principal amount payable at maturity. Under the Code, the difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the OID Bonds is sold and (b) the principal amount payable at maturity of such OID Bonds, constitutes original issue discount treated as interest which will be excluded from the gross income of the owners of such OID Bonds for federal income tax purposes.

In the case of an owner of an OID Bond, the amount of original issue discount on such OID Bond is treated as having accrued daily over the term of such OID Bond on the basis of a constant yield compounded at the end of each accrual period and is added to the owner's cost basis of such OID Bond in determining, for federal income tax purposes, the gain or loss upon the sale, redemption or other disposition of such OID Bond (including its sale, redemption or payment at maturity). Amounts received upon the sale, redemption or other disposition of an OID Bond which are attributable to accrued original issue discount on such OID Bonds will be treated as interest exempt from gross income, rather than as a taxable gain, for federal income tax purposes, and will not be a specific item of tax preference for purposes of the federal individual alternative minimum tax. However, it should be noted that the original issue discount that accrues to an owner of an OID Bond may result in other collateral federal income tax consequences for certain taxpayers in the year of the accrual.

Original issue discount is treated as compounding semiannually (which yield is based on the initial public offering price of such OID Bond) at a rate determined by reference to the yield to maturity of each individual OID Bond. The amount treated as original issue discount on an OID Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such OID Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such OID Bond at the beginning of the particular accrual period if held by the original purchaser, less (b) the amount of interest payable on such OID Bond during the particular accrual period. The tax basis is determined by adding to the initial public offering price on such OID Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior accrual periods. If an OID Bond is sold between semiannual compounding dates, original issue discount which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned \ in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of the OID Bonds who subsequently purchase any OID Bonds after the initial offering or at a price different from the initial offering price during the initial offering of the 2024 Bonds. Owners of OID Bonds should consult their own tax advisors with respect to the precise determination for federal and state income tax purposes of the amount of original issue discount accrued upon the sale, redemption or other disposition of an OID Bond as of any date and with respect to other federal, state and local tax consequences of owning and disposing of an OID Bond. It is possible that under the applicable provisions governing the determination of state or local taxes, accrued original issue discount on an OID

Bond may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment attributable to such original issue discount until a later year.

Original Issue Premium

As indicated on the inside cover page, the 2024 Bonds maturing on November 1, 2026 to 2043, inclusive (the “Premium Bonds”), are being sold at initial offering prices which are in excess of the principal amount payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium, which original issue premium is not deductible for federal income tax purposes. In the case of an owner of a Premium Bond, however, the amount of the original issue premium which is treated as having accrued over the term of such Premium Bond is reduced from the owner’s cost basis of such Premium Bond in determining, for federal income tax purposes, the taxable gain or loss upon the sale, redemption or other disposition of such Premium Bond (whether upon its sale, redemption or payment at maturity). Owners of Premium Bonds should consult their tax advisors with respect to the determination, for federal income tax purposes, of the “adjusted basis” of such Premium Bonds upon any sale or disposition and with respect to any state or local tax consequences of owning a Premium Bond.

LEGALITY FOR INVESTMENT

Section 159-140 of the General Statutes of North Carolina provides that the 2024 Bonds are securities in which all public officers and public bodies of the State of North Carolina and its political subdivisions and agencies and all insurance companies, trust companies, investment companies, banks, savings banks, building and loan associations, savings and loan associations, credit unions, pension or retirement funds, other financial institutions engaged in business in the State of North Carolina, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the 2024 Bonds are securities which may properly and legally be deposited with and received by any State of North Carolina or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is now or may hereafter be authorized by law.

RATING

Moody’s Investors Service (“Moody’s”) has assigned to the 2024 Bonds the rating set forth on the front cover hereof. Further explanation of the significance of such rating may be obtained from Moody’s. The Town has provided to Moody’s certain information that has not been included in this Official Statement. The rating is not a recommendation to buy, sell or hold the 2024 Bonds and should be evaluated independently. There is no assurance that such rating will not be withdrawn or revised downward by Moody’s. Such action may have an adverse effect on the market price of the 2024 Bonds. Neither the Town nor the Underwriter has undertaken any responsibility after the issuance of the 2024 Bonds to assure maintenance of the rating or to oppose any such revision or withdrawal.

UNDERWRITING

The Underwriter has entered into a Bond Purchase Agreement to purchase all of the 2024 Bonds, if any of such 2024 Bonds are to be purchased, at a purchase price equal to 100% of the principal amount thereof, plus a net original issue premium of \$3,800,557.40 and less an underwriter’s discount of

\$288,600.45. The obligation of the Underwriter to pay for such 2024 Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriter may offer and sell the 2024 Bonds to certain dealers (including dealers depositing the 2024 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriter.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly owned subsidiaries of PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has banking and financial relationships with the Town. PNC Capital Markets LLC may offer to sell to its affiliate, PNC Investments, LLC (“PNCI”), securities in PNC Capital Markets LLC’s inventory for resale to PNCI’s customers. PNC Bank, National Association is the holder of the 2008 Bond and the 2020 Bond.

FINANCIAL ADVISOR

DEC Associates Inc. has served as financial advisor (the “Financial Advisor”) to the Town with respect to the sale of the 2024 Bonds.

MISCELLANEOUS

Members of the Commission staff have participated in the preparation of this Official Statement and other documents related to the issuance of the 2024 Bonds, but the Commission and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement other than those made in Appendix F hereto.

The Commission and the Town have each duly authorized the delivery of this Official Statement.

APPENDIX A
THE ENTERPRISE SYSTEMS

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THE ENTERPRISE SYSTEMS

The following is a discussion of the Enterprise Systems. Although the Enterprise Systems are currently composed of water and wastewater systems, the General Indenture authorizes the Town, subject to certain requirements, to add other revenue-producing enterprises to the Enterprise Systems or remove any enterprise from the Enterprise Systems in the future. An enterprise includes any project, facilities or system constituting a "revenue bond project" under the Act, including without limitation, solid waste facilities, public transportation systems, parking facilities, public auditorium and convention centers and recreational facilities. Reference is made to the complete definition of "revenue bond project" under the Act.

For further discussion and analysis of the Enterprise Systems, see Appendix D, "FINANCIAL FEASIBILITY REPORT" attached hereto.

Organization and Management

The water and wastewater systems are owned by the Town and operated through its Utilities and Infrastructure Department. The Utilities and Infrastructure Department's primary function is to maintain the Town's water and wastewater infrastructure in accordance with applicable guidelines and regulations. The Utilities and Infrastructure Department is under the administrative and reporting control of the Assistant Town Manager and has 72 employees.

Randy Harrington is the Town Manager. Mr. Harrington became Town Manager in August 2018 after 11 years with the City of Charlotte, where he served in roles as Budget and Evaluation Director and later as Chief Financial Officer and Director of Management and Financial Services. Before joining the City of Charlotte, he worked for the City of Concord as Budget and Performance Manager and as Budget and Management Analyst. Mr. Harrington earned a bachelor's degree in political science with minors in economics and criminal justice from Nebraska Wesleyan University. He also attained a master's degree in public administration from the University of North Carolina at Chapel Hill. Mr. Harrington is a graduate of the Municipal and County Administration course at the University of North Carolina at Chapel Hill, the Public Executive Leadership Academy at the University of North Carolina at Chapel Hill, and the LEAD Program at the University of Virginia. He has also achieved Credentialed Manager certification from the International City/County Management Association, the Association's highest professional certification level.

J. Scott Chase is the Assistant Town Manager. Mr. Chase is an ICMA-Credentialed Manager and AICP Certified Planner with 25 years of combined county, municipal, and private sector planning and management experience. Since 2019, Mr. Chase has been with the Town as an Assistant Town Manager. Immediate experience includes being former Town Manager for the Town of Swansboro, North Carolina. He also worked at The Wooten Company, where he was responsible for directing the Planning and Community Development Department. Mr. Chase holds a bachelor's degree in History and master's degree in Construction Management from East Carolina University.

Daniel Weeks is the Assistant Town Manager. Mr. Weeks has held the position of Assistant Town Manager for the Town since October 2015, helping lead the strategic direction of a portfolio of departments and service divisions. His prior roles within the Administration Department of the Town were Senior Project Manager from 2013 to 2015, and Project Analyst from 2006 to 2013. Before joining the Town, he served at the Town Manager of Bethel, North Carolina from 2005 to 2006 after completing a management internship with the Town of Troy, North Carolina. Mr. Weeks attained two bachelor of science degrees in Community and Regional Planning and Geography from Appalachian State University, as well as a master's of Public Administration from Appalachian State University. He is a graduate of the

LEAD Program at the University of Virginia's Weldon Cooper Center for Public Service, the Municipal and County Administration course at the University of North Carolina at Chapel Hill, and successfully completed the Fellows Program at UNC's School of Government. Mr. Weeks served as ex-officio member on the Holly Springs Chamber of Commerce Board of Directors from 2013 to 2018.

Tina Stroupe is the Finance Director. Ms. Stroupe has over 12 years of local government finance experience. Prior to joining the Town in 2015, she held the position of accountant for the City of Sanford, North Carolina. She was the Town's Accounting and Finance Manager from November 2015 through October 2019. She then served as Finance Director for the Town of Siler City, North Carolina before rejoining the Town as the Finance Director in January 2023. Ms. Stroupe earned a bachelor's degree in accounting from Campbell University. She is certified as a North Carolina Certified Local Government Finance Officer with the North Carolina Government Finance Officers Association and is a graduate of the Municipal and County Administration course at the University of North Carolina at Chapel Hill.

Kendra Parrish is the Executive Director of Utilities. Ms. Parrish has over 20 years of local government experience where she has served in roles as Director of Engineering and Senior Engineer. Ms. Parrish earned a bachelor's degree in Civil Engineering from North Carolina State University with a minor in environmental justice. She also attained a master's degree in public administration from Villanova University. Ms. Parrish is a graduate of the Municipal and County Administration course at the University of North Carolina at Chapel Hill and the Public Executive Leadership Academy at the University of North Carolina at Chapel Hill. Ms. Parrish also holds a certification in distribution systems and is a certified floodplain manager and licensed professional engineer.

The Town Council sets rates for all utilities, and no State or other authority has any regulatory control over the Town's utility rates. The Town conducts an ongoing management review of administrative policies and procedures, business strategies, maintenance of assets and rate structures for the water and sanitary sewer systems, and adjustments are made as necessary.

The Water System

General. Prior to the mid-1990's, the Town's drinking water was provided solely by community wells. Today, the Town's water system can supply 10 million gallons per day ("MGD") of potable water to its residents and businesses. At present, the Town purchases its drinking water from Harnett County. The Town also has 2.2 MGD of allocated capacity from Jordan Lake, which is not currently utilized by the Town due to accessibility requirements. In the event the Town requires access to this allocation in the future, they will undertake the necessary arrangements and improvements to make the water accessible.

The Town's drinking water, obtained from the Cape Fear River, is treated at the Harnett Regional Water Treatment Plant in Lillington and is transported through a 36-inch pipe from Harnett County to the Town's distribution system. Additionally, the Town's water distribution system is directly interconnected with the Town of Cary and the Town of Apex. During an emergency, water sourced from Jordan Lake and treated at the Cary/Apex Water Treatment Facility can be piped into the Town via a 16-inch transmission line along Holly Springs Road, as well as a 12-inch transmission line along NC Highway 55. These transmission lines can supply up to 4.5 MGD. The Town's three elevated water storage tanks can store a total of 2.3 MGD. These interconnections are in place, and the maximum amounts available to the Town under these agreements and the respective expirations dates of such agreements are as follows:

<u>Provider</u>	<u>Maximum Amount of Water Available</u>	<u>Expiration Date</u>
Harnett County	10 MGD	Perpetual
Town of Cary	Emergency Only	2045
Town of Apex	Emergency Only	2047

As discussed under "THE 2024 PROJECT" in the front part of the Official Statement, the Town has also entered into the WFF Expansion ILA which will provide the Town with an additional 4.00 MGD upon completion of the WFF Expansion Project and the related transmission lines. It is anticipated that this expansion will be completed by December 2028.

The Town's water distribution system currently consists of approximately 237 miles of water lines. The number of water meters served directly by the Town is approximately 17,000. The Town's water demand continues to increase annually by approximately 0.20 MGD to 0.40 MGD due to economic, commercial, and residential development. As a result of the WFF Expansion Project, the Town is expected to have sufficient capacity to meet water demand through the year 2070.

The Town's water supply is tested for contaminants to ensure compliance with federal and state laws. The Town's water meets all federal guidelines for quality set by the Safe Drinking Water Act. There have been no violations of these standards. See "Regulatory Oversight" below.

The Town plans to prolong the life of its potable water supply source through the use of reclaimed water from the Utley Creek Water Reclamation Facility. In times of drought, the Town follows the drought plan for Harnett County Public Utilities pursuant to an interlocal agreement.

Water Rates. The Town uses a tiered water rate structure to encourage efficient water usage. The tiered rate structure has five tiers based on gallons of water usage. In addition, the Town collects a monthly water access fee, which varies by meter size. The rate structure for the fiscal year ending June 30, 2025 is set forth below:

<u>Size</u>	<u>Monthly In-Town Water Rate per 1,000 Gallons</u>
0-2,000 Gallons	\$ 5.32
2,001-5,000 Gallons	6.93
5,001-9,000 Gallons	8.53
9,001-14,000 Gallons	10.13
14,001 Gallons and over	11.73

<u>Size</u>	<u>Monthly In-Town Water Access Fee¹</u>
3/4" ¹	\$ 16.05
1"	26.76
1 1/2"	53.53
2"	85.64
3"	171.26
4"	267.59
6"	535.19
8"	856.29
10"	2,247.72
12"	2,836.21

¹ Multi-unit dwellings will be charged this access fee per unit.

The Town provides water services to customers inside and outside the limits of the Town. All rates for service provided to customers that are not within Town limits are double the above-listed rates. Each utility account is charged a minimum monthly water access fee based on the meter size and a water rate based on consumption (if any).

The Town charges a water system development fee based on water service tap size. The fees included in the adopted budget for the fiscal year ended June 30, 2025 are set forth in the table below.

<u>Size</u>	<u>Fee</u>
3/4"	\$ 6,162
1"	12,324
1 1/2"	30,810
2"	49,296
3"	205,400
4"	410,800
6"	657,280
8"	1,150,240
10"	2,259,400
12"	2,259,400

In 2017, the North Carolina General Assembly enacted the Public Water and Sewer System Development Fee Act, S.L. 2017-138 ("System Development Fees Act") relating to the authority of local government units to fix, charge and assess "system development fees" (as defined in the System Development Fees Act). The System Development Fees Act generally authorizes local government units to fix and charge system development fees solely for the purpose of paying the cost of system improvements and services imposed with respect to new development or to recoup the cost of existing facilities which serve new development. The System Development Fees Act requires the use of specific methodologies for calculating the amount of system development fees that can be charged to pay or recover such costs and requires that local government units follow certain procedural processes set forth in the System Development Fees Act for implementing such fees (including publication of a written analysis, solicitation of public comments and holding of a public hearing thereon). The System Development Fees Act provided that any system development fees currently being lawfully charged by a local government unit and in effect on October 1, 2017 must be conformed to the requirements of the System Development Fees Act by no later than July 1, 2018. The system development fees described

herein and under “The Wastewater System – Wastewater Rates” constitute system development fees within the meaning of the System Development Fees Act.

In 2022, in compliance with the requirements of the System Development Fees Act, a consultant completed the above-described written analysis with respect to the Town’s system development fees. These fees are cost-justified in accordance with the consultant’s analysis. The Town believes it is in compliance with the System Development Fees Act.

Other Fees and Charges. The Town charges other fees, including, but not limited to, rates for irrigation meters (\$9.26 per 1,000 gallons, plus a \$13.96 monthly access fee), deposits for customers who rent, late payment fees, cut off fees and seasonal use fees.

Number of Active Customer Accounts. The following table shows the number of active water customer accounts (exclusive of irrigation accounts) at the end of each of the last five fiscal years:

<u>Year</u>	<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total</u>	<u>Total Percentage Increase</u>
2020	10,540	17	10,557	--
2021	11,117	17	11,134	5.3 %
2022	12,594	19	12,613	13.28
2023	14,209	25	14,234	12.85
2024	16,102	31	16,133	19.25

As of June 30, 2023, the water system’s customers were comprised of approximately 95.5% residential customers (including multi-family accounts) and 4.5% commercial customers. For the fiscal year ended June 30, 2024, the Town also has 12 industrial accounts and 2,824 irrigation accounts which are not reflected in the above totals.

To create a new customer account, various documentation must be provided to the Town depending on the type of account established. Residential homeowner accounts are not required to pay a deposit, but residential rental accounts and business accounts are required to pay a deposit. Once the required documentation and fees for a new account are satisfactorily processed by the Town, the new customer is connected to the system.

Major Water Customer Accounts. The following table provides information on the top ten customer accounts of the water system (by annual revenues from water charges) for the fiscal year ended June 30, 2023, the water consumption for such customer accounts and the percentage of total annual water revenues generated by each account. Certain of the water customers listed in the table have other water customer accounts.

<u>Customer Account</u>	<u>Consumption (Gallons)</u>	<u>Annual Water Revenues</u>	<u>Percentage of Total Water System Revenues</u>
Seqirus, Inc.	65,159,462	\$ 584,664	5.24%
Concert 12-Oaks LLC dba The Club at 12 Oaks	15,883,553	129,444	1.16
Rex Hospital, Inc.	9,603,127	88,686	0.79
Ingenco Renewable Development	9,273,830	37,495	0.34
Zips Car Wash, LLC	4,520,842	40,389	0.36
Carolina Motor Club, Inc.	3,529,080	25,697	0.23
Holly Springs Surgery Center, LLC	2,794,226	25,074	0.22
Olive Garden GMRI, INC	2,721,930	24,166	0.22
Triangle Tank & Truck Wash	2,721,317	24,427	0.22
Wake County Public Schools	<u>2,198,332</u>	<u>21,302</u>	<u>0.19</u>
Total	<u>118,405,699</u>	<u>\$1,001,344</u>	<u>8.97%</u>

The Sanitary Sewer System

General. The Town owns and operates its wastewater collection and treatment system, which includes approximately 259 miles of pipe and 21 wastewater lift stations that convey flows to a central Holly Springs Utley Creek Water Reclamation Facility (the “WRF”). All homes within the Town’s jurisdiction are served by public wastewater, and all new developments must tie into the Town’s wastewater system if service is available in the area. The Town-owned and operated WRF facility presently has a total treatment capacity of 6.0 MGD, and in 2023, it treated approximately 3.1 MGD. The Town has a permit to expand the WRF’s treatment capacity up to 8.0 MGD. The WRF is an activated sludge plant that discharges into Utley Creek, which is in the Cape Fear River Basin. The 6.0 MGD WRF will serve an estimated population of up to approximately 65,000 (depending on the mix of residential and non-residential users). As growth occurs in areas outside the tributary areas of the WRF and the Town’s existing pumping stations, the Town’s Long Range Wastewater Plan provides that regional pumping stations will serve those areas. Proposed pump stations will be initiated and funded by private development, with the possibility of some Town participation for oversizing to meet larger basin needs. The Town plans to limit discharge from the WRF through the use of reclaimed water. After the expansion of the WRF, the WRF will be able to treat 8.0 MGD of wastewater. The Town anticipates issuing revenue bonds to pay the costs of the WRF expansion in the fiscal year ending June 30, 2026 to finance the costs of the WRF expansion.

Sanitary Sewer Rates For the fiscal year ending June 30, 2025, sanitary sewer charges are billed at a standard flat rate to all customers, for both a monthly access fee (\$16.74 per unit) and a consumption rate (\$7.29 per 1,000 gallons of water used). All rates for sanitary sewer service provided to customers that are not within Town limits are double the above-referenced rates.

The Town charges a sewer system development fee based on water service tap size. The fees included in the adopted budget for the fiscal year ended June 30, 2025 are set forth in the table below.

<u>Size</u>	<u>Fee</u>
3/4”	\$ 5,538
1”	11,076
1 1/2”	27,690
2”	44,304

3"	184,600
4"	369,200
6"	590,720
8"	1,033,760
10"	2,030,600
12"	2,030,600

Such fees have been developed by the Town's outside rate consultant in accordance with the System Development Fees Act. See "The Water System – Water Rates" above for more information regarding system development fees.

Other Fees and Charges. The Town charges other fees, including, but not limited to, deposits for customers who rent, late payment fees, cut off fees and seasonal use fees.

Number of Active Customer Accounts. The table below shows the number of active sewer customer accounts at the end of each of the last five fiscal years:

<u>Year</u>	<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total</u>	<u>Total Percentage Increase</u>
2020	10,552	17	10,569	--
2021	11,126	17	11,143	5.43%
2022	12,606	19	12,625	13.3
2023	14,222	25	14,247	12.85
2024	16,028	29	16,057	12.70

As of June 30, 2023, the sanitary sewer system's customer account mix was approximately 95.5% residential (including multi-family accounts) and 4.5% commercial and industrial. For the fiscal year ended June 30, 2024, the Town also has 11 industrial accounts which are not reflected in the above totals.

Major Sanitary Sewer Customer Accounts. The following table provides information on the top ten customer accounts of the sanitary sewer system (by annual revenues from sewer charges) for fiscal year ended June 30, 2023, the volume treated for each such customer account and the percentage of total annual wastewater revenues generated by each such customer account. Certain sanitary sewer customers listed in the table have other sanitary sewer customer accounts.

<u>Customer Account</u>	<u>Volume Treated (Gallons)</u>	<u>Annual Wastewater Revenues</u>	<u>Percentage of Total Annual Wastewater Revenues</u>
Seqirus Inc.	65,159,462	\$367,587	4.54%
Concert 12-Oaks LLC dba The Club at 12 Oaks	15,883,553	129,444	1.60
Rex Hospital Inc.	9,603,127	9,523	0.12
Ingenco Renewable Development	9,273,830	37,495	0.46
Zips Car Wash, LLC	4,520,842	26,256	0.32
Carolina Motor Club, Inc.	3,529,080	21,991	0.27
Holly Springs Surgery Center, LLC	2,794,226	16,140	0.20
Olive Garden GMRI, INC	2,721,930	15,749	0.19
Triangle Tank & Truck Wash	2,721,317	15,752	0.19
Wake County Public Schools	<u>2,198,332</u>	<u>12,400</u>	<u>0.15</u>
Total	<u>118,405,699</u>	<u>\$652,337</u>	<u>8.06%</u>

Billing and Collection Procedures

The Town's meter service supervisor and billing specialist prepare routes for meter technicians. The meter technicians then perform their routes to acquire meter reads. Once reads are received, audits are performed on the readings. If any re-reads are required, they are assigned to the meter technicians. Billing then begins for all accounts on the last business day of the month and bills are due on the 25th of each month.

Customers who do not pay their bills by the 25th are assessed a \$10 fee. Customers who are late on their payments have until the 15th of the next month to pay their bills in full, or they will be assessed a \$35 fee and put on the disconnect list. After a customer is cutoff, the customer's account is not reconnected until the amount past due on the account is paid in full. Accounts that have fallen past due and have not been in a delinquent status in the previous 12 months may request a payment plan. Pledges can also be received for accounts from approved non-profit and community organizations. Payments are accepted via cash, credit card, check, ACH, telephone and online payments. Accounts signed up for auto-draft are drafted on the 21st of each month or the next business day if the 21st falls on the weekend or a holiday.

Text and phone reminders are sent out two times throughout the month to ensure customers know their bills are coming due. The Town has recently implemented a new payment portal to offer residents additional payment options. Customers can sign up to receive their bills via email in addition to the standard paper bill.

Operating and Capital Budget Procedures

The Town's budget reflects the service priorities of the Mayor and Council and the citizens of the Town. The service needs of the community are determined by public hearings, a biannual community survey, and feedback through the Mayor and Council. After final service priorities have been established and agreed upon, a balanced funding plan is formulated. Through careful assessment of funding requirements and financing methods, a recommended budget document is organized into final format and submitted to Council for their consideration and adoption.

Regulatory Oversight

General. The Town and the Enterprise Systems are regulated by the United States Environmental Protection Agency and the North Carolina Department of Environmental Quality. The Town is currently in compliance with all federal and state environmental legislation and regulation impacting the Enterprise Systems.

PFAS. Per- and polyfluoroalkyl substances ("PFAS") are a family of synthetic compounds that are water soluble and persistent in the environment in air, water, and soil. PFAS are used in a variety of manufacturing processes and in the production of a wide range of industrial and household applications. The Environmental Protection Agency ("EPA") has stated that, based on peer-reviewed studies on laboratory animals and epidemiological evidence in human populations, exposure to certain levels of Perfluorooctanoic acid ("PFOA") and Perfluorooctanesulfonic acid ("PFOS"), two types of PFAS compounds, may result in adverse health effects.

On April 10, 2024, the EPA announced final National Primary Drinking Water Regulations for six PFAS compounds. Under the final regulations, the federal maximum contaminant level for PFOA and PFOS is 4 parts per trillion each. The final regulations set a federal maximum contaminant level of 10 parts per trillion each for four additional PFAS compounds, perfluorononanoic acid (PFNA),

hexafluoropropylene oxide dimer acid (HFPO-DA, commonly known as GenX Chemicals), perfluorohexane sulfonic acid (PFHxS), and perfluorobutane sulfonic acid (PFBS). Mixtures containing two or more of PFHxS, PFNA, HFPO-DA and PFBS will be regulated as a mixture using a hazard index. The final regulations require water systems to implement initial monitoring for PFAS by 2027, followed by ongoing compliance monitoring. The Town is currently monitoring its water supplies and will continue with the ongoing compliance monitoring as required. The regulations also require water systems to provide the public with information regarding PFAS levels in drinking water by 2027. By 2029, water systems are required to implement solutions to reduce any PFAS levels that exceed the federal maximum contaminant levels. Beginning in 2029, water systems that have PFAS levels exceeding the federal maximum contaminant levels must take action to reduce these levels and provide notice to the public of the excess as well as health effects language.

The WFF Expansion Project will address PFAS by installing Granular Activated Carbon (GAC) filters to remove such PFAS. The Town's portion of the GAC filters is anticipated to cost approximately \$6.4 million.

Due to the omnipresence of PFAS in the environment, wastewater systems can also be pathways for PFAS. There is a growing concern that PFAS in wastewater systems could potentially be discharged in the effluent. Currently, State and federal regulatory agencies have not promulgated regulations establishing maximum effluent limits for PFAS in wastewater systems. However, in January 2024, the NC Department of Environmental Quality ("DEQ") initiated a stakeholder process to receive feedback on proposed PFAS Surface Water Standards for eight PFAS compounds. DEQ expects to begin including effluent limits in National Pollutant Discharge Elimination System permits by 2028 based on DEQ's compliance schedules. No assurance can be provided that future regulatory or permit actions will not be taken with respect to the permits applicable to the Town's wastewater system.

Compliance with any such future regulations or permit requirements relating to PFAS could result in an increase in capital expenditures and maintenance costs for the Town and the Enterprise Systems.

Lead and Copper. The Town is actively working on compliance with the EPA's Lead and Copper Rule Revisions (January 15, 2021) and Lead and Copper Rule Improvements (November 30, 2023.) These rules were established to ensure lead-free drinking water. These requirements include the initial Lead Service Line Inventory ("LSLI"), notification to persons served of known or potential lead service line, public notification of a lead action level exceedance, and associated reporting requirements. The Town is in the process of completing its LSLI. There are no known lead service lines on the public side of the water meter. Town staff are working with homeowners to determine service line materials on the private side of the meter. The Town expects that data related to the Town's inventory will be published by October 16, 2024.

Capital Improvement Program

The Community Investment Plan (the "CIP") is a five-year plan for the Town's infrastructure needs and financial resources. The CIP also acts as a policy document charting a course for capital improvements and Town development. Generally, the Town's CIP only includes capital improvements that exceed \$100,000, involve the acquisition of land, or are deemed essential for future planning by the Town Manager or the Council.

For the current CIP, there are five major utility projects included that are focused on expanding the utility system to match growth:

- Addressing the need for additional water capacity through the WFF Expansion Project and Holly Springs-Fuquay-Varina water line and storage facilities and the Sanford Water Capacity Partnership;
- Increasing the treatment capacity through the WRF;
- Upgrading the Harnett County Booster Station;
- Purchasing a larger capacity dewatering press at the WRF; and
- Upgrading the WRF and Pump Station Supervisory Control and Data Acquisition (SCADA) System (pay-as-you-go funding).

The Town anticipates funding the CIP through the issuance of the 2024 Bonds, a second series of revenue bonds to be issued later in the fiscal year ending June 30, 2025 in the estimated amount of \$65,000,000, a series of revenue bonds to be issued in the fiscal year ending June 30, 2026 in the estimated amount of \$105,000,000 and PAYGO sourcing from other available funds of the Town. The Town also plans on issuing approximately \$35,000,000 of limited obligation bonds in August 2024 for the purpose of financing a portion of a new Town operations center. A portion of this debt will be serviced with Net Revenues, and such portion will constitute Other Indebtedness.

For more information on the CIP and the sources of funding for the CIP (including future revenue bond issuances), see Explanatory Note 5 in the Financial Feasibility Report included as Appendix D hereto.

Rate Increases

The Town's utility rate structure was revised during the fiscal year ended June 30, 2023 to better represent industry standards. This revision ensures that the Town continues to provide equitable service and maintain adequate funding for responsible operations and capital investments needed to maintain a safe and reliable utility system.

The following table provides information on average water and sanitary sewer rate increases imposed by the Town for the last five fiscal years:

<u>Water Rate Increases</u>	
<u>Fiscal Year</u>	<u>Water Rate Increase</u> ⁽¹⁾
2021	4%
2022	2
2023	-- ⁽²⁾
2024	15
2025	15

⁽¹⁾ Shows the combined increase for the water monthly minimum and volumetric rates.

⁽²⁾ As discussed above, for the fiscal year 2023, the Town restructured its utility rate structure to simplify the overall structure. With the restructuring, the water rates increased at certain tier levels and decreased at other tier levels resulting in no overall change in average water rates.

Sewer Rate Increases⁽¹⁾

<u>Fiscal Year</u>	<u>Sewer Rate Increase/Decrease⁽¹⁾</u>
2021	4%
2022	2
2023	(16) ⁽²⁾
2024	15
2025	15

⁽¹⁾ Shows the combined increase for the sewer monthly minimum and volumetric rates.

⁽²⁾ As discussed above, for the fiscal year 2023, the Town revised its utility structure to simplify the overall structure. With the restructuring, sewer rates went from a tiered structure to a uniform structure resulting in an increase for the first and second tiers and a decrease for the remaining tiers.

The Town anticipates water and sanitary sewer rates to increase by 15% in the fiscal year ending June 30, 2026 and by 9.5% in each of the fiscal years ending June 30, 2027 to 2029, inclusive. Such rate increases have not been adopted by the Council, and implementation of such increases remains subject to the Council's discretion. The Financial Feasibility Report included in Appendix D hereto reflects the implementation of such increases.

Comparative Bills

The following table provides a comparison of the cost of monthly water and wastewater service for a typical residential customer calculated under the existing rates for the Town and those of several other municipal utilities in the State, based on information provided by the UNC School of Government Environmental Finance Center. For comparison purposes, monthly bills for all utilities were calculated utilizing a typical average monthly usage amount of 4,000 gallons per customer for both water and wastewater.

<u>Utility Provider</u>	<u>Total Monthly Bill</u>
Holly Springs	\$75.23
Fuquay-Varina	91.58
Sanford	70.15
Apex	65.86
Cary	71.68

Recent Operating Results

Summary Financial Information. For information on the historical financial performance of the System, see the Town's financial statements and notes thereto in Appendix C hereto and the Financial Feasibility Report included as Appendix D hereto.

Management's Discussion and Analysis

Operating revenues of the Town's water and sewer systems continue to remain stable. The total number of water and sewer customers has increased in recent years reflecting the rapid population growth of the Town. Operating revenues of the water and sewer systems for the fiscal year ended June 30, 2023 exceeded the operating revenues of such systems for the fiscal year ended June 30, 2022, while operating expenses for the fiscal year ended June 30, 2023 exceeded expenses incurred for the fiscal year ended

June 30, 2022. Operating revenues of the water and sewer system for fiscal year ended June 30, 2023 increased approximately 19% when compared to the fiscal year ending June 30, 2022. Net position for the fiscal year ended June 30, 2023 is higher than net position for the fiscal year ended June 30, 2022 with an increase of approximately \$12.8 million.

Through March 31, 2024, approximately 68% of budgeted revenues of the water and sewer systems have been received by the Town and approximately 68% of budgeted expenditures have been incurred by the Town. The Town expects water and sewer revenues to be approximately \$22.8 million for the current fiscal year, which will meet budget projections for year ending June 30, 2024. Operating expenses of the water and sewer systems are consistent with the budget. After all transfers to and from reserves, capital and debt expenditures and other budgetary sources and uses, the Town expects to report continued moderate water and sewer reserves on its balance sheet.

Risk Management

The Town obtains insurance from a Risk Pool through the North Carolina League of Municipalities. The Risk Pool provides commercial general liability coverage of \$5 million per occurrence with an unlimited aggregate. The coverage also includes Commercial Crime, which covers employee theft and forgery. The carrier also provides Employment Practices Liability, Law Enforcement Liability and Public Official Liability coverage of \$5 million per occurrence with a \$5 million aggregate. In addition, the Town maintains replacement cost coverage of property, including marine coverage, in the amount of total insurance values of such property, which is currently in the amount of \$95,415,171. Vehicles are covered for liability at \$5 million per occurrence. Comprehensive and Collision coverage is based on agreed or actual cash value. For the past three years, premiums have followed market trends and claims have not exceeded coverage.

The Town carries flood insurance in the amount of the fair market value of improvements where necessary, except for those locations situated in a "special flood hazard area" ("SFHA"). SFHA areas are Water and Wastewater Treatment Plants that are usually located in low areas because they are made to handle water and are not vulnerable to flooding.

The Town carries Workers Compensation insurance through a Risk Pool that covers Workers Compensation statutory limits and \$5 million in employer's liability per incident, per disease and policy limit.

The Town currently self-insures health coverage through a third party administrator. The Town pays a monthly administrative charge which includes the fee for claims and appeals processing services. The Town also carries stop loss insurance coverage.

Climate Change

The State is susceptible to the effects of extreme weather events and natural disasters, including floods, droughts, tornadoes and hurricanes, which could result in negative economic impacts on communities like the Town. These effects may be amplified by a prolonged global temperature increase over the next several decades (commonly referred to as "climate change"). No assurances can be given that a future extreme weather event driven by climate change will not adversely affect the operations of the Town or the condition of the Enterprise Systems.

APPENDIX B

THE TOWN

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THE TOWN

General Description and Demographic Characteristics

The Town was established in 1876 and is located in southwest Wake County (the “County”) in the eastern piedmont region of North Carolina, approximately 18 miles from downtown Raleigh, the State Capital. The Town covers approximately 18.65 square miles and has an estimated population of 45,066.

The Town has a council-manager form of government. The five members of the Town Council are elected at-large and serve staggered four-year terms. The Town Council has policy-making and legislative authority and is responsible for the budget approval and appointment of the Town Manager, Town Attorney and Town Clerk. The Town Manager is responsible for implementing Council policies and Town ordinances, managing daily operations and appointing department directors.

The United States Department of Commerce, Bureau of the Census, has recorded the population of the Town to be as follows:

<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
1,024	9,192	24,661	41,239

The North Carolina Office of State Budget and Management has estimated the Town’s 2022 (latest data available) population to be 45,066.

Per capita income data for the County, State and the United States are presented in the following table:

<u>Year</u>	<u>County</u> ¹	<u>State</u>	<u>United States</u>
2018	\$59,788	\$46,040	\$53,309
2019	61,941	48,366	55,547
2020	65,717	51,781	59,153
2021	73,800	52,705	64,430
2022	76,357	58,109	65,470

¹Separate data for the Town are not available.

Source: United States Department of Commerce, Bureau of Economic Analysis (latest data available).

Commerce and Industry

The Town has become a leading biotechnology hub. The Town is home to renowned biotech companies including Fujifilm Diosynth Biotechnologies, Amgen, and CSL Seqirus. This biotech ecosystem continues to attract even more small and mid-sized companies to Town.

Fujifilm Diosynth Biotechnologies currently is constructing in the Town the largest end-to-end cell culture contract development and manufacturing organization (CDMO) biopharmaceutical manufacturing facility in North America. It represents a \$2 billion investment and the largest life sciences investment ever in North Carolina. In its first phase of construction, the company is building an 839,000-square-foot lab, office and manufacturing facility on a portion of its 150-acre tract. In April 2024, Fujifilm announced it would be investing an additional \$1.2 billion in this project. It is expected that the additional investment will add approximately 680 new jobs with an average salary of \$109,000. The new facility is expected to be completed in early 2025.

Meanwhile, Amgen, one of the world's leading biotechnology companies, also is building a new facility in the Town. The company's approximately \$550 million investment, a 350,000-square-foot multi-product drug substance manufacturing facility, will begin operations in 2025. The Fujifilm and Amgen investments will significantly enhance the diversification of the Town's tax base, aligning with the strategic goals of the Mayor and Town Council.

The Town's Economic Development Department continues working with local developers and investors to expand business park options in the Town. Directly surrounding Amgen, a new 500 acre prime business park, CaMP Helix, offers diverse development options and other beneficial commercial and residential options.

Down the road in the long-established Holly Springs Business Park and adjacent to Fujifilm Diosynth Biotechnologies, Catalyst BioCampus, the region's newest biomanufacturing campus, has two of three buildings complete and is ready for tenants. Totaling up to 478,000 square feet over three buildings, this space is built following current Good Manufacturing Practices (cGMP), for Pharmacodynamic (PD), lab, and office uses. Buildings come pre-equipped with primary mechanical, electrical, and building infrastructure specific to biomanufacturing facilities. The initial phase offers two 169,000-square-foot single-story with mezzanine buildings, 32' clear story height, and bay spacing to accommodate single or multi-tenant requirements. The third building is being designed for existing tenant expansion and smaller office users.

Crescent Communities, a nationally recognized, market-leading real estate investor, developer, and operator of mixed-use and commercial communities, is providing new opportunities through their build-out of multiple business park options geared towards targeted industry growth in the Town. Currently underway, the company is developing a 27-acre multi-building campus, THE YIELD Holly Springs. This campus will be focused on biomanufacturing but also allows for a variety of uses, including office, lab, manufacturing, and amenity retail. In addition, Crescent Communities' other campus, the 83-acre YIELD North along the US-1 corridor, can accommodate up to 850,000 square feet of buildings space across a range of building sizes from 75,000-300,000 square feet.

CSL Seqirus, one of the world's largest influenza vaccine companies, is also expanding in the Town. The location opened in 2009 as a 438,000-square-foot flu cell culture manufacturing facility, known then as Novartis U.S. The facility has completed several expansions, including a \$156 million project that more than doubled its capacity to bring flu vaccines to the U.S. and markets worldwide. Current operations occupy approximately 70 acres with another 90 acres available for future expansion under the new CSL Seqirus name.

To support the growing industries and biotechnology ecosystem, Wake Tech Community College announced the permanent home for its nearby Western Wake Campus in September 2022. The campus is strategically located off NC 55, near US 1 and NC 540 and will feature a new Workforce Development Center, featuring biopharma training space, along with small business and entrepreneurship offerings. This location will be key in preparing the talent pool for the biotech companies in Town as well as providing tools and resources for local small businesses.

In addition to biotechnology growth, other businesses are growing in the Town. In August 2022, Calvert Ice Sports closed on land in the Carolina Springs development with plans to build a state-of-the-art iceplex that will shape and develop student-athletes. The 320,000-square-foot facility will include a boarding school and an indoor ice sports training center with four regulation-size ice rinks.

In recent years, the downtown area of the Town has experienced a tremendous influx in commercial growth. Two developments have brought mixed-use commercial buildings, adding approximately 100,000

square feet to the downtown footprint. These buildings host restaurants, retail, services, and offices and continue to attract interest. Notably, Local Time Brewing just took up space in the Block on Main building where a brand-new tapas restaurant, Nightingale, occupies the third floor, including a rooftop patio. Just a few blocks away, construction for a residential and commercial mixed-use project at 120 N. Main St. is expected to begin soon. In addition, the Town is updating its long-range plan that guides the downtown growth, development, and redevelopment. This plan will establish a vision of the downtown area. A final plan was approved by the Town Council in December 2023.

The following table lists the major employers in the Town, their core product(s)/service(s), and their approximate number of employees:

<u>Company/Institution</u>	<u>Service/Product</u>	<u>Approximate Number of Employees</u>
CSL Seqirus Inc.	Pharmaceutical	1,100
Wake County Public School System	Public education	700
UNC Health Rex Holly Springs	Healthcare	450
Town of Holly Springs	Government	408
Walmart	Retail store	350
Target	Retail store	300
FUJIFILM Diosynth Biotechnologies	Biotechnology	250
Roervisys	Automation & Information Solutions	200
My Computer Career	Education	175
Pierce Group Benefits	Insurance	150
Amgen	Biotechnology	100

Source: Holly Springs Economic Development Department (as of April 2024).

In addition, many Town residents commute to jobs at local universities, governmental employers in the area, and to jobs in the nearby Research Triangle Park.

The taxable sales in the County for the past five fiscal years ended June 30, 2019 through 2023 and for a portion of the current fiscal year are shown in the following table:

<u>Fiscal Year Ended June 30</u>	<u>Total Taxable Sales</u>	<u>Increase (Decrease) Over Previous Year</u>
2019	\$19,711,357,427	7.87%
2020	20,128,769,992	2.12
2021	22,643,614,457	12.49
2022	26,567,203,523	17.33
2023	29,468,896,469	10.92
2024 ¹	25,362,896,739	--

¹ For the ten-month period ended April 30, 2024. The comparable figure for the ten-month period ended April 30, 2023 is \$24,634,332,918.

Source: North Carolina Department of Revenue, Sales and Use Tax Division. Separate data for the Town are not available.

Construction activity is indicated by the following table, which shows the number of building permits issued by the Town and the value of associated construction:

<u>Calendar Year</u>	<u>Commercial</u>		<u>Residential</u>		<u>Total Value</u>
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	
2019	88	\$214,287,738	787	\$124,939,366	\$339,227,104
2020	84	106,629,842	1,102	160,695,395	267,325,237
2021	65	35,364,466	1,417	212,532,797	247,897,263
2022	108	185,871,186	1,141	171,853,686	357,724,872
2023	120	423,351,461	1,013	172,392,386	595,743,847

Source: Holly Springs Development Services.

The North Carolina Department of Commerce, Division of Labor and Economic Analysis has estimated the percentage of unemployment in the Town to be as follows:

<u>Year</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>July</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
2019	3.5%	3.2%	3.2%	2.9%	3.2%	3.5%	3.4%	3.4%	2.8%	2.7%	2.8%	2.7%
2020	3.4	3.0	3.7*	11.0*	9.2	7.8	6.9	4.9	4.5	4.1	4.0	4.1
2021	4.1	4.0	3.9	3.4	3.9	3.9	3.3	3.0	2.7	2.8	2.7	2.4
2022	2.8	2.8	2.8	2.5	2.8	3.1	2.8	3.2	2.6	3.0	2.9	2.7
2023	2.9	3.0	2.9	2.5	2.9	2.9	2.8	3.0	2.7	2.8	3.0	2.8
2024	3.2	3.3	3.2	2.9	N/A	N/A						

*Onset of the COVID 19 pandemic.

The Town's unemployment rate averaged 2.9% for calendar year 2023, as compared to 3.0% for the County, 3.4% for the State and 3.6% for the United States.

Government and Major Services

Government Structure. The Town operates under the council-manager form of government in which the citizens elect a Mayor and five members of the Town Council (the "Council") that serve as the Town's governing body.

As the legislative body of the Town, the Council is responsible for governing the Town and establishing Town policies. In addition, the Council is responsible for enacting all general and technical ordinances, including budgetary appropriations, establishing tax rates as well as other user rates and fees. The Council is elected on a non-partisan at-large basis to staggered four-year terms.

As the principal elected official of the Town, the Mayor provides leadership to the governing body and community and presides over all Council meetings. The Mayor is elected to a four-year term. In the event the Council's vote on a matter ends in a tie, the Mayor is authorized to cast the deciding vote.

The Council appoints the Town Manager who serves as the Town's chief administrative officer. The Town Manager directs the daily operations of the Town and is responsible for seeing that the Town's policies are carried out. The Town Manager is authorized to appoint Department Heads to assist him in managing the daily operations of the Town.

Education. The Town is served by the Wake County School System, a consolidated school system which is one of the highest rated systems in the nation as well as the largest system in North Carolina and the sixteenth largest in the country. For the 2023-24 school year, the system has a total enrollment of approximately 159,995 students in 198 schools staffed by 10,899 permanent full-time teachers.

The Town has no financial responsibility for any part of the school system. The budget is approved and funded by the Wake County Board of Commissioners with revenues derived from County, State and Federal sources.

The following table presents information on total student enrollment (by enrollment, or “membership,” in the first month of the indicated school year) for the Wake County School System:

School Year	No. of Schools	Elementary (K-5) ADM	Intermediate (6-8) ADM	Grades (9-12) ADM	Total ADM
2019-20	191	72,965	38,290	50,652	161,907
2020-21	192	69,022	37,772	50,879	157,673
2021-22	194	68,967	37,248	52,545	158,760
2022-23	198	68,478	36,566	53,368	158,412
2023-24	198	69,449	36,248	54,298	159,995

Note: ADM (determined by the actual records at the schools) is computed by the North Carolina Department of Public Instruction on a uniform basis for all public schools in the State. The ADM computation is used as a basis for teacher allotments and for distribution of local funds. These figures do not include mentally handicapped or exceptional children.

Source: North Carolina State Board of Education Statistical Division and Wake County Public School System.

Eleven colleges and universities, nationally and internationally recognized, are located within a short drive of the Town. These include, but are not limited to: Duke University, North Carolina State University, the University of North Carolina at Chapel Hill, Campbell University, North Carolina Central University, William Peace University, Meredith College, Shaw University and St. Augustine’s University. Each of these schools is within a thirty-five-mile radius of the Town.

Transportation. The State of North Carolina is primarily responsible for the major expansion, maintenance, and improvement of primary and secondary highways in the Federal and State highway systems within the Town limits. The Town is responsible for the major expansion, maintenance and improvement of the local street system, including street lighting. Improvements to the local street system are funded with local contributions, including the Town’s share of State funding, a combination of which is produced by taxes on motor fuel sales and distributions from the Highway Trust Fund. The Town maintains approximately 161 linear miles of streets as of June 30, 2023.

The Town is primarily served by North Carolina highway 55 and is accessible from US highways 1 and 64 and Interstate 540. Partnering with the North Carolina Department of Transportation (“NCDOT”), the Town has improved NC Highway 55 to a superstreet, which has increased vehicular safety, improved traffic flow and provides easier access to the Town’s Business Park and other areas for commercial growth. Currently, the NCDOT is continuing I-540 through the Town, which when completed will provide more access to the Town throughout the greater Raleigh area. The Town was added to the public transportation network of Wake Transit in 2020 with the addition of bus service, further improving access between the Town and neighboring communities.

The Town is served by the Raleigh-Durham International Airport (“RDU”) located approximately 18 miles from the Town. RDU is a major international airport. Approximately 14.2 million passengers enplaned or deplaned in calendar year 2019 as compared to 12.8 million passengers in 2018. For calendar year 2022, 11.8 million passengers were processed at the Airport as the airline industry continues to recover from the COVID-19 pandemic. RDU has two parallel runways of 10,000 feet and 7,500 feet, and a cross-wind general aviation runway of 3,500 feet. An air cargo complex houses five cargo carriers. Two passenger terminals provide a total of 59 aircraft gates. The Town has no financial responsibility for the airport, which is operated by the Raleigh-Durham Airport Authority.

Medical Services. Construction was recently completed on a new seven-story, 230,000 square foot UNC REX Healthcare Hospital along N.C. 55, just a few blocks from downtown Holly Springs. The hospital opened November 1, 2021, offering 50 inpatient beds, an emergency department, labor and delivery, a surgery center, diagnostic imaging and a pharmacy. The hospital is adjacent to the 80,000 square foot UNC REX medical office building, which was constructed in 2017.

UNC REX Healthcare’s presence in the Town is complimented by two other well-known healthcare providers in the region, Duke Health and WakeMed. Duke Health’s new medical facility off N.C. 55 provides residents with ample high-quality services, including sports medicine, physical therapy, occupational therapy, optometry, imaging and diagnostics, pediatrics, urgent care, and women’s health. WakeMed Health also offers world class medical services in the Town. Local services include behavioral health, dermatology, vaccination and chronic disease management.

Parks and Recreation. The Parks and Recreation Department provides an array of parks, facilities and programs for the growing Holly Springs community. The Town maintains six major parks, a nature center, a cultural center, a recreation center, athletic fields, a multi-sports stadium and more than 12 miles of greenway trails.

The Town offers nearly 310 acres of developed parkland and just over 300 acres of open space and future parkland. Included in this inventory is the centrally located Parish Womble Park (45 acres) with lighted baseball and softball fields, synthetic turf soccer fields, a multi-age playground, picnic shelter, outdoor amphitheater, and sand volleyball courts.

Veterans Park and Jones Park are two neighborhood parks (10 acres and 20 acres, respectively) that are accessible for adjacent residential developments via greenway trails. As the name suggests, Veterans Park features the War on Terror Memorial and a memorial tribute. The park includes a picnic shelter, restrooms, pond with accessible fishing pier, fitness stations, playground, and loop walking trail. Jones Park has a baseball field, disc golf course and walking trails.

Bass Lake Park is one of the most frequently visited parks in the Town with an 80-acre lake, two miles of natural surface walking trails, accessible fishing pier, boat rentals, picnic shelter, and indoor retreat center. The retreat center is often used for nature programs and community rentals for events such as weddings, meetings and other social activities.

Adjacent to Bass Lake Park is Sugg Farm Park, a 110-acre former farm property protected from development by a conservation easement overseen by the Triangle Land Conservancy. Because of the large and open nature of this land, the Town uses Sugg Farm to host many of its large special events, including the annual Independence Day celebration and HollyFest, an annual community festival that attracts thousands of visitors each year. The Town recently opened a new restroom facility and its first off-leash dog area in this park.

In 2012, the Town purchased a 35-acre site located between Main Street and N.C. 55. Known as Ting Park, this land was developed into a premier sports and entertainment venue featuring an 1,800 seat, multi-sport stadium. The stadium hosts a variety of sports and entertainment events and is home to the Holly Springs Salamanders, a summer collegiate baseball team.

Hundreds of programs, youth and adult sport leagues, live performances, and services for senior citizens are provided at the two indoor recreation and cultural facilities in the Town, the W.E. Hunt Recreation Center and the Holly Springs Cultural Center. The Hunt Center houses a gymnasium, walking track, fitness center, game room, group exercise rooms, several multi-purpose classrooms, small kitchen, outdoor fenced play area and staff offices.

The Cultural Center shares its building with the Wake County Holly Springs Branch Library. The Cultural Center features a 180-seat community theatre, programming rooms and outdoor stage. The outdoor space at the Cultural Center hosts the year round, award-winning Farmers Market.

The Town offers approximately twelve miles of paved greenway trails. Several of the greenways connect to desired destinations, including shopping and employment centers. The Town recently updated its Parks, Recreation and Greenways Master Plan that has identified priority corridors to increase connectivity. In the near future, the Town will construct the 2-mile Arbor Creek/Middle Creek greenway from Sunset Lake Road to Holly Springs Road. This greenway section will connect to the Town of Apex's Middle Creek greenway, allowing for a regional link between the two municipalities.

In addition, the Town is entering the first phase of a new 56-acre park. This park site will help meet equity goals as the first town park west of N.C. 55 in one of the fastest growing areas of the Town. The park site is conveniently located across the street from Holly Springs High School. The Town recently hired a landscape and engineering consultant to develop the master plan for the park and design the first phase of construction.

Public Service Enterprises. The Town furnishes water and sewer services to residents of the Town and surrounding areas. See Appendix A hereto "THE ENTERPRISE SYSTEMS."

Cybersecurity

The Town, like other public and private entities, faces multiple cybersecurity threats including, but not limited to hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems. These threats could result in adverse consequences to the Town, including but not limited to, operational disruption and misappropriation of assets or information. The Town has implemented multiple operational safeguards and cybersecurity procedures to strengthen its security platforms, including next generation firewalls and antivirus, security training and random testing, maintaining all application updates and patches, among other best practices. However, no assurance can be given that such measures will protect against, or mitigate the impact of, the financial or operational damages that could result from a cybersecurity attack.

Pension Plans

The Town participates in the North Carolina Local Governmental Employees' Retirement System and the Supplemental Retirement Income Plan of North Carolina.

North Carolina Local Governmental Employees' Retirement System — The North Carolina Local Governmental Employees' Retirement System is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental

entities. While the State Treasurer is the custodian of system funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the system.

The system provides, on a uniform system-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute six percent of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate, uniform for all employers, was 12.10% of eligible payroll for general employees and 13.10% of eligible payroll for law enforcement officers for fiscal year ended June 30, 2023. The normal contribution rate, uniform for all employers, is 12.85% of eligible payroll for general employees and 14.10% of eligible payroll for law enforcement officers for fiscal year ending June 30, 2024. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the system.

Members qualify for a vested deferred benefit at age 50 with at least 20 years of creditable service; at age 60 after at least five years of creditable service to the unit of local government. Unreduced benefits are available: at age 65, with at least five years of service; at age 60, with at least 25 years of creditable service; or after 30 years of creditable service, regardless of age. Benefit payments are computed by taking an average of the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to the system are determined on an actuarial basis.

For information concerning the Town's participation in the North Carolina Local Governmental Employees' Retirement System and the Supplemental Retirement Income Plan of North Carolina see the Notes to the Town's Audited Financial Statements in Appendix D.

Financial statements and required supplementary information for the North Carolina Local Governmental Employees' Retirement System are included in the Annual Comprehensive Financial Report for the State. Please refer to the State's Annual Comprehensive Financial Report for additional information.

Other Post-Employment Benefits

The Town provides post-employment health care benefits to retirees of the Town up to the age of 65, provided an employee participated in the North Carolina Local Government Retirement System and meets the Town's years of creditable service requirements. This benefit is provided by permitting the employee to continue to participate in the Town's health insurance plan, if hired prior to June 30, 2022. After a minimum of 20 years of service with the Town, the Town pays 50% of the employee's individual health care insurance premium. Between 25 and 29 years of service, the Town pays 75%. After 30 years of service, the Town pays 100%. Employees hired on or after July 1, 2022 will no longer be eligible for the Town's group post-employment health insurance. Employees will continue to be eligible for COBRA coverage.

In accordance with GASB 45, the Town commissioned and received an actuarial study concerning this post-employment benefit. The Town's actuarial study estimated the Town's annual required contributions for actuarial full funding at approximately \$609,581 per year. The Town has so far funded this benefit on a pay-as-you-go basis; the actual amount spent for this benefit in the Town's fiscal year ended June 30, 2023 was approximately 99,943.

The Town is a member of the North Carolina Department of State Treasurer's Ancillary Governmental Participant Investment Program. This program establishes a trust fund which will be used to report resources for the purpose of paying post-employment benefits, other than pensions, for which the Town is liable. To date the Town has set aside \$801,434 for this purpose, with a planned annual contribution to be made in subsequent years.

Contingent Liabilities

The Town is not aware of any litigation or other contingent liabilities which it expects would adversely and materially affect the Town's ability to meet its financial obligations.

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APPENDIX C
FINANCIAL INFORMATION OF THE TOWN

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Management Discussion and Analysis

The following is Management's Discussion and Analysis of the financial activities of the Town, lifted from the Annual Comprehensive Financial Report for the Town for the fiscal year ended June 30, 2023. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the Town's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The independent auditors of the Town have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, they did not audit this information and did not express an opinion on it.

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TOWN OF HOLLY SPRINGS, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

As management of the Town of Holly Springs, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2023. We encourage readers to read the information presented here in conjunction with the transmittal letter in the front of this report, the basic financial statements and accompanying notes to the financial statements, which follow this narrative.

Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by approximately \$367.6 million (*net position*).
- The government's total net position increased by \$37.3 million in fiscal year 2023. \$18.5 million of the increase resulted from governmental activities, and \$18.8 million resulted from business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$85.2 million. The total fund balance decreased \$0.3 million in the General Fund, \$5 million in the Street and Sidewalk project fund, \$5 million in the Parks and Recreation project fund, and increased \$2.3 million in the Debt Service Fund and \$1.9 million in the Nonmajor Funds resulting in a net decrease in total governmental funds combined fund balance of \$6.1 million.
- Approximately \$58.8 million of the total combined ending governmental fund balance is restricted as compared to \$66.9 million last year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$10.3 million or 17.7% of total General Fund expenditures (includes transfers, but does not include debt service) for the fiscal year.
- The Town bond rating is AAA with Standard and Poor's and Aa2 with Moody's Rating Services. The North Carolina Municipal Council has the town's rating as an "83", which is comparable to a rating of "A+/A1" by the national rating agencies.

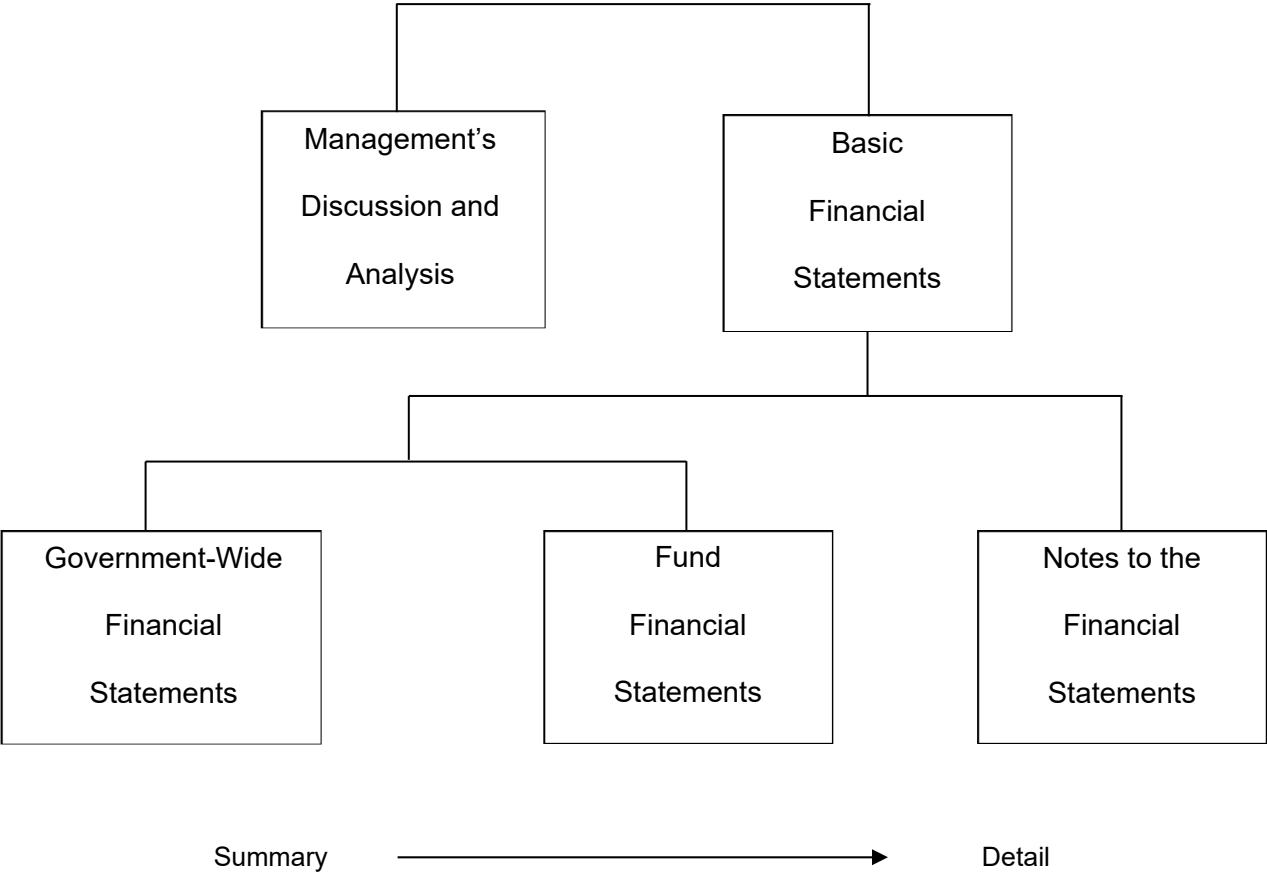
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The 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 Holly Springs.

JUNE 30, 2023

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’s financial status.

The next statements (Exhibits 3 through 11) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town’s government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements and 3) fiduciary 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 General Statutes also can be found in this part of the statements.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

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, parks and recreation, 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 utility, system development, and storm water management services offered by the Town of Holly Springs.

In accordance with the Governmental Accounting Standards Board criteria for inclusion in the reporting entity, the Town of Holly Springs has no component units that must be included in this report.

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

Fund Financial Statements

The fund financial statements (see Exhibits 3-4) 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 Holly 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 the Town of Holly 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* that 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 Holly 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 Council 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 has complied with the budget ordinance and whether or not the Town has 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 council; 2) the final budget as amended by the council; 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Proprietary Funds – The Town of Holly Springs has two proprietary funds, *Enterprise Fund*. An Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Holly Springs uses an Enterprise Fund to account for its water and wastewater activity as well as its storm water management program. 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.

Fiduciary Funds – The Town of Holly Springs has fiduciary funds. A fiduciary fund is described as activities that local governments carry out for the benefit of individuals and other agencies outside the government such as employee groups, members of the public or other governments. The Town established an investment account through the Ancillary Government Participant Investment Program (AGPIP) with the North Carolina Department of State Treasury for OPEB purposes. Accounting for fiduciary funds is much like accounting used for proprietary funds.

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. The notes to the financial statements are on pages 47 through 89 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Holly Springs' progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning on page 90 of this report. The combining statements, referred to earlier in connection with non-major governmental funds, are presented immediately following the required supplementary information on pensions. The other supplementary information shows details about the Town's individual funds, including budgetary information required by the North Carolina General Statutes as well as other data the Town considers helpful to the reader.

As noted earlier, net position may serve over time as one useful indicator of a Town's financial condition. The Town's assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$367.6 million as of June 30, 2023. The Town's net position increased by \$37.3 million for the fiscal year ended June 30, 2023. The majority of the Town's net position (\$233.7 million or 63.6%) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Holly Springs uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Holly Springs' investment in its capital assets is reported net of the outstanding related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets are committed to the continued provision of service and cannot be used to liquidate these liabilities. An additional portion of the Town of Holly Springs net position (approx. \$64.4 million) represents resources that are subject to external restrictions on how they may be used.

Figure 2: Town of Holly Springs – Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 100,677,263	\$ 101,496,469	\$ 83,489,103	\$ 70,740,486	\$ 184,166,366	\$ 172,236,955
Capital assets	188,107,661	167,205,758	152,627,990	133,323,235	340,735,651	300,528,993
Total assets	288,786,947	268,702,227	236,117,093	204,063,721	524,902,017	472,765,948
Deferred outflows of resources	10,783,037	7,661,179	2,513,272	1,327,001	13,296,309	8,988,180
Total assets and deferred outflows of resources	\$ 299,569,984	\$ 276,363,406	\$ 238,630,365	\$ 205,390,722	\$ 538,198,326	\$ 481,754,128
Long-term liabilities	\$ 94,718,282	\$ 91,645,476	\$ 32,276,737	\$ 38,239,212	\$ 126,995,019	\$ 129,884,688
Other liabilities	22,830,953	15,370,253	10,150,008	8,529,772	32,980,961	23,900,025
Total liabilities	117,549,235	107,015,729	42,426,745	46,768,984	159,975,980	153,784,713
Deferred inflows of resources	-	7,187,118	425,248	1,728,692	425,248	8,915,810
Total liabilities and deferred inflows of resources	117,549,235	114,202,847	42,851,993	48,497,676	160,401,228	162,700,523
Net Position:						
Net investment in capital assets	108,573,159	107,213,114	125,172,975	102,030,136	233,746,134	209,243,250
Restricted	58,774,616	65,907,494	5,593,755	6,901,683	64,368,371	72,809,177
Unrestricted	13,333,205	(10,960,049)	56,162,287	59,188,893	69,495,492	48,228,844
Total net position	\$ 180,680,980	\$ 162,160,559	\$ 186,929,017	\$ 168,120,712	\$ 367,609,997	\$ 330,281,271

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Figure 3: Town of Holly Springs – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program Revenues:						
Charges for services	\$ 10,328,217	\$ 10,482,158	\$ 32,323,131	\$ 24,370,218	\$ 42,651,348	\$ 34,852,376
Operating grants and contributions	4,846,721	1,596,014	-	27,047	4,846,721	1,623,061
Capital grants and contributions	2,093,714	9,863,429	9,326,959	3,018,954	11,420,673	12,882,383
General Revenues:						
Property taxes	32,641,019	29,064,809	-	-	32,641,019	29,064,809
Other taxes	856,026	809,962	-	-	856,026	809,962
Other revenues	20,363,958	18,715,551	1,071,807	17,960,922	21,435,765	36,676,473
Total Revenues	71,129,655	70,531,923	42,721,897	45,377,141	113,853,575	115,909,064
Expenses:						
General government	16,532,603	14,145,144	-	-	16,532,603	14,145,144
Public safety	17,432,658	13,804,821	-	-	17,432,658	13,804,821
Public works	3,811,732	7,028,387	-	-	3,811,732	7,028,387
Economic and physical development	5,596,940	24,467,841	-	-	5,596,940	24,467,841
Cultural and recreation	7,004,634	5,076,874	-	-	7,004,634	5,076,874
Interest on long-term debt	2,603,512	2,641,647	-	-	2,603,512	2,641,647
Water and sewer	-	-	22,385,117	18,579,677	22,385,117	18,579,677
Stormwater management	-	-	1,155,630	847,736	1,155,630	847,736
Total Expenses	52,982,079	67,164,714	23,540,747	19,427,413	76,522,826	86,592,127
Change in net position before transfers	18,147,576	3,367,209	19,181,150	25,949,728	37,330,749	29,316,937
Transfers	372,845	917,050	(372,845)	(917,050)	-	-
Change in net position	18,520,421	4,284,259	18,808,305	25,032,678	37,328,726	29,316,937
Net position, July 1	162,160,559	157,876,300	168,120,712	143,088,034	330,281,271	300,964,334
Net position, June 30	\$ 180,680,980	\$ 162,160,559	\$ 186,929,017	\$ 168,120,712	\$ 367,609,997	\$ 330,281,271

Governmental activities

The Town's total governmental revenues were \$71.1 million. Program revenues (24.0%) include: Charges for services of \$10.3 million, operating grants and contributions \$4.8 million and capital grants and contributions of \$2.1 million. General revenues (75.7%) include: property taxes of \$32.6 million, other taxes of \$0.8 million and other miscellaneous revenues of \$20.4 million. The Town's total governmental expenses were \$53.0 million, resulting in an increase in the Town's net position of \$18.1 million plus \$0.3 million in transfers for a total increase in net position of \$18.5 million from governmental activities, accounting for 49.6% of the total growth in the Town's net position.

Business-type activities

The Town's total business-type revenues were \$42.7 million. Program revenues (90%) include: Charges for services of \$32.3 million and capital grants and contributions of \$9.3 million. Other revenues of \$1.1 million (2.5%). The Town's total business-type expenses were \$23.5 million which resulted in an increase in the Town's net position by \$19.2 million from business-type activities, plus \$0.3 million in transfers for a total increase in net position of \$18.8 million from business-type activities, accounting for 50.4% of the total growth in the Town's net position.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Financial Analysis of the Town's Funds

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

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. This is the portion of the fund balance remaining after subtracting the amounts that have been restricted (usually by NC state law) or assigned (designated for a specific purpose by the Town's management). The Town's policy is for General Fund unassigned fund balance to be between 20 – 25% of General Fund expenditures.

The General Fund is the chief operating fund of the Town of Holly Springs. At the end of the fiscal year, the unassigned fund balance was \$10.3 million, while the total fund balance decreased by \$0.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. As of June 30, 2023, unassigned fund balance was 17.7% of the year's expenditures (21.6% in 2022) and includes transfers however does not include debt service. while the total fund balance represents 55.2% of the same amount (64.1% in 2022). Please note when transfers and debt service is included fund unassigned fund balance is 33.3% with a total of \$22,209,130.

The Town strives to maintain a favorable minimum unassigned fund balance. Amounts in excess of this minimum may be used for construction projects when the town wishes to avoid the issuance of additional debt, for emergency work needed after natural disasters, or for maintaining a stable tax rate when economically dependent revenues (i.e. sales tax) are less than budgeted amount. The Town does not budget fund balance during the budget process.

The decrease in unassigned fund balance was due to settlement payments during the fiscal year. Funds in excess of the lower limit (20%) can be used for one-time capital-related purposes. Management further determined that funding that exceed 30% will automatically be moved from the General Fund into the Pay Go Fund or Debt Service Fund. During FY 2022 staff funded several one-time capital needs totaling \$3.7 million. This amount represents the total fund balance available, in excess of 30% of unassigned fund balance based on the previous fiscal year's financial statements. The projects funded are as follow:

1) Holly Springs Road Widening	\$2,000,000
2) Yard Waste Model	950,000
3) GIS Asset Inventory	200,000
4) Facility Asset Management Plan	200,000
5) Playground Rehabilitation	316,311

At year-end, the governmental funds of the Town of Holly Springs reported a combined total fund balance of \$85.2 million, a decrease of \$6.1 million from the prior year. The nonmajor funds were comprised of special revenue and capital project funds. The total fund balances of the nonmajor funds were \$4.9 million, the Street and Sidewalk Project Fund balance was \$22.3 million, Parks and Recreation Project Fund was \$16.1 million and Debt Service Fund was \$11.9 million.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

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 or expand services.

The Town made only minor changes to its General Fund revenue estimates in order to recognize increases in ad valorem and sales tax collections. Actual revenues were higher than original anticipated revenue projections for fiscal year 2023. As we continued to work through the uncertainty of the current economy revenue receipts and expenditure budgets were closely monitored to effectively assess the current economy on our financial projections and standing. Actual expenditures were \$3.7 million less than appropriated.

A significant portion of this amount represents position vacancies throughout the budget year along with other delayed expenditures. In addition, the town is still being affected by delays found within the supply chain. In response to this unavoidable challenge staff has expedited several large purchases, which are expected to have lengthy lead-time. These include purchasing of police vehicles and solid waste vehicles and equipment.

Governmental Funds Highlights

In the fiscal year ending June 30, 2021, the town successfully increased its unassigned fund balance to 39.3%. As discussed above, the town's policy is to remain between 20-25%. During the current fiscal year management made the decision to use fund balance reserves in excess of 30% or \$3.7 million, based on the fund balance amount at June 30, 2021, for one-time capital related purposes. Of this amount, \$2 million of this balance was used to fund street improvement projects, \$1 million set aside to fund the upcoming yard-waste model revamp and the remainder was used to fund various other governmental fund projects. For fiscal year ending June 30, 2023, fund balance decreased to 17.7%.

During the year activity on projects funded with the 2018 Transportation Bond, which authorized \$40 million for street and sidewalk improvements, has ramped up. These bonds are funding the following projects: Highway 55 Right Turn Lane, Avent Ferry Road Realignment, Main Street Eastbound Right Turn Lane and Holly Spring Road Widening. As a result of the challenges within the market project construction costs have continued to rise significantly. Staff remains cognizant of the challenge, continues to value engineer all projects and identify options to adequately manage these costs.

In July 2021 the town purchased 150 acres of real property for \$22 million, which includes cost of issuance. The land was conveyed to Fujifilm Diosynth Biotechnologies as part of their economic development incentive. This project is expected to increase the town total assessed valuation by \$1.5 billion by January 1, 2026.

Proprietary Funds

Unrestricted net position of the Utility Fund at the end of the fiscal year was \$38.9 million, the Storm Water Management Program was \$2.6 million and the Systems Development Fund was \$14.9 million. The change in net position was an increase of \$18.8 primarily due to Charges for Services, Grants and Contributions and the System Development Fund for infrastructure needs.

The town has continued work on the Friendship Utilities project, which is a \$30 million project that will provide access to all the utility infrastructure required for modern life science facilities within the Helix Innovation Park at Friendship. In support of this project the town has been awarded a \$8 million grant and received a \$5 million of the \$9.3 million developer contribution which will assist with funding the project.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2023, totals \$340,735,651 (net of depreciation). These assets include buildings, roads and bridges, intangible assets for water rights, machinery and equipment, vehicles and park facilities and right of use assets.

Major capital asset transactions during the year include:

- Twelve Oaks Pump Station - \$1,114,633
- Developer Contributions - \$5,488,367
- Waste Cart Truck - \$77,901
- Powell Bill Streets, Right of Way and Sidewalks - \$9,424,827

Figure 4: Town of Holly Springs – Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 36,344,498	\$ 33,075,711	\$ 168,895	\$ 168,895	\$ 36,513,393	\$ 33,244,606
Building and systems	23,395,379	23,850,615	106,490	111,602	23,501,869	23,962,217
Water and sewer operating plant	-	-	118,687,490	117,563,472	118,687,490	117,563,472
Improvements other than buildings	14,336,366	15,403,959	-	-	14,336,366	15,403,959
Intangible assets (water rights)	-	-	2,988,164	3,157,143	2,988,164	3,157,143
Right to use - subscriptions, building and equipment	180,478	203,788	481,608	496,300	662,086	700,088
Machinery and equipment	1,333,975	1,657,046	283,698	430,887	1,617,673	2,087,933
Infrastructure	73,331,527	68,792,368	1,375,804	1,422,703	74,707,331	70,215,071
Vehicles and motorized equipment	5,679,454	6,067,577	1,232,947	980,080	6,912,401	7,047,657
Construction in progress	33,505,984	18,154,694	27,302,894	8,992,153	60,808,878	27,146,847
Total	\$ 188,107,661	\$ 167,205,758	\$ 152,627,990	\$ 133,323,235	\$ 340,735,651	\$ 300,528,993

Additional information on the Town's capital assets can be found on pages 61 to 62 of the notes to the financial statements of this report.

Town of Holly Springs Outstanding Debt

Long-Term Debt

As of June 30, 2023, the Town of Holly Springs had total long-term debt of \$135.8 million. Of this amount, \$40.5 million represents bonded debt backed by the full faith and credit of the Town. The remainder of the Town's bonded debt is a revenue bond of \$10.4 million which is secured solely by specified revenue sources. In addition to bonded debt, the Town's long-term debt includes installment purchase obligations of \$17.4 million and limited obligation bonds of \$28.4 million.

General obligation debt of \$16.6 million was refunded for the outstanding of parks and recreation bonds and water and sewer bonds issued in 2012. The refunded debt interest rate is 1.43% and provided the town a bond premium of \$2.3 million. This refunding has saved the town \$1.6 million over the remaining life of the debt.

The Town has two outstanding revenue bonds. \$16.1 million was issued to finance 8 million gallons of water capacity from Harnett County and \$10 million for the expansion to the Town's wastewater treatment plant from 1.75 million gallons per day to 6 million gallons per day. At June 30, 2023, the town has an outstanding obligation of \$10.4 million.

The Town also has recorded \$28.5 million of compensated absences and retirement liabilities for employees.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

The following chart summarizes the Town's long-term debt as of June 30, 2023:

Figure 5: Town of Holly Springs - Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Installment purchase contracts	\$ 8,266,795	\$ 9,419,921	\$ 9,128,539	\$ 10,560,492	\$ 17,395,334	\$ 19,980,413
General obligation bonds	33,831,664	35,881,542	6,648,336	7,183,458	40,480,000	43,065,000
Limited obligation bonds	28,365,000	29,375,000	-	-	28,365,000	29,375,000
Revenue bonds	-	-	10,413,848	11,954,565	10,413,848	11,954,565
Bond premiums	9,040,878	9,643,637	1,032,382	1,106,124	10,073,260	10,749,761
Lease liabilities	113,184	203,788	494,439	496,301	607,623	700,089
Subscription liabilities	51,817	-	-	-	51,817	-
Compensated absences	2,232,785	1,911,218	421,214	382,022	2,653,999	2,293,240
Net OPEB liability	4,343,482	4,241,833	1,113,839	1,055,857	5,457,321	5,297,690
Pension liability (LGERS)	13,845,339	3,889,608	3,550,003	787,862	17,395,342	4,677,470
Total pension liability (LEOSA)	2,996,477	3,461,719	-	-	2,996,477	3,461,719
Total	\$ 103,087,421	\$ 98,028,266	\$ 32,802,600	\$ 33,526,681	\$ 135,890,021	\$ 131,554,947

The Town's long-term financed debt increased by \$4.3 million during the fiscal year ended June 30, 2023 with the inclusion of the compensated absences and employee retirement benefits.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt limit for Town of Holly Springs is \$506,098,871.

Additional information on the Town's long-term debt can be found in the notes to the financial statements on pages 77 through 86 of this report.

Budget Highlights for the Fiscal Year Ending June 30, 2024

Governmental Activities:

The adopted budget for Fiscal Year 2024 totals \$54,359,413, a 7% increase from the adopted budget for Fiscal Year 2023. Property taxes account for the largest percentage (69.2%) of total General Fund Operations and Debt Service revenue. In Fiscal Year 2024, the Town recommended no property tax change. The recommended budget reflects strong economic vitality. The Town has chosen not to appropriate fund balance in the fiscal year 2024 budget.

Personnel:

To keep pace with the population growth, as well as to continue providing excellent service the town added twenty-four new positions including seven (7) new public safety, five (5) development services and four (4) utility and infrastructure staff members. Council has also chosen invest in staff to help the Town remain a top employer of choice in the area and has adopted a merit-based pay program with a total impact to the Fiscal Year 2024 budget of \$945,591 as well as two additional paid floating holidays and wellness day for a total of 15 paid leave days per year. Also, in effort to continue managing the ever-rising healthcare costs the town switched brokers and is now part of the North Carolina Healthcare Insurance Pool "NCHIP", which is a group self-insurance pool for benefit risk sharing amongst other like local governments. In Fiscal Year 2023 the initial results from the change are promising with only a 4% increase for health insurance in FY24.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

Operations

Staff will be undergoing a modernization of the current yard waste collection model, moving from the current side-of-the-street collections to a roll-out-cart model. This will assist with the reduction of yard waste entering the town's streams, creeks, rivers, improve traffic safety and neighborhood aesthetics. Included within the budget for this update is new equipment, carts and public education. In support of this change council approved a \$3 increase to the monthly residential yard waste collection fee.

Capital Investments:

Annually the town updates the Community Investment Plan (CIP) document, which is a 5-year planning tool designed to enhance the Town's ability to match capital investment needs with available resources. Over the past decade the town has experienced significant growth and strives to continue providing quality service to its citizens. With this in mind, council has included funding for a new Fire Station (\$11.2 million), Operations Center Phase 1 (\$40 million – shared between General Fund and Utility Fund), a replacement fire truck (\$1.5 million) and Cass Holt Road Park.

- Cass Holt Road Park is an important investment for the community as it will help further our goals of providing more equitable access to parks and greenways in the growing, western portion of the town limits – as it will be the first park west of NC 55. It also will help meet the needs of our growing community with indoor recreational facilities which is an attractive element to support economic investment in the region. A Bond Referendum is included in the November 7, 2023 election for \$100,000,000 General Obligation Bonds for Parks and Recreation projects including Cass Holt Road Park.
- Fire Station #3 will replace an existing fire department facility that is inadequate for service delivery. The proposed facility would dramatically increase the health and safety of our firefighters. Also, the new station will be within a few miles of several critical infrastructure projects such as NC540, UNC Rex Hospital, Amgen medical sciences manufacturing facility, Fujifilm Diosynth Biotechnologies.
- Operation Center Campus will address current and future space needs at Town Hall and at the Public Works facility. The new campus will consolidate town services into a single campus that will improve service efficiency, reduce redundancy and conserve the town's physical, financial and natural resources.

Business-Type Activities:

The town implemented a new utility rate model which better aligns our system with industry best practices and more equitably allocates access fee charges. The updated model was a critical factor for the creation of the town's new Utility Debt Capacity model. Within the upcoming years the town has several significant utility projects. The most notable are Sanford Water Capacity (\$59.6 million), Holly Springs-Fuquay Conveyance (\$51 million) and Friendship Northwest Area Utilities project (\$30 million). It is anticipated that the town will issue debt in the form of revenue bonds for the Sanford Water Capacity project and staff will engage council for discussion and implementation of recommendations for funding these important projects not covered by grant, developer contributions or other general government revenues. In Fiscal Year 2023, a fifteen percent increase to utility rate was adopted and it is expected that general revenues will include additional increases in rates, as well as planned use of our sizable utility fund equity.

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 Tina Stroupe, Finance Director, Town of Holly Springs, Post Office Box 8, Holly Springs, North Carolina, 27540.

Financial Statements

The financial statements of the Town have been audited by certified public accountants for the fiscal year ended June 30, 2023. Copies of these financial statements containing the unqualified report of the independent certified public accountant are available in the office of the Finance Director, Town of Holly Springs, 128 S. Main Street, Holly Springs, North Carolina 27540, (919) 557-3925.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Annual Comprehensive Financial Report for the past 19 years through the fiscal year ended June 30, 2023. To receive this award, the highest form of recognition in governmental financial reporting, a governmental unit must publish a financial report which complies with both generally accepted accounting principles and applicable legal requirements.

The following financial statements are the Basic Financial Statements of the Town and the notes thereto, lifted from the Annual Comprehensive Financial Report of the Town for the fiscal year ended June 30, 2023.

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TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STATEMENT OF NET POSITION

Exhibit 1

JUNE 30, 2023

	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 46,131,117	\$ 61,599,484	\$ 107,730,601
Taxes receivables (net)	569,622	-	569,622
Accounts receivable (net)	4,025,476	3,318,152	7,343,628
Accrued interest receivable	-	22,618	22,618
Due from other governments	4,451,706	233,833	4,685,539
Lease receivable	-	10,052	10,052
Prepaid expenses	313,676	81,194	394,870
Total Current Assets	55,491,597	65,265,333	120,756,930
Noncurrent Assets:			
Restricted cash and cash equivalents	45,185,666	9,111,885	54,297,551
Lease receivable	-	262,530	262,530
Capital assets			
Right of use - lease and subscription assets	180,478	525,318	705,796
Land and construction in progress	69,850,482	27,471,789	97,322,271
Water and water capacity rights	-	7,634,204	7,634,204
Other capital assets, net of depreciation	118,076,701	116,996,679	235,073,380
Total Capital Assets	188,107,661	152,627,990	340,735,651
Total Noncurrent Assets	233,293,327	162,002,405	395,295,732
Total Assets	288,784,924	227,267,738	516,052,662
Deferred Outflows of Resources			
Contributions to LGERS pension plan in current fiscal year	2,708,467	694,463	3,402,930
Pension deferrals - LGERS	6,611,089	1,695,111	8,306,200
Law enforcement separation allowance deferrals	981,112	-	981,112
Other postemployment benefits deferrals	482,369	123,698	606,067
Total Deferred Outflows of Resources	10,783,037	2,513,272	13,296,309
Liabilities			
Current Liabilities:			
Accounts payable	13,951,112	4,081,129	18,032,241
Due to other governments	20,138	-	20,138
Salaries and benefits payable	-	162,960	162,960
Accrued interest payable - bonds	488,137	282,613	770,750
Accrued interest payable - leases	2,427	54,885	57,312
Customer deposits	-	1,852,883	1,852,883
Compensated absences	1,160,677	288,227	1,448,904
Lease and SBITA liability	97,583	10,694	108,277
Bonds and notes payable	7,110,879	3,416,617	10,527,496
Total Current Liabilities	22,830,953	10,150,008	32,980,961

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STATEMENT OF NET POSITION

Exhibit 1

JUNE 30, 2023

	Governmental Activities	Business-type Activities	Total
Long-Term Liabilities:			
Payable from restricted assets	\$ -	\$ 3,189,673	\$ 3,189,673
Compensated absences	1,072,108	132,987	1,205,095
Total pension liability - LEOSSA	2,996,477	-	2,996,477
Pension liability - LGERS	13,845,339	3,550,004	17,395,343
Net other postemployment liability	4,343,482	1,113,839	5,457,321
Lease liability	67,418	483,745	551,163
Bonds and notes payable	72,393,458	23,806,489	96,199,947
Total Long-Term Liabilities	94,718,282	32,276,737	126,995,019
Total Liabilities	117,549,235	42,426,745	159,975,980
Deferred Inflows of Resources			
Prepaid taxes	42,854	-	42,854
Pension deferrals - LGERS	191,567	49,119	240,686
Other postemployment benefits deferrals	422,890	108,446	531,336
Law enforcement separation allowance deferrals	680,435	-	680,435
Leases	-	267,683	267,683
Total Deferred Inflows of Resources	1,337,746	425,248	1,762,994
Net Position			
Net investment in capital assets	108,573,159	125,172,975	233,746,134
Restricted for			
Stabilization by state statute	8,008,329	-	8,008,329
Inspections (HB 255)	1,927,929	-	1,927,929
Economic development	186,901	-	186,901
Street and sidewalk improvements	25,691,225	-	25,691,225
Public Safety	2,622,563	-	2,622,563
Parks and recreation	16,725,400	-	16,725,400
General government programs	3,612,269	5,593,755	9,206,024
Unrestricted	13,333,205	56,162,287	69,495,492
Total Net Position	\$ 180,680,980	\$ 186,929,017	\$ 367,609,997

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STATEMENT OF ACTIVITIES

Exhibit 2

YEAR ENDED JUNE 30, 2023

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 16,532,603	\$ 9,688,985	\$ 3,645,088	\$ -	\$ (3,198,530)	\$ -	\$ (3,198,530)
Public safety	17,432,658	-	-	-	(17,432,658)	-	(17,432,658)
Public works	3,811,732	-	1,201,633	-	(2,610,099)	-	(2,610,099)
Economic and physical development	5,596,940	-	-	1,693,714	(3,903,226)	-	(3,903,226)
Cultural and recreation	7,004,634	639,232	-	400,000	(5,965,402)	-	(5,965,402)
Interest on long-term debt	2,603,512	-	-	-	(2,603,512)	-	(2,603,512)
Total governmental activities	52,982,079	10,328,217	4,846,721	2,093,714	(35,713,427)	-	(35,713,427)
Business-type activities:							
Utility	22,385,117	22,042,323	-	9,326,959	-	8,984,165	8,984,165
System development fee	-	8,708,967	-	-	-	8,708,967	8,708,967
Stormwater management	1,155,630	1,571,841	-	-	-	416,211	416,211
Total business-type activities	23,540,747	32,323,131	-	9,326,959	-	18,109,343	18,109,343
Total	\$ 76,522,826	\$ 42,651,348	\$ 4,846,721	\$ 11,420,673	(35,713,427)	18,109,343	(17,604,084)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					32,641,019	-	32,641,019
Other taxes and licenses					856,026	-	856,026
Unrestricted intergovernmental					16,571,711	-	16,571,711
Unrestricted investment earnings					2,303,331	1,071,807	3,375,138
Miscellaneous					1,488,916	-	1,488,916
Total general revenues not including transfers					53,861,003	1,071,807	54,932,810
Transfers					372,845	(372,845)	-
Total general revenues, transfers, and capital contributions					54,233,848	698,962	54,932,810
Change in net position					18,520,421	18,808,305	37,328,726
Net position-beginning					162,160,559	168,120,712	330,281,271
Net position-ending					\$ 180,680,980	\$ 186,929,017	\$ 367,609,997

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS

Exhibit 3

JUNE 30, 2023

	General	Debt Service Fund	Street & Sidewalk Projects Fund	Parks & Recreation Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 22,657,381	\$ -	\$ 9,716,079	\$ 13,757,657	\$ -	\$ 46,131,117
Receivables, net						
Property taxes	32,849	13,416	-	-	-	46,265
Sales taxes	523,357	-	-	-	-	523,357
Accounts	2,521,357	-	1,496,585	-	7,534	4,025,476
Due from other governments	4,359,511	69,025	-	15,247	7,923	4,451,706
Prepaid expenditures	313,676	-	-	-	-	313,676
Restricted cash and cash equivalents	12,057,621	11,853,686	13,000,785	3,283,788	4,989,786	45,185,666
Total Assets	\$ 42,465,752	\$ 11,936,127	\$ 24,213,449	\$ 17,056,692	\$ 5,005,243	\$ 100,677,263
Liabilities						
Accounts payable and accrued liabilities	\$ 10,917,910	\$ 17,819	1,958,581	971,278	85,524	13,951,112
Due to other governments	-	-	-	20,138	-	20,138
Total Liabilities	10,917,910	17,819	1,958,581	991,416	85,524	13,971,250
Deferred Inflow of Resources						
Property taxes receivable	1,078,665	13,417	-	-	-	1,092,082
Unavailable revenues	414,194	-	-	-	-	414,194
Prepaid taxes	30,426	12,428	-	-	-	42,854
Total deferred inflows of resources	1,523,285	25,845	-	-	-	1,549,130
Fund Balances						
Non Spendable						
Prepayments	313,676	-	-	-	-	313,676
Restricted						
Stabilization by state statute	8,008,329	-	-	-	-	8,008,329
Inspections HB 255	479,351	-	-	-	1,448,578	1,927,929
Economic Development	-	-	-	-	186,901	186,901
Public safety	-	-	-	-	2,622,563	2,622,563
Parks and recreation	-	-	-	16,065,276	660,124	16,725,400
Street and sidewalk improvements	3,436,357	-	22,254,868	-	-	25,691,225
General government	3,610,716	-	-	-	1,553	3,612,269
Committed						
PayGo	3,482,504	-	-	-	-	3,482,504
Public Safety - LEOSSA	376,957	-	-	-	-	376,957
Assigned						
Debt service	-	11,892,463	-	-	-	11,892,463
Unassigned	10,316,667	-	-	-	-	10,316,667
Total fund balances	30,024,557	11,892,463	22,254,868	16,065,276	4,919,719	85,156,883
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 42,465,752	\$ 11,936,127	\$ 24,213,449	\$ 17,056,692	\$ 5,005,243	\$ 100,677,263

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF
NET POSITION - GOVERNMENTAL FUNDS

Exhibit 3 Recon

JUNE 30, 2023

Fund balances-total governmental funds	\$ 85,156,883
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 governmental funds.	
Governmental capital assets	250,734,727
Less accumulated depreciation	(62,627,066)
Contributions to the LGERS pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	2,708,467
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.	
Government bonds and notes payable	(79,504,337)
Compensated absences	(2,232,785)
Other postemployment benefits & liability	(4,343,482)
Lease and SBITA liability	(165,001)
Total pension liability - LEOSA	(2,996,477)
Pension liability - LGERS	(13,845,339)
Earned revenues considered deferred inflows in the fund statements.	1,506,276
Deferred inflows/outflows of resources related to pensions are not reported in the funds - LEOSA & LGERS	6,720,199
Deferred inflows/outflows of resources related to pensions are not reported in the funds - Other postemployment benefits	59,479
Other liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Accrued interest expense payable	(490,564)
Net position of governmental activities	<u>\$ 180,680,980</u>

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Exhibit 4

YEAR ENDED JUNE 30, 2023

	General	Debt Service Fund	Street & Sidewalk Capital Projects Fund	Parks & Rereation Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Ad valorem taxes	\$ 22,410,442	\$ 9,138,495	\$ -	\$ -	\$ -	\$ 31,548,937
Other taxes	856,026	-	-	-	-	856,026
Unrestricted intergovernmental	16,523,431	-	-	48,280	-	16,571,711
Restricted intergovernmental	1,325,326	-	1,693,714	400,000	2,687,105	6,106,145
Permits and fees	2,723,139	-	-	-	-	2,723,139
Sales and services	7,385,942	-	-	639,232	-	8,025,174
Miscellaneous	340,686	-	-	655,395	492,835	1,488,916
Investment earnings	1,025,564	231,800	676,378	241,195	128,394	2,303,331
Total revenues	52,590,556	9,370,295	2,370,092	1,984,102	3,308,334	69,623,379
Expenditures:						
Current:						
General government	17,485,691	52,935	515,462	-	34,244	18,088,332
Public safety	16,475,455	-	-	-	108,913	16,584,368
Public works	7,438,342	-	922	-	-	7,439,264
Economic and physcial development	4,683,888	-	231,325	-	-	4,915,213
Cultural and recreational	6,010,469	-	-	880,483	10,344	6,901,296
Capital outlay	2,271,754	-	8,354,490	3,206,340	1,647,745	15,480,329
Debt service:						
Bond principal	-	3,059,878	-	-	-	3,059,878
Bond interest	-	2,427,839	-	-	-	2,427,839
Installment note principal	-	1,613,129	-	-	-	1,613,129
Installment note interest	-	138,954	-	-	-	138,954
Total expenditures	54,365,599	7,292,735	9,102,199	4,086,823	1,801,246	76,648,602
Revenues over (under) expenditures	(1,775,043)	2,077,560	(6,732,107)	(2,102,721)	1,507,088	(7,025,223)
Other financing sources (uses):						
Transfers in	4,776,890	250,000	1,978,125	5,244,651	573,783	12,823,449
Transfers out	(3,830,744)	-	(200,000)	(8,266,659)	(153,201)	(12,450,604)
Issuance of debt	460,000	-	-	-	-	460,000
Proceeds from SBITAs	65,258	-	-	-	-	65,258
Total other financing sources (uses)	1,471,404	250,000	1,778,125	(3,022,008)	420,582	898,103
Net change in fund balances	(303,639)	2,327,560	(4,953,982)	(5,124,729)	1,927,670	(6,127,120)
Fund balance - beginning of year	30,328,196	9,564,903	27,208,850	21,190,005	2,992,049	91,284,003
Fund balance - end of year	\$ 30,024,557	\$ 11,892,463	\$ 22,254,868	\$ 16,065,276	\$ 4,919,719	\$ 85,156,883

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA**Exhibit 4 Recon****STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - RECONCILIATION***YEAR ENDED JUNE 30, 2023*

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

Net change in fund balances - total governmental funds \$ (6,127,120)

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

Expenditures for capital assets	27,943,845
Less current year depreciation	(7,036,811)
Loss on disposal	(5,131)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	2,708,614
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred inflows for unearned revenues	414,194
Change in unavailable revenue for tax	1,092,082

The issuance of debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of bond premiums	64,628
Issuance of debt and subscriptions	(525,258)
Principal payments	4,673,007

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(229,185)
Pension Expense - LGERS	(3,952,061)
Pension Expense - LEOSA	(222,224)
Other postemployment benefits expense	(241,440)
Change in accrued interest payable	(36,719)

Total changes in net position of governmental activities	\$ 18,520,421
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The accompanying notes are an integral part of these financial statements.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Exhibit 5
GENERAL FUND
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**
YEAR ENDED JUNE 30, 2023

	Original	Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 22,237,435	\$ 22,582,149	\$ 22,410,442	\$ (171,707)
Other taxes and licenses	858,704	858,704	856,026	(2,678)
Unrestricted intergovernmental	13,970,000	15,970,000	16,523,431	553,431
Restricted intergovernmental	77,757	98,399	98,399	-
Permits and fees	2,780,500	2,780,500	2,723,139	(57,361)
Sales and services	6,512,565	6,622,565	7,385,942	763,377
Miscellaneous	485,000	493,700	315,686	(178,014)
Investment earnings	100,000	100,000	973,883	873,883
Total revenues	47,021,961	49,506,017	51,286,948	1,780,931
Expenditures:				
Current				
General government	9,608,993	9,985,445	16,707,644	(6,722,199)
Public safety	16,650,550	16,705,483	16,475,455	230,028
Public works	7,980,771	7,866,298	7,438,342	427,956
Economic and physical development	5,152,380	5,289,460	4,683,888	605,572
Cultural and recreational	6,319,662	6,208,912	6,010,469	198,443
Capital Outlay	2,575,000	3,387,951	1,872,986	1,514,965
Total expenditures	48,287,356	49,443,549	53,188,784	(3,745,235)
Revenues over (under) expenditures	(1,265,395)	62,468	(1,901,836)	(1,964,304)
Other financing sources (uses):				
Transfers in	153,201	153,201	3,653,201	3,500,000
Transfers out	(2,382,806)	(5,665,704)	(3,665,744)	1,999,960
Installment note issuance	2,495,000	1,049,052	460,000	(589,052)
Appropriated fund balance	1,000,000	4,400,983	-	(4,400,983)
Total other financing sources (uses)	1,265,395	(62,468)	447,457	509,925
Net change in fund balance	\$ -	\$ -	(1,454,379)	\$ (1,454,379)
Fund balance - Beginning of year			\$ 25,184,601	
Fund balance - End of year			23,730,222	

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA**Exhibit 5****GENERAL FUND****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL***YEAR ENDED JUNE 30, 2023*

A legally budgeted Powell Bill Fund is consolidated into the General Fund for reporting purposes:

Unrestricted intergovernmental	1,201,633
Investment earnings	41,703
Operating expenditures	(184,055)
Capital outlay	(12,948)
 Fund balance - beginning of year	 1,388,541

A legally budgeted Law Enforcement SEP Allowance is consolidated into the General Fund for reporting purposes:

Investment earnings	7,439
Miscellaneous revenues	25,000
 Fund balance - beginning of year	 344,518

A legally budgeted PayGo Fund is consolidated into the General Fund for reporting purposes:

Investment earnings	2,539
Restricted intergovernmental	25,294
Operating expenditures	(593,992)
Capital outlay	(385,820)
Issuance of subscription liability	65,258
Transfer in	1,223,689
Transfer out	(265,000)
 Fund balance - beginning of year	 3,410,536

Fund balance - end of year (Exhibit 4)

\$ 30,024,557

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

EXHIBIT 6

JUNE 30, 2023

	Major Funds		Non-Major Fund	
	Utility Fund	System Development Fee Fund	Stormwater Management Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 43,878,068	\$ 14,945,740	\$ 2,775,676	\$ 61,599,484
Accounts receivable, net (billed)	1,836,290	-	132,168	1,968,458
Accounts receivable, net (unbilled)	1,262,543	-	87,151	1,349,694
Due from other governments	233,572	-	261	233,833
Lease receivable - current	10,052	-	-	10,052
Accrued interest receivable - leases	22,618	-	-	22,618
Prepaid expenses	81,194	-	-	81,194
Restricted cash and cash equivalents	5,593,755	-	3,518,130	9,111,885
Subtotal	52,918,092	14,945,740	6,513,386	74,377,218
Noncurrent assets:				
Lease receivable - long-term	262,530	-	-	262,530
Capital assets:				
Right of use assets	525,318	-	-	525,318
Land and other non-depreciable assets	27,471,789	-	-	27,471,789
Water and water capacity rights	7,634,204	-	-	7,634,204
Other capital assets, net of depreciation	175,192,468	-	1,609,054	176,801,522
Accumulated depreciation and amortization	(59,663,162)	-	(141,681)	(59,804,843)
Capital assets (net)	151,160,617	-	1,467,373	152,890,520
Subtotal-noncurrent assets	151,423,147	-	1,467,373	152,890,520
Total assets	204,341,239	14,945,740	7,980,759	227,267,738
Deferred Outflows of Resources:				
Contributions to pension plan - LGERS	615,786	-	78,677	694,463
Pension deferrals - LGERS	1,503,070	-	192,041	1,695,111
Other post employment benefit deferrals	109,698	-	14,000	123,698
Total deferred outflows of resources	2,228,554	-	284,718	2,513,272
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	4,062,053	11,700	7,376	4,081,129
Salaries payable	139,587	-	23,373	162,960
Customer deposits	1,524,425	-	328,458	1,852,883
Deferred revenue	-	-	-	-
Accrued interest payable - Bond	282,613	-	-	282,613
Accrued interest payable - Leases	54,885	-	-	54,885
Compensated absences	288,227	-	-	288,227
Lease liability	10,694	-	-	10,694
Installment purchases and notes payable	1,239,601	-	-	1,239,601
General obligation bonds payable	584,242	-	-	584,242
Revenue bond payable	1,592,774	-	-	1,592,774
Total current liabilities	9,779,101	11,700	359,207	10,150,008
Noncurrent liabilities:				
Pension liability - LGERS	3,147,819	-	402,185	3,550,004
Restricted accounts payable and accrued liabilities	-	-	3,189,673	3,189,673
Compensated absences	61,884	-	71,103	132,987
Total other postemployment benefits liability	987,775	-	126,064	1,113,839
Lease liability	483,745	-	-	483,745
Installment purchases and notes payable	7,888,939	-	-	7,888,939
General obligation bonds payable	7,096,476	-	-	7,096,476
Revenue bond payable	8,821,074	-	-	8,821,074
Total noncurrent liabilities	28,487,712	-	3,789,025	32,276,737
Total liabilities	38,266,813	11,700	4,148,232	42,426,745
Deferred Inflows of Resources				
Pension deferrals - LGERS	43,554	-	5,565	49,119
Leases	267,683	-	-	267,683
Other post employment benefit deferrals	96,172	-	12,274	108,446
Total deferred inflows of resources	407,409	-	17,839	425,248
Net Position				
Net investment in capital assets	123,443,072	-	1,467,373	125,172,975
Restricted	5,593,755	-	-	5,593,755
Unrestricted	38,858,744	14,934,040	2,632,033	56,162,287
Total net position	\$ 167,895,571	\$ 14,934,040	\$ 4,099,406	\$ 186,929,017

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

TOWN OF HOLLY SPRINGS, NORTH C
Exhibit 7
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2023

	Major Funds		Non-Major Fund	
	Utility	System Development	Stormwater Management	
	Fund	Fee Fund	Fund	Total
Operating revenues:				
Charges for services	\$ 18,512,579	\$ -	\$ 1,571,841	\$ 20,084,420
Water and sewer tap fees	147,150	-	-	147,150
Other operating revenues	3,382,594	8,708,967	-	12,091,561
Total operating revenues	22,042,323	8,708,967	1,571,841	32,323,131
Operating expenses:				
Water and sewer administration	5,534,594	-	-	5,534,594
Wastewater administration and collection	2,994,015	-	-	2,994,015
Water treatment and distribution	8,363,764	-	-	8,363,764
Stormwater management	-	-	1,097,767	1,097,767
Depreciation and amortization	4,796,221	-	57,863	4,854,084
Total operating expenses	21,688,593	-	1,155,630	22,844,223
Operating income	353,730	8,708,967	416,211	9,478,908
Nonoperating revenues (expenses):				
Investment earnings	804,224	161,706	105,877	1,071,807
Interest expense	(696,524)	-	-	(696,524)
Capital grants	5,940,111	-	-	5,940,111
Total nonoperating revenues (expenses)	6,047,811	161,706	105,877	6,315,394
Income before transfers and capital contributions	6,401,541	8,870,673	522,088	15,794,302
Transfers from other funds	29,305,525	200,000	-	29,505,525
Transfers to other funds	(26,253,657)	(3,224,713)	(400,000)	(29,878,370)
Capital asset contributions	3,386,848	-	-	3,386,848
Total transfers and capital contributions	6,438,716	(3,024,713)	(400,000)	3,014,003
Change in net position	12,840,257	5,845,960	122,088	18,808,305
Net position, beginning of year	155,055,314	9,088,080	3,977,318	168,120,712
Net position, end of year	\$ 167,895,571	\$ 14,934,040	\$ 4,099,406	\$ 186,929,017

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS

Exhibit 8

YEAR ENDED JUNE 30, 2023

	Utility Fund	System Development Fee Fund	Stormwater Management Fund	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 21,868,358	\$ 8,708,967	\$ 1,558,508	\$ 32,135,833
Cash paid for goods and services	(13,728,288)	(600,740)	613,547	(13,715,481)
Cash paid to employees for services	(5,794,030)	-	(890,482)	(6,684,512)
Customer deposits paid	(747,050)	-	(158,017)	(905,067)
Net cash provided by operating activities	1,598,990	8,108,227	1,123,556	10,830,773
Cash flows from noncapital financing activities:				
Bond refunding		-		-
Net cash provided by (used by) noncapital financing activities	-	-	-	-
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(20,705,618)	-	(66,373)	(20,771,991)
Principal paid on bond maturities and equipment notes	(3,591,736)	-	-	(3,591,736)
Interest paid on bond maturities and equipment notes	(657,898)	-	-	(657,898)
Federal and State grant proceeds	5,940,111	-	-	5,940,111
Transfer to/from other funds	10,574,271	(3,224,713)	(399,271)	6,950,287
Other financing transactions		-	-	-
Net cash provided by (used by) capital and related financing activities	(8,440,870)	(3,224,713)	(465,644)	(12,131,227)
Cash flows from investing activities:				
Lease revenue	(470)	-	-	(470)
Interest on investments	804,224	161,706	105,877	1,071,807
Net cash provided by investing activities	803,754	161,706	105,877	1,071,337
Net increase (decrease) in cash and cash equivalents	(6,038,126)	5,045,220	763,789	(229,117)
Cash and cash equivalents:				
Beginning of year	55,509,949	9,700,520	5,530,017	70,740,486
End of year	\$ 49,471,823	\$ 14,745,740	\$ 6,293,806	\$ 70,511,369

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS

Exhibit 8

YEAR ENDED JUNE 30, 2023

	Utility Fund	System Development Fee Fund	Stormwater Management Fund	Totals
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 353,730	\$ 8,708,967	\$ 416,211	9,478,908
Adjustments to reconcile operating income to to net cash provided by operating activities				
Depreciation and amortization	4,796,221		57,863	4,854,084
Changes in assets, deferred outflows and inflows of resources, and liabilities:				
Accounts receivable	(173,965)	-	(13,333)	(187,298)
Deferred outflows for pensions	(1,115,086)	-	(90,414)	(1,205,500)
Prepaid assets	(48,547)			(48,547)
Deferred outflows of resources - OPEB	8,532	-	10,697	19,229
Pension liability	2,536,301	-	225,841	2,762,142
Accounts payable and accrued liabilities	(2,785,267)	(600,740)	742,451	(2,643,556)
Salaries payable	(95,515)	-	(4,307)	(99,822)
Accrued compensated absences	8,980	-	30,212	39,192
Deferred inflows of resources - pensions	(1,171,806)	-	(120,303)	(1,292,109)
Deferred inflows resources - OPEB	2,098	-	(963)	1,135
Other postemployment liability	30,364	-	27,618	57,982
Deposits	(747,050)	-	(158,017)	(905,067)
Total adjustments	1,245,260	(600,740)	707,345	1,351,865
Net cash provided by operating activities	<u>\$ 1,598,990</u>	<u>\$ 8,108,227</u>	<u>\$ 1,123,556</u>	<u>\$ 10,830,773</u>
Noncash investing, capital, and financial activities				
Contributions of capital assets from developers	3,386,848	-	-	3,386,848
	<u>\$ 3,386,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,386,848</u>

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND

Exhibit 9

JUNE 30, 2023

	OPEB Trust Fund
ASSETS:	
Cash and cash equivalents	\$ 801,434
NET POSITION:	
Net position restricted for postemployment benefits other than pensions	\$ 801,434

The notes to the financial statements are an integral part of this statement.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA**Exhibit 10****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FIDUCIARY FUND***YEAR ENDED JUNE 30, 2023*

	OPEB Trust Fund
	<hr/>
ADDITIONS:	
Employer contributions	\$ 150,000
Investment income	102,275
Total additions	<hr/> 252,275 <hr/>
DEDUCTIONS:	
Benefits	<hr/> -
Total deductions	<hr/> - <hr/>
Change in net position	252,275
Net position - beginning	549,159
Net position - ending	<hr/> \$ 801,434 <hr/>

The notes to the financial statements are an integral part of this statement.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies

The accounting policies of the Town of Holly Springs (the “Town”) 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 Holly Springs is a municipal corporation of the State of North Carolina in Wake County that is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the Town.

B. Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental and business-type activities* of the Town.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Town’s funds, including its fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor 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.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

The Town reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, parks and recreation, public works and economic and physical development.

Debt Service Fund – The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on debt of governmental activities.

Street and Sidewalks Projects Fund – The Street and Sidewalks Projects Fund is comprised of the following two sub funds: Street and Sidewalks Projects Fund and Street Reserve Fund and accounts for financial resources to be used for the acquisition or construction of major capital streets and sidewalks.

Parks and Recreation Projects Fund – The Parks and Recreation Projects Fund is comprised of the following two sub funds: Parks and Recreation Projects Fund and Park Reserve Fund and accounts for financial resources to be used for the acquisition or construction of major capital park facilities.

The Town reports the following nonmajor governmental funds:

Special Revenue Funds – Special Revenue Funds account for specific revenue sources that are set aside for specified purposes. The Town has two nonmajor special revenue funds: Emergency Telephone System Fund and Grants Fund.

Project Funds – The Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Town has one nonmajor project fund, the Town Building Projects Fund.

The Town reports the following major proprietary funds:

Utility Fund – This fund is used to account for the Town's water and wastewater operations. The fund is comprised of the following sub funds: Utility Fund, Water Reserve Fund, Wastewater Reserve Fund, Water Projects Fund, Wastewater Projects Fund, Utility PayGo Fund and the Utility Debt Service Fund. These funds have been consolidated in the Utility Fund for financial reporting purposes.

System Development Fee Fund – This fund is used to account for system development fees on new development to fund certain capital costs.

The Town reports the following nonmajor proprietary funds:

Stormwater Management Fund – This fund is used to account for the Town's stormwater management operations.

The Town reports the following fiduciary fund:

OPEB Trust Fund – This fund is used to report resources that are required to be held in trust for the purpose of paying postemployment benefits, other than pensions, for which the Town is liable.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and 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 enterprise funds 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 system. Operating expenses for enterprise funds 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 revenue because the amount is not susceptible to accrual. At June 30, 2023, 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. 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, 2023 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Sales taxes and certain intergovernmental revenues collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Wake County and then remitted to and distributed by the State. Certain intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, 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, Debt Service Fund, and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances and multi-year budgets are adopted for the Special Revenue Funds, the Projects Funds, and the Enterprise Projects Funds, which are consolidated with the enterprise operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. In accordance with North Carolina General Statutes, expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. Budget control is executed at the department level or by project. The Town Manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund without limitation and may transfer appropriations up to \$50,000 between financial areas within a fund with an official reporting to the Town Council. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance is adopted.

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

1. Deposits and Investments

All deposits of the Town are made in 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 and loan association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

1. Deposits and Investments (continued)

General Statute 159-30.1 allows the Town to establish and fund an irrevocable trust for the purpose of paying other post-employment benefits (OPEB) for which the Town is liable. The Town OPEB Trust is managed by the staff of the Department of the State Treasurer and operated in accordance with state laws and regulations. The OPEB Trust is not registered with the SEC. G.S. 159-30(g) allows the Town to make contributions to the OPEB Trust. The State Treasurer in his discretion may invest the proceeds in equities of certain publicly held companies and long or short-term fixed income investments as detailed in G.S. 147-69.2(b) (1-6) and (8). Funds submitted are held in the State Treasurer's Short-Term Investment Fund ("STIF"). Allowable STIF investments are detailed in G.S. 147-69.3(b)(8).

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost.

NCCMT, a SEC-registered fund, is authorized by G.S. 159-30(c)(8). The Government Portfolio, is a 2a7 fund which invests in treasuries and government agencies and is rated AAAM by S&P. The government portfolio is reported at fair value.

Ownership of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. STIF investments are valued by the custodian using Level 2 inputs which in this case involves inputs—other than quoted prices—included within Level 1 that are either directly or indirectly observable for the asset or liability. The STIF is valued at \$1 per share. The STIF portfolio is unrated and had a weighted average maturity at June 30, 2023 of .7 years. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to participants of the fund. The Bond Index Fund (BIF) does not have a credit rating, is valued at \$1 per unit and has an average maturity of 8.70 years on June 30, 2023. BlackRock's MSCI ACWI EQ Index Lon-Lendable Class B Fund is a common trust fund considered to be commingled in nature. The Fund's fair value is the number of shares times the net asset value as determined by a third party. On June 30, 2023, the fair value of the funds was \$31.82 per share. Fair value for this BlackRock Fund is determined using Level 1 inputs.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

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

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

3. Restricted Assets

Public safety funds derived from forfeiture funds are classified as restricted cash of the Governmental Activities, as well as Public Safety donations to be used for community outreach and Telephone System upgrades. Required bond and installment purchase contract reserves are also maintained as restricted cash. Powell Bill funds are also classified as restricted cash because they can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through G.S. 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Governmental Activities:		Business-Type Activities:	
General Fund		Utility Fund	
Customer Deposits	\$ 4,186,679	Customer Deposits	\$ 1,524,425
General Government Projects	3,610,716	Grants - Advance Funding	
Development Services	479,351	- Golden Leaf	100,725
Public Safety	344,518		
Public Works	1,000,413	Utility Debt Service Fund	3,968,605
Streets	2,435,944		
Other Major Governmental Funds:		Stormwater Fund	
Debt Service Fund	11,853,686	Customer Deposits	328,457
Streets and Sidewalks	13,000,786	Stormwater Facility Replacement	
Parks and Recreation	3,283,788	Fund (SFRF)	2,131,824
		Developer Fees	1,057,849
Non-Major Governmental Funds:		Total Business-Type Activities	9,111,885
Parks and Recreation	35,712	Total Restricted Cash	\$ 54,297,551
Development Services	1,441,453		
Public Safety	1,046,618		
Economic Development	211,769		
Town building	2,254,233		
Total Governmental Activities	\$ 45,185,666		

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, 2020.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount for ad valorem taxes receivable is estimated by analyzing the percentage of receivables that were written off in prior years. The allowance for customer accounts receivable is estimate of the amounts of accounts receivable that have not been written off that excess 120 days. The direct write off method is used by the Town on all other types of receivables. Under this method, all accounts considered uncollectable at June 30th have been charged against operations.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

6. Lease Receivable

The Town's lease receivable is measured at present value of lease payments expected to be received during the lease term. Under the lease agreements, the Town may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is recognized on a straight-line basis over the term of the lease.

7. Prepaid Items

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

8. Capital Assets

Capital assets are defined by the Town as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General government infrastructure assets (road network) acquired prior to July 1, 2003 have not been capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15 to 40 years
Operating plants	40 years
Buildings and improvements	40 years
Equipment and furniture	5 to 10 years
Vehicles and motorized equipment	5 to 10 years
Intangible assets	40 years

Right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any payments made prior to the lease term, less incentives, and plus ancillary charges necessary to place the asset into service. The right to use assets are amortized on a straight-line basis over the life of the related arrangement.

The Town has recorded subscription-based information technology arrangements ("SBITAs") assets and liabilities as a result of implementing GASB 96. The SBITA assets are initially measured at an amount equal to the initial measurement of the related SBITA liability plus any SBITA payments made prior to the subscription term, less SBITA incentives, and plus any ancillary charges necessary to place the SBITA into service. The SBITA assets are amortized on a straight-line basis over the life of the related contract. SBITAs which are based on variable payments (or user seats) are not recorded as subscription assets or liabilities and are expenses as incurred.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial element, *Deferred Outflows of Resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has three items that meet this criterion, Local Governmental Employees' Retirement System ("LGERS") pension deferrals, Law Enforcement Officers' Special Separation Allowance ("LEOSSA") pension deferrals, and OPEB deferrals. In addition to liabilities, the financial statements 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 assets that applies to a future period and so will not be recognized as revenue until then. The Town reports several items that meet this criterion, prepaid taxes, unavailable revenue, deferrals of LGERS pension expense, deferrals of LEOSSA pension expense, OPEB deferrals, and leases. Additionally, on the governmental fund's balance sheet, the Town has other unavailable revenues in deferred inflows of resources.

10. Long-Term Obligations

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

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

11. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town also allows employees to accrue compensatory time for hours worked in excess of a regular workweek. Non-exempt employees may accumulate up to 40 hours of this time and then use it at a later date in lieu of using vacation time or they will be paid for these hours when leaving the Town's employment. Exempt employees may accumulate compensatory time up to a maximum of 24 hours and use this in lieu of vacation. Exempt employees lose any time accumulated over 24 hours and are not paid for accumulated compensatory time upon leaving service.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

11. Compensated Absences (continued)

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

12. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Prepaid Items – The portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, which are not spendable resources.

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

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of 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 1930s 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.*

RSS is reduced by prepaids as they are classified as nonspendable. 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 statement of net position and the balance sheet.

Restricted for General Government – Portion of fund balance that is restricted for use in the general operations of the government.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

12. Net Position/Fund Balances (continued)

Restricted for Economic Development – Portion of fund balance received from developer's to be maintained until the completion of the related projects.

Restricted for Inspections (HB 255) – Portion of fund balance that is RSS [G.S. 160A-414].

Restricted for Public Safety – Portion of fund balance that is restricted by revenue source for unspent drug forfeiture funds, and certain emergency telephone system expenditures.

Restricted for Parks and Recreation – Portion of fund balance restricted by revenue source for parks and recreation projects.

Restricted for Streets and Sidewalk Improvements – Portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures and projects. This amount represents the balance of the total unexpended Powell Bill funds and unspent bond proceeds.

Committed Fund Balance – Portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Holly Springs' governing body (highest level of decision-making authority).

Committed for Public Safety – LEOSSA – Portion of fund balance that will be used for the Law Enforcement Officers' Special Separation Allowance obligations.

Committed for PayGo – Portion of fund balance that will be used to fund future capital investments.

Assigned Fund Balance – Portion of fund balance that the Town intends to use for a specific purpose.

Assigned for Debt Service – Portion of fund balance that will be used for future payment of debt service requirements. By approval of the budget of the Debt Service Fund, the Town Council has assigned this amount to the purpose of the Debt Service Fund.

Unassigned Fund Balance – Portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The general fund is the only fund that reports a positive unassigned fund balance. In governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. 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. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

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

12. Net Position/Fund Balances (continued)

The Town of Holly Springs has adopted a minimum fund balance policy for the General Fund which states that the unassigned fund balance shall be no less than 20% of total budgeted operating expenditures. Amounts beyond 20% may be used for one-time use. The Town Council may appropriate available fund balance below the 20% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the Town. In such circumstances, Council will adopt a plan to restore the available fund balance to the policy level within 36 months from the date of the appropriation. If the restoration cannot be accomplished within such time period without severe hardship to the Town, then Council will establish a different but appropriate time period.

13. Defined Benefit Postemployment Plans

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System ("LGERS") and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Employer contributions are determined and paid annually based on actuarial recommendations.

F. Pronouncements Implemented in the Current Year

The Town implemented Governmental Accounting Standards Board ("GASB") Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The implementation of this Statement had no impact on the Town's reporting in the current year.

The Town implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to the public-private and public-public partnership arrangements (PPPs). The implementation of this Statement had no impact on the Town's reporting in the current year.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Nature of operations and summary of significant accounting policies (continued)

F. Pronouncements Implemented in the Current Year (continued)

The Town implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. As part of implementing the statement, the Town performed a comprehensive review of its SBITAs and applied the criteria within the guidance. As a result, beginning net position was not affected.

The Town implemented GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The implementation of this Statement had no impact on the Town's reporting in the current year

Note 2—Deposits and investments

All of the Town's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. 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 the Town's 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, and 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 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.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Deposits and investments (continued)

At June 30, 2023, the Town's deposits had a carrying amount of \$89,845,471, including \$801,434 reported in a custodial fund, and a bank balance of \$90,306,266. Of the bank balance, \$2,000,000 was covered by federal depository insurance and the remainder was covered by collateral under the Pooling Method. At June 30, 2023, the Town's petty cash funds totaled \$2,150.

At June 30, 2023, the Town investment balances were as follows:

Investment Type	Valuation Measurement Method	Maturities					Rating
		Book Value at 06/30/2023	Less Than 1 Year	Maturities 1 to 2 Years	Maturities 2 to 3 Years	Maturities 3+ Years	
US Government Agenices	Fair Value - Level 1	\$ 9,529,314	\$ 9,529,314	\$ -	\$ -	\$ -	A1
NCCMT - Government Portfolio	Amortized Cost	63,452,651	63,452,651	-	-	-	AAAm
Totals		\$ 72,981,965	\$ 72,981,965	\$ -	\$ -	\$ -	

As of June 30, 2023, the NCCMT Term Portfolio had a weighted average maturity of less than 90 days, and is therefore presented as an investment with a maturity of less than 6 months. The NCCMT Government Portfolio has an AAAm rating from S&P.

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.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2: Debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Town has internal management procedures that limits the Town's investments to the provisions of G.S. 159 and restricts the purchase of securities to those rated no lower than "AAA", and commercial paper meeting the requirements of G.S. 159 plus having a national bond rating. The Town's policy stipulates that investments will be diversified to eliminate the risk of loss as a result of over concentration of securities in a specific issuer, class of securities, or maturity sector.

At June 30, 2023, the Town's OPEB Trust Fund had \$801,434 invested in the Ancillary Governmental Participants Investment Program ("AGPIP"), established by the Treasurer of the State of North Carolina. The AGPIP may invest in public equities and both long-term and short-term fixed income obligations as determined by the State Treasurer pursuant to the General Statutes. At year-end, the AGPIP was invested as follows: 22% in the State Treasurer's STIF, 13% in the State Treasurer's BIF, and 65% in BlackRock's MSCI ACWI EQ Index Non- Lendable Class B Fund.

Interest Rate Risk: The Town does not have a formal investment interest rate policy that manages its exposure to fair value losses arising from increasing interest rates. The State Treasurer's STIF is unrated and had a weighted average maturity of .7 years at June 30, 2023.

Credit Risk: The Town does not have a formal investment policy regarding credit risk for the OPEB Trust Fund. The STIF is unrated and authorized under NC General Statute 147-69.1. The State Treasurer's STIF is invested in highly liquid fixed income securities consisting primarily of short to intermediate term treasuries, agencies, and money market instruments.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 3—Receivables

The amounts presented in the balance sheet and the statement of net position are net of the following allowances for doubtful accounts at June 30, 2023:

	Accounts Receivable	Taxes Receivable	Total
General Fund	\$ 50,787	\$ 120,908	\$ 171,695
Debt Service Fund	-	49,385	49,385
Utility Fund	355,472	-	355,472
Stormwater Fund	83,801	-	83,801
	<u>\$ 490,060</u>	<u>\$ 170,293</u>	<u>\$ 660,353</u>

The Town entered certain leasing arrangements as lessor for the use of office space, a cell tower, a stadium, and athletic fields to certain unrelated parties that expire between 2023 through 2025 with options to extend. The Town receives fixed payments that are discounted to present value based on rates that vary from 0.7268% - 0.8927%. As of June 30, 2023, the Town's receivable for the lease payments was \$295,200. Also, the Town has deferred inflow of resources associated with these leases that will be recognized over the lease terms. As of June 30, 2023, the balance of the deferred inflow of resources was \$267,683.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 4—Capital assets

Capital asset activity for the year ended June 30, 2023 was as follows:

GOVERNMENTAL ACTIVITIES	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets not being depreciated:				
Land	\$ 33,075,711	\$ 3,268,787	\$ -	\$ 36,344,498
Construction in progress	18,154,695	16,366,198	(1,014,909)	33,505,984
Total capital assets not being depreciated	51,230,406	19,634,985	(1,014,909)	69,850,482
Capital assets being depreciated:				
Infrastructure	94,862,823	7,636,640	-	102,499,463
Buildings	32,010,343	357,880	-	32,368,223
Improvements	22,536,688	-	-	22,536,688
Equipment and furniture	9,407,258	285,069	(5,131)	9,687,196
Vehicles and motorized equipment	13,106,781	941,295	(627,055)	13,421,021
Right of use - software subscription	-	102,885	-	102,885
Right of use - buildings	159,567	-	-	159,567
Right to use - equipment	143,157	-	-	143,157
Total capital assets being depreciated	172,226,617	9,323,769	(632,186)	180,918,200
Less accumulated depreciation and amortization for:				
Infrastructure	26,070,455	3,097,481	-	29,167,936
Buildings	8,159,729	813,115	-	8,972,844
Improvements	7,132,729	1,067,593	-	8,200,322
Equipment and furniture	7,750,212	603,009	-	8,353,221
Vehicles and motorized equipment	7,039,204	1,329,418	(627,055)	7,741,567
Right of use - software subscription	-	33,955	-	33,955
Right of use - buildings	43,518	43,518	-	87,036
Right to use - equipment	55,418	48,722	-	104,140
Total accumulated depreciation and amortization	56,251,265	\$ 7,036,811	\$ (627,055)	62,661,021
Total capital assets being depreciated, net	115,975,352			118,257,179
Governmental activity capital assets, net	\$ 167,205,758			\$ 188,107,661

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

General government	\$ 417,428
Public safety	1,203,000
Public works	2,892,626
Economic development	519,225
Right of use - leased assets	92,240
Culture and recreational	1,912,292
Total	<u>\$ 7,036,811</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 4—Capital assets (continued)

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
BUSINESS-TYPE ACTIVITIES				
UTILITY:				
Capital assets not being depreciated:				
Land	\$ 168,895	\$ -	\$ -	\$ 168,895
Construction in progress	8,992,153	18,676,296	(365,555)	27,302,894
Total capital assets not being depreciated	9,161,048	-	(365,555)	27,471,789
Capital assets being depreciated and amortized:				
Operating plants	164,886,459	5,325,410	-	170,211,869
Buildings	204,461	-	-	204,461
Land improvements	7,240	-	-	7,240
Equipment and furniture	2,210,097	-	-	2,210,097
Vehicles and motorized equipment	2,462,370	445,679	(349,248)	2,558,800
Intangible assets - water rights	7,634,204	-	-	7,634,204
Right of use - software subscription	-	10,636	-	10,636
Right of use - equipment	514,682	-	-	514,682
Total capital assets being depreciated	177,919,513	5,781,725	(349,248)	183,351,990
Less accumulated depreciation and amortization for:				
Operating plants	47,322,987	4,201,393	-	51,524,380
Buildings	92,859	5,112	-	97,971
Land improvements	7,240	-	-	7,240
Equipment and furniture	1,779,210	147,189	-	1,926,399
Vehicles and motorized equipment	1,518,429	248,241	(349,248)	1,417,422
Intangible assets - water rights	4,477,082	168,958	-	4,646,040
Right of use - software subscription	-	6,946	-	6,946
Right of use - equipment	18,382	18,382	-	36,764
Total accumulated depreciation	55,216,189	4,796,221	(349,248)	59,663,162
Total capital assets being depreciated, net	122,703,324			123,688,828
STORMWATER:				
Capital assets being depreciated:				
Infrastructure	1,477,182	-	-	1,477,182
Vehicles and motorized equipment	65,499	66,373	-	131,872
Total capital assets being depreciated	1,542,681	66,373	-	1,609,054
Less Accumulated Depreciation for:				
Infrastructure	54,459	46,918	-	101,377
Vehicles and motorized equipment	29,359	10,945	-	40,304
Total accumulated depreciation	83,818	57,863	-	141,681
Total capital assets being depreciated, net	1,458,863			1,467,373
Business-Type Activities Capital Assets, Net	\$ 133,323,235			\$ 152,627,990

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations

a. Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly

Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by G.S. 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town contractually required contribution rate for the year ended June 30, 2023 was 13.04% of compensation for LEOs and 12.10% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$3,403,077 for the year ended June 30, 2023.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023 the Town reported a liability of \$17,395,343 for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2022, the Town's proportion was 0.308%, which was an increase of 0.00335% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023 the Town recognized pension expense of \$4,910,911. At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 749,550	\$ 73,489
Changes of assumptions	1,735,665	-
Net difference between projected and actual earnings on pension plan investments	5,749,343	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	71,642	167,197
Town contributions subsequent to the measurement date	3,402,930	-
Total	<u>\$ 11,709,130</u>	<u>\$ 240,686</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

Town contributions of \$3,403,077 made subsequent to the measurement date and reported as deferred outflows of resources will be recognized as a decrease of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30:</u>	
2024	\$ 2,544,694
2025	2,186,241
2026	595,485
2027	2,739,094
	<u>\$ 8,065,514</u>

Actuarial Assumptions. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases, including wage inflation	3.25% to 8.25%, including inflation and productivity factor
Investment rate of return	6.5%, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S.

Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.00%	1.10%
Global Equity	42.00%	6.50%
Real Estate	8.00%	5.90%
Alternatives	8.00%	7.50%
Opportunistic Fixed Income	7.00%	5.00%
Inflation Sensitive	6.00%	2.70%
Total	100.00%	

The information above is based on 30-year expectations developed with the consulting actuary for the asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 6.5%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate:

	1 % Decrease (5.5%)	Discount Rate (6.5%)	1 % Increase (7.5%)
Town's proportionate share of the net pension liability (asset)	\$ 31,396,354	\$ 17,395,343	\$ 5,857,697

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ACFR for the state of North Carolina.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description*

The Town administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefits provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2021 the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Active members	69
Total	<u>73</u>

2. *Summary of Significant Accounting Policies*

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust.

3. *Actuarial Assumptions*

The entry age normal actuarial cost method was used in the December 31, 2021 valuation. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 7.75%, including inflation and productivity factor
Discount	4.31%

The discount rate is based on the S&P Municipal Bond 20-Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ended December 31, 2019.

Deaths After Retirement (Healthy): Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

Deaths After Retirement (Disabled): Mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

Deaths Before Retirement: Mortality rates are based on the Safety Mortality Table for Employees.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

4. *Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations in made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$87,365 as benefits came due for the reporting period.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the Town reported a total pension liability of \$2,996,477. The total pension liability was measured as of December 31, 2022 based on a December 31, 2021 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2022 utilizing update procedures incorporating actuarial assumptions. For the year ended June 30, 2023, the Town recognized pension expense of \$365,748.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 288,742	\$ 42,414
Changes of assumptions	644,716	638,021
Benefit payments and administrative expenses subsequent to the measurement date	47,654	-
Total	<u>\$ 981,112</u>	<u>\$ 680,435</u>

The Town paid \$47,654 in benefit payments subsequent to the measurement date that are reported as deferred outflows of resources related to pensions which will be recognized as a decrease of the total pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30:</u>	
2024	\$ 99,951
2025	89,597
2026	102,975
2027	66,535
2028	(18,476)
Thereafter	(87,559)
	<u>\$ 253,023</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

4. *Contributions (continued)*

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following represents the Town's total pension liability calculated using the discount rate of 4.31%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.31%) or 1-percentage-point higher (5.31%) than the current rate:

	1 % Decrease (3.31%)	Discount Rate (4.31%)	1 % Increase (5.31%)
Total pension liability	\$ 3,285,485	\$ 2,996,477	\$ 2,734,284

The changes in total pension liability for the separation allowance is as follows:

Beginning Balance	\$ 3,461,719
Changes for the year:	
Service cost	192,611
Interest on the total pension liability	76,816
Change in benefit terms	-
Difference between expected and actual	(12,873)
Changes of assumptions or other inputs	(626,489)
Benefit payments	(95,307)
Other charges	-
Net changes	(465,242)
Ending balance of the total pension liability	<u>\$ 2,996,477</u>

Changes of assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 2.25% at December 31, 2021 (measurement date) to 4.31% at December 31, 2022 (measurement date).

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

4. *Contributions (continued)*

Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 4,910,911	\$ 365,748	\$ 5,276,659
Pension Liability	17,395,343	2,996,477	20,391,820
Proportionate share of the net pension liability	0.30800%	n/a	n/a
Deferred Outflows of Resources			
Differences between expected and actual experience	749,550	288,742	1,038,292
Changes of assumptions	1,735,665	644,716	2,380,381
Net difference between projected and actual earnings on plan investments	5,749,343	-	5,749,343
Changes in proportion and differences between contributions and proportionate share of contributions	71,642	-	71,642
Benefit payments and administrative costs paid subsequent to the measurement date	3,402,930	47,654	3,450,584
Deferred Inflows of Resources			
Differences between expected and actual experience	73,489	42,414	115,903
Changes of assumptions	-	638,021	638,021
Changes in proportion and differences between contributions and proportionate share of contributions	167,197	-	167,197

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers and Other Employees

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

The Town has also elected to have employees not engaged in law enforcement to participate in the Supplemental Retirement Income Plan.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2023 were \$2,456,664, which consisted of \$1,339,262 from the Town, \$185,831 from the law enforcement officers and \$931,571 from other Town employees.

d. Other Postemployment Benefits ("OPEB")

Plan Description:

Under the terms of a Town resolution, the Town administers a single-employer defined benefit OPEB Trust (the OPEB Trust Plan). This plan provides postemployment healthcare benefits to retirees of the Town before the age of 65 and qualify for unreduced benefits under the provisions set forth in the North Carolina Local Government Employees' Retirement System (NCLGERS) may be eligible to continue group health insurance.

Benefits Provided:

For employees hired on or before June 30, 2023 the Town will contribute toward the cost of group health insurance premiums up to the base plan only based on the years of service at retirement using the following schedule:

Years of Service at Retirement	Percent of Premium Paid by the Town
30 years	100%
25 - 29 years	75%
20 - 24 years	50%
0 - 19 years	0%

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

d. Other Postemployment Benefits (“OPEB”) (continued)

Effective July 1, 2022 newly hired employees are not eligible for other postemployment benefits.

Coverage will continue until the retiree reaches age 65, at which time group health insurance benefits will end. Retirees not meeting the criteria listed in the above table are not eligible to stay on the plan.

Membership of the OPEB Trust Plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Inactive members currently receiving benefits	12
Active members	328
Total	<u>340</u>

Investments

Investment Policy. The OPEB Trust Plan’s policy in regard to the allocation of invested assets is established and may be amended by the Town Council by a majority vote of its members. Investments are valued at fair value. The Plan’s asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2023:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Short-term Investment Fund	100%	3.50%

Rate of Return. For the year ended June 30, 2023, the annualized rate of return on investments, net of investment expense, was 3.63%. The rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The components of the net OPEB liability of the Town at June 30, 2023 were as follows:

Total OPEB liability	\$ 6,258,755
Plan fiduciary net position	<u>801,434</u>
Net OPEB liability	<u>\$ 5,457,321</u>

Plan fiduciary net position as a percentage of the total OPEB liability	12.81%
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Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	0.75%
Wage inflation	3.25%
Salary, increases, including wage inflation	3.25% to 8.41%
Municipal Bond Index Rate	
Prior measurement date	3.54%
Measurement date	3.65%
Health Care Cost Trends	
Pre-Medicare	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

d. Other Postemployment Benefits (“OPEB”) (continued)

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 2019, adopted by the LGERS Board. The remaining actuarial assumptions (e.g. health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience performed concurrently with the June 30, 2021 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed. Best estimates of the rate of return as of June 30 is presented above.

Discount Rate. The discount rate used to measure the total OPEB liability at June 30, 2023 was 3.63% which was a change from the discount rate of 3.54% at June 30, 2022. Because the OPEB plan’s fiduciary net position was not projected to be sufficient to make all future benefit payments, the discount rate incorporates a Municipal Bond Index Rate (the General Obligation 20-year Municipal Bond Rate), which was 3.65% at June 30, 2023. As of June 30, 2022, the Municipal Bond Index Rate was 3.54%.

Sensitivity of the net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the Town, as well as what the Town’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.63%) or 1-percentage-point higher (4.63%) than the current discount rate:

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Net OPEB liability	\$ 6,245,374	\$ 5,457,321	\$ 4,762,911

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability of the Town, as well as what the Town’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	\$ 4,492,971	\$ 5,457,321	\$ 6,635,073

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

d. Other Postemployment Benefits (“OPEB”) (continued)

Changes in Net OPEB Liability, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2023, the Town reported a net OPEB liability of \$5,457,321. The net OPEB liability was determined by an actuarial valuation as of June 30, 2021.

At June 30, 2023, the components of the net OPEB liability of the Town, measured as of June 30, 2023, were as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2022	\$ 5,846,849	\$ 549,159	\$ 5,297,690
Changes for the year:			
Service cost	369,684	-	369,684
Interest	205,225	-	205,225
Difference between expected and actual experience	3,884	-	3,884
Changes of assumptions	(66,944)	-	(66,944)
Contributions - employer	-	249,943	(249,943)
Net investment income	-	102,275	(102,275)
Benefits payments	(99,943)	(99,943)	-
Net change	411,906	252,275	159,631
Balance at June 30, 2023	\$ 6,258,755	\$ 801,434	\$ 5,457,321

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.54% in 2022 to 3.63% in 2023.

For the year ended June 30, 2023, the Town recognized OPEB expense of \$567,185. At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 225,797	\$ 44,616
Changes of assumptions	365,774	486,720
Net difference between projected and actual earnings on plan investments	14,496	-
Total	\$ 606,067	\$ 531,336

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5—Postemployment plan obligations (continued)

d. Other Postemployment Benefits (“OPEB”) (continued)

Amount reported as deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

<u>Years Ended June 30:</u>	
2024	\$ 14,098
2025	14,096
2026	20,872
2027	17,978
2028	43,873
Thereafter	(36,186)
	<u>\$ 74,731</u>

e. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees’ Retirement System (Death Benefit Plan), a multiple employer, State administered cost-sharing plan funded on a one year-term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee’s 12 highest month’s salary in a row during the 24 months prior to his/her death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 6—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 \$5 million per occurrence, property coverage up to the total insured values of the property policy workers' compensation 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. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the North Carolina League of Municipalities. The pools are audited annually 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 ("NFIP"). Because portions of the Town are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to and has purchased coverage of \$500,000 per structure through the NFIP.

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 Director is individually bonded for \$1,000,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

Note 7—Claims, judgements, and contingent liabilities

At June 30, 2023, the Town was a defendant to various lawsuits. It is the opinion of the Town's management and the Town attorney, the ultimate effect of all legal matters will not have a material adverse effect on the Town's financial position.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations

a. General Obligation Indebtedness

The Town's general obligation bonds serviced by the governmental funds are accounted for as general long-term debt. The general obligation bonds issued to finance the construction of facilities utilized in the operation of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Utility Fund. All general obligation bonds were issued via a public offering, and 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 General Fund:

- | | |
|--|-------------------|
| (1) \$22,000,000 Transportation Bonds issued June 2021, for various transportation projects. The note calls for 20 installments of \$1,100,000 due annually on December 1 st through June 2041, plus interest of 1.4396%. The bond was issued with a premium of \$3,210,304 and the premium will be amortized over the life of the bond using the straight-line method. The unamortized balance of the premium at June 30, 2023 is \$2,889,273. | \$ 19,800,000 |
| (2) \$8,000,000 Parks and Recreation Bonds issued June 2021. The note calls for 20 installments of \$400,000 due annually on December 1 st through June 2041, plus interest of 1.4396%. The bond was issued with a premium of \$1,167,383 and the premium will be amortized over the life of the bond using the straight-line method. The unamortized balance of the premium at June 30, 2023 is \$1,050,645. | \$ 7,200,000 |
| (3) \$7,381,542 Parks and Recreation Refunding Bonds issued February 2022, to refund the 2012 Parks and Recreation Bonds, with 15 installments from \$243,264 to \$549,878 due annually on February 1 st through February 2037, plus interest rate of 1.551%. The bond was issued with a premium of \$1,166,645 and the premium will be amortized over the life of the bond using the straight-line method. The unamortized balance of the premium at June 30, 2023 is \$1,088,869. The refunding resulted in a net present value savings of \$817,560. | <u>6,831,665</u> |
| Total Serviced by General Fund | <u>33,831,665</u> |

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

a. General Obligation Indebtedness (continued)

Serviced by the Utility Fund:

Refunding Bonds

(4) \$7,183,458 Water and Sewer Refunding Bonds issued February 2022, to refund the 2012 Water and Sanitary Bonds and 2006 Water and Sewer refunding bonds, with 15 installments from \$239,202 to \$535,122 due annually February 1 st through February 2037, plus interest rate of 1.551%. The bond was issued with a premium of \$1,106,124 and the premium will be amortized over the life of the bond using the straight-line method. The unamortized balance of the premium at June 30, 2023 is \$1,032,382. The refunding resulted in a net present value savings of \$795,620.	<u>\$ 6,648,336</u>
Total Serviced by Utility Fund	<u>\$ 6,648,336</u>
Total Bonds	<u>\$ 40,480,000</u>

At June 30, 2023, the Town has general obligation bonds for transportation improvements authorized but unissued of \$18,000,000 and a legal debt margin of \$506,098,871.

Annual debt service requirements to maturity for bonds are as follows:

<u>Years Ending June 30:</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 2,024,538	\$ 1,210,437	\$ 510,462	\$ 258,314
2025	2,037,208	1,114,455	522,792	237,895
2026	2,047,344	1,017,967	532,656	216,983
2027	2,098,024	921,073	581,976	195,677
2028	2,110,694	822,152	594,306	172,398
2029-2033	10,512,927	2,625,069	2,932,074	496,381
2034-2038	8,500,930	949,717	974,070	48,383
2039-2041	4,500,000	180,000	-	-
	<u>\$ 33,831,665</u>	<u>\$ 8,840,870</u>	<u>\$ 6,648,336</u>	<u>\$ 1,626,031</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

b. Limited Obligation Indebtedness

The Town's limited obligation bonds serviced by the governmental funds are accounted for as general long-term debt. All limited obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

- (1) \$17,105,000 Limited Obligation Bonds, Series 2014, via a public offering, issued September 2014; interest at 4% through 2023, 5% for 2023 through 2028, 3% for 2029 through 2030, and 3.25% for 2031 through 2032; to acquire construct and improve (a) a new law enforcement center for the Town, (b) a portion of the Town's North Main Athletic Complex, and (c) certain transportation improvement, as well as to pay financing costs. The note calls for bi-annual interest payments. The bond was issued with a premium of \$1,807,653 and the premium will be amortized over the life of the bond using the straight-line method. The unamortized balance of the premium at June 30, 2023 is \$1,004,252. \$ 10,095,000
 - (2) \$18,270,000 Limited Obligation Bonds, Series 2021, via a private offering with PNC Capital Markets LLC, issued June 2021 for (a) renovations to Town Hall and (b) to acquire a tract of land in the Town for economic development. The note calls for 17 annual principal payments of \$1,075,000 beginning October 1, 2025 and plus an interest-rate of 1.7565% with 42 bi-annual interest payments beginning October 1, 2021 through October 2041. The bond was issued with a premium of \$3,342,046 and the premium will be amortized over the life of the bond using the straight-line method. The unamortized balance of the premium at June 30, 2023 is \$3,007,841. 18,270,000
- \$ 28,365,000**

Annual debt service requirements to maturity for limited obligation bonds are as follows:

<u>Years Ending June 30:</u>	Governmental Activities	
	Principal	Interest
2024	\$ 1,005,000	\$ 1,080,975
2025	2,085,000	1,030,600
2026	2,085,000	937,100
2027	2,085,000	843,600
2028	2,085,000	739,350
2029-2033	10,425,000	2,289,550
2034-2038	5,370,000	795,200
2039-2041	3,225,000	139,750
	<u>\$ 28,365,000</u>	<u>\$ 7,856,125</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

c. Installment Purchase

The Town entered into installment purchase agreements that are detailed below.

General Government Installment Purchases – Principal Balance as of June 30, 2023:

- | | |
|--|--------------|
| (1) Executed in June 2008 for the widening of the Green Oaks Parkway. The direct placement \$6,366,000 note with PNC Bank has an interest rate of 2.67% and calls for 18 annual principal payments of \$353,667 plus interest beginning June 2009. Final payment is due in fiscal year 2025-2026. The loan is secured by the assets constructed with related debt proceeds. | \$ 1,061,000 |
| (2) Executed in July 2013 for the purchase of real property to be used for constructing athletic fields. The \$2,058,939 contract with Wake County is an interest free loan payable within 10 years. The Town has paid \$253,668 to date and will make the final payment in fiscal year 2023-2024. Loan is secured by the assets purchased at time of filing the Deed of Trust. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted. | 1,805,271 |
| (3) Executed in September 2013 for the development and construction of a fiber optic network. The direct placement \$1,500,000 note with PNC Bank has an interest rate of 2.06% and calls for 10 annual principal payments of \$150,000 plus interest beginning September 2014. Final payment is due in fiscal year 2023-2024. The loan is secured by the equipment and any and all additions, accessories, repairs, replacements, substitutions, and modifications to the equipment along with any proceeds related to the foregoing. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted. | 150,000 |
| (4) Executed in September 2020, refinanced the 2009 financing agreement for the building of the Hunt Center and the completion of walking trails and a picnic shelter at Bass Lake. The direct placement \$3,070,118 note with Truist Bank has an interest rate of 1.49% and calls for 8 annual principal and interest payments beginning June 2021. Final payment is due in fiscal year 2028. The refunding resulted in a net present value savings of \$393,836. The loan is secured by the assets constructed with related debt proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted. | 1,781,090 |
| (5) Executed in October 2020 for the purchase of vehicle equipment financing. The direct placement \$1,200,000 note with JP Morgan Chase Bank has an interest rate of 1.32% and calls for 10 annual principal payments and interest payments every February and August beginning February 2021. Final payment is due in fiscal year 2031. Loan is secured by the 2020 fire truck IFC purchased with the proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted. | 972,502 |

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

c. Installment Purchase (continued)

(6) Executed in October 2020 for the purchase of vehicle equipment financing. The direct placement \$550,000 note with Truist Bank has an interest rate of 1.65% and calls for 5 annual principal and interest payments of \$115,504 beginning October 2021. Final payment is due in fiscal year 2026. Loan is secured by the solid waste vehicles and equipment assets purchased with the proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted.	335,385
(7) Executed in October 2021 for the purchase of vehicle equipment financing. The direct placement \$695,182 note with Banc of America has an interest rate of 0.6946% and calls for 4 annual principal payments from \$178,554 to \$355,257 plus interest beginning April 2022. Final payment is due in fiscal year 2026. Loan is secured by the police and public works vehicles and equipment assets purchased with the proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted.	436,747
(8) Executed in June 2022 for the purchase of vehicle equipment financing. The direct placement \$1,581,000 note with First Bank has an interest rate of 2.40% and calls for 5 annual principal payments of \$316,200 plus interest beginning October 2023. Final payment is due in fiscal year 2028. Loan is secured by the police and solid waste vehicles and equipment assets purchased with the proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted.	1,264,800
(9) Executed in June 2023 for the purchase of vehicle equipment financing. The direct placement \$460,000 note with JP Morgan Chase Bank has an interest rate of 3.97% and calls for 8 semiannual installment payments of \$62,754 beginning December 2023. Final payment is due in fiscal year 2027. Loan is secured by the vehicles and equipment assets purchased with the proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted.	<u>460,000</u>
Total General Government Installment Purchases	<u>\$ 8,266,795</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

c. Installment Purchase (continued)

Utility Fund Installment Purchases:

(1) Acceptance of a loan of \$33,534 from North Carolina Department of Environment and Natural Resources - American Recovery & Reinvestment Act funds for improvements to the water system in May 2011. The loan has an interest rate of 0% and calls for an annual principal payment of \$1,849 beginning May 2011 plus 19 annual principal payments of \$1,668 beginning May 2012. Final payment is due in fiscal year 2029-2030. The loan is secured by the revenues generated by the benefited systems.	11,673
(2) Acceptance of a loan of up to \$17,500,000 from the Clean Water State Revolving Fund to provide funding for the Utle Creek Wastewater Treatment Plant upgrade and expansion. The loan provides for interest at a rate of 2.1 %, payable semiannually, and for 20 annual principal payments of \$875,000 to begin in May 2012. Final payment is due in fiscal year 2029-2030. The loan is secured by the revenues generated by the benefited systems.	6,125,000
(3) Executed in July 2020 for the construction of Avent Ferry Force Main. The direct placement \$3,045,650 note with BB&T bank has an interest rate of 1.91% and calls for 15 annual principal payments on June 30 th , plus interest payments every March and September beginning March 2021. Final payment is due in fiscal year 2036. The loan is secured by the assets constructed with related debt proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted.	2,541,999
(4) Executed in October 2021 for the purchase of vehicle equipment financing. The direct placement \$716,068 note with Banc of America has an interest rate of 0.6946% and calls for 4 annual principal payments from \$178,554 to \$355,257 plus interest beginning April 2022. Final payment is due in fiscal year 2026. Loan is secured by the police and public works vehicles and equipment assets purchased with the proceeds. Upon default, entire outstanding balance and accrued interest are immediately due and payable and possession of any collateral is remitted.	<u>449,867</u>
Total Utility Fund Installment Purchases	<u>\$ 9,128,539</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

c. Installment Purchase (continued)

Annual debt service payments of installment purchase obligations for the years ending June 30 are as follows:

<u>Years Ending June 30:</u>	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 3,517,191	\$ 124,351	\$ 1,239,602	\$ 49,610
2025	1,556,594	89,494	1,244,394	44,818
2026	1,463,026	57,707	1,158,350	39,948
2027	899,393	26,816	1,071,437	35,949
2028	453,816	10,720	1,075,193	32,193
2029-2033	376,775	7,504	2,804,884	102,040
2034-2038	-	-	534,679	12,692
	<u>\$ 8,266,795</u>	<u>\$ 316,592</u>	<u>\$ 9,128,539</u>	<u>\$ 317,250</u>

d. Revenue Bonds

- (1) \$9,040,907 Water and Sewer Refunding Bond, Series 2020, issued July 2020, the proceeds of the bonds were used to refinance the remaining principal components of the Water and Sewer Revenue Bonds, Series 2008. The refunding resulted in a net present value savings of \$526,639. Principal and interest installments are due annually on August 12 through August 2028. Interest is at a rate of 1.38%. The loan is secured by revenues generated from the benefitted systems. \$6,425,011
- (2) \$5,242,436 Water and Sewer Refunding Bond, Series 2020, issued July 2020, the proceeds of the bonds were used to refinance the remaining principal components of the Water and Sewer Revenue Bonds, Series 2010. The refunding resulted in a net present value savings of \$812,792. Principal and interest installments of \$702,050 are due annually on July 14 through July 2028. Interest is at a rate of 1.58%. The loan is secured by revenues generated from the benefitted systems. 3,988,837
- Total Revenue Bonds \$ 10,413,848

The future payments of the revenue bonds are as follows:

<u>Years Ending June 30:</u>	Business-Type Activities	
	Principal	Interest
2024	\$ 1,592,774	\$ 151,689
2025	1,646,934	128,430
2026	1,703,288	104,405
2027	1,761,935	79,580
2028	1,822,975	53,926
2029-2033	1,885,942	27,408
	<u>\$ 10,413,848</u>	<u>\$ 545,438</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

d. Revenue Bonds (continued)

The Town has pledged future water and sewer customer revenues, net of operating expenses (Net Revenues), to repay the \$14,283,343 Water and Sewer Revenue Bond, Series 2020. Management believes the Town is in compliance with the covenants as to rates, fees, and charges for the use of water and sewer system services in such amount as to produce net revenues in each fiscal year equal to the total of 120% of debt service requirements on the Series 2020 bonds plus 100% of the debt service for all general obligation bonds, installment financing, and subordinate bonds. Principal and interest paid during the year ended June 30, 2023 were \$1,540,717 and \$174,209, respectively. The debt service coverage ratio calculation for the year ended June 30, 2023 is as follows:

Operating revenues	\$ 19,529,129
Operating expenses (less depreciation)*	(14,283,332)
Operating income	\$ 5,245,797
Non-operating revenues (expenses)**	6,881,987
Net revenues available for debt service	\$ 12,127,784
Debt service, principal and interest paid (revenue bond only)	\$ 1,714,826
Debt service coverage ratio	707%

* Per rate covenants, this does not include depreciation expense of \$4,770,891

** Per rate covenants, this does not include interest on borrowed money of expense of \$695,524

*** Non-operating revenues include \$8,708,967 of System Development Fee collected in current year

e. Leases and SBITAs

The Town executed various leases between October 25, 2018 and January 27, 2022 for equipment and a building that include fixed and variable payment components. There were no new leases in the fiscal year ended June 30, 2023. The lease liabilities are measured at a discount rate that ranges from 0.3871% to 1.3509% which are implicit in the leases. As a result of the leases, the Town recorded a right of use asset with a net book value of \$589,466 and a lease liability of \$607,623 at June 30, 2023. The right to use asset is discussed in more detail in the right to use assets section of this note.

The future lease payments as of June 30, 2023, were as follows:

Years Ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 73,984	\$ 556	\$ 10,694	\$ 3,558
2025	39,200	93	11,201	3,479
2026	-	-	11,725	3,396
2027	-	-	12,265	3,309
2028	-	-	12,824	3,218
2029 - 2033	-	-	73,145	14,575
2034 - 2038	-	-	90,069	11,622
2039 - 2043	-	-	109,884	8,004
2044 - 2048	-	-	133,056	3,608
2049 - 2053	-	-	29,576	117
	<u>\$ 113,184</u>	<u>\$ 649</u>	<u>\$ 494,439</u>	<u>\$ 54,886</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

e. Leases and SBITAs (continued)

The Town has entered into subscription-based IT arrangements for the use of certain software systems. These agreements qualify as subscription-based IT arrangements under GASB 96 and, therefore, have been recorded at the present value of the future minimum subscription payments as of the date of their inception.

The future SBITA obligations as of June 30, 2023, were as follows:

	Governmental Activities	
<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 23,599	\$ 1,096
2025	25,633	593
2026	847	44
2027	861	30
2028	877	15
	<u>\$ 51,817</u>	<u>\$ 1,778</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 8—Long-term obligations (continued)

f. Changes in General Long-Term Debt

General Fund assets have and are used to satisfy net pension obligations, other postemployment benefits, and compensated absences.

	Balance			Amounts Due		
	July 1, 2022	Increases	Decreases	June 30, 2023	Within One Year	
Governmental Activities:						
Bonds and Notes Payable:						
General obligation bonds	\$ 35,881,542	\$ -	\$ 2,049,877	\$ 33,831,665	\$ 2,024,500	
General obligation bonds - premiums on issuance	5,364,012	-	335,228	5,028,784	296,661	
Limited obligation bonds	29,375,000	-	1,010,000	28,365,000	1,005,000	
Limited obligation bonds - premium on issuance	4,279,622	-	267,528	4,012,094	267,527	
Total bonds payable	74,900,176	-	3,662,633	71,237,543	3,593,688	
Installment purchases	9,419,923	460,000	1,613,129	8,266,795	3,517,191	
Compensated absences	1,911,219	1,482,243	1,160,677	2,232,785	1,160,677	
Lease liabilities	196,729	-	83,544	113,185	73,984	
Subscription liabilities	-	92,565	40,749	51,816	23,599	
Total pension liability (LEOSSA)	3,461,719	-	465,242	2,996,477	-	
Pension obligation - LGERS	3,889,608	9,955,732	-	13,845,340	-	
Net OPEB liability	4,241,833	101,649	-	4,343,482	-	
Governmental activity long-term liabilities	98,021,207	12,092,189	7,025,974	103,087,423	8,369,139	
Business-Type Activities:						
General obligation bonds	7,183,458	-	535,122	6,648,336	510,500	
General obligation bonds - premiums on issuance	1,106,124	-	73,742	1,032,382	73,742	
Revenue bonds	11,954,565	-	1,540,717	10,413,848	1,592,774	
Installment purchases	10,560,492	-	1,431,953	9,128,539	1,239,601	
Compensated absences	382,022	327,419	288,227	421,214	288,227	
Lease liabilities	504,642	-	10,203	494,439	10,694	
Net pension liability (LGERS)	787,862	2,762,141	-	3,550,003	-	
Net OPEB liability	1,055,857	57,982	-	1,113,839	-	
Business-type activity long-term liabilities	33,535,022	\$ 3,147,542	\$ 3,879,964	32,802,600	3,715,538	
Total long-term liabilities	\$ 131,556,229			\$ 135,890,023	\$ 12,084,677	

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 9—Commitments

The Town has active construction projects as of June 30, 2023. The commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Facility Condition Assessment	\$ -	\$ 99,952
Friendship Utilities Project	21,719,422	7,918,081
Fuquay Varina Conveyance Design	611,758	1,796,754
Sanford Water Capacity Project	1,611,615	888,385
Utility Relocations for I-540	-	717,330
Bass Lake Pump Station Ph II Upgrade	139,388	108,712
Holly Springs Business Park Pump Station "FujiFilm" Upgrade	230,444	236,557
Fire Station 3	398,383	367,769
Public Works Building	678,579	163,641
Avent Ferry Road Widening Phase I	1,954,856	11,197
Avent Ferry Signal At Holly Meadow	80,335	2,565
Holly Springs Road Widening Phase I	524,232	391,515
Holly Springs Road Widening Phase II	12,024,608	18,051,373
Hwy 55 Right Turn Lane AF-S Main	128,316	74,626
Main St Sidewalk	75,143	189,025
Main Street Eastbound Right Turn Lane	2,910	1,980
Smart Cities - Intelligent Traffic Systems	30,364	3,136
Arbor Creek Greenway Phase II	928,776	4,618,253
Bass Lake Dam Spillway Phase III	36,471	64,029
Cass Holt Park	614,788	1,511,792
Utley Creek Greenway Phase II	315,548	185,084
UCWRF SCADA Upgrade		473,000
UCWRF Upgrade	271,957	653,376
UCWRF WWTP Dewatering	48,500	194,000
Totals	\$ 42,426,392	\$ 38,722,133

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. The following represents annual budget encumbrances outstanding as of June 30, 2023:

General Fund	Utility Fund	Stormwater Management
\$1,515,987	\$662,075	\$0

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 10—Transfers

Transfers to/from other funds during the year ended June 30, 2023 consist of the following:

	Transfers Out										Total Transfers In
	General Fund	Parks Reserve	Streets Reserve	Grant Fund	PayGo Fund	Utility Fund	Utility Reserve	Utility Projects	System Development Fee	Stormwater	
Transfers In:											
General Fund	\$ -	\$ 6,447,863	\$ -	\$ 153,201	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,653,201
Debt Service Fund	250,000	-	-	-	-	-	-	-	-	-	250,000
Grants & SRF	-	-	-	-	-	-	-	3,103,869	-	-	573,743
PayGo	1,902,579	19,008	-	-	-	-	-	-	-	-	1,123,689
Emergency Phone	40	-	-	-	-	-	-	-	-	-	40
Street Reserve	1,513,125	-	-	-	-	-	-	-	-	-	1,513,125
Street Improvements Project	-	-	200,000	-	165,000	-	-	-	-	-	1,978,125
Parks Recreation Reserve	-	1,799,788	-	-	-	-	-	-	-	-	5,244,651
Parks Recreation Projects	-	-	-	-	-	-	-	-	-	400,000	400,000
Utility Fund	-	-	-	-	-	-	-	-	-	-	27,155
Utility Debt Service	-	-	-	-	-	4,902,475	-	-	-	-	6,902,475
Utility Projects	-	-	-	-	-	7,459,091	7,077,099	-	3,224,713	-	17,222,772
Utility PayGo	-	-	-	-	-	-	-	-	-	-	1,442,000
System Development	-	-	-	-	-	-	-	-	-	-	200,000
Total Transfers Out	<u>\$ 3,665,744</u>	<u>\$ 8,266,659</u>	<u>\$ 200,000</u>	<u>\$ 153,201</u>	<u>\$ 165,000</u>	<u>\$ 12,361,566</u>	<u>\$ 7,077,099</u>	<u>\$ 3,103,869</u>	<u>\$ 3,224,713</u>	<u>\$ 400,000</u>	<u>\$ 40,530,976</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 provided matching funds for various grant programs.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 11—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 moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Note 12—Subsequent events

Subsequent events evaluated through November 6, 2023, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)



Prepared by the Town of Holly Springs Finance Department

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY -
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST SEVEN FISCAL YEARS

SCHEDULE 1

JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017
Beginning Balance	<u>\$ 3,461,719</u>	<u>\$ 3,105,159</u>	<u>\$ 1,983,823</u>	<u>\$ 1,555,254</u>	<u>\$ 1,566,107</u>	<u>\$ 1,348,847</u>	<u>\$ 1,267,468</u>
Service cost	192,611	199,670	104,185	93,594	88,153	73,932	80,537
Interest on total pension liability	76,816	59,287	63,999	56,283	49,468	52,065	45,249
Difference between expected and actual experience	(12,873)	(97,632)	(14,010)	224,945	(68,884)	(23,411)	-
Changes in assumptions or other inputs	(626,489)	261,842	1,008,479	71,781	(78,232)	114,674	(44,407)
Benefit payments	<u>(95,307)</u>	<u>(66,607)</u>	<u>(41,317)</u>	<u>(18,034)</u>	<u>(1,358)</u>	<u>-</u>	<u>-</u>
Net Changes	<u>(465,242)</u>	<u>356,560</u>	<u>1,121,336</u>	<u>428,569</u>	<u>(10,853)</u>	<u>217,260</u>	<u>81,379</u>
Ending Balance	<u><u>\$ 2,996,477</u></u>	<u><u>\$ 3,461,719</u></u>	<u><u>\$ 3,105,159</u></u>	<u><u>\$ 1,983,823</u></u>	<u><u>\$ 1,555,254</u></u>	<u><u>\$ 1,566,107</u></u>	<u><u>\$ 1,348,847</u></u>

Notes to the schedule:

The amounts presented for each fiscal year were determined as of the prior calendar year ended December 31.

The Town of Holly Springs has no assets accumulated in a trust fund that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

This schedule is intended to show information for ten years and additional year's information will be displayed as it becomes available.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA**SCHEDULE 2****SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL -
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST SEVEN FISCAL YEARS***JUNE 30, 2023*

	2023	2022	2021	2020	2019	2018	2017
Total pension liability	\$ 2,996,477	\$ 3,461,719	\$ 3,105,159	\$ 1,983,823	\$ 1,555,254	\$ 1,566,107	\$ 1,348,847
Covered payroll	4,500,994	4,468,997	3,850,853	3,615,000	3,163,245	2,987,214	3,042,717
Total pension liability as a							
percentage of covered payroll	66.57%	77.46%	80.64%	54.88%	49.17%	52.43%	44.33%

Notes to the schedule:

The Town of Holly Springs has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

This schedule is intended to show information for ten years and additional year's information will be displayed as it becomes available.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
SCHEDULE 3
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS -
OPEB TRUST PLAN
LAST SIX FISCAL YEARS**

JUNE 30, 2023

	2023	2022	2021	2020	2019	2018
Total OPEB Liability						
Service cost	\$ 369,684	\$ 406,230	\$ 426,651	\$ 260,102	\$ 239,830	\$ 259,351
Interest	205,225	131,129	117,824	140,401	117,478	96,288
Difference between expected and actual experience	3,884	(56,061)	736	374,329	(228)	(3,484)
Changes in assumptions	(66,944)	(392,814)	28,481	584,898	(147,518)	(241,742)
Benefit payments	(99,943)	(87,147)	(70,705)	(56,848)	(11,440)	(7,418)
Net Changes	411,906	1,337	502,987	1,302,882	198,122	102,995
Beginning balance	5,846,849	5,845,512	5,342,525	4,039,643	3,305,621	3,202,626
Ending balance	<u>\$ 6,258,755</u>	<u>\$ 5,846,849</u>	<u>\$ 5,845,512</u>	<u>\$ 5,342,525</u>	<u>\$ 3,503,743</u>	<u>\$ 3,305,621</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 249,943	\$ 87,147	\$ 95,705	\$ 671,848	\$ -	\$ -
Net investment income	102,275	(100,757)	2,827	7,089	-	-
Benefit payments	(99,943)	(87,147)	(70,705)	(56,848)	-	-
Net change in plan fiduciary net position	252,275	(100,757)	27,827	622,089	-	-
Plan fiduciary net position, beginning	549,159	649,916	622,089	-	-	-
Plan fiduciary net position, ending	<u>\$ 801,434</u>	<u>\$ 549,159</u>	<u>\$ 649,916</u>	<u>\$ 622,089</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability	\$ 5,457,321	\$ 5,297,690	\$ 5,195,596	\$ 4,720,436	\$ 3,503,743	\$ 3,305,621
Plan Fiduciary Net Position as percentage of total OPEB Liability	12.81%	9.39%	11.12%	11.64%	0.00%	0.00%
Covered-employee payroll	\$ 19,551,816	\$ 19,551,816	\$ 16,110,608	\$ 16,110,608	\$ 13,900,834	\$ 13,598,192
Net OPEB liability as a percentage of Covered-employee payroll	27.91%	27.10%	32.25%	29.30%	25.21%	24.31%

Notes to the schedule:

Plan measurement date is the reporting date for FY2021 and is one year prior to the reporting date in FY2020 and FY2019.

The Town created an OPEB Trust Fund in FY2020. Information is not required to be presented retroactively. Data for years prior to this presentation is unavailable.

Employees hired on or after July 1, 2022 will no longer be eligible for the Town's group post-employment health insurance.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
SCHEDULE OF TOWN CONTRIBUTIONS AND
SCHEDULE OF INVESTMENT RETURNS - OPEB TRUST PLAN
LAST FOUR FISCAL YEARS

SCHEDULE 4

JUNE 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Actuarially determined contribution	\$ 609,581	\$ 609,581	\$ 614,469	\$ 614,469
Contributions in relation to the actuarially determined contribution	249,943	87,147	95,705	671,848
Contribution deficiency (excess)	<u>\$ 359,638</u>	<u>\$ 522,434</u>	<u>\$ 518,764</u>	<u>\$ (57,379)</u>
Covered payroll	\$19,551,816	\$19,551,816	\$16,110,608	\$16,110,608
Contributions as a percentage of covered payroll	1.28%	0.45%	0.59%	4.17%

Notes:

Valuation Date: June 30, 2021

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Open 28-year level pay
Amortization period	Varies
Asset valuation method	Market value
Inflation	2.50%
Healthcare cost trend rates	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
Salary increases	3.25% to 8.41% including inflation and productivity factor
Investment rate of return	3.50%, net of OPEB plan investment expense, including price inflation

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Annualized return, net of investment expense	45.95%	-15.50%	0.44%	1.80%

*The Town created an OPEB Trust Fund in FY2020. Information is not required to be presented retroactively.

*Data for years prior to this presentation is unavailable.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

SCHEDULE 5

JUNE 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.30835%	0.30500%	0.28838%	0.28322%	0.27011%	0.25855%	0.25138%	0.26003%	0.25086%	0.24620%
Town's proportion of the net pension liability (asset) (\$)	\$ 17,395,343	\$ 4,677,470	\$ 10,305,048	\$ 7,734,517	\$ 5,254,505	\$ 3,949,928	\$ 5,335,129	\$ 1,167,001	\$ (1,479,438)	\$ 2,967,655
Town's covered payroll	\$ 21,110,423	\$ 19,648,103	\$ 18,407,667	\$ 17,191,729	\$ 15,856,385	\$ 14,555,252	\$ 13,598,192	\$ 12,899,021	\$ 12,226,150	\$ 12,226,150
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	82.40%	23.81%	55.98%	44.99%	33.14%	27.14%	39.23%	9.05%	-12.10%	24.27%
Plan fiduciary net position as a percentage of the total pension liability **	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

Notes to the schedule:

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
SCHEDULE OF CONTRIBUTIONS
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

SCHEDULE 6

JUNE 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 3,402,930	\$ 2,433,386	\$ 2,034,846	\$ 1,682,976	\$ 1,072,766	\$ 957,247	\$ 1,088,779	\$ 931,025	\$ 920,877	\$ 869,384
Contributions in relation to the contractually required contribution	<u>3,402,930</u>	<u>2,433,386</u>	<u>2,034,846</u>	<u>1,682,976</u>	<u>1,072,766</u>	<u>957,247</u>	<u>1,088,779</u>	<u>931,025</u>	<u>920,877</u>	<u>869,384</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 31,677,216	\$ 21,110,423	\$ 19,648,103	\$ 18,407,667	\$ 17,191,729	\$ 15,856,385	\$ 14,555,252	\$ 13,598,192	\$ 12,889,021	\$ 12,226,150
Contributions as a percentage of covered payroll	10.74%	11.53%	10.36%	9.14%	6.24%	6.04%	7.48%	6.85%	7.14%	7.11%

Notes to the schedule:

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 7
GENERAL FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023		Variance Positive (Negative)	2022
	Budget	Actual		Actual
Revenues:				
Ad valorem taxes:				
Current year taxes	\$ 20,023,352	\$ 20,559,228	\$ 535,876	\$ 18,949,835
Prior years taxes	20,000	(3,450)	(23,450)	24,205
Penalties and interest	20,000	41,625	21,625	42,876
Vehicle tax	2,518,797	1,813,039	(705,758)	1,627,555
Total	22,582,149	22,410,442	(171,707)	20,644,471
Other taxes and licenses:				
Rental vehicle tax	3,500	6,931	3,431	7,037
Vehicle Fee	855,204	849,095	(6,109)	802,925
Total	858,704	856,026	(2,678)	809,962
Unrestricted intergovernmental:				
Local Sales Tax Distribution	13,500,000	13,711,816	211,816	12,261,390
Utilities Sales Distribution	2,015,000	2,305,650	290,650	2,134,939
Beer and wine tax	160,000	196,132	36,132	165,543
Solid Waste Disposal Tax	30,000	34,886	4,886	31,449
ABC profit distribution	265,000	274,947	9,947	281,512
Total	15,970,000	16,523,431	553,431	14,874,833
Restricted intergovernmental:				
County grants	98,399	98,399	-	77,757
CARES Act	-	-	-	(106)
Total	98,399	98,399	-	77,651
Permits and fees:				
Building permits	1,625,000	1,618,246	(6,754)	1,389,889
Development fees	930,500	835,529	(94,971)	990,646
Planning and zoning fees	225,000	269,364	44,364	221,158
Total	2,780,500	2,723,139	(57,361)	2,601,693
Sales and services:				
Lease Revenue	-	101,328	101,328	2,600
Solid Waste fees	3,723,705	3,589,222	(134,483)	3,306,670
Recreation fees	1,977,200	2,596,178	618,978	2,080,374
Public Safety	879,160	1,043,940	164,780	915,413
Cemetery	17,500	30,950	13,450	-
Other sales and services	25,000	24,324	(676)	23,615
Total	6,622,565	7,385,942	763,377	6,328,672

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 7
GENERAL FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Miscellaneous:				
GoTriangle reimbursement	\$ -	\$ -	\$ -	\$ 30,362
Interest on lease receivable	-	-	-	75,240
Sale of assets	150,000	153,560	3,560	42,292
Miscellaneous revenue	343,700	162,126	(181,574)	330,669
Total	493,700	315,686	(178,014)	478,563
Investment earnings	100,000	973,883	873,883	37,068
Total revenues	49,506,017	51,286,948	1,780,931	45,852,913
Expenditures:				
General government:				
Central Services:				
Salaries and employee benefits	220,000	200,774	19,226	63,473
Operating expenditures	2,699,866	2,411,333	288,533	2,121,010
Professional services	6,600	977	5,623	916
Total	2,926,466	2,613,084	313,382	2,185,399
Administration:				
Town Manager's Office				
Salaries and employee benefits	630,722	628,226	2,496	628,859
Operating expenditures	12,050	11,360	690	12,600
Professional services	63,023	42,960	20,063	126,366
Total	705,795	682,546	23,249	767,825
Human Resources				
Salaries and employee benefits	386,161	354,490	31,671	294,544
Operating expenditures	58,994	49,680	9,314	26,272
Professional services	100,376	100,485	(109)	70,747
Total	545,531	504,655	40,876	391,563
Town Attorney				
Salaries and employee benefits	365,069	310,591	54,478	225,398
Operating expenditures	518,033	8,017,920	(7,499,887)	117,764
Professional services	4,000	1,788	2,212	1,965
Capital Outlay	-	-	-	12,280
Total	887,102	8,330,299	(7,443,197)	357,407
Town Clerk (includes Town Council)				
Salaries and employee benefits	250,310	238,084	12,226	212,775
Operating expenditures	79,686	69,382	10,304	96,738
Professional services	40,200	40,102	98	16,529
Total	370,196	347,568	22,628	326,042
Office of Customer Care				
Salaries and employee benefits	600,741	572,810	27,931	-
Operating expenditures	11,250	9,596	1,654	-
Professional services	29,400	16,834	12,566	-
Total	641,391	599,240	42,151	-

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 7
GENERAL FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Administration Total	\$ 3,150,015	\$ 10,464,308	\$ (7,314,293)	\$ 1,842,837
Communications:				
Salaries and employee benefits	402,531	387,317	15,214	278,918
Operating expenditures	54,273	30,426	23,847	18,941
Professional services	84,625	72,772	11,853	83,668.00
Total	541,429	490,515	50,914	381,527
Finance:				
Salaries and employee benefits	1,009,800	955,450	54,350	641,798
Operating expenditures	4,209	855	3,354	37,062
Professional services	126,950	77,310	49,640	20,605
Capital outlay	7,500	-	7,500	6,049
Total	1,148,459	1,033,615	114,844	705,514
Information Technology:				
Salaries and employee benefits	846,568	820,040	26,528	640,895
Operating expenditures	1,134,608	1,040,002	94,606	852,658
Professional services	245,400	246,080	(680)	289,072
Total	2,226,576	2,106,122	120,454	1,782,625
Total general government	9,992,945	16,707,644	(6,714,699)	6,897,902
Economic and physical development:				
Development Services				
Salaries and employee benefits	3,025,117	2,692,396	332,721	2,051,457
Operating expenditures	262,761	224,394	38,367	127,039
Professional services	277,935	178,702	99,233	395,367
Capital outlay	50,000	40,036	9,964	352,589
Total	3,615,813	3,135,528	480,285	2,926,452
Economic Development				
Salaries and employee benefits	302,277	294,482	7,795	241,163
Operating expenditures	15,150	11,376	3,774	2,789
Professional service	39,800	39,757	43	44,214
Total	357,227	345,615	11,612	288,166
Utility & Infrastructure				
Salaries and employee benefits	1,204,245	1,177,387	26,858	712,986
Operating expenditures	28,250	24,627	3,623	18,956
Professional services	133,925	40,767	93,158	83,951
Capital outlay	-	-	-	15,000
Total	1,366,420	1,242,781	123,639	830,893
Total economic and physical development	5,339,460	4,723,924	615,536	4,045,511

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

Schedule 7

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023		Variance Positive (Negative)	2022
	Budget	Actual		Actual
Public safety:				
Police:				
Law enforcement				
Salaries and employee benefits	\$ 7,669,528	\$ 7,586,577	\$ 82,951	\$ 6,612,184
Operating expenditures	556,883	534,474	22,409	401,075
Professional services	174,000	173,751	249	101,402.00
Capital outlay	531,501	482,910	48,591	1,060,365
Total	8,931,912	8,777,712	154,200	8,175,026
Telecommunications				
Salaries and employee benefits	1,125,011	1,106,746	18,265	975,298
Operating expenditures	10,000	8,209	1,791	7,954
Professional services	2,000	1,000	1,000	2,000.00
Total	1,137,011	1,115,955	21,056	985,252
Fire:				
Salaries and employee benefits	6,716,111	6,620,664	95,447	5,310,263
Operating expenditures	346,950	339,281	7,669	355,123
Professional services	105,000	104,753	247	104,138.00
Capital outlay	106,150	50,653	55,497	515,071
Total	7,274,211	7,115,351	158,860	6,284,595
Total public safety	17,343,134	17,009,018	334,116	15,444,873
Public Works				
Fleet Maintenance				
Salaries and employee benefits	392,171	385,846	6,325	174,005
Operating expenditures	849,125	848,520	605	887,631
Professional services	9,965	-	9,965	15,414.00
Capital outlay	18,711	14,240	4,471	20,176
Total	1,269,972	1,248,606	21,366	1,097,226
Streets:				
Salaries and employee benefits	1,121,461	1,030,589	90,872	801,194
Operating expenditures	147,800	141,758	6,042	136,055
Professional services	500	400	100	-
Capital outlay	717,969	215,305	502,664	547,168
Total	1,987,730	1,388,052	599,678	1,484,417
Solid Waste				
Salaries and employee benefits	1,379,776	1,272,354	107,422	1,108,776
Operating expenditures	239,208	192,756	46,452	153,536
Professional services	2,792,205	2,720,801	71,404	2,590,072
Capital outlay	1,675,492	829,843	845,649	205,682
Total	6,086,681	5,015,754	1,070,927	4,058,066
Public Facilities				
Salaries and employee benefits	329,351	248,224	81,127	195,983
Operating expenditures	228,204	228,155	49	179,982
Professional services	376,532	368,938	7,594	311,875
Capital outlay	25,600	25,551	49	34,509
Total	959,687	870,868	88,819	722,349
Total public works	10,304,070	8,523,280	1,780,790	7,362,058

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 7
GENERAL FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Cultural and recreational:				
Parks and recreation:				
Salaries and employee benefits	\$ 4,141,806	\$ 4,009,706	\$ 132,100	\$ 3,257,225
Operating expenditures	1,327,542	1,278,136	49,406	1,175,743
Professional services	739,564	722,628	16,936	631,130
Capital outlay	255,028	214,448	40,580	37,851
Total cultural and recreational	6,463,940	6,224,918	239,022	5,101,949
Total expenditures	49,443,549	53,188,784	(3,745,235)	38,852,293
Revenues over (under) expenditures	62,468	(1,901,836)	(1,964,304)	7,000,620
Other financing sources (uses):				
Transfers in:				
Grant & Special Revenue Fund	153,201	153,201	-	460,500
Parks & Recreation Reserve	-	3,500,000	(3,500,000)	-
Transfers out:				
Street Improvements Capital Projects	-	-	-	(50,000)
Debt Service Fund	(250,000)	(250,000)	-	(250,000)
Parks and Recreation Projects	(97,000)	(97,000)	-	-
Grant & Special Revenue Fund	(2,573,743)	(573,743)	(2,000,000)	(574,477)
PayGo Fund	(1,204,681)	(1,204,681)	-	(4,567,311)
Street Reserve	(1,513,125)	(1,513,125)	-	(2,000,000)
Utility Fund	(27,155)	(27,155)	-	-
Emergency Telephone		(40)	40	-
Installment note issuance	1,049,052	460,000	589,052	2,276,250
Appropriated fund balance	4,400,983	-	4,400,983	-
Total other financing sources (uses)	(62,468)	447,457	(509,925)	(4,705,038)
Net change in fund balance	\$ -	(1,454,379)	\$ (2,474,229)	2,295,582
Fund balance - Beginning of year		25,184,601		22,889,019
Fund balance - End of year		<u>\$ 23,730,222</u>		<u>\$ 25,184,601</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 7A
DEBT SERVICE FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Ad valorem taxes:				
Current year taxes	\$ 8,217,100	\$ 8,392,063	\$ 174,963	\$ 7,740,073
Prior years taxes	2,000	426	(1,574)	7,794
Penalties and interest	2,500	5,604	3,104	7,742
Vehicle taxes	731,000	740,402	9,402	664,729
Total	8,952,600	9,138,495	185,895	8,420,338
Miscellaneous:				
Miscellaneous revenue	-	-	-	23
Total	-	-	-	23
Investment earnings	7,000	231,800	224,800	18,528
Total revenues	8,959,600	9,370,295	410,695	8,438,889
Expenditures:				
Operating expenditures:	99,250	52,935	46,315	101,674
Debt service:				
Bond principal	3,180,000	3,059,878	120,122	2,510,000
Bond interest	2,428,511	2,427,839	672	2,302,583
Installment note principal	2,117,185	1,613,128	504,057	1,715,748
Installment note interest	236,266	138,955	97,311	131,678
Total debt service	7,961,962	7,239,800	722,162	6,660,009
Total expenditures	8,061,212	7,292,735	768,477	6,761,683
Revenues under expenditures	898,388	2,077,560	1,179,172	1,677,206
Other financing sources (uses):				
Transfers in:				
General Fund	250,000	250,000	-	250,000
Appropriated fund balance	(1,148,388)	-	1,148,388	-
Total other financing sources (uses)	(898,388)	250,000	1,148,388	250,000
Net change in fund balance	-	2,327,560	2,327,560	1,927,206
Debt refunding:				
Principal payments	-	-	-	(9,060,000)
Refunding bonds issued	-	-	-	8,533,381
	\$ -	2,327,560	\$ 2,327,560	\$ (526,619)
Fund balance - Beginning of year		9,564,903		8,164,316
Fund balance - End of year		\$ 11,892,463		\$ 9,564,903

TOWN OF HOLLY SPRINGS, NORTH CAROLINA**Schedule 8**

POWELL BILL FUND (sub fund of the General Fund)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL***YEAR ENDED JUNE 30, 2023**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)*

	2023		2022
	Budget	Actual	Variance Positive (Negative)
Revenues:			
Restricted intergovernmental:			
Powell Bill allocation	1,160,000	1,201,633	41,633
Sale of Powell Bill Assets	-	-	-
Total	1,160,000	1,201,633	41,633
Investment earnings	-	41,703	41,703
Total revenues	1,160,000	1,243,336	83,336
Expenditures:			
Operating expenditures	252,000	184,055	67,945
Capital outlay	1,926,163	12,948	1,913,215
Total expenditures	2,178,163	197,003	1,981,160
Revenues over (under) expenditures	(1,018,163)	1,046,333	2,064,496
Other financing sources (uses):			
Appropriated fund balance	1,018,163	-	(1,018,163)
Total other financing sources (uses)	1,018,163	-	(1,018,163)
Net change in fund balance	-	1,046,333	1,046,333
Fund Balances			
Beginning of year		1,388,541	1,300,769
End of year		<u>\$ 2,434,874</u>	<u>\$ 1,388,541</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA**Schedule 9****LAW ENFORCEMENT SPECIAL SEPARATION ALLOWANCE (NON-TRUST)**

(sub fund of the General Fund)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Miscellaneous revenue	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
Investment earnings	-	7,439	7,439	627
Total revenues	-	32,439	32,439	25,627
Expenditures:				
Total expenditures	-	-	-	-
Capital outlay				
Revenues under expenditures	-	32,439	32,439	25,627
Net change in fund balance	\$ -	32,439	\$ 32,439	25,627
Fund balances				
Beginning of year		344,518		318,891
End of year		\$ 376,957		\$ 344,518

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 10

PAYGO (sub fund of the General Fund)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL**

FROM INCEPTION AND YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Investment earnings	\$ -	\$ 213	\$ 2,539	\$ -	\$ 2,752
Restricted Intergovernmental	190,588	165,294	25,294	-	190,588
Miscellaneous revenues	29,999	29,999	-	-	29,999
Total revenues	220,587	195,506	27,833	-	223,339
Expenditures:					
Capital outlay:					
Downtown Development Incentive	110,694	25,000	-	-	25,000
Public Facility Projects	879,893	32,683	64,130	-	96,813
Town Projects	2,870,163	362,923	524,398	-	887,321
Streets & Sidewalk Projects	980,000	103,398	22,987	-	126,385
Vehicle & Equipment	192,000	-	-	-	-
ADA Transition	255,000	53,440	18,840	-	72,280
Parks and Recreation	494,000	-	311,742	-	311,742
Public Works Projects	125,000	-	37,715	-	37,715
Total expenditures	5,906,750	577,444	979,812	-	1,557,256
Revenues under expenditures	(5,686,163)	(381,938)	(951,979)	-	(1,333,917)
Other financing sources:					
Issuance of subscription liability	-	-	65,258	-	65,258
Transfer in - Parks Reserves	19,008	-	19,008	-	19,008
Transfer in - Street Reserves	80,000	180,000	-	(100,000)	80,000
Transfer in - General Fund	7,587,155	4,837,232	1,204,681	-	6,041,913
Transfer in - Capital Projects	-	781,500	-	-	781,500
Transfer out - Capital Projects	(2,000,000)	(2,006,258)	(265,000)	100,000	(2,171,258)
Transfer in - ARPA	-	190,588	-	-	190,588
Transfer out - ARPA	-	(190,588)	-	-	(190,588)
Total other financing sources	5,686,163	3,792,474	1,023,947	-	4,816,421
Net change in fund balance	\$ -	\$ 3,410,536	71,968	\$ -	\$ 3,482,504
Fund balances:					
Beginning of Year			3,410,536		
End of Year			\$ 3,482,504		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 11
CAPITAL PROJECTS FUND
STREET & SIDEWALK PROJECTS FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Restricted intergovernmental:					
State Grant					
Signal Sync - NCDOT Fiber Network	\$ 339,102	\$ 290,019	\$ 519	\$ -	\$ 290,538
Avent Ferry Road ReAlignment	1,000,000	-	-	-	-
Avent Ferry Road Widening Ph1	2,208,000	1,860,767	182,708	-	2,043,475
Avent Ferry Road - Phase 2	7,546,000	-	-	-	-
Hwy 55 Right Turn Lane - AF/S Main	508,000	-	-	-	-
Main Street Sidewalk Connector	660,000	-	57,578	-	57,578
Main Street Eastbound Right Turn Lane	780,000	-	13,293	-	13,293
NC55/Teal Street	350,000	-	-	-	-
Holly Springs Road Widening - Central	2,014,496	-	-	-	-
Holly Springs Road Widening - East	4,157,000	444,151	1,439,616	-	1,883,767
Total State Grants	19,562,598	2,594,937	1,693,714	-	4,288,651
Investment earnings					
Holly Springs Road Widening - East	-	23,087	421,960	-	445,047
Hwy 55 Right Turn Lane - AF/S Main	-	3,082	56,339	-	59,421
Avent Ferry Road ReAlignment	-	6,050	110,589	-	116,639
Main Street Eastbound Right Turn Lane	-	1,395	25,052	-	26,447
Total Investment Earnings	-	33,614	613,940	-	647,554
Developer fees					
Avent Ferry Signal at Holly Meadows	500,000	116,884	-	-	116,884
Avent Ferry Road Widening Ph1	92,000	92,000	-	-	92,000
Green Oaks Parkway/New Hill Signal	84,500	84,500	-	-	84,500
Total Miscellaneous Revenues	676,500	293,384	-	-	293,384
Total revenues	20,239,098	2,921,935	2,307,654	-	5,229,589
Expenditures					
Avent Ferry Signal at Holly Meadows	650,000	35,520	52,470	-	87,990
Hwy 55 Right Turn Lane - AF/S Main	2,728,000	229,510	9,816	-	239,326
Avent Ferry Road Widening Ph1	3,535,357	3,057,785	126,046	-	3,183,831
Avent Ferry Road ReAlignment	4,960,500	825,407	53,842	-	879,249
Avent Ferry Road - Phase 2	7,616,000	91,628	-	-	91,628
Main Street Eastbound Right Turn Lane	1,693,000	113,001	24,566	-	137,567
Holly Springs Road Widening - Central	6,241,246	614,238	22,985	-	637,223
Holly Springs Road Widening - East	32,740,000	5,679,467	8,631,197	-	14,310,664
Holly Springs Road Widening - West	2,200,000	-	-	-	-
Green Oaks Parkway/New Hill Signal	373,000	326,308	-	-	326,308
New Hill Sidewalk	295,480	59,927	-	-	59,927
Signal Sync - NCDOT Fiber Network	339,102	317,205	477	-	317,682
Smart City Intelligent Traffic System	650,000	126,065	105,212	-	231,277
Holly Spring Apex Road Bridge	2,500,000	-	-	-	-
Main Street Sidewalk Connector	825,000	-	75,143	-	75,143
Old Holly Springs-New Hill (Green Oaks Tech)	1,700,000	-	-	-	-
Street Projects - To Be Determined - Bond	5,233,806	-	-	-	-
NC55/Teal Lake	350,000	-	-	-	-
Total expenditures	74,630,492	11,476,061	9,101,754	-	20,577,815

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 11
CAPITAL PROJECTS FUND
STREET & SIDEWALK PROJECTS FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Total to Date
		Prior Years	Current Year	Closed Projects	
Revenues under expenditures	(54,391,394)	(8,554,126)	(6,794,100)	-	(15,348,226)
Other financing sources (uses):					
Transfers in					
General Fund					
Avent Ferry Signal at Holly Meadows	50,000	50,000	-	-	50,000
Avent Ferry Road Widening Ph1	474,083	474,082	-	-	474,082
Holly Springs Road Widening- West	700,000	-	-	700,000	700,000
Main Street Sidewalk Connector	165,000	-	165,000	-	165,000
New Hill Sidewalk	280,480	280,480	-	-	280,480
Street Projects - To Be Determined - Other	700,000	1,400,000	-	(700,000)	700,000
Street Reserves:					
Old Holly Springs-New Hill (Green Oaks Tech)	1,700,000	1,700,000	-	-	1,700,000
Smart City Intelligent Traffic System	650,000	250,000	200,000	-	450,000
Avent Ferry Road Widening Ph1	761,275	761,275	-	-	761,275
Avent Ferry Signal at Holly Meadows	100,000	-	100,000	-	100,000
Avent Ferry Road - Phase 2	70,000	70,000	-	-	70,000
Holly Springs Road - Central	726,750	726,750	-	-	726,750
Green Oaks Parkway/New Hill Signal	288,500	288,500	-	-	288,500
New Hill Sidewalk	15,000	15,000	-	-	15,000

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 11
CAPITAL PROJECTS FUND
STREET & SIDEWALK PROJECTS FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			
		Prior Years	Current Year	Closed Projects	Total to Date
PayGo Fund					
Holly Springs Road - West	1,500,000	1,500,000	-	-	1,500,000
Holly Springs Road - Central	500,000	500,000	-	-	500,000
Total Transfers In	8,681,088	8,016,087	465,000	-	8,481,087
Limited Obligation Bonds					
Holly Springs Apex Bridge	2,500,000	-	-	-	-
General Obligation Bonds					
Street Projects - To Be Determined - Bond	4,527,000	-	-	-	-
Hwy 55 Right Turn Lane - AF/S Main	2,016,500	2,016,500	-	-	2,016,500
Avent Ferry Road ReAlignment	3,960,500	3,960,500	-	-	3,960,500
Main Street Eastbound Right Turn Lane	913,000	913,000	-	-	913,000
Holly Springs Road Widening - Central	3,000,000	-	-	-	-
Holly Springs Road Widening - East	25,583,000	15,110,000	-	-	15,110,000
Total General Obligation Bonds	40,000,000	22,000,000	-	-	22,000,000
General Obligation Bonds - Premium					
Street Projects - To Be Determined - Bond	6,806	35,087	-	-	35,087
Hwy 55 Right Turn Lane - AF/S Main	203,500	203,500	-	-	203,500
Holly Springs Road Widening - East	3,000,000	3,000,000	-	-	3,000,000
Total General Obligation Bonds - Premium	3,210,306	3,238,587	-	-	3,238,587
Total financing sources (uses)	54,391,394	33,254,674	465,000	-	33,719,674
Net change in fund balance	\$ -	\$ 24,700,548	(6,329,100)	\$ -	\$ 18,371,448
Fund balances:					
Beginning of year			24,700,548		
End of year			\$ 18,371,448		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
STREET RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Schedule 12

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Impact fees	\$ 1,351,735	\$ 1,351,736	\$ -	\$ -	\$ 1,351,736
Investment earnings	9,643	10,228	61,993	1,083	73,304
Miscellaneous	-	42,053	-	-	42,053
Total revenues	1,361,378	1,404,017	61,993	1,083	1,467,093
Other financing sources (uses):					
Transfers in - General Fund	3,373,464	2,742,434	1,513,125	(1,083)	4,254,476
Transfers in - Capital Projects	1,133,204	1,791,851	-	-	1,791,851
Transfer Out - Capital Projects	(5,868,046)	(3,430,000)	(200,000)	-	(3,630,000)
Total financing sources (uses)	(1,361,378)	1,104,285	1,313,125	(1,083)	2,416,327
Net change in fund balance	\$ -	\$ 2,508,302	1,375,118	\$ -	\$ 3,883,420
Fund balances:					
Beginning of year			2,508,302		
End of year			\$ 3,883,420		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
PARKS AND RECREATION PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

			Actual			
	Project Authorization	Prior Years	Current Year	Project Closeouts	Total to Date	
Revenues:						
Investment earnings						
Parks & Recreation Projects - TBD	\$ -	\$ 29,234	\$ -	\$ -	\$ 29,234	
Bass Lake Dame Phase 3	-	13	5,328	-	5,341	
Arbor Creek Greenway - Phase 2	-	3,452	72,142	-	75,594	
Cass Holt Road Park (formerly New NC55)	-	3,972	83,002	-	86,974	
Restricted intergovernmental:						
State grant						
Bass Lake Hurricane Repairs	254,340	-	-	-	-	
Utle Creek Greenway - Phase 1	580,000	518,270	48,280	-	566,550	
Sugg Farm - Sugg Farm Amenities	500,000	-	-	-	-	
Federal grant						
Bass Lake Hurricane Repairs	733,000	-	-	-	-	
Bass Lake Dame Phase 3	400,000	-	400,000	-	400,000	
Miscellaneous revenues						
Ting Stadium Drainage Repairs	29,200	-	-	-	-	
Total revenues	2,496,540	554,941	608,752	-	1,163,693	
Expenditures:						
Operating:						
Arbor Creek Greenway - Phase 2	-	27,635	-	-	27,635	
Cass Holt Road Park (formerly New NC55)	-	112,895	-	(92,933)	19,962	
Sugg Farm Road Paving	235,361	235,362	-	-	235,362	
Sugg Farm Administration	189,591	-	-	-	-	
Capital outlay:						
Arbor Creek Greenway - Phase 2	6,857,428	705,345	1,226,427	-	1,931,772	
Bass Lake Dam Phase 3	1,300,000	20,358	16,113	-	36,471	
Bass Lake Hurricane Repairs	2,009,793	-	-	-	-	
Boardwalk and Bridge Replacement	178,200	-	-	-	-	
Cass Holt Road Park (formerly New NC55)	13,430,000	3,813,925	522,284	92,933	4,429,142	
Hunt Center Community Room Renovations	95,500	-	9,996	-	9,996	
Hunt Center Front Lobby Renovations	294,639	277	13,246	-	13,523	
Mims Parks Trail and Signage	150,000	-	71,040	-	71,040	
Priority Greenway Connections	650,000	-	6,632	-	6,632	
Run Club Park Improvements	20,988	-	-	-	-	
Sugg Farm Amenities	825,000	-	-	-	-	
Sugg Farm Maintenance Barn	35,037	-	-	-	-	
Sugg Farm Restroom/Dog Park	838,500	-	-	-	-	
Ting Stadium Drainage Repairs	334,000	61,454	271,655	-	333,109	
Utle Creek Greenway- Phase 1	2,303,081	735,276	908,044	-	1,643,320	
Utle Creek Greenway- Phase 2	\$ 2,674,602	\$ 148,309	\$ 14,263	\$ -	\$ 162,572	

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
PARKS AND RECREATION PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Total to Date
		Prior Years	Current Year	Project Closeouts	
Womble Turf Replacement	1,400,000	-	1,027,123	-	1,027,123
Total expenditures	33,821,720	5,860,836	4,086,823	-	9,947,659
Revenues under expenditures	(31,325,180)	(5,305,895)	(3,478,071)	-	(8,783,966)
Other financing sources:					
General Obligation Bonds					
Arbor Creek Greenway - Phase 2	3,720,000	3,720,000	-	-	3,720,000
Cass Holt Road Park (formerly New NC55)	9,280,000	4,280,000	-	-	4,280,000
General Obligation Bonds - Premium					
Arbor Creek Greenway - Phase 2	1,177,668	1,177,668	-	-	1,177,668
Transfer in					
Bass Lake Hurricane Repairs	876,758	-	-	-	-
Sugg Farm Restroom/Dog Park	838,500	-	-	-	-
Sugg Farm Maintenance Barn	35,037	-	-	-	-
Sugg Farm Road Paving	222,000	125,000	-	-	125,000
Utley Creek Greenway - Phase 1	1,026,300	1,026,300	-	-	1,026,300
Parks & Recreation Projects - TBD	-	39,811	-	(39,800)	11
Boardwalk and Bridge Replacement - To Be Determined	-	-	27,000	-	27,000
Ting Drainage - Ting Stadium Drainage Repairs	39,800	-	70,000	39,800	109,800
Transfer In - Parks & Recreation Reserve					
Arbor Creek Greenway - Phase 2	1,959,760	1,586,897	372,863	-	1,959,760
Sugg Farm Administration	189,591	-	-	-	-
Bass Lake Hurricane Repairs	145,695	-	-	-	-
Utley Creek Greenway - Phase 1	696,781	794,520	-	-	794,520
Utley Creek Greenway - Phase 2	2,674,602	2,674,602	-	-	2,674,602
Bass Lake Dam Phase 3	500,000	500,000	-	-	500,000
Boardwalk & Bridge Replacement	151,200	22,400	128,800	-	151,200
Hunt Center Community Room Renovations	95,500	95,500	-	-	95,500
Hunt Center Front Lobby Renovations	294,639	44,639	250,000	-	294,639
Mims Park - Mims Park Trails and Signage	150,000	-	150,000	-	150,000
Womble Turf Replacement	1,400,000	-	1,400,000	-	1,400,000
Cass Holt Road Park (formerly New NC55)	4,150,000	2,150,000	2,000,000	-	4,150,000
PriorityGreenway - Priority Greenway Connections	650,000	-	300,000	-	300,000
Run Club Park Improvements	20,988	-	20,988	-	20,988
Sugg Farm - Sugg Farm Amenities	325,000	-	125,000	-	125,000
Sugg Farm Road Paving	110,361	110,361	-	-	110,361
Ting Stadium Drainage Repairs	130,000	130,000	-	65,000	195,000
Womble Retaining Wall	65,000	65,000	-	(65,000)	-
Transfer in - Stormwater Reserve					
Bass Lake Dam Phase 3	400,000	-	400,000	-	400,000

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
PARKS AND RECREATION PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Total to Date
		Prior Years	Current Year	Project Closeouts	
Transfer in - ARPA					
Bass Lake Dam Phase 3	-	-	400,000	-	400,000
Transfer out					
Bass Lake Dam Phase 3	-	-	(400,000)	-	(400,000)
Total other financing sources	31,325,180	18,542,698	5,244,651	-	23,787,349
Net change in fund balance	\$ -	\$ 13,236,803	\$ 1,766,580	\$ -	\$ 15,003,383
Fund balances:					
Beginning of Year			13,236,803		
End of Year			\$ 15,003,383		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 14
CAPITAL PROJECTS FUND
PARK & RECREATION RESERVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Payments in lieu	\$ 5,080,439	\$ 8,293,972	639,232	\$ (4,402,765)	\$ 4,530,439
Investment earnings	82,774	23,970	80,725	-	104,695
Restricted grant	-	-	31,122	-	31,122
Unrestricted contribution	1,866,225	1,210,832	624,271	-	1,835,103
Total revenues	7,029,438	9,528,774	1,375,350	(4,402,765)	6,501,359
Other financing sources (uses):					
Transfers in	9,101,958	4,699,115	-	4,402,765	9,101,880
Transfers (out)	(16,131,396)	(6,274,687)	(8,266,659)	-	(14,541,346)
Total financing sources (uses)	(7,029,438)	(1,575,572)	(8,266,659)	4,402,765	(5,439,466)
Net change in fund balance	\$ -	\$ 7,953,202	(6,891,309)	\$ -	\$ 1,061,893
Fund balances:					
Beginning of year			7,953,202		
End of year			\$ 1,061,893		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

Schedule 15

JUNE 30, 2023

	Capital Projects Fund Town Buildings	Total Capital Projects Funds	Special Revenue Fund		Total Special Revenue Funds	Total Nonmajor Governmental Funds
			Emergency Telephone System	Grants & Special Revenue		
Assets						
Restricted cash and cash equivalents	\$ 2,254,233	\$ 2,254,233	\$ 885,531	\$ 1,850,022	\$ 2,735,553	\$ 4,989,786
Due from other governments	-	-	7,923	-	7,923	7,923
Accounts receivable	481	481	450	6,603	7,053	7,534
Total assets	<u>\$ 2,254,714</u>	<u>\$ 2,254,714</u>	<u>\$ 893,904</u>	<u>\$ 1,856,625</u>	<u>\$ 2,750,529</u>	<u>\$ 5,005,243</u>
Liabilities						
Accounts payable	\$ 59,300	\$ 59,300	\$ -	\$ 26,224	\$ 26,224	\$ 85,524
Total liabilities	<u>59,300</u>	<u>59,300</u>	<u>-</u>	<u>26,224</u>	<u>26,224</u>	<u>85,524</u>
Fund balances:						
Restricted:						
Economic development	-	-	-	186,901	186,901	186,901
Public safety	1,566,119	1,566,119	893,904	162,540	1,056,444	2,622,563
Cultural & recreational	629,295	629,295	-	30,829	30,829	660,124
General government	-	-	-	1,553	1,553	1,553
Inspections - HB 255	-	-	-	1,448,578	1,448,578	1,448,578
Total fund balances	<u>2,195,414</u>	<u>2,195,414</u>	<u>893,904</u>	<u>1,830,401</u>	<u>2,724,305</u>	<u>4,919,719</u>
Total liabilities and fund balances	<u>\$ 2,254,714</u>	<u>\$ 2,254,714</u>	<u>\$ 893,904</u>	<u>\$ 1,856,625</u>	<u>\$ 2,750,529</u>	<u>\$ 5,005,243</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

Schedule 16

YEAR ENDED JUNE 30, 2023

	Capital Projects Fund Town Buildings	Total Capital Projects Funds	Special Revenue Funds		Total Special Revenue Funds	Total Nonmajor Governmental Funds
			Emergency Telephone System	Grants & Special Revenue		
Revenues:						
Restricted intergovernmental	\$ 2,500,000	\$ 2,500,000	\$ 95,080	\$ 92,025	\$ 187,105	\$ 2,687,105
Permits and fees	-	-	-	-	-	-
Sales and services	-	-	-	-	-	-
Miscellaneous	313,635	313,635	-	179,200	179,200	492,835
Investment earnings	80,699	80,699	16,583	31,112	47,695	128,394
Total revenues	2,894,334	2,894,334	111,663	302,337	414,000	3,308,334
Expenditures:						
Current:		-				
General government	-	-	-	34,244	34,244	34,244
Public safety	-	-	99,315	9,598	108,913	108,913
Economic and physical development	-	-	-	-	-	-
Cultural and recreational	-	-	-	10,344	10,344	10,344
Capital outlay	1,647,745	1,647,745	-	-	-	1,647,745
Total expenditures	1,647,745	1,647,745	99,315	54,186	153,501	1,801,246
Revenues over expenditures	1,246,589	1,246,589	12,348	248,151	260,499	1,507,088
Other financing sources (uses):						
Transfers in	-	-	40	573,743	573,783	573,783
Transfers out	-	-	-	(153,201)	(153,201)	(153,201)
Total other financing sources (uses)	-	-	40	420,542	420,582	420,582
Net change in fund balances	1,246,589	1,246,589	12,388	668,693	681,081	1,927,670
Fund balances:						
Beginning of year	948,825	948,825	881,516	1,161,708	2,043,224	2,992,049
End of year	\$ 2,195,414	\$ 2,195,414	\$ 893,904	\$ 1,830,401	\$ 2,724,305	\$ 4,919,719

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 17
CAPITAL PROJECTS FUND
TOWN BUILDING PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Investment earnings	\$ -	\$ -	\$ 80,699	\$ 80,699
Restricted intergovernmental:				
State grant:				
Office of State Budget and Management - Direct Grants -				
Fire Station	2,500,000	-	2,500,000	2,500,000
Permits and fees				
Public Works Campus-Ferguson	313,636	-	313,635	313,635
Total revenues	2,813,636	-	2,894,334	2,894,334
Expenditures:				
Operating				
Town Hall Lobby Renovations	-	6,448	-	6,448
Capital outlay:				
Professional Services				
Operations Center	958,835	59,820	631,119	690,939
Fire Station #3	834,689	105,913	286,197	392,110
Town Hall Lobby Renovations	431,693	409,391	15,508	424,899
Fire Engine replacement	2,422,497	-	-	-
911 Center	837,595	-	-	-
Capital Outlay Improvements				
Operations Center	42,243,186	920,889	49,910	970,799
Fire Station #3	10,488,550	-	665,011	665,011
Total expenditures	58,217,045	1,502,461	1,647,745	3,150,206
Revenues under expenditures	(55,403,409)	(1,502,461)	1,246,589	(255,872)
Other financing sources:				
Limited Obligation Bonds	31,078,417	305,920	-	305,920
Limited Obligation Bonds Premium	47,844	55,812	-	55,812
Installment financing issued	850,000	-	-	-
Revenue bond issued	20,500,000	-	-	-
Transfers in:				
General Fund	856,202	419,575	-	419,575
Grants & Special Revenue	77,929	77,929	-	77,929
Emergency Telephone System	400,967	-	-	-
Utility Fund	675,000	675,000	-	675,000
Utility Reserves Fund	917,050	917,050	-	917,050
Total other financing sources	55,403,409	2,451,286	-	2,451,286
Net change in fund balance	\$ -	\$ 948,825	1,246,589	\$ 2,195,414
Fund balances:				
Beginning of Year			948,825	
End of Year			\$ 2,195,414	

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 18
SPECIAL REVENUE FUND
EMERGENCY TELEPHONE SYSTEM
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
YEAR ENDED JUNE 30, 2023

	2023		Variance Positive (Negative)	2022
	Budget	Actual		Actual
Revenues:				
Restricted intergovernmental:				
911 Subscriber Fees	\$ 95,079	\$ 95,080	\$ 1	\$ 248,496
Total	95,079	95,080	1	248,496
Investment earnings	-	16,583	16,583	1,444
Total revenues	95,079	111,663	16,584	249,940
Expenditures:				
911 expenditures:				
Utilities Telephone	90,000	11,249	78,751	32,630
Maintenance & Repair	156,216	88,066	68,150	(29,260)
Training	-	-	-	498
Total expenditures	246,216	99,315	146,901	3,868
Revenues under expenditures	(151,137)	12,348	163,485	246,072
Other financing sources (uses):				
Transfers in:				
General Fund	-	40	40	-
Appropriated fund balance	151,137	-	(151,137)	-
Total other financing sources (uses)	151,137	40	(151,097)	-
Net change in fund balance	-	12,388	12,388	246,072
Fund balance - Beginning of year		881,516		635,444
Fund balance - End of year		<u>\$ 893,904</u>		<u>\$ 881,516</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 19
SPECIAL REVENUE FUND
GRANTS & SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Actual				
	Project Authorization	Prior Years	Current Year	Project Closeout	Total to Date
Revenues:					
Investment earnings	\$ 2,807	\$ 3,607	\$ 31,112	\$ -	34,719
Restricted intergovernmental:					
Unauthorized substance Tax	10,166	-	14,465	15,352	29,817
State grant:					
Administration	2,010,000	-	-	-	-
Public Safety	25,000	15,352	9,598	(15,352)	9,598
Federal grant:					
Parks & Recreation	10,200	2,920	10,280	-	13,200
Public Safety	324,685	141,408	57,682	-	199,090
Miscellaneous revenues:					
Economic Development	286,891	111,891	175,000	-	286,891
Parks & Recreation	38,319	33,819	4,200	-	38,019
Public Safety - Other	10,738	8,458	-	-	8,458
Total revenues	<u>2,718,806</u>	<u>317,455</u>	<u>302,337</u>	<u>-</u>	<u>619,792</u>
Expenditures:					
American Recovery Plan (ARP) - TBD	-	-	-	-	-
Asset Forfeiture	186,921	79,071	-	-	79,071
Body Worn Cameras	138,000	-	-	-	-
Highway Safety Program	25,000	-	9,598	-	9,598
Public Safety - Other	10,751	-	-	-	-
Downtown Development	11,891	-	-	-	-
Electric Charging Station	37,800	-	26,247	-	26,247
Fujifilm Diosynth Biotechnologies	2,175,000	-	-	-	-
Inspections - HB 255	40,200	70,428	7,998	-	78,426
NC Biotechnology - Amgen Inc. "Project Titan"	100,000	100,000	-	-	100,000
Public Instruction - Anti-Bullying Grant	-	-	-	-	-
Sense of Play	29,963	-	80	-	80
SNAP via Wake County	10,200	2,016	6,043	-	8,059
Substance Abuse Tax	10,186	-	-	-	-
United Arts Council	8,400	3,900	4,220	-	8,120
Total expenditures	<u>2,784,312</u>	<u>255,415</u>	<u>54,186</u>	<u>-</u>	<u>309,601</u>
Revenues under expenditures	<u>(65,506)</u>	<u>62,040</u>	<u>248,151</u>	<u>-</u>	<u>310,191</u>
Other financing sources:					
Transfer (in)					
Transfer in - General Fund (Inspections - HB 255)	2,523,961	1,978,017	545,943	-	2,523,960
General Fund (Electric charging Station)	27,800	-	27,800	-	27,800
Transfer (out)					
General Fund	(2,102,406)	(494,500)	(153,201)	-	(647,701)
Capital Projects Fund	(77,929)	(77,929)	-	-	(77,929)
Debt Service Fund	(305,920)	(305,920)	-	-	(305,920)
Total other financing sources	<u>65,506</u>	<u>1,099,668</u>	<u>420,542</u>	<u>-</u>	<u>1,520,210</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,161,708</u>	<u>668,693</u>	<u>\$ -</u>	<u>\$ 1,830,401</u>
Fund balances:					
Beginning of Year			1,161,708		
End of Year			<u>\$ 1,830,401</u>		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON - GAAP)

Schedule 20

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Operating revenues:				
Charges for services				
Water sales	\$ 10,056,000	\$ 10,489,440	\$ 433,440	\$ 9,414,552
Sewer charges	8,570,700	8,023,139	(547,561)	7,873,986
Water and sewer tap fees	185,000	147,150	(37,850)	147,980
Total	18,811,700	18,659,729	(151,971)	17,436,518
Other operating revenues				
Returned check charges	1,500	2,590	1,090	1,775
Water inspection fees	100,000	51,668	(48,332)	92,229
Sewer inspection fees	100,000	91,281	(8,719)	153,325
Water and sewer permits	-	-	-	-
Development permits	120,000	92,036	(27,964)	130,582
Water meter fees	350,000	177,290	(172,710)	273,548
Service charge meter deposits	4,000	4,340	340	4,660
Reconnect charges	60,000	49,120	(10,880)	63,709
Lab testing fees	50,000	74,146	24,146	115,426
Late fees	200,000	100,060	(99,940)	197,225
Interest on lease receivable	-	-	-	26,577
Lease revenue	-	12,470	12,470	470
Miscellaneous	86,454	37,658	(48,796)	14,656
Total other operating revenues	1,071,954	692,659	(379,295)	1,074,182
Total operating revenues	19,883,654	19,352,388	(531,266)	18,510,700
Nonoperating revenues:				
Investment earnings	35,000	345,987	310,987	42,748
Sale of assets	-	89,210	89,210	30,255
Total nonoperating revenues	35,000	435,197	400,197	73,003
Total revenues	19,918,654	19,787,585	(131,069)	18,583,703
Expenditures:				
Salaries and employee benefits	7,673,757	6,968,474	705,283	5,513,497
Water purchases for resale	2,900,000	2,767,947	132,053	2,732,327
Professional services	537,380	409,301	128,079	888,532
Repairs and maintenance	473,700	428,430	45,270	771,757
Other operating expenditures	5,293,605	4,025,286	1,268,319	3,590,064
Total utility operations	16,878,442	14,599,438	2,279,004	13,496,177
Capital outlay	\$ 955,610	\$ 445,679	\$ 509,931	\$ 1,164,360
Total expenditures	17,834,052	15,045,117	2,788,935	14,660,537

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON - GAAP)

Schedule 20

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

Revenues over expenditures	2,084,602	4,742,468	2,657,866	3,923,166
Other financing sources (uses):				
Transfer from other funds*	4,027,155	3,049,848	(977,307)	5,499,618
Transfer (to) other funds*	(16,329,175)	(15,384,259)	944,916	(9,590,618)
Installment purchase	684,610	-	(684,610)	716,000
Appropriated fund balance	9,532,808	-	(9,532,808)	-
Total other financing sources (uses)	(2,084,602)	(12,334,411)	(10,249,809)	(3,375,000)
Revenues over expenditures and other financing uses	-	(7,591,943)	<u>\$ (7,591,943)</u>	548,166
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Depreciation and amortization		(4,601,933) *		(4,319,930)
Right of use lease SBITA amortization		(168,958)		-
Capital outlay		20,459,207		10,367,649
Capital contributions		3,386,848 *		3,018,954
Debt issuance		- *		(716,068)
Principal retirement		3,507,793 *		2,981,253
Bond refunding		73,742		300,418
Increase in deferred inflows - grants		68,811		687,896
Change in accrued interest payable		(42,261) *		10,307
Increase in compensated absences		(8,982) *		(71,286)
Increase in pension obligation		(2,536,301)		1,017,350
Decrease in deferred inflows - pension		1,167,789		(1,208,027)
Increase in deferred outflows - pension		770,477		189,971
Increase in deferred outflows of resources for contributions made to pension plan in current fiscal year		348,625		(54,646)
Increase in OPEB obligation		30,364		(10,019)
Increase deferred inflows of resources - OPEB		12,522		(64,729)
Decrease deferred outflows of resources - OPEB		(17,641)		341
Total reconciling items		<u>22,450,102</u>		<u>12,129,434</u>
Net income - Utility Fund		14,858,159		12,677,600
Other Utility Funds:				
Debt Service Fund - net income		2,759,700	\$	63,986
Utility PayGo Fund - net income		1,008,439		435,000
Capital project funds:				
Utility Reserve Fund - net income		2,725,138		
Water Project Fund - net income		(1,384,323)		10,661,377
Waste Water Projects Fund - net income		2,453,048		5,853,525
Water Reserve Fund - net income		(7,334,874)		(2,588,367)
Waste Water Reserve Fund - net income		(2,245,030)		(2,425,712)
Net income - GAAP		<u>\$ 12,840,257</u>	<u>\$</u>	<u>24,677,409</u>

*American Rescue Plan of 2021 - transfer in/out

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 21
DEBT SERVICE FUND - UTILITY
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Investment earnings	\$ 2,000	\$ 59,351	\$ 57,351	\$ 6,363
Total revenues	<u>2,000</u>	<u>59,351</u>	<u>57,351</u>	<u>6,363</u>
Expenditures:				
Operating expenditures	236,533	40,071	196,462	83,859
Debt service:				
Bond principal	2,153,618	2,075,839	77,779	1,495,884
Bond interest	450,429	448,092	2,337	443,235
Installment note principal	1,431,978	1,431,952	26	1,485,369
Installment note interest	227,442	206,172	21,270	233,763
Total debt service	<u>4,263,467</u>	<u>4,162,055</u>	<u>101,412</u>	<u>3,658,251</u>
Total expenditures	<u>4,500,000</u>	<u>4,202,126</u>	<u>297,874</u>	<u>3,742,110</u>
Revenues under expenditures	<u>(4,498,000)</u>	<u>(4,142,775)</u>	<u>355,225</u>	<u>(3,735,747)</u>
Other financing sources (uses):				
Transfers in:				
System Development Fee	-	-	-	3,994,346
Utility Fund	4,498,000	6,902,475	2,404,475	91,000
Total other financing sources (uses)	<u>4,498,000</u>	<u>6,902,475</u>	<u>2,404,475</u>	<u>4,085,346</u>
Debt refunding:				
Principal payments	-	-	-	(8,590,000)
Refunding bonds issued	-	-	-	8,304,387
Total debt refunding	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285,613)</u>
Net change in fund balance	<u>\$ -</u>	<u>2,759,700</u>	<u>\$ 2,759,700</u>	<u>63,986</u>
Fund Balance - Beginning of year		<u>3,926,129</u>		<u>3,862,143</u>
Fund Balance - End of year		<u>\$ 6,685,829</u>		<u>\$ 3,926,129</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
UTILITY RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Schedule 22

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Investment earnings	\$ 26,000	\$ -	\$ 52,429	\$ -	\$ 52,429
Capacity replacement fees	2,800,000	-	-	-	-
Miscellaneous	4,000	-	-	-	-
Total revenues	2,830,000	-	52,429	-	52,429
Other financing sources (uses):					
Transfers in	170,000	-	2,672,709	-	2,672,709
Transfers (out)	(3,000,000)	-	-	-	-
Total other financing sources (uses)	(2,830,000)	-	2,672,709	-	2,672,709
Net change in fund balance	\$ -	\$ -	2,725,138	\$ -	\$ 2,725,138
Net position - Beginning of year			-		
Net position - End of year			\$ 2,725,138		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 23
CAPITAL PROJECTS FUND
WATER PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Investment earnings	\$ -	\$ 9,686	\$ 182,276	\$ -	\$ 191,962
State grant	13,760,000	7,419,889	340,111	-	7,760,000
Federal grant	5,500,000	-	5,500,000	-	5,500,000
Miscellaneous revenues	9,927,030	5,005,204	-	-	5,005,204
Total revenues	29,187,030	12,434,779	6,022,387	-	18,457,166
Expenditures:					
Capital outlay:					
Avent Ferry Road Realignment Waterline	250,000	-	-	-	-
Friendship Utilities	30,000,000	7,826,924	14,650,103	-	22,477,027
Fuquay Water Line Conveyance	3,300,000	299,730	611,758	-	911,488
NC 540 Utility Relocation	739,750	-	-	-	-
NW Water and Reclaim Connection	1,000,000	-	-	-	-
Reclaimed Water Storage Tank	200,000	-	-	-	-
Sanford Water Capacity and Linework	54,300,000	366,315	1,557,387	-	1,923,702
Harnett County Booster Station Upgrade	8,200,000	35,229	37,462	-	72,691
Total expenditures	97,989,750	8,528,198	16,856,710	-	25,384,908
Revenues under expenditures	(68,802,720)	3,906,581	(10,834,323)	-	(6,927,742)
Installment note issuance	-	-	-	-	-
Revenue bond proceeds	45,800,000	-	-	-	-
Transfers (out)	-	(2,396,130)	(3,303,869)	200,000	(5,499,999)
Transfers in:					
Utility Fund	9,575,644	5,872,770	4,317,091	-	10,189,861
Utility Capital Projects	922,076	922,076	-	-	922,076
Utility Reserves	8,187,909	4,605,000	5,332,909	-	9,937,909
System Development Fees	4,317,091	200,000	-	(200,000)	-
Other - ARPA	-	2,396,130	3,103,869	-	5,499,999
Total transfers	68,802,720	11,599,846	9,450,000	-	21,049,846
Change in net position	\$ -	\$ 15,506,427	(1,384,323)	-	\$ 14,122,104
Net position - Beginning of year			15,506,467		
Net position - End of year			\$ 14,122,144		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

Schedule 24

CAPITAL PROJECTS FUND

WATER RESERVE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Prior Years	Actual		Total to Date
			Current Year	Closed Projects	
Revenues:					
Development fees-in-lieu	\$ 8,687,778	\$ 8,687,778	\$ -	\$ (2,000,000)	\$ 6,687,778
Investment earnings	19,685	24,943	-	(2,966)	21,977
Miscellaneous	459,420	460,420	1,000	-	461,420
Total revenues	<u>9,166,883</u>	<u>9,173,141</u>	<u>1,000</u>	<u>(2,002,966)</u>	<u>7,171,175</u>
Other financing sources (uses):					
Transfers in	1,368,500	1,188,501	-	-	1,188,501
Transfers (out)	<u>(10,535,383)</u>	<u>(3,026,768)</u>	<u>(7,335,874)</u>	<u>2,002,966</u>	<u>(8,359,676)</u>
Total other financing sources (uses)	<u>(9,166,883)</u>	<u>(1,838,267)</u>	<u>(7,335,874)</u>	<u>2,002,966</u>	<u>(7,171,175)</u>
Change in net position	<u>\$ -</u>	<u>\$ 7,334,874</u>	<u>(7,334,874)</u>	<u>\$ (0)</u>	<u>\$ (0)</u>
Net position - Beginning of year			<u>7,334,874</u>		
Net position - End of year			<u>\$ -</u>		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 25
CAPITAL PROJECTS FUND
WASTEWATER PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Investment earnings	\$ -	\$ 5,227	\$ 90,437	\$ (224)	\$ 95,440
State grant	4,000,000	129,719	100,725	-	230,444
Federal grant	5,960,000	5,860,000	100,000	-	5,960,000
Miscellaneous revenues	-	25,431	-	-	25,431
Total revenues	9,960,000	6,020,377	291,162	(224)	6,311,315
Expenditures:					
Capital outlay:					
Business Park Pump Station - Phase	500,000	106,000	100,725	-	206,725
Avent Ferry Pump Station Force Main	-	2,877,626	-	(2,877,626)	-
Basal Creek Pump Station Upgrade - Phase 2	882,330	-	-	-	-
Twelve Oaks Pump Station - Phase 2	3,500,000	203,011	1,114,633	-	1,317,644
Bass Lake Pump Station - Phase 2	400,000	25,225	114,163	-	139,388
Business Park Pump Station - Fujifilm	7,500,000	129,719	-	-	129,719
Holly Springs Road Phase 2 - Forcemain Upsize	2,460,000	-	736,637	-	736,637
Sunset Ridge and Bass Lake Grinder	200,000	-	-	-	-
UCWRF 8 MGD upgrade	1,000,000		271,956		271,956
Total expenditures	16,442,330	3,341,581	2,338,114	(2,877,626)	2,802,069
Revenues under (over) expenditures	(6,482,330)	2,678,796	(2,046,952)	2,877,402	3,509,246
Other financing sources:					
Installment note issuance		3,231,601	-	(3,045,650)	185,951

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
Schedule 25
CAPITAL PROJECTS FUND
WASTEWATER PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			
		Prior Years	Current Year	Closed Projects	Total to Date
Transfer in:					
Other	\$ 3,224,713	\$ 1,296,029	\$ 3,224,713	\$ -	\$ 4,520,742
Other - American Rescue Plan "ARPA"	-	3,500,000	688,430	-	4,188,430
Utility Reserve	3,257,617	600,000	1,275,287	(99,655)	1,775,632
Transfer out:					
Other - American Rescue Plan "ARPA"	-	(3,500,000)	(688,430)	-	(4,188,430)
Utility Reserve		(267,903)		267,903	-
Total transfers	<u>6,482,330</u>	<u>4,859,727</u>	<u>4,500,000</u>	<u>(2,877,402)</u>	<u>6,482,325</u>
Change in net position	<u>\$ -</u>	<u>\$ 7,538,523</u>	<u>2,453,048</u>	<u>-</u>	<u>\$ 9,991,571</u>
Net position - Beginning of year			<u>7,538,529</u>		
Net position - End of year			<u>\$ 9,991,577</u>		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA

Schedule 26

CAPITAL PROJECTS FUND

WASTEWATER RESERVE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Actual				
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Investment earnings	\$ 5,764	\$ 7,253	-	\$ (840)	\$ 6,413
Miscellaneous	4,321,076	4,321,075	-	(500,000)	3,821,075
Total revenues	4,326,840	4,328,328	-	(500,840)	3,827,488
Other financing sources (uses):					
Transfers in	1,532,591	1,351,984	-	(168,903)	1,183,081
Transfers (out)	(5,859,431)	(3,435,282)	(2,245,030)	669,743	(5,010,569)
Total other financing sources (uses)	(4,326,840)	(2,083,298)	(2,245,030)	500,840	(3,827,488)
Change in net position	<u>\$ -</u>	<u>\$ 2,245,030</u>	(2,245,030)	<u>\$ -</u>	<u>\$ -</u>
Net position - Beginning of year			2,245,030		
Net position - End of year			<u>\$ -</u>		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
UTILITY PAYGO FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Schedule 27

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Actual				
	LTD Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Investment earnings	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-	-
Total revenues	-	-	-	-	-
Expenses:					
Operating	420,000		433,561	-	433,561
Capital outlay	2,557,000		-	-	-
	2,977,000	-	433,561	-	433,561
Other financing sources (uses):					
Transfers in	2,977,000	435,000	1,442,000	-	1,877,000
Total other financing sources (uses)	2,977,000	435,000	1,442,000	-	1,877,000
Change in net position	\$ -	\$ 435,000	1,008,439	\$ -	\$ 1,443,439
Net position - Beginning of year			435,000		
Net position - End of year			\$ 1,443,439		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
SYSTEM DEVELOPMENT FEE
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Schedule 28

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
System Development Fees	\$ 25,961,871	\$ 13,064,617	\$ 8,708,967	\$ (3,794,346)	\$ 17,979,238
Investment earnings	41,840	17,809	161,706	-	179,515
Total revenues	26,003,711	13,082,426	8,870,673	(3,794,346)	18,158,753
Other financing sources (uses):					
Transfers in- Water Project	-	-	200,000	(200,000)	-
Transfers (out)					
Utility Fund	(17,815,019)	-	-	-	-
Water Projects	(200,000)	-	-	-	-
Wastewater Projects	-	-	(3,224,713)	-	(3,224,713)
Utility Fund Debt Service	(7,988,692)	(3,994,346)	-	3,994,346	-
Total other financing sources (uses)	(26,003,711)	(3,994,346)	(3,024,713)	3,794,346	(3,224,713)
Change in net position	\$ -	\$ 9,088,080	5,845,960	\$ -	\$ 14,934,040
Net position - Beginning of year			9,088,080		
Net position - End of year			\$ 14,934,040		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STORMWATER MANAGEMENT FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON - GAAP)

Schedule 29

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Operating revenues:				
Charges for services				
Development fees	\$ 250,000	\$ 164,986	\$ 85,014	\$ 227,396
Stormwater - residential	840,000	897,074	(57,074)	855,419
Stormwater - non-residential	480,000	509,784	(29,784)	472,546
Total operating revenues	1,570,000	1,571,844	(1,844)	1,555,361
Nonoperating revenues:				
Investment earnings	3,000	85,997	(82,997)	7,224
Total nonoperating revenues	3,000	85,997	(82,997)	7,224
Total revenues	1,573,000	1,657,841	(84,841)	1,562,585
Expenditures:				
Salaries and employee benefits	1,207,686	888,216	319,470	566,926
Professional services	19,040	15,485	3,555	89,257
Repairs and maintenance			-	56,194
Other operating expenditures	284,669	111,378	173,291	77,814
Total utility operations	1,511,395	1,015,079	496,316	790,191
Capital outlay	246,000	66,373	179,627	35,642
Total expenditures	1,757,395	1,081,452	675,943	825,833
Revenues over expenditures	(184,395)	576,389	760,784	736,752
Other financing sources (uses):				
Transfer from other funds	200,000	-	(200,000)	-
Transfer (to) other funds	(15,605)	-	15,605	(539,522)
Transfer-in American Rescue Plan "ARPA"	1,000,000	481,176	(518,824)	587,100
Transfer (out) - American Rescue Plan "ARPA"	(1,000,000)	(481,176)	518,824	(587,100)
Appropriated fund balance		-	-	-
Total other financing sources (uses)	184,395	-	(184,395)	(539,522)
Revenues over expenditures and other financing uses	\$ -	\$ 576,389	\$ 576,389	\$ 197,230

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
STORMWATER MANAGEMENT FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON - GAAP)

Schedule 29

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2022)

	2023		2022
	Budget	Actual	Variance Positive (Negative)
			Actual
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation and amortization		(57,863)	(52,890)
Capital outlay		66,373	35,642
Increase in compensated absences		(30,212)	(4,564)
Increase in pension obligation		(225,842)	104,584
Decrease in deferred inflows - pension		119,565	(124,185)
Increase in deferred outflows - pension		57,513	19,529
Deferred outflows of resources for contributions made to pension plan in current fiscal year		33,638	6,220
Increase in OPEB obligation		(29,238)	382
Decrease deferred inflows of resources - OPEB		(109)	(6,656)
Increase deferred outflows of resources - OPEB		(8,006)	34
Total reconciling items		<u>(74,181)</u>	<u>(21,904)</u>
 Net income - Stormwater Management Fund		502,208	175,326
 Other Stormwater Funds:			
Capital project funds:			
Stormwater Reserve Fund		(380,120)	541,275
 Net income - GAAP		<u>\$ 122,088</u>	<u>\$ 716,601</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
CAPITAL PROJECTS FUND
STORMWATER RESERVE
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Schedule 30

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

		Actual			
	Project Authorization	Prior Years	Current Year	Closed Projects	Total to Date
Revenues:					
Development fees-in-lieu	\$ 244,362	\$ 244,363	\$ -	\$ -	\$ 244,363
Investment earnings	2,155	2,826	19,880	-	22,706
Total revenues	246,517	247,189	19,880	-	267,069
Other financing sources (uses):					
Transfers in	1,162,080	1,227,080	-	-	1,227,080
Transfers (out)	(1,408,597)	-	(400,000)	-	(400,000)
Total other financing sources (uses)	(246,517)	1,227,080	(400,000)	-	827,080
Net change in fund balance	\$ -	\$ 1,474,269	(380,120)	\$ -	\$ 1,094,149
Net position - Beginning of year			1,474,269		
Net position - End of year			\$ 1,094,149		

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE -
GENERAL FUND AND DEBT SERVICE FUND

SCHEDULE 31

June 30, 2023

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2022</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2023</u>
2022-2023	\$ -	\$ 31,551,318	\$ (31,501,189)	\$ 50,129
2021-2022	59,447		(23,173)	36,274
2020-2021	33,686	-	(2,490)	31,196
2019-2020	26,819	-	(1,794)	25,025
2018-2019	19,462	-	(523)	18,939
2017-2018	14,424	-	(497)	13,927
2016-2017	9,761	-	(599)	9,162
2015-2016	19,978	-	(310)	19,668
2014-2015	1,490	-	(132)	1,358
2013-2014	11,860	-	(980)	10,880
2012-2013	33,858	-	(33,858)	-
	<u>\$ 230,785</u>	<u>\$ 31,551,318</u>	<u>\$ (31,565,545)</u>	<u>\$ 216,558</u>
Less: allowance for uncollectible accounts				
General Fund				(120,908)
Debt Service Fund				(49,385)
Ad valorem taxes receivable-net			<u>\$</u>	<u>46,265</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes-General Fund			\$	22,410,445
Ad valorem taxes-Debt Service Fund				9,138,495
Reconciling items:				
Releases allowed				34,755
Penalties and interest				(47,229)
Other				(4,775)
Taxes written off				33,858
Total collections and credits			<u>\$</u>	<u>31,565,549</u>

TOWN OF HOLLY SPRINGS, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY

Schedule 32

YEAR ENDED JUNE 30, 2023

				Total Levy	
	Town - Wide		Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate			
Original levy:					
Property taxed at current rate	\$ 7,448,879,507	\$ 0.4216	\$ 31,404,476	\$ 28,826,733	\$ 2,577,743
Motor Vehicle Decals	-		10,550	10,550	-
Penalties	-		9,593	9,593	-
Total	7,448,879,507		31,424,619	28,846,876	2,577,743
Discoveries			221,279	221,279	-
Rebates and Releases	\$ (22,433,586)	\$ 0.4216	(94,580)	(94,580)	-
Total Property Valuation	<u>\$ 7,426,445,920</u>				
Net levy			31,551,318	28,973,575	2,577,743
Uncollected taxes at June 30, 2023			(50,129)	(32,192)	(17,937)
Current year's taxes collected			<u>\$ 31,501,189</u>	<u>\$ 28,941,383</u>	<u>\$ 2,559,806</u>
Current levy collection percentage			<u>99.84%</u>	<u>99.89%</u>	<u>99.30%</u>



Prepared by the Town of Holly Springs Finance Department

APPENDIX D

FINANCIAL FEASIBILITY REPORT

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Town of Holly Springs, North Carolina

Financial Feasibility Evaluation of Enterprise Systems Revenue Bonds, Series 2024

July 16, 2024

EVALUATION BY FINANCIAL FEASIBILITY CONSULTANTS
Town of Holly Springs, North Carolina
Enterprise Systems
Revenue Bonds, Series 2024

We have evaluated the accompanying Forecast Statement of Revenues, Current Expenses, Debt Service, and Debt Service Coverage (the "Forecast Statement") for the Town of Holly Springs (the "Town") Enterprise Systems for the five fiscal years ending June 30, 2025 through June 30, 2029. Our evaluation was conducted in accordance with guidelines for the water and sewer industry and included such procedures we considered necessary to evaluate the assumptions of the Town.

In evaluating the financial feasibility of the project, those assumptions that we believe are most significant include:

- Forecast operating costs for providing water and sewer services to meet necessary demand during the forecast period;
- Forecast future debt issues and the timing of additional debt service payments to meet capital investment needs;
- Forecast growth in customers and demand for water and sewer services during the forecast period; and
- Forecast revenues from rate adjustments during the forecast period.

The accompanying Forecast Statement is presented on an accrual basis and then adjusted to be consistent with the Town's budgeting process for its water and sewer systems, and the specific requirements of certain defined terms identified in the General Trust Indenture dated as of July 1, 2024 (the "General Indenture") between the Town and U.S. Bank Trust Company, National Association as "Trustee". The Forecast Statement and the Summary of Significant Forecast Assumptions (included as an integral part of the forecast) constitute the "Feasibility Evaluation" for the proposed capital projects and bond financing.

In our opinion, the accompanying Forecast Statement is presented in conformity with industry guidelines for presentation of a forecast, and the underlying assumptions provide a reasonable basis for the Town's forecast. Based upon the assumptions in our report, the forecast revenues provide adequate funds to maintain strong debt service coverage ratios during the forecast period for the issuance of the Town's Enterprise Systems Revenue Bonds, Series 2024. However, there will be differences between the forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report. NewGen Strategies and Solutions, LLC is not responsible for completing a detailed review of the Official Statement, General Indenture, or other documents prepared for the Town's proposed Enterprise Systems Revenue Bonds, Series 2024. Our services relate only to preparing the feasibility report and reviewing portions of other documents that specifically refer to the Forecast Statement.

NewGen Strategies and Solutions, LLC



Michael Maker, Partner

Forecast Statement of Revenues, Current Expenses, Debt Service, and Debt Service Coverage

Town of Holly Springs, North Carolina Forecast Statement of Revenues, Current Expenses, Debt Service, and Debt Service Coverage For the Fiscal Year Ending June 30

	Estimated FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Operating Revenues						
User Fees and Rates – Water (1)	\$11,900,000	\$13,999,235	\$17,135,032	\$19,208,860	\$21,539,072	\$24,136,916
User Fees and Rates – Sewer (1)	9,683,580	12,753,066	15,903,376	17,835,336	19,988,031	22,391,854
Other Operating Revenues (2)	986,500	986,500	986,500	986,500	986,500	986,500
Subtotal Operating Revenues	\$22,570,080	\$27,738,801	\$34,024,907	\$38,030,697	\$42,513,603	\$47,515,270
Operating Expenses (3)						
Admin, Treatment, Distribution, and Collection	(\$17,500,000)	(\$18,513,306)	(\$19,003,649)	(\$19,748,677)	(\$20,268,022)	(\$21,358,780)
Depreciation and Amortization	(5,036,032)	(5,287,834)	(5,552,225)	(5,829,837)	(6,121,328)	(6,427,395)
Subtotal Operating Expenses	(\$22,536,032)	(\$23,801,140)	(\$24,555,874)	(\$25,578,513)	(\$26,389,351)	(\$27,786,175)
Operating Income	\$34,048	\$3,937,661	\$9,469,034	\$12,452,183	\$16,124,253	\$19,729,095
Non-Operating Revenues (Expenses)						
System Development Fees - Water & Sewer (4)	\$6,158,836	\$6,158,836	\$6,158,836	\$6,158,836	\$6,158,836	\$6,158,836
Investment Earnings	216,193	315,190	456,611	213,988	294,183	564,665
Interest Expense	(620,777)	(1,019,656)	(1,383,974)	(4,286,044)	(7,501,015)	(12,709,976)
Subtotal Non-Operating Revenues (Expenses)	\$5,754,252	\$5,454,370	\$5,231,473	\$2,086,779	(\$1,047,995)	(\$5,986,474)
Income Before Transfers / Capital Contributions	\$5,788,300	\$9,392,031	\$14,700,507	\$14,538,963	\$15,076,257	\$13,742,621
Adjustments (5)						
Plus Depreciation and Amortization	\$5,036,032	\$5,287,834	\$5,552,225	\$5,829,837	\$6,121,328	\$6,427,395
Plus Interest Expense	620,777	1,019,656	1,383,974	4,286,044	7,501,015	12,709,976
Subtotal Adjustments	\$5,656,810	\$6,307,490	\$6,936,200	\$10,115,881	\$13,622,343	\$19,137,371
A Net Revenues	\$11,445,109	\$15,699,521	\$21,636,706	\$24,654,844	\$28,698,601	\$32,879,991
Plus 20% of Fund Balance	10,758,557	8,197,234	8,104,383	4,022,071	4,824,027	7,528,847
B Net Revenues Plus 20% of Fund Balance	\$22,203,666	\$23,896,755	\$29,741,090	\$28,676,914	\$33,522,627	\$40,408,838
Debt Service - Parity Indebtedness (6)						
2020 Revenue Bond 2010 Refunding	\$702,050	\$702,050	\$702,050	\$702,050	\$702,050	\$702,050
2020A Revenue Bond 2008 Refunding	1,042,412	1,073,314	1,105,643	1,139,466	1,174,851	1,211,301
Series 2024 Water Revenue Bond	-	-	-	4,129,075	4,129,825	4,127,575
Forecast Series 2025 Water Revenue Bond	-	-	-	-	4,526,125	4,527,375
Forecast Series 2026 Sewer Revenue Bond	-	-	-	-	-	7,279,750
C Subtotal Debt Service - Parity Indebtedness	\$1,744,463	\$1,775,364	\$1,807,693	\$5,970,591	\$10,532,851	\$17,848,051
Debt Service Coverage - Parity Indebtedness						
D =A/C Using Net Revenues	6.56	8.84	11.97	4.13	2.72	1.84
E =B/C Using Net Revenues Plus 20% of Fund Balance	12.73	13.46	16.45	4.80	3.18	2.26
Debt Service - Non-Parity Indebtedness						
<u>Subordinate Indebtedness</u>						
2010 CWSRF - Utle Creek	\$1,003,625	\$985,250	\$966,875	\$948,500	\$930,125	\$911,750
2011 NCDENR - ARRA	1,668	1,668	1,668	1,668	1,668	1,668
2020B Aventura Ferry Forcemain	230,718	230,718	230,718	230,718	230,718	230,719
Subtotal Subordinate Indebtedness	\$1,236,010	\$1,217,636	\$1,199,260	\$1,180,885	\$1,162,511	\$1,144,136
<u>GO Indebtedness</u>						
2022 Refunding GO Bond	\$768,776	\$760,687	\$749,639	\$777,653	\$766,704	\$708,408
Subtotal GO Indebtedness	\$768,776	\$760,687	\$749,639	\$777,653	\$766,704	\$708,408
<u>Other Indebtedness</u>						
2021 New Money	\$181,826	\$181,826	\$90,913	-	-	-
2023 Limited Obligation Bonds	32,540	64,013	132,263	128,763	125,263	121,763
Portion of 2024 LOBs for Enterprise CIP	-	434,250	868,500	1,587,172	1,587,172	1,587,172
Subtotal Other Indebtedness	\$214,366	\$680,089	\$1,091,676	\$1,715,935	\$1,712,435	\$1,708,935
F Subtotal Debt Service - Non-Parity Indebtedness	\$2,219,152	\$2,658,412	\$3,040,576	\$3,674,474	\$3,641,650	\$3,561,479

	<i>Estimated FY 2024</i>	<i>Forecast FY 2025</i>	<i>Forecast FY 2026</i>	<i>Forecast FY 2027</i>	<i>Forecast FY 2028</i>	<i>Forecast FY 2029</i>
G =C+F Debt Service – Total Indebtedness	\$3,963,615	\$4,433,776	\$4,848,269	\$9,645,064	\$14,174,501	\$21,409,530
Debt Service Coverage - Total Indebtedness						
H =A/G Using Net Revenues	2.89	3.54	4.46	2.56	2.02	1.54
I =B/G Using Net Revenues Plus 20% of Fund Balance	5.60	5.39	6.13	2.97	2.36	1.89
J =A-G Net Revenues Less Total Debt Service	\$7,481,495	\$11,265,745	\$16,788,438	\$15,009,779	\$14,524,100	\$11,470,461
Other Expenditures						
Cash Funded CIP	(\$1,650,000)	(\$1,730,000)	(\$9,200,000)	(\$1,000,000)	(\$1,000,000)	(\$2,000,000)
Subtotal Other Expenditures	(\$1,650,000)	(\$1,730,000)	(\$9,200,000)	(\$1,000,000)	(\$1,000,000)	(\$2,000,000)
Revenue Surplus/(Deficit) After Cash Needs	\$5,831,495	\$9,535,745	\$7,588,438	\$14,009,779	\$13,524,100	\$9,470,461
Use of Fund Balance for Capital Projects	-	(\$10,000,000)	(\$28,000,000)	(\$10,000,000)	-	(\$3,675,000)
Ending Fund Balance – Unrestricted (7)	\$40,986,171	\$40,521,916	\$20,110,354	\$24,120,133	\$37,644,233	\$43,439,694
Days Cash on Hand	855	799	386	446	678	742

Notes to the Forecast Statement

- (1) Water and sewer user fees and rates consist of revenues from monthly minimum charges and volumetric rates from the sale of water and sewer for all of the Town's customer classes. Fees and rates are increasing over the Forecast Period due to forecast rate adjustments each year through FY 2029. The forecast rate adjustments for water and sewer equal 15% in FY 2024, 15% in FY 2025, 15% in FY 2026, 9.5% in FY 2027, 9.5% in FY 2028, and 9.5% in FY 2029. Growth in the number of customer accounts or water and sewer billable consumption is also included in the projection of revenues for this forecast.
- (2) Other Operating Revenues include water meter fees, water and sewer late fees, taps, inspection fees, and other miscellaneous revenues.
- (3) Water and sewer operating expenses include the purchase of water from Harnett County, labor, benefits, retirement, chemicals, services, supplies, equipment, and maintenance. Water and sewer operating expenses for FY 2024 have been estimated for the entire fiscal year based on expenses incurred to date. These estimated expenses were then escalated for FY 2025 through FY 2029 based on anticipated cost increases.
- (4) Water and sewer system development fees consist of revenues from one-time charges incurred by new customers joining the water and sewer system. Conservatively, no growth in the number of new customer accounts is included in the projection of revenues for this forecast.
- (5) The audited financial statements for the Town, as presented in the Annual Comprehensive Financial Report (ACFR), are developed on an accrual basis consistent with generally accepted accounting principles (GAAP) to calculate Income Before Transfers / Capital Contributions. Depreciation and amortization and interest expense are added back to calculate Net Revenues consistent with the requirements in the General Indenture.
- (6) Series 2024, Forecast Series 2025, and Forecast Series 2026 bond issues include capitalized interest, so debt payments do not start until two years after issuance.
- (7) The ending fund balance is the summation of the Unrestricted Net Position for the Town's water and sewer operating, capital, system development fee, and debt funds as of June 30. The ending cash balance does not include any reserved or encumbered funds.

Historical Statement of Revenues, Current Expenses, Debt Service, and Debt Service Coverage

Town of Holly Springs, North Carolina Historical Statement of Revenues, Current Expenses, Debt Service, and Debt Service Coverage (1) For the Fiscal Year Ending June 30

	Actual FY 2019	Actual FY 2020	Actual FY 2021	Actual FY 2022	Actual FY 2023
Operating Revenues					
User Fees and Rates - Water & Sewer	\$19,080,926	\$22,192,800	\$17,960,235	\$17,288,537	\$18,512,579
Other Operating Revenues	1,135,072	1,045,043	1,332,523	1,222,162	3,529,744
Subtotal Operating Revenues	\$20,215,998	\$23,237,843	\$19,292,758	\$18,510,699	\$22,042,323
Operating Expenses					
Admin, Treatment, Distribution, and Collection	(\$10,346,964)	(\$14,343,535)	(\$10,826,684)	(\$13,498,999)	(\$16,892,373)
Depreciation and Amortization	(3,948,520)	(4,230,569)	(4,281,733)	(4,338,312)	(4,796,221)
Subtotal Operating Expenses	(\$14,295,484)	(\$18,574,104)	(\$15,108,417)	(\$17,837,311)	(\$21,688,594)
Operating Income	\$5,920,514	\$4,663,739	\$4,184,341	\$673,388	\$353,729
Non-Operating Revenues (Expenses)					
System Development Fees - Water & Sewer	-	-	\$4,251,962	\$3,615,205	\$8,708,967
Investment Earnings	796,779	518,934	5,439	90,234	876,720
Interest Expense	(1,179,190)	(1,123,290)	(674,558)	(742,365)	(696,524)
Gain (Loss) on Sale of Assets	(12,417)	(10,602)	35,520	30,255	89,210
Other	(1,768,444)	-	454,442	18,547,456	5,940,111
Subtotal Non-Operating Revenues (Expenses)	(\$2,163,272)	(\$614,958)	\$4,072,805	\$21,540,785	\$14,918,484
Income Before Transfers / Capital Contributions	\$3,757,242	\$4,048,781	\$8,257,146	\$22,214,173	\$15,272,213
Adjustments					
Plus Depreciation and Amortization	\$3,948,520	\$4,230,569	\$4,281,733	\$4,338,312	\$4,796,221
Plus Interest Expense	1,179,190	1,123,290	674,558	742,365	696,524
Subtotal Adjustments	\$5,127,710	\$5,353,859	\$4,956,291	\$5,080,677	\$5,492,745
A Net Revenues	\$8,884,952	\$9,402,640	\$13,213,437	\$27,294,850	\$20,764,958
Plus 20% of Fund Balance	8,351,655	8,798,443	8,778,237	10,179,233	11,236,396
B Net Revenues Plus 20% of Fund Balance	\$17,236,607	\$18,201,083	\$21,991,674	\$37,474,083	\$32,001,354
C Debt Service – Parity Indebtedness	\$1,904,372	\$1,918,373	\$1,925,287	\$1,686,693	\$1,714,926
Debt Service Coverage – Parity Indebtedness					
D =A/C Using Net Revenues	4.67	4.90	6.86	16.18	12.11
E =B/C Using Net Revenues Plus 20% of Fund Balance	9.05	9.49	11.42	22.22	18.66
F Debt Service - Non-Parity Indebtedness	\$2,102,153	\$2,081,963	\$2,088,953	\$2,195,897	\$2,447,289
G =C+F Debt Service – Total Indebtedness	\$4,006,525	\$4,000,337	\$4,014,239	\$3,882,591	\$4,162,215
Debt Service Coverage - Total Indebtedness					
H =A/G Using Net Revenues	2.22	2.35	3.29	7.03	4.99
I =B/G Using Net Revenues Plus 20% of Fund Balance	4.30	4.55	5.48	9.65	7.69
J =A-G Net Revenues Less Total Debt Service	\$4,878,427	\$5,402,303	\$9,199,198	\$23,412,259	\$16,602,743
Ending Fund Balance – Unrestricted (2)	\$43,992,217	\$43,891,186	\$50,896,164	\$56,181,978	\$53,792,784
Days Cash on Hand	1,552	1,117	1,716	1,519	1,162

Notes to the Historical Statement

- (1) Historical information was obtained from the Town's annual comprehensive financial reports for FY 2019 through FY 2023.
- (2) The ending fund balance includes additional reserved and encumbered funds not included in the ending fund balance of the Forecast Statement.

Summary of Significant Forecast Assumptions

Explanatory Notes

Explanatory Note 1. Basis of Presentation

NewGen Strategies and Solutions ("NewGen") has been engaged by the Town of Holly Springs (the "Town") to evaluate the financial feasibility of the proposed issuance of revenue bonds to fund improvements to its enterprise systems (the "Systems"). The opinion letter to the Town is based upon the Forecast Statement of Revenues, Current Expenses, Debt Service, and Debt Service Coverage (the "Forecast Statement") and the Summary of Significant Forecast Assumptions (taken together, the "Feasibility Evaluation") which presents, to the best of the NewGen's knowledge and belief, based upon available information by the Town, the expected revenue, current expenses, debt service, and debt service coverage for the System during the Forecast Period (defined below).

All schedules in the Feasibility Evaluation have been presented in accordance with the Town's annual budgeting and accounting cycle, based upon its fiscal year beginning July 1 and ending June 30 ("Fiscal Year" or "FY"). Accordingly, the forecast reflects the Town's judgment as of July 16, 2024, the date of this forecast, of the expected conditions and the Town's expected course of action during each of the six fiscal years ending June 30, 2024 through June 30, 2029 (the "Forecast Period").

The Feasibility Evaluation has been included as a part of the Official Statement for the Town's Enterprise Systems Revenue Bonds, Series 2024 ("Series 2024 Bonds"). This feasibility evaluation focuses on the impact of the Series 2024 Bonds, which will finance various improvements to the Town's water and sewer enterprise systems. The proceeds from the Series 2024 Bonds will not be sufficient to fund all of the Town's water and sewer enterprise systems during the forecast period. To fund the remaining capital needs of the water and sewer enterprise systems, the Town plans to utilize cash generated from user fees and rates and existing reserves.

The Feasibility Evaluation is based on cost, operating, demographic, and other relevant information provided by the Town and the debt service schedules provided to the Town by its Financial Advisor, DEC Associates, Inc. Forecasts of revenues and expenses are prepared on a cash basis, consistent with the Town's budgeting process and the specific requirements identified in the General Indenture.

The assumptions disclosed herein are those that the Town believes are significant to the Forecast Statement. There will usually be differences between forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Explanatory Note 2. Background

Town Overview

The Town was established in 1876 and is located in southwest Wake County (the “County”) in the eastern Piedmont region of North Carolina, approximately 18 miles from downtown Raleigh, the State Capital. The Town covers approximately 18.65 square miles and has an estimated population of 45,066.

The Town has a council-manager form of government. The five members of the Town Council are elected at-large and serve staggered four-year terms. The Town Council has policy-making and legislative authority and is responsible for the budget approval and appointment of the Town Manager, Town Attorney, and Town Clerk. The Town Manager is responsible for implementing Council policies and Town ordinances, managing daily operations, and appointing department directors.

Utility Organization

The water and wastewater systems are owned by the Town and operated through its Utilities and Infrastructure Department. The Utilities and Infrastructure Department’s primary function is to maintain the Town’s water and wastewater infrastructure in accordance with applicable guidelines and regulations. The Utilities and Infrastructure Department is under the administrative and reporting control of the Assistant Town Manager and has 72 employees.

Water System

Prior to the mid-1990s, the Town’s drinking water was provided solely by community wells. Today, the Town’s water system can supply 10 million gallons per day (“MGD”) of potable water to its residents and businesses. At present, the Town purchases its drinking water from Harnett County. The Town also has 2.2 MGD of allocated capacity from Jordan Lake, which is not currently utilized by the Town due to accessibility requirements. In the event the Town requires access to this allocation in the future, they will undertake the necessary arrangements and improvements to make the water accessible.

The Town’s drinking water, obtained from the Cape Fear River, is treated at the Harnett Regional Water Treatment Plant in Lillington and is transported through a 36-inch pipe from Harnett County to the Town’s distribution system. Additionally, the Town’s water distribution system is directly interconnected with the Town of Cary and the Town of Apex. During an emergency, water sourced from Jordan Lake and treated at the Cary/Apex Water Treatment Facility can be piped into the Town via a 16-inch transmission line along Holly Springs Road, as well as a 12-inch transmission line along NC Highway 55. These transmission lines can supply up to 4.5 MGD. The Town’s three elevated water storage tanks can store a total of 2.3 MGD. These interconnections are in place, and the maximum amounts available to the Town under these agreements and the respective expiration dates of such agreements are as follows:

Provider	Maximum Amount of Water Available	Expiration Date
Harnett County	10 MGD	Perpetual
Town of Cary	Emergency Only	2045
Town of Apex	Emergency Only	2047

As discussed under “THE 2024 PROJECT” in the front part of the Official Statement, the Town has also entered into the WFF Expansion interlocal agreement (“ILA”), which will provide the Town with an additional 4.00 MGD upon completion of the WFF Expansion Project and the related transmission lines. It is anticipated that this expansion will be completed by December 2028.

The Town’s water distribution system currently consists of approximately 237 miles of water lines. The Town’s water demand continues to increase annually by approximately 0.20 MGD to 0.40 MGD due to economic, commercial, and residential development. As a result of the WFF Expansion Project, the Town is expected to have sufficient capacity to meet water demand through the year 2070.

The Town's water supply is tested for contaminants to ensure compliance with federal and state laws. The Town's water meets all federal guidelines for quality set by the Safe Drinking Water Act. There have been no violations of these standards. See "Regulatory Oversight" below.

The Town plans to prolong the life of its potable water supply source through the use of reclaimed water from the Utley Creek Water Reclamation Facility. In times of drought, the Town follows the drought plan for Harnett County Public Utilities pursuant to an interlocal agreement.

Sewer System

The Town owns and operates its wastewater collection and treatment system, which includes approximately 259 miles of pipe and 21 wastewater lift stations that convey flows to a central Holly Springs Utley Creek Water Reclamation Facility (the "WRF"). All homes within the Town's jurisdiction are served by public wastewater, and all new developments must tie into the Town's wastewater system if service is available in the area. The Town-owned and operated WRF facility presently has a total treatment capacity of 6.0 MGD, and in 2023, it treated approximately 3.1 MGD. The Town has a permit to expand the WRF's treatment capacity up to 8.0 MGD. The WRF is an activated sludge plant that discharges into Utley Creek in the Cape Fear River Basin. The 6.0 MGD WRF will serve an estimated population of up to approximately 65,000 (depending on the mix of residential and non-residential users). As growth occurs in areas outside the tributary areas of the WRF and the Town's existing pumping stations, the Town's Long Range Wastewater Plan provides that regional pumping stations will serve those areas. Proposed pump stations will be initiated and funded by private development, with the possibility of some Town participation for oversizing to meet larger basin needs. The Town plans to limit discharge from the WRF through the use of reclaimed water. After the expansion of the WRF, the WRF will be able to treat 8.0 MGD of wastewater. The Town anticipates issuing revenue bonds to pay the costs of the WRF expansion in the fiscal year ending June 30, 2026 to finance the costs of the WRF expansion.

Explanatory Note 3. Regulations

General

The Town and the Enterprise Systems are regulated by the United States Environmental Protection Agency (“EPA”) and the North Carolina Department of Environmental Quality (“DEQ”). The Town is currently in compliance with all federal and state environmental legislation and regulations impacting the Enterprise Systems.

PFAS

Per- and polyfluoroalkyl substances (“PFAS”) are a family of synthetic compounds that are water soluble and persistent in the environment in air, water, and soil. PFAS are used in various manufacturing processes and the production of a wide range of industrial and household applications. The Environmental Protection Agency has stated that, based on peer-reviewed studies on laboratory animals and epidemiological evidence in human populations, exposure to certain levels of Perfluorooctanoic acid (“PFOA”) and Perfluorooctanesulfonic acid (“PFOS”), two types of PFAS compounds, may result in adverse health effects.

On April 10, 2024, the EPA announced final National Primary Drinking Water Regulations for six PFAS compounds. Under the final regulations, the federal maximum contaminant level (MCL) for PFOA and PFOS is four parts per trillion each. The final regulations set a federal maximum contaminant level of 10 parts per trillion each for four additional PFAS compounds: perfluorononanoic acid (PFNA), hexafluoropropylene oxide dimer acid (HFPO-DA, commonly known as GenX Chemicals), perfluorohexane sulfonic acid (PFHxS), and perfluorobutane sulfonic acid (PFBS). Mixtures containing two or more of PFHxS, PFNA, HFPO-DA, and PFBS will be regulated as a mixture using a hazard index. The final regulations require water systems to implement initial monitoring for PFAS by 2027, followed by ongoing compliance monitoring. The Town is currently monitoring its water supplies and will continue with the ongoing compliance monitoring as required. The regulations also require water systems to provide the public with information regarding PFAS levels in drinking water by 2027. By 2029, water systems are required to implement solutions to reduce any PFAS levels that exceed the federal maximum contaminant levels. Beginning in 2029, water systems that have PFAS levels exceeding the federal maximum contaminant levels must take action to reduce these levels and provide notice to the public of the excess as well as health effects language.

The WFF Expansion Project will address PFAS by installing Granular Activated Carbon (GAC) filters to remove such PFAS. The Town’s portion of the GAC filters is anticipated to cost approximately \$6.4 million.

Due to the omnipresence of PFAS in the environment, wastewater systems can also be pathways for PFAS. There is a growing concern that PFAS in wastewater systems could potentially be discharged in the effluent. Currently, state and federal regulatory agencies have not promulgated regulations establishing maximum effluent limits for PFAS in wastewater systems. However, in January 2024, the NC Department of Environmental Quality initiated a stakeholder process to receive feedback on proposed PFAS Surface Water Standards for eight PFAS compounds. DEQ expects to begin including effluent limits in National Pollutant Discharge Elimination System permits by 2028 based on DEQ’s compliance schedules. No assurance can be provided that future regulatory or permit actions will not be taken with respect to the permits applicable to the Town's wastewater system.

Compliance with any such future regulations or permit requirements relating to PFAS could result in an increase in capital expenditures and maintenance costs for the Town and the Enterprise Systems.

Lead and Copper

The Town is actively working on compliance with the EPA’s Lead and Copper Rule Revisions (January 15, 2021) and Lead and Copper Rule Improvements (November 30, 2023). These rules were established to ensure lead-free drinking water. These requirements include the initial Lead Service Line Inventory (“LSLI”), notification to persons served of known or potential lead service line, public notification of a lead action level exceedance, and associated reporting requirements. The Town is in the process of completing its LSLI. There are no known lead service lines on the public side of the water meter. Town staff are working with homeowners to determine service line materials on the private side of the meter. The Town expects that data related to the Town’s inventory will be published by October 16, 2024.

Explanatory Note 4. Demand for Services

Customers

The Town provides service to approximately 19,200 water customer accounts and 16,250 sewer customer accounts. Water accounts include In Town, Out of Town, Irrigation, Irrigation-Town, Irrigation Reuse (Residential/Commercial), and Irrigation Reuse (Bulk/Industrial), while sewer accounts include In Town, Out of Town, and Industrial. Exhibit 1 presents the projected number of water and sewer customer accounts by customer class.

Exhibit 1. Forecast Water and Sewer Customers (FY 2024 – FY 2029)

	<i>Estimated FY 2024</i>	<i>Forecast FY 2025</i>	<i>Forecast FY 2026</i>	<i>Forecast FY 2027</i>	<i>Forecast FY 2028</i>	<i>Forecast FY 2029</i>
Water Customer Accounts						
In Town	16,246	17,129	17,549	17,979	18,421	18,872
Out of Town	31	33	33	34	35	36
Industrial	12	13	13	13	14	14
Irrigation	1,457	1,536	1,574	1,612	1,652	1,693
Irrigation-Town	18	19	19	20	20	21
Irrigation Reuse-Res/Com	1,418	1,495	1,532	1,569	1,608	1,647
Irrigation Reuse-Blk/Ind	1	1	1	1	1	1
Total Water Customer Accounts	19,183	20,225	20,722	21,230	21,751	22,284
<i>% Change</i>		5.4%	2.5%	2.5%	2.5%	2.5%
Sewer Customer Accounts						
In Town	16,200	17,080	17,499	17,928	18,368	18,819
Out of Town	29	31	31	32	33	34
Industrial	12	13	13	13	14	14
Total Sewer Customer Accounts	16,241	17,123	17,544	17,974	18,415	18,867
<i>% Change</i>		5.4%	2.5%	2.5%	2.5%	2.5%

Usage

Exhibit 2 presents projected water and sewer usage (in 1,000 gallons) by customer class. As shown in Exhibit 2, the Town anticipates significant growth in Industrial water and sewer usage due to the expansion of two biopharmaceutical manufacturing facilities (Amgen and FUJIFILM Diosynth Biotechnologies) in the Town. Additional usage is expected to be realized in FY 2024, FY 2025, and FY 2026.

Exhibit 2. Forecast Water and Sewer Usage (FY 2024 – FY 2029)

	<i>Estimated FY 2024</i>	<i>Forecast FY 2025</i>	<i>Forecast FY 2026</i>	<i>Forecast FY 2027</i>	<i>Forecast FY 2028</i>	<i>Forecast FY 2029</i>
Water Usage (1,000 gallons)						
In Town	977,885	1,028,033	1,053,107	1,078,180	1,103,254	1,128,328
Out of Town	1,591	1,673	1,713	1,754	1,795	1,836
Industrial	89,038	149,038	257,788	263,926	270,064	276,202
Irrigation	71,286	74,942	76,770	78,598	80,426	82,254
Irrigation-Town	4,819	5,067	5,190	5,314	5,437	5,561
Irrigation Reuse-Res/Com	68,415	71,924	73,678	75,432	77,186	78,940
Irrigation Reuse-Blk/Ind	6	6	6	7	7	7
Total Water Usage	1,213,041	1,330,682	1,468,253	1,503,211	1,538,169	1,573,128
<i>% Change</i>		<i>9.7%</i>	<i>10.3%</i>	<i>2.4%</i>	<i>2.3%</i>	<i>2.3%</i>
Sewer Usage (1,000 gallons)						
In Town	975,642	1,025,675	1,050,691	1,075,708	1,100,724	1,125,741
Out of Town	1,591	1,673	1,713	1,754	1,795	1,836
Industrial	89,038	149,038	257,788	263,926	270,064	276,202
Total Sewer Usage	1,066,271	1,176,386	1,310,193	1,341,388	1,372,583	1,403,778
<i>% Change</i>		<i>10.3%</i>	<i>11.4%</i>	<i>2.4%</i>	<i>2.3%</i>	<i>2.3%</i>

Ten Largest Customers

The Town's ten largest customers account for approximately 9.0% of annual water revenues. The Town's ten largest sewer customers account for approximately 8.1% of annual sewer revenues. Exhibit 3 lists the Town's top ten largest retail water and sewer customers, their annual consumption, and their annual revenues as of June 30, 2023.

Exhibit 3. Top Ten Largest Water and Sewer Customers – Usage and Revenue (FY 2023)

Water Customer	Annual Consumption (gallons)	Annual Revenue	Percent of Total Revenue
Seqirus, Inc.	65,159,462	\$584,664	5.24%
Concert 12-Oaks LLC dba The Club at 12 Oaks	15,883,553	129,444	1.16%
Rex Hospital, Inc.	9,603,127	88,686	0.79%
Ingenco Renewable Development	9,273,830	37,495	0.34%
Zips Car Wash, LLC	4,520,842	40,389	0.36%
Carolina Motor Club, Inc.	3,529,080	25,697	0.23%
Holly Springs Surgery Center, LLC	2,794,226	25,074	0.22%
Olive Garden GMRI, INC	2,721,930	24,166	0.22%
Triangle Tank & Truck Wash	2,721,317	24,427	0.22%
Wake County Public School	2,198,332	21,302	0.19%
Total Top Ten Water Customers	118,405,699	\$1,001,344	8.97%

Sewer Customer	Annual Consumption (gallons)	Annual Revenue	Percent of Total Revenue
Seqirus, Inc.	65,159,462	\$367,587	4.54%
Concert 12-Oaks LLC dba The Club at 12 Oaks	15,883,553	129,444	1.60%
Rex Hospital, Inc.	9,603,127	9,523	0.12%
Ingenco Renewable Development	9,273,830	37,495	0.46%
Zips Car Wash, LLC	4,520,842	26,256	0.32%
Carolina Motor Club, Inc.	3,529,080	21,991	0.27%
Holly Springs Surgery Center, LLC	2,794,226	16,140	0.20%
Olive Garden GMRI, INC	2,721,930	15,749	0.19%
Triangle Tank & Truck Wash	2,721,317	15,752	0.19%
Wake County Public School	2,198,332	12,400	0.15%
Total Top Ten Sewer Customers	118,405,699	\$652,337	8.06%

Explanatory Note 5. Capital Improvement Plan

CIP Uses

The Capital Improvement Plan (“CIP”) for the Town consists of various water and sewer projects anticipated to occur over the Forecast Period. The CIP provided a comprehensive list of projects needed to maintain the water and sewer facilities in good working condition, provide water and sewer service to new customers, and ensure the Town follows all federal, state, and local regulations and mandates. Capital projects from FY 2024 - FY 2029 total approximately \$416.08 million, with \$206.14 million for water projects and \$209.93 million for sewer projects.

The most significant are the Sanford water plant capacity expansion project, the Holly Springs-Fuquay Varina water line and storage facilities project, and the Utley Creek Water Reclamation Facility (“UCWRF”) 8 MGD expansion project. The Town’s currently anticipated share of funding for each of these projects is \$84.63 million, \$51.97 million, and \$195.10 million, respectively. Other projects include the Utilities’ share of a new operations center, booster and pump station upgrades, vehicles, and other water and sewer line and treatment improvements. Exhibit 4 shows the costs of the three most significant projects of the CIP over the Forecast Period (shown in current dollars).

Exhibit 4. Capital Improvement Plan - Uses

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Water Projects						
Sanford Water Capacity	-	\$84,630,132	-	-	-	-
Holly Springs-Fuquay Varina Water Line	-	51,970,100	-	-	-	-
Other	500,000	19,918,040	34,200,000	9,250,000	500,000	5,175,000
Total Water Projects	\$500,000	\$156,518,272	\$34,200,000	\$9,250,000	\$500,000	\$5,175,000
Sewer Projects						
UCWRF 8 MGD Expansion	-	\$21,452,060	\$108,420,000	\$65,230,000	-	-
Other	1,150,000	10,480,000	1,700,000	500,000	500,000	500,000
Total Sewer Projects	\$1,150,000	\$31,932,060	\$110,120,000	\$65,730,000	\$500,000	\$500,000
Total Projects	\$1,650,000	\$188,450,332	\$144,320,000	\$74,980,000	\$1,000,000	\$5,675,000

CIP Sources

The CIP will be funded by a combination of proposed revenue bonds, a portion of limited obligation bonds (“LOBs”), PAYGO (revenues generated through rates), use of fund balance, and grants, as shown in Exhibit 5. The Town plans to use the Series 2024 Bonds to fund its share of the Sanford water plant capacity expansion project. The Town plans to issue additional bonds to fund its share of the Holly Springs-Fuquay Varina water line and storage facilities project and the Uteley Creek Water Reclamation Facility 8 MGD expansion project. The remaining capital projects over the Forecast Period are anticipated to be funded with limited obligation bonds, PAYGO, use of fund balance, and grants. Exhibit 5 shows the total six-year capital spending plan for the water and sewer enterprise systems, along with projected funding sources.

Exhibit 5. Capital Improvement Plan - Sources

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Water Projects						
Series 2024 Revenue Bonds	-	\$64,730,132	-	-	-	-
Proposed Revenue Bonds	-	43,138,140	25,500,000	8,750,000	-	-
Portion of 2024 LOBs for Enterprise CIP	-	9,550,000	-	-	-	-
Cash (PAYGO)	500,000	800,000	8,700,000	500,000	500,000	1,500,000
Use of Fund Balance for Capital Projects	-	10,000,000	-	-	-	3,675,000
Grants	-	28,300,000	-	-	-	-
Total Water Projects	\$500,000	\$156,518,272	\$34,200,000	\$9,250,000	\$500,000	\$5,175,000
Sewer Projects						
Series 2024 Revenue Bonds	-	-	-	-	-	-
Proposed Revenue Bonds	-	21,452,060	78,620,000	55,230,000	-	-
Portion of 2024 LOBs for Enterprise CIP	-	9,550,000	-	-	-	-
Cash (PAYGO)	1,150,000	930,000	500,000	500,000	500,000	500,000
Use of Fund Balance for Capital Projects	-	-	28,000,000	10,000,000	-	-
Grants	-	-	3,000,000	-	-	-
Total Sewer Projects	\$1,150,000	\$31,932,060	\$110,120,000	\$65,730,000	\$500,000	\$500,000
Total Projects	\$1,650,000	\$188,450,332	\$144,320,000	\$74,980,000	\$1,000,000	\$5,675,000

Annual revenues generated from fees and rates (PAYGO) comprise 4.0% of the six-year capital plan, while the use of fund balance accounts for 12.4% and grants account for 7.5%. The remaining 76.1% of the CIP is anticipated to be funded with revenue bonds and limited obligation bonds. The Series 2024 Revenue Bonds are anticipated to fund 15.6% of the capital plan and will be allocated to the Sanford water plant capacity expansion project, while additional proposed revenue bonds are estimated to fund the Holly Springs-Fuquay Varina water line and storage facilities project and the UCWRF 8 MGD expansion project, which represent 55.9% of the six-year CIP. In addition to the proposed revenue bonds, the Town anticipates the remaining 4.6% of the CIP will be funded with limited obligation bonds for the Utilities’ share of the cost of a new operations center being built.

Explanatory Note 6. Financing Plan

PNC Capital Markets, LLC has provided information regarding the timing, size, and terms of the bonds to be issued over the Forecast Period. This financing plan has been designed to accomplish the following objectives:

- Provide funds as needed and in the most cost-effective manner
- Meet with the credit criteria established by rating agencies
- Lessen the impact on rates

Exhibit 6 provides an estimated summary of the Sources and Uses of Funds for the Series 2024 Bonds. The amounts are based on estimated pricing prepared by PNC Capital Markets, LLC, dated July 16, 2024.

Exhibit 6. Sources and Uses of Series 2024 Bond Funds

	Estimated
Sources	
Par Amount	\$66,865,000
Net Premium	3,800,557
Other Sources of Funds (System Cash and Grants)	19,900,000
Total Sources	\$90,565,557
Uses	
Project Fund Deposits	84,630,132
Other Fund Deposits (Capitalized Interest Fund)	5,263,504
Delivery Date Expenses (Cost of Issuance and Underwriter's Discount)	668,190
Other Uses of Funds (Additional Proceeds)	3,731
Total Uses	\$90,565,557

Exhibit 7 shows the debt service schedule for the Town's outstanding and planned indebtedness.

Exhibit 7. Existing and Proposed Long-Term Debt Service

	Estimated FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Parity Indebtedness						
2020 Revenue Bond 2010 Refunding	\$702,050	\$702,050	\$702,050	\$702,050	\$702,050	\$702,050
2020A Revenue Bond 2008 Refunding	1,042,412	1,073,314	1,105,643	1,139,466	1,174,851	1,211,301
Series 2024 Water Revenue Bond (1)	-	-	-	4,129,075	4,129,825	4,127,575
Forecast Series 2025 Water Revenue Bond (2)	-	-	-	-	4,526,125	4,527,375
Forecast Series 2026 Sewer Revenue Bond (3)	-	-	-	-	-	7,279,750
Subtotal Revenue Bonds	\$1,744,463	\$1,775,364	\$1,807,693	\$5,970,591	\$10,532,851	\$17,848,051
Non-Parity Indebtedness						
<u>Subordinate Indebtedness</u>						
2010 CWSRF - Utley Creek	\$1,003,625	\$985,250	\$966,875	\$948,500	\$930,125	\$911,750
2011 NCDENR - ARRA	1,668	1,668	1,668	1,668	1,668	1,668
2020B Aventura Ferry Forcemain	230,718	230,718	230,718	230,718	230,718	230,719
Subtotal Subordinate Indebtedness	\$1,236,010	\$1,217,636	\$1,199,260	\$1,180,885	\$1,162,511	\$1,144,136
<u>GO Indebtedness</u>						
2022 Refunding GO Bond	\$768,776	\$760,687	\$749,639	\$777,653	\$766,704	\$708,408
Subtotal GO Indebtedness	\$768,776	\$760,687	\$749,639	\$777,653	\$766,704	\$708,408

Other Indebtedness

2021 New Money	181,826	181,826	90,913	-	-	-
2023 Limited Obligation Bonds	32,540	64,013	132,263	128,763	125,263	121,763
Portion of 2024 LOBs for Enterprise CIP	(4) -	434,250	868,500	1,587,172	1,587,172	1,587,172
Subtotal Other Indebtedness	\$214,366	\$680,089	\$1,091,676	\$1,715,935	\$1,712,435	\$1,708,935
 Subtotal Non-Parity Indebtedness	 \$2,219,152	 \$2,658,412	 \$3,040,576	 \$3,674,474	 \$3,641,650	 \$3,561,479
 Total Water and Sewer Fund Indebtedness	 \$3,963,615	 \$4,433,776	 \$4,848,269	 \$9,645,064	 \$14,174,501	 \$21,409,530
<i>% Change</i>		11.9%	9.3%	98.9%	47.0%	51.0%

Notes:

- (1) \$66.865 million in revenue bonds to fund the Town's share of the Sanford Water Capacity project in FY 2025 (anticipated in July 2024), based on a fixed 3.99% interest rate amortization for 28 years, with no payments in FY 2025 and FY 2026 (as they are funded by the Capitalized Interest Fund), and full principal and interest payments starting in FY 2027.
- (2) \$68.195 million in revenue bonds to fund a portion of the Town's share of the Holly Springs-Fuquay Varina Water Line and Storage Facilities project, Utley Creek Water Reclamation Facility 8 MGD Expansion project, and other projects in FY 2025 (anticipated in January 2025), based on a fixed 4.64% interest rate amortization for 28 years, with no payments in FY 2026 and FY 2027 (as they are funded by the Capitalized Interest Fund), and full principal and interest payments starting in FY 2028.
- (3) \$109.715 million in revenue bonds to fund the Utley Creek Water Reclamation Facility 8 MGD Expansion project in FY 2026, based on a fixed 4.63% interest rate amortization for 28 years, with no payments in FY 2027 and FY 2028 (as they are funded by the Capitalized Interest Fund), and full principal and interest payments starting in FY 2029.
- (4) \$19.1 million in limited obligation bonds to fund the Utilities' share of the cost of the Operations Center project in FY 2025, based on a fixed 4.5% interest rate amortization for 18 years, with a half-year interest-only payment in FY 2025, a full-year interest-only payment in FY 2026, and full principal and interest payments starting in FY 2027.

Explanatory Note 7. System Expenses

Exhibit 8 shows a forecast of operating, non-operating, and other expenses for the water and sewer utilities. Operating expenses represent normal recurring expenses incurred during the Town's annual accounting cycle based upon its fiscal year ending June 30. Operating expenses for FY 2024 reflect the costs the Town estimates incurring in the fiscal year. Operating expenses in future years are based on the FY 2024 actual expenditures and increase annually by an escalation rate that varies by expense type (15% for water purchases in FY 2025 and FY 2029, 4.5% for labor, 3.5% for retirement, and 2.5% for others). Operating expenses include the following:

- The wholesale purchase of water from Harnett County
- Personal services such as salaries and benefits, including health insurance and retirement
- Operating expenses such as water and sewer service, chemicals, electric service, fuel, water meters, sludge removal, computers and software, equipment, etc.
- Professional services such as development review, contractual services, and professional fees

Non-operating expenses include existing and proposed debt service and planned capital expenditures funded with PAYGO. Exhibit 8 shows a combined forecast of operating and non-operating expenses, as well as other expenditures for the water and sewer utilities.

Exhibit 8. Operating and Non-Operating Expenses and Capital Expenditures

	<i>Estimated</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Enterprise Systems Expenditures	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operating Expenses	\$17,500,000	\$18,513,306	\$19,003,649	\$19,748,677	\$20,268,022	\$21,358,780
<i>% Change</i>		5.8%	2.6%	3.9%	2.6%	5.4%
Non-Operating Expenses						
<u>Existing Debt Service</u>						
2010 CWSRF - Utle Creek	\$1,003,625	\$985,250	\$966,875	\$948,500	\$930,125	\$911,750
2011 NCDENR - ARRA	1,668	1,668	1,668	1,668	1,668	1,668
2020 Revenue Bond 2010 Refunding	702,050	702,050	702,050	702,050	702,050	702,050
2020A Revenue Bond 2008 Refunding	1,042,412	1,073,314	1,105,643	1,139,466	1,174,851	1,211,301
2020B Avert Ferry Forcemain	230,718	230,718	230,718	230,718	230,718	230,719
2021 New Money	181,826	181,826	90,913	-	-	-
2022 Refunding GO Bond	768,776	760,687	749,639	777,653	766,704	708,408
2023 Limited Obligation Bonds	32,540	64,013	132,263	128,763	125,263	121,763
Subtotal Existing Debt Service	\$3,963,615	\$3,999,526	\$3,979,769	\$3,928,817	\$3,931,379	\$3,887,658
<u>Proposed Debt Service</u>						
Portion of 2024 LOBs for Enterprise CIP	-	\$434,250	\$868,500	\$1,587,172	\$1,587,172	\$1,587,172
Series 2024 Water Revenue Bond	-	-	-	4,129,075	4,129,825	4,127,575
Forecast Series 2025 Water Revenue Bond	-	-	-	-	4,526,125	4,527,375
Forecast Series 2026 Sewer Revenue Bond	-	-	-	-	-	7,279,750
Subtotal Proposed Debt Service	-	\$434,250	\$868,500	\$5,716,247	\$10,243,122	\$17,521,872
Subtotal Non-Operating Expenses	\$3,963,615	\$4,433,776	\$4,848,269	\$9,645,064	\$14,174,501	\$21,409,530
Other Expenditures						
Rate Funded Capital (PAYGO)	\$1,650,000	\$1,730,000	\$9,200,000	\$1,000,000	\$1,000,000	\$2,000,000
Subtotal Other Expenditures	\$1,650,000	\$1,730,000	\$9,200,000	\$1,000,000	\$1,000,000	\$2,000,000
Total Enterprise Systems Expenditures	\$23,113,615	\$24,677,082	\$33,051,917	\$30,393,741	\$35,442,523	\$44,768,310
<i>% Change</i>		6.8%	33.9%	-8.0%	16.6%	26.3%

Explanatory Note 8. Fees and Rates

As an enterprise fund, the water and sewer utilities are operated as a distinct business enterprise. Appropriate fees and charges are established to ensure that the water and sewer enterprise systems can operate on a self-sustaining basis. Rate increases of 15% per year in FY 2025 and FY 2026 and 9.5% per year for FY 2027 through FY 2029 for each water and sewer are anticipated. The projected rate increases over the Forecast Period are required to meet the operating and capital needs of the water and sewer enterprise fund. Historically, the Mayor and Council have supported the utilities' request for water and sewer rate increases needed to support annual operations and capital investment for the utility systems.

Water Fees and Rates

The Town has a water rate structure with two components: a monthly access fee that varies by meter size and volumetric rates based on customer type, as shown in Exhibit 9.

The volumetric rate design comprises five inclining block tiers charged per 1,000 gallons. Out-of-Town access fees and volumetric rates are approximately two times those of In-Town. There are also access fees and volumetric unit rates for irrigation, irrigation reuse, and industrial customers. Exhibit 9 shows the current and projected In-Town fees and rates over the Forecast Period.

Exhibit 9. Current and Projected Monthly Water Fees and Rates

	<i>Actual FY 2024</i>	<i>Forecast FY 2025</i>	<i>Forecast FY 2026</i>	<i>Forecast FY 2027</i>	<i>Forecast FY 2028</i>	<i>Forecast FY 2029</i>
Monthly Access Fee (varies by meter size)						
In Town	\$13.96	\$16.06	\$18.46	\$20.22	\$22.14	\$24.24
Industrial	\$13.96	\$16.06	\$18.46	\$20.22	\$22.14	\$24.24
Irrigation	\$13.96	\$16.06	\$18.46	\$20.22	\$22.14	\$24.24
Irrigation Reuse-Res/Com	\$6.98	\$8.03	\$9.23	\$10.11	\$11.07	\$12.12
Irrigation Reuse-Blk/Ind	\$6.98	\$8.03	\$9.23	\$10.11	\$11.07	\$12.12
Volume Rates (per 1,000 gallons)						
In Town						
Tier 1 (0-2,000 gallons)	\$4.63	\$5.33	\$6.13	\$6.71	\$7.35	\$8.05
Tier 2 (2,001-5,000 gallons)	\$6.03	\$6.93	\$7.97	\$8.72	\$9.56	\$10.47
Tier 3 (5,001-9,000 gallons)	\$7.43	\$8.53	\$9.81	\$10.74	\$11.76	\$12.88
Tier 4 (9,001-14,000 gallons)	\$8.82	\$10.13	\$11.65	\$12.75	\$13.97	\$15.30
Tier 5 (Over 14,000 gallons)	\$10.20	\$11.73	\$13.49	\$14.76	\$16.17	\$17.71
Industrial	\$4.63	\$5.33	\$6.13	\$6.71	\$7.35	\$8.05
Irrigation	\$9.26	\$10.66	\$12.26	\$13.42	\$14.70	\$16.10
Irrigation Reuse-Res/Com	\$4.63	\$5.33	\$6.13	\$6.71	\$7.35	\$8.05
Irrigation Reuse-Blk/Ind	\$3.09	\$3.57	\$4.11	\$4.50	\$4.92	\$5.39

Sewer Fees and Rates

Like water, the Town's sewer rate structure consists of a monthly access fee that varies by meter size and volumetric rates based on customer type, as shown in Exhibit 10.

The volumetric rate design consists of a unit rate charged per 1,000 gallons. Out-of-Town access fees and volumetric rates are approximately two times those of In-Town. There is also an access fee and volumetric unit rate for irrigation customers. Exhibit 10 shows the current and projected In-Town fees and rates over the Forecast Period.

Exhibit 10. Current and Projected Monthly Sewer Fees and Rates

	<i>Actual</i> FY 2024	<i>Forecast</i> FY 2025	<i>Forecast</i> FY 2026	<i>Forecast</i> FY 2027	<i>Forecast</i> FY 2028	<i>Forecast</i> FY 2029
Monthly Access Fee						
In Town	\$14.56	\$16.74	\$19.26	\$21.08	\$23.08	\$25.28
Industrial	\$14.56	\$16.74	\$19.26	\$21.08	\$23.08	\$25.28
Volume Rates (per 1,000 gallons)						
In Town	\$6.34	\$7.29	\$8.38	\$9.18	\$10.05	\$11.00
Industrial	\$6.34	\$7.29	\$8.38	\$9.18	\$10.05	\$11.00

Impact of Rate Increases on a Typical Customer

Exhibit 11 shows the actual and projected monthly water and sewer bills for an In-Town residential customer with a 5/8-inch meter size and usage of 4,000 gallons (the median for an In-Town residential customer).

Exhibit 11. Residential Customer Bills, FY 2024 to FY 2029 (5/8" meter and 4,000 gallons per month)

	<i>Actual</i> FY 2024	<i>Forecast</i> FY 2025	<i>Forecast</i> FY 2026	<i>Forecast</i> FY 2027	<i>Forecast</i> FY 2028	<i>Forecast</i> FY 2029
Water Bill	\$35.29	\$40.58	\$46.66	\$51.08	\$55.96	\$61.28
Sewer Bill	\$39.93	\$45.90	\$52.78	\$57.80	\$63.28	\$69.28
Combined Bill	\$75.23	\$86.48	\$99.44	\$108.88	\$119.24	\$130.56
% Change		15.0%	15.0%	9.5%	9.5%	9.5%

Explanatory Note 9. Revenues

To meet the financial obligations of the Series 2024 Bonds, other debt service obligations, and other water and sewer expenses, revenue requirements must be recovered exclusively from revenues associated with the water and sewer enterprises.

Exhibit 12 shows the projection of operating and non-operating revenues during the Forecast Period for the combined water and sewer enterprise systems. Operating revenues are comprised of revenues from user fees and rates and revenues from other customer charges and fees. User charge revenue consists of monthly access fees and volumetric rates for retail customers. Revenues are derived by applying the water fees and charges in Exhibit 9 and sewer fees and charges in Exhibit 10 to the number of customers in Exhibit 1 and water use in Exhibit 2.

Other Operating Revenues include water meter fees, water and sewer late fees, tap fees, inspection fees and other miscellaneous revenues, and Non-Operating Revenues include water and sewer system development fees and interest on investments. These revenues are projected to remain unchanged over the Forecast Period.

Exhibit 12. Estimated Annual Revenues – Water and Sewer Enterprise Systems

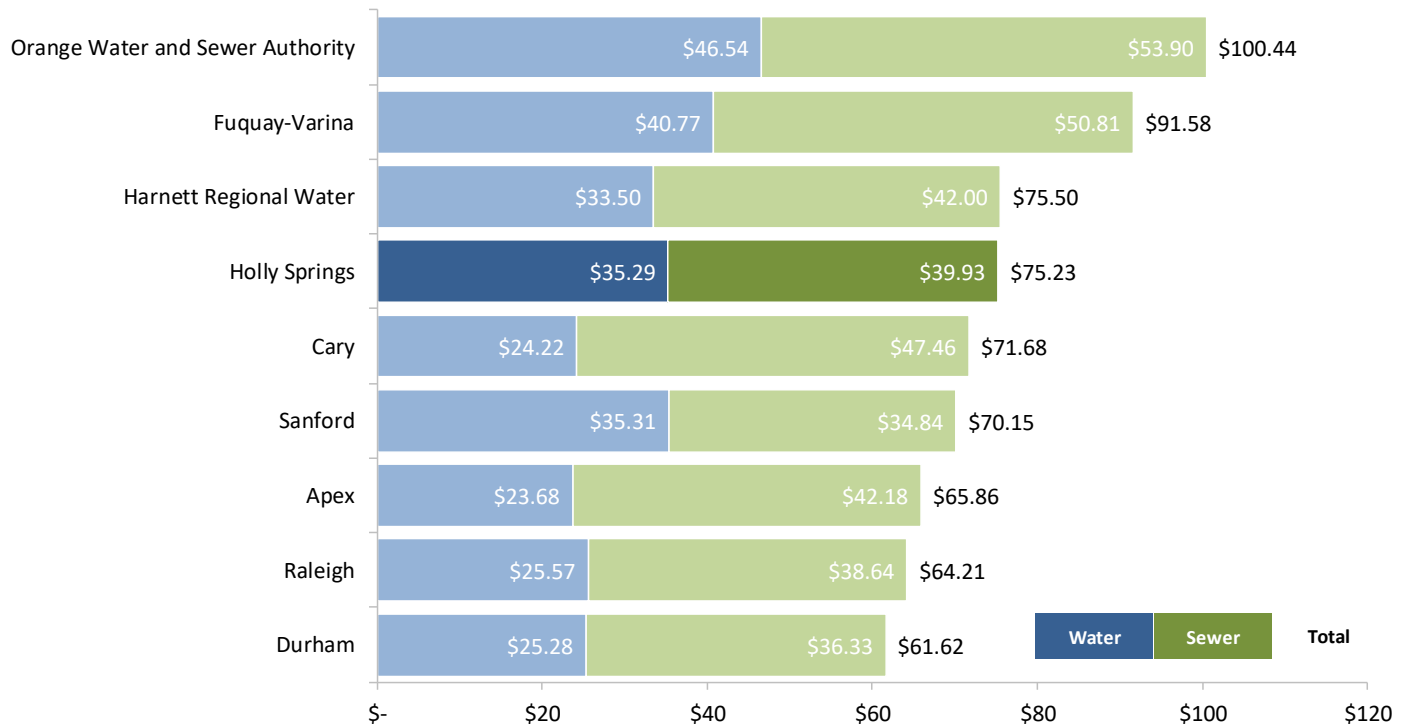
	<i>Actual</i> FY 2024	<i>Forecast</i> FY 2025	<i>Forecast</i> FY 2026	<i>Forecast</i> FY 2027	<i>Forecast</i> FY 2028	<i>Forecast</i> FY 2029
Operating Revenues						
Water Fees and Rates	\$11,900,000	\$13,999,235	\$17,135,032	\$19,208,860	\$21,539,072	\$24,136,916
Sewer Fees and Rates	9,683,580	12,753,066	15,903,376	17,835,336	19,988,031	22,391,854
Subtotal Operating Revenues	\$21,583,580	\$26,752,301	\$33,038,407	\$37,044,197	\$41,527,103	\$46,528,770
Other Operating Revenues						
Water Meter Fees	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Late Fees	200,000	200,000	200,000	200,000	200,000	200,000
Water Tap Fees	70,000	70,000	70,000	70,000	70,000	70,000
Sewer Tap Fees	55,000	55,000	55,000	55,000	55,000	55,000
Water Inspection Fees	80,000	80,000	80,000	80,000	80,000	80,000
Sewer Inspection Fees	80,000	80,000	80,000	80,000	80,000	80,000
Other Miscellaneous Revenues	201,500	201,500	201,500	201,500	201,500	201,500
Subtotal Other Operating Revenues	\$986,500	\$986,500	\$986,500	\$986,500	\$986,500	\$986,500
Non-Operating Revenues						
Water System Development Fees	\$3,154,226	\$3,154,226	\$3,154,226	\$3,154,226	\$3,154,226	\$3,154,226
Sewer System Development Fees	3,004,610	3,004,610	3,004,610	3,004,610	3,004,610	3,004,610
Interest on Investments	216,193	315,190	456,611	213,988	294,183	564,665
Subtotal Non-Operating Revenues	\$6,375,029	\$6,474,026	\$6,615,447	\$6,372,824	\$6,453,019	\$6,723,501
Total Water and Sewer Funds Revenue	\$28,945,109	\$34,212,827	\$40,640,355	\$44,403,520	\$48,966,623	\$54,238,771
<i>% Change</i>		18.2%	18.8%	9.3%	10.3%	10.8%

Explanatory Note 10. Monthly Bill Comparison

The Town's current rates for water and sewer became effective July 1, 2023. The Feasibility Evaluation assumes that additional water and sewer rate adjustments will be required during the Forecast Period. To ensure that revenue requirements are met, the Town has forecast rate increases each year through FY 2029, after which point rates will be adjusted as necessary to meet revenue requirements.

The Town also strives to maintain rates that are reasonably affordable and provide a competitive cost environment relative to other utilities. Exhibit 13 shows a comparison of water and sewer bills with other representative communities. As shown, the combined water and sewer bill for a residential customer in the Town (using approximately 4,000 gallons per month) is \$75.23 per month or \$902.74 per year. The median household income (MHI) in Holly Springs was \$127,755 in 2022. The combined water and sewer bill for the average residential customer is approximately 0.7% of MHI, which is below the Environmental Protection Agency's affordability threshold of 4% of MHI for both water and sewer.

Exhibit 13. Monthly Bill Comparison (smallest meter and 4,000 gallons per month)



Explanatory Note 11. Fund Balance

The unrestricted reserve fund balances for FY 2024 through FY 2029 are shown in Exhibit 14. The beginning unrestricted fund balance for FY 2024 was estimated and provided by Town staff. A portion of the unrestricted fund balance will be used to fund several projects in the Town's CIP. Exhibit 14 shows the estimated beginning and ending fund balance over the Forecast Period, as well as the estimated days cash on hand to cover revenue requirements. As shown, the Town has enough funds to cover at least one year's worth of operating costs in each year of the Forecast Period.

Exhibit 14. Combined System Operating Fund Balance

	<i>Estimated FY 2024</i>	<i>Forecast FY 2025</i>	<i>Forecast FY 2026</i>	<i>Forecast FY 2027</i>	<i>Forecast FY 2028</i>	<i>Forecast FY 2029</i>
Beginning Fund Balance	\$35,154,676	\$40,986,171	\$40,521,916	\$20,110,354	\$24,120,133	\$37,644,233
Revenue Surplus/(Deficit) After Cash Needs	5,831,495	9,535,745	7,588,438	14,009,779	13,524,100	9,470,461
Use of Fund Balance for Capital Projects	-	(10,000,000)	(28,000,000)	(10,000,000)	-	(3,675,000)
Ending Balance	\$40,986,171	\$40,521,916	\$20,110,354	\$24,120,133	\$37,644,233	\$43,439,694
<i>Ending Balance (Days of Total O&M)</i>	<i>855</i>	<i>799</i>	<i>386</i>	<i>446</i>	<i>678</i>	<i>742</i>

Explanatory Note 12. Compliance with Bond Covenants

Pursuant to Section 6.6 (Rate Covenant) of the General Indenture, the Town must set rates as follows:

Before the commencement of each Fiscal Year, the Town will fix, establish or maintain or cause to be fixed, established and maintained such rates and charges for the provision of services of the Enterprise Systems, and revise or cause to be revised the same, as necessary, as will produce (a) Revenues, which together with 20% of the balance in the Surplus Fund at the end of the preceding Fiscal Year, at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year, plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Year, plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Year plus, (v) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year, plus (vi) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing thereunder and (b) Revenues at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 110% of (1.10 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year, plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Year, plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Year, plus (v) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year, plus (vi) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing thereunder.

Exhibit 15 shows that the Town has been in compliance with the Rate Covenant set forth in Section 6.6 of the General Indenture, as the calculations must be greater than 1.0.

Exhibit 15. Historical Rate Covenant

	<i>Actual</i> FY 2019	<i>Actual</i> FY 2020	<i>Actual</i> FY 2021	<i>Actual</i> FY 2022	<i>Actual</i> FY 2023
Ending Fund Balance - Unrestricted	\$43,992,217	\$43,891,186	\$50,896,164	\$56,181,978	\$53,792,784
Net Revenues	\$8,884,952	\$9,402,640	\$13,213,437	\$27,294,850	\$20,764,958
20% of Fund Balance	8,798,443	8,778,237	10,179,233	11,236,396	10,758,557
Net Revenues plus 20% of Fund Balance	\$17,683,395	\$18,180,877	\$23,392,670	\$38,531,246	\$31,523,515
120% of Bonds plus GO, Subordinated, and Other Indebtedness	\$4,807,830	\$4,800,404	\$4,817,087	\$4,659,109	\$4,994,658
Calculated using Net Revenues plus 20% of the Fund Balance	3.68	3.79	4.86	8.27	6.31
Net Revenues	\$8,884,952	\$9,402,640	\$13,213,437	\$27,294,850	\$20,764,958
Bonds plus GO, Subordinated, and Other Indebtedness	\$4,006,525	\$4,000,337	\$4,014,239	\$3,882,591	\$4,162,215
Calculated Using Net Revenues	2.22	2.35	3.29	7.03	4.99

The Town may issue additional Bonds only if the requirements of Section 6.8 (Issuance of Additional Bonds) of the General Indenture are met, as follows:

(1) (A) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, together with 20% of the balance in the Surplus Account at the end of the such Fiscal Year, were at least equal to (a) 120% of (1.20 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in the most recent Fiscal Year for which audited financial statements are available, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in the most recent Fiscal Year for which audited financial statements are available, and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in the

most recent Fiscal Year for which audited financial statements are available, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds; and

(B) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, were at least equal to (a) 100% of (1.00 times) the maximum Principal and Interest Requirements on the Bonds for such Fiscal Year, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in such Fiscal Year, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in such Fiscal Year and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in such Fiscal Year; or

(2) (A) the Town has met the Rate Covenant for the most recent Fiscal Year for which audited financial statements are available, as certified by the Finance Officer; and

(B) the Net Revenues, as projected by a report of a Financial Consultant, for the first two Fiscal Years following either (I) the date capitalized interest, if any, provided from the proceeds of the proposed Series of Bonds is expended in the case of the acquisition of assets for or construction of improvements to the Enterprise Systems or (II) the date the proposed Series of Bonds is issued, are at least equal to (a) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, for such Fiscal Years, (b) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Years, (c) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Years and (d) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Years, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds; and

(3) no Event of Default under this Indenture has occurred and is continuing.

The Town satisfies the Additional Bonds requirements in part 1(A) and 1(B) as shown in Exhibit 16.

Exhibit 16. Additional Bonds Test

	<i>Actual</i> FY 2023
<u>Part 1(A) - 120 ABT Test</u>	
Net Revenues	\$20,764,958
20% of Fund Balance	<u>10,758,557</u>
Net Revenues plus 20% of Fund Balance (A)	\$31,523,515
120% MADs of Existing Bonds and Series 2024 Bonds (1)	\$7,249,111
GO, Subordinated, and Other Indebtedness	<u>2,447,289</u>
Total Debt Service for 120 ABT Test (B)	\$9,696,400
120 ABT Calculation (A/B)	<div>3.25</div>
<u>Part 1(B) - 100 ABT Test</u>	
Net Revenues (C)	\$20,764,958
100% MADs of Existing Bonds and Series 2024 Bonds (1)	\$6,040,926
GO, Subordinated, and Other Indebtedness	<u>2,447,289</u>
Total Debt Service for 100 ABT Test (D)	\$8,488,215
100 ABT Calculation (C/D)	<div>2.45</div>

Notes:

(1) Maximum Principal and Interest Requirements on the Bonds occur in FY 2029.

APPENDIX E

SUMMARY OF THE GENERAL INDENTURE AND SERIES INDENTURE

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APPENDIX E

SUMMARY OF THE GENERAL INDENTURE AND THE SERIES INDENTURE

In addition to summaries of the provisions of the General Indenture and the 2024 Series Indenture contained elsewhere in this Official Statement, the following is a brief summary of certain provisions of the General Indenture and the 2024 Series Indenture applicable to the 2024 Bonds. This summary is not intended to be definitive and is qualified in its entirety by express reference to the General Indenture and the 2024 Series Indenture for the complete terms thereof.

DEFINITIONS OF CERTAIN TERMS

“Account” or “Fund” means one of the special funds or accounts created and established pursuant to the General Indenture.

“Accountant” means an independent certified accountant or firm of certified public accountants as may be selected by the Town.

“Accreted Value” means (i) on a Compounding Date with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond at the date of delivery to the original purchasers thereof plus the interest accrued on such Capital Appreciation Bond from such date to that Compounding Date as shown in the Series Indenture under which it is issued, or (ii) as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond at the date of delivery to the original purchasers thereof plus the interest accrued on such Capital Appreciation Bond from such date to the date of computation, calculated based on the assumption that Accreted Value as shown in the Series Indenture under which it is issued accrues during any period in equal daily amounts on the basis of a year of 360 days consisting of twelve months of thirty days each, or as otherwise stated in the Series Indenture.

“Act” means The State and Local Government Revenue Bond Act, General Statutes of North Carolina Section 159-80 *et seq.*, as the same may hereafter be amended, or any successor statute.

“Additional Bonds” means Bonds issued under the General Indenture and meeting the requirements of the General Indenture.

“Annual Budget” means the annual budget approved by the Town Council of the Town concerning the operation of the Enterprise Systems for each Fiscal Year.

“Authenticating Agent” means with respect to any given Series of Bonds, the Registrar or any other entity appointed in the related Series Indenture to act as an authenticating agent for such Series of Bonds or a portion thereof.

“Authorized Denomination” means, for the 2024 Bonds, \$5,000 or any integral multiple thereof.

“Balloon Indebtedness” means a Series of Bonds, either (a) 25% or more of the Principal Installments of which are payable in a single Fiscal Year or (b) 25% or more of the Principal Installments of which may, at the option of the holder thereof, be redeemed at one time, and in either event which portion of the Principal Installments is not required by the documents pursuant to which such Bonds are issued to be amortized by redemption prior to such date; provided, however, if any Principal Installment is sized to take into account money in the Reserve Fund that the Town expects to be available to pay such Principal Installment, then the Principal Installment will be treated as net of that amount in the Reserve Fund.

“Bond” means one of the obligations delivered pursuant to the General Indenture and all Series of

Bonds and bond anticipation notes issued pursuant to a Series Indenture. The term “*Bond*” shall also include the 2008 Bond issued pursuant to the 2008 Bond Order and the 2020 Bond issued pursuant to the 2008 Bond Order and the 2020 Supplemental Bond Order.

“*Bond Counsel*” means an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Town and not unacceptable to the Trustee.

“*Business Day*” means any day other than (a) a day on which banking institutions in New York, New York, or in the State or in the cities in which the Trustee or the Paying Agent have their respective principal offices are authorized to close or (b) a day on which the New York Stock Exchange is closed.

“*Capital Appreciation Bonds*” means any Bonds, however denominated in the related Series Indenture, as to which interest is compounded periodically on each Compounding Date and which are payable in an amount equal to the then-current Accreted Value only at maturity, earlier redemption or other payment date therefor.

“*Certificate*” means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Indenture or (ii) the report of an accountant as to audit or other procedures called for by the General Indenture.

“*Code*” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code will be deemed to include the United States Treasury Regulations in effect with respect thereto.

“*Compounding Date*” means, with respect to any Capital Appreciation Bond, the dates set forth in the Series Indenture under which it is issued.

“*Construction Fund*” means the Fund so designated and established under the General Indenture.

“*Construction Management Agreement*” means the Construction Management Agreement dated as of August 1, 2023 by and between the Town, the City of Sanford, the Town of Fuquay-Varina, the Town of Pittsboro, and Regions Bank, as escrow agent.

“*Consulting Engineer*” means the Town’s professional engineer or a firm of engineers or utilities consultants with recognized expertise for advising governmental entities with respect to the construction, maintenance and use of the Enterprise Systems from time to time employed by the Town.

“*Costs of Construction*” means the costs reasonably incurred in connection with the Enterprise Systems, including but not limited to the costs of (1) acquisition of all property, real or personal, tangible or intangible, and all interests in connection therewith including all rights-of-way and easements therefor, (2) physical construction, installation and testing, including the costs of labor, services, materials, supplies and utility services used in connection therewith, (3) architectural, engineering, legal, financial advisory and other professional services, (4) premiums for insurance policies taken out and maintained during construction, to the extent not paid for by a contractor for construction and installation, (5) any taxes, assessments or other charges which become due during construction, (6) expenses incurred by the Town or on its behalf with its approval in seeking to enforce any remedy against any contractor or sub-contractor in respect of any default under a contract relating to construction, (7) Costs of Issuance, (8) capitalized interest on the Bonds, (9) miscellaneous expenses incidental thereto and (10) reimbursements of such Cost of Construction properly incurred prior to the issuance of the Bonds.

“*Costs of Issuance*” means all items of expense, directly or indirectly payable by or reimbursable to the Town, related to the authorization, sale and issuance of Bonds.

“Current Expenses” means the current expenses of operation, maintenance and current repair of the Enterprise Systems, as calculated in accordance with generally accepted accounting principles except as otherwise provided herein, and includes, without limiting the generality of the foregoing: insurance premiums; any rebate required to be paid to the United States Government; fees and expenses of the Trustee and any Paying Agent; fees and expenses of any entity providing credit support or liquidity for any Series of the Bonds; administrative and engineering expenses of the Town relating solely to the Enterprise Systems; labor; executive compensation; the cost of materials and supplies used for current operations; and charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred as determined by the Town in accordance with generally accepted accounting principles except as otherwise provided herein. *“Current Expenses”* will not include (1) any allowance for depreciation or replacements of capital assets of the Enterprise Systems, (2) moneys payable as Interest and as interest on General Obligation Indebtedness, Subordinate Indebtedness or Other Indebtedness, (3) moneys deposited or transferred to the Reserve Fund pursuant to the applicable Series Indenture, (4) any loss from extinguishment of debt or the sale, exchange or other disposition of capital assets and (5) any accrued expenses for other post-retirement benefits not resulting in (i) payments of such benefits to current or future retired employees or (ii) deposits of funds into an irrevocable trust for the purpose of making future payments of such benefits to current or future retired employees. When generally accepted accounting principles provide that amounts be treated as Current Expenses but (1) the timing of the required payment of the expense or a portion thereof, while known, is more than one year in the future or (2) the actual timing of the required payment of the expense is not readily determinable (such as post-employment benefits calculated actuarially), the Town may include as a Current Expense the amount required to be paid for in the current period rather than the entirety of amounts required to be expensed.

“Debt Service Fund” means the Fund so designated and established by the General Indenture.

“Derivative Agreement” means an interest rate swap, cap, collar, floor, forward, option, put, call or other similar agreement however denominated, relating to the Bonds.

“Direct Subsidy Bonds” means any Bonds, Subordinate Indebtedness, Other Indebtedness or General Obligation Indebtedness incurred or issued under an interest subsidy program established under the Code.

“Electronic Means” means the following communications methods: e-mail and secure electronic transmission containing applicable authorization codes, and passwords and/or authentication keys.

“Enterprise Systems” means (1) initially, the Town’s water and sewer system, providing water and sewer services inside and outside the jurisdiction of the Town, including any and all additions, modifications, replacements and parts thereof and including any portion thereof owned by a public authority or agency or a nonprofit corporation organized solely for the purpose of assisting the Town and (2) thereafter, any revenue-producing enterprise of the Town which qualifies as a “revenue bond project” under Section 159-81(3) of the General Statutes of North Carolina, as amended from time to time, and added to the Enterprise Systems under the General Indenture, but (3) less any portion of the Enterprise Systems removed from the Enterprise Systems or designated otherwise under the General Indenture.

“Enterprise Systems Operating Fund” means the Fund so designated and established pursuant to the General Indenture.

“Event of Default” means any of the events specified in the General Indenture together with any other events specified as such in a Series Indenture.

“Existing Other Indebtedness” means the installment financing obligations, or any portion thereof, the payments under which are payable from Net Revenues, outstanding at the time of the execution of the

General Indenture.

“Extension and Replacement Fund” means the capital fund or account (or portion thereof) of the Town in which it deposits money for the improvement, extension and replacement of the Enterprise Systems and such amounts deposited are designated as the “Extension and Replacement Fund” established pursuant to the General Indenture.

“Federal Securities” means, to the extent otherwise permitted by law, (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged; (b) obligations the payment of the principal of and interest on which is fully guaranteed as full faith and credit obligations of the United States of America (including any securities described in (a) or (b) issued or held in the name of the Trustee in book entry form on the books of the Department of Treasury of the United States of America), which obligations, in either case, are held in the name of the Trustee and are not subject to redemption or purchase prior to maturity at the option of anyone other than the owner; (c) any bonds or other obligations of the State or of any agency, instrumentality or local governmental unit of the State which are (i) not callable prior to maturity or (ii) as to which irrevocable instructions have been given to the trustee or escrow agent of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified, and which are rated by Moody’s, if the bonds are rated by Moody’s, and S&P, if the bonds are rated by S&P, within the highest rating category and which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) or (b) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; or (d) direct evidences of ownership of proportionate interests in future interest and principal payments on specified obligations described in (a) held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in (a), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

“Finance Officer” means the finance officer of the Town appointed in accordance with Section 159-24 of the General Statutes of North Carolina, as amended, or any successor statute, or the official succeeding to the Finance Officer’s principal functions.

“Financial Consultant” means an independent person or firm with recognized expertise for advising governmental entities with respect to financial forecasting and analysis of the applicable enterprise system from time to time employed by the Town.

“Fiscal Year” means a twelve-month period commencing on the first day of July of any year, or such other twelve-month period adopted as the Fiscal Year of the Town.

“Fitch” means Fitch Ratings, Inc., its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “Fitch” will be deemed to refer to any other nationally recognized securities rating agency designated by the Finance Officer of the Town by notice to the Trustee.

“General Indenture” means the General Trust Indenture dated as of July 1, 2024 between the Town and the Trustee, and any amendments and supplements thereto.

“General Obligation Indebtedness” means (1) general obligation indebtedness incurred by the Town which is payable from Net Revenues and the proceeds of which were or are to be used to provide for capital costs of the Enterprise Systems and (2) general obligation indebtedness of another governmental unit, the payment on which is assumed by the Town in connection with acquisition of assets for the

Enterprise Systems.

“Independent Insurance Consultant” means a person or firm, appointed by the Town and not unacceptable to the Trustee, qualified to survey risks and to recommend insurance coverage for facilities of the type operated by the Town and having a favorable reputation for skill and experience in such surveys and such recommendations, which insurance consultant, in the case of an individual, must not be an officer or employee of the Town and, in the case of a firm, must not have a partner, director, member, officer or employee who is an officer or employee of the Town.

“Interest” means (1) the amount designated as interest on any Bonds and (2) payments due from the Town under a Derivative Agreement other than for the termination thereof.

“Interest Payment Date” means any date on which interest is due and payable in accordance with the terms set forth with respect to each Series of Bond in the related Series Indenture or any other document executed and delivered by the Town in accordance with the General Indenture.

“Investment Securities” means investments permitted under Section 159-30 of the North Carolina General Statutes, as amended from time to time, or any successor statute, or as otherwise permitted by law for the investment of public funds of the Town.

“LGC” means the North Carolina Local Government Commission or any successor to its functions under the laws of the State, or its designated representative.

“Mail” means first-class United States mail, postage prepaid.

“Moody’s” means Moody’s Investors Service, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, *“Moody’s”* will be deemed to refer to any other nationally recognized rating agency designated by the Finance Officer of the Town by notice to the Trustee.

“Net Revenues” means the excess of Revenues over Current Expenses.

“Other Indebtedness” means capital leases, installment financing agreements or other contracts used to provide capital improvements to the Enterprise Systems, the payments under which are payable from Net Revenues.

“Outstanding” means all Bonds which have been authenticated and delivered by the Trustee under the General Indenture, except:

- (a) Bonds canceled after purchase in the open market or because of payment (it being understood that a payment to an Owner of the purchase price of a Bond, as prescribed in the related Series Indenture, is not payment of a Bond) at or redemption prior to maturity;
- (b) Bonds deemed paid under the General Indenture;
- (c) Bonds for the payment of the principal of, redemption premium, if any, and interest on which Federal Securities have been irrevocably set aside; and
- (d) Bonds in lieu of which other Bonds have been authenticated under the General Indenture.

“Owner” means any person in whose name any Outstanding Bond is registered on the books of the Registrar.

“*Paying Agent*” means any entity appointed in a Series Indenture to act as a paying agent for a Series of Bonds.

“*Person*” means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“*Principal*” means the principal amount of an Outstanding Bond (including as to Capital Appreciation Bonds, the Accreted Value thereof except with respect to the order of priority of payment of Bonds after an event of default under the General Indenture, in which case, “*Principal*” means the principal amount of such Capital Appreciation Bonds on their date of delivery and the balance of the Accreted Value will be “*Interest*”) payable as a Sinking Fund Payment or at maturity.

“*Principal and Interest Requirements on the Bonds*” means, with respect to any particular Fiscal Year, an amount equal to the sum of (i) all Interest payable on the Outstanding Bonds during such Fiscal Year excluding any capitalized interest payable from the proceeds of a Series of the Bonds, plus (ii) any Principal Installments of the Outstanding Bonds during such Fiscal Year.

(a) For purposes of computing “*Principal and Interest Requirements on the Bonds*,” the rate of interest used to determine (i) above will be a rate per annum equal to (1) with respect to Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, (2) with respect to Bonds which bear interest at a variable or periodically determined rate of interest, the rate which is equal to the greater of (A) the average of all the interest rates in effect on the Bonds (or, as certified by a financial institution or investment banking firm acceptable to the Finance Officer, which would have been in effect on the Bonds had such Bonds been Outstanding) during the immediately preceding twelve-month period or (B) the average of all the interest rates in effect on the Bonds (or, as certified by a financial institution or investment banking firm acceptable to the Finance Officer, which would have been in effect on the Bonds had such Bonds been Outstanding) during the immediately preceding one-month period and (3) with respect to Direct Subsidy Bonds, any subsidy payments that are received or expected to be received and deposited in the Debt Service Fund to be used to pay interest on such Direct Subsidy Bonds, the interest rate will be calculated by subtracting the applicable direct subsidy percentage from the stated interest rate (in other words, the Town will receive a credit against the interest paid or to be paid on such Direct Subsidy Bonds). If the Town has entered into a Derivative Agreement under which it will receive payments calculated on a notional amount equal to all or a portion of the aggregate Principal amount of a Series of the Bonds and will make payments calculated on the same notional amount, the interest used to calculate (1) above will be the amount to be paid by the Town, and the amount to be received will be deducted; payments on a variable or periodic basis under such an agreement will be calculated in accordance with clause (2) above.

(b) For purposes of computing “*Principal and Interest Requirements on the Bonds*,” the Principal Installments for each Series of Bonds used to determine (ii) above will be the actual planned Principal Installments, except for any Balloon Indebtedness the Principal Installment for any Fiscal Year will be assumed to be the result of dividing (A) the authorized not-to-exceed principal amount of such Balloon Indebtedness by (B) thirty (30) years, in each case determined as of the original issuance of the Balloon Indebtedness (in other words, the Principal Installment for any Fiscal Year will be deemed to be 1/30th of the authorized not-to-exceed principal amount of the Balloon Indebtedness); provided, however, if the date of calculation is within 12 months of the final maturity date of such Series of Bonds, the Town will use the actual planned Principal Installment unless the Town has a binding commitment by an institutional lender or municipal underwriting firm to provide moneys to refinance the aggregate Principal of such Series of Bonds then Outstanding and if such binding commitment exists, then the payment terms contained in the commitment are to be used for purposes of calculating Principal for such Series of Bonds.

“Principal and Interest Requirements on General Obligation Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all interest payable on the General Obligation Indebtedness during such Fiscal Year excluding any capitalized interest, plus (2) any principal of the General Obligation Indebtedness during such Fiscal Year. Principal and interest for purposes of this definition will be computed in the manner in which the Principal Installments and interest on the Bonds is calculated under the definition of *“Principal and Interest Requirements on the Bonds.”*

“Principal and Interest Requirements on Other Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of all payment obligations with respect to Other Indebtedness during such Fiscal Year excluding any capitalized interest. If the payment obligation under any Other Indebtedness is stated in terms of principal and interest, such principal and interest will be computed for purposes of this definition in the manner in which the Principal Installments and interest on the Bonds is calculated under the definition of *“Principal and Interest Requirements on the Bonds.”*

“Principal and Interest Requirements on Subordinate Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all interest payable on Subordinate Indebtedness during such Fiscal Year excluding any capitalized interest, plus (2) any principal of Subordinate Indebtedness during such Fiscal Year. Principal and interest for purposes of this definition will be computed in the manner in which the Principal Installments and interest on the Bonds is calculated under the definition of *“Principal and Interest Requirements on the Bonds.”*

“Principal Installment” means, as of any date of calculation, (1) the aggregate Principal amount of Outstanding Bonds (including as to Capital Appreciation Bonds, the Accreted Value thereof) due on a certain future date, reduced by the aggregate Principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the General Indenture of Sinking Fund Payments payable before such future date, plus (2) any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such Sinking Fund Payments.

“Principal Payment Date” means any date upon which Principal is due and payable.

“Qualified Reserve Fund Substitute” means (1) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose long-term debt obligations are rated by at least one national rating agency in the “A” rating category or higher, or the equivalent, (2) a surety bond issued by a financial institution whose long-term rating is in the “A” rating category or higher, or equivalent, by at least one national rating agency or (3) a policy of reserve fund insurance issued by an insurance company whose claims-paying ability is rated by at least one national rating agency in the “A” rating category or higher, or the equivalent. In each case, ratings set forth above shall be determined at the time of issuance of such Qualified Reserve Fund Substitute and without regard to ratings subcategories.

“Rate Covenant” means the Town’s rate covenant under the General Indenture.

“Record Date” means the 15th day of the month next preceding the Interest Payment Date.

“Redemption Price” means, with respect to any Bond, the Principal amount thereof plus the applicable premium, if any, and accrued interest payable on the redemption thereof.

“Registrar” means the Trustee or, in lieu of the Trustee, any other entity appointed in a Series Indenture to act as the Registrar for a Series of Bonds or a portion thereof.

“Released Revenues” means Revenues released from the grant of security for the Bonds under the General Indenture.

“Reserve Fund” means the Fund so designated and established pursuant to the General Indenture.

“Reserve Requirement” means, as of any date of calculation, the collective amount required to be on deposit in the Reserve Fund as determined by the Series Indentures under which all Series of Bonds secured by an account in the Reserve Fund are issued.

“Revenues” means all rates, fees, rentals, assessments, capacity fees, system development fees or other charges or other money received by the Town in connection with the ownership, management and operation of the Enterprise Systems, and all parts thereof, including amounts received from the investment of money in any Fund or Account (but not including amounts received from interest or other investment income earned in the Construction Fund and, during the construction period, the Reserve Fund), all as calculated in accordance with generally accepted accounting principles, but shall not include (1) net proceeds of insurance or condemnation awards or other extraordinary items, (2) any amounts collected by the Town representing sales or use taxes which may be required by law or agreement to be paid to the State or a governmental unit thereof, (3) refundable deposits made by customers of the Enterprise Systems, (4) any proceeds or any gain or loss from the extinguishment of debt or the sale, exchange or other disposition of capital assets, (5) Released Revenues, (6) proceeds of assessments, capacity fees, system development fees or similar charges identified in a Certificate of a Town Representative filed with the Trustee stating that such are not to be Revenues because the proceeds thereof are to be utilized exclusively for the payment of the cost of the capital projects for which they were collected, or (7) any amounts otherwise included under this definition as Revenues but not permitted by law to be pledged under the General Indenture.

“S&P” means S&P Global Ratings, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, *“S&P”* will be deemed to refer to any other nationally recognized securities rating agency designated by the Finance Officer of the Town by notice to the Trustee.

“Series of Bonds” or *“Series”* means any series of Bonds issued under the General Indenture pursuant to a Series Indenture.

“Series Indenture” means any indenture or other document supplementing the General Indenture, executed by the Town and effective in accordance with the General Indenture, providing for the issuance of a Series of Bonds.

“Sinking Fund Payment” means, as of any particular date of calculation, the amount required to be paid by the Town on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Town by reason of the maturity of a Bond or by call for redemption at the election of the Town.

“State” means the State of North Carolina.

“Subordinate Indebtedness” means debt, other than General Obligation Indebtedness, the payment of the principal and interest on which is secured by a lien on Net Revenues that is subordinate to the lien on Net Revenues securing the payment of the Principal of and Interest on the Bonds, including any loan or other obligation payable to the State under a State loan program unless by its terms it is stated to be on parity with the Bonds.

“Supplemental Indenture” means any indenture supplemental to the General Indenture delivered pursuant to the General Indenture amending or supplementing the General Indenture.

“Surplus Fund” means the fund so designated and established by the General Indenture.

“Town” means the Town of Holly Springs, North Carolina.

“Town Council” means the Town Council of the Town.

“Town Representative” means the Town Manager, any Assistant Town Manager, the Finance Officer and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of the Town then authorized to perform such act or discharge such duty.

“Trustee” means the Trustee with respect to the Bonds and any other person at any time substituted in its place as provided in the General Indenture.

“Trust Estate” means all property and rights conveyed by the Town under the Granting Clauses of the General Indenture, including all funds deposited by the Town in the Holly Springs Revenue Bonds Subaccount of the Holly Springs Account of the Acquisition and Construction Fund created under the Construction Management Agreement.

“Underwriter” means PNC Capital Markets LLC.

“2008 Bond Order” means the Bond Order adopted by the Town Council of the Town on August 5, 2008 authorizing the issuance from time to time of water and sewer revenue bonds pursuant to Article 5 of Chapter 159 of the General Statutes of North Carolina, which was amended to incorporate the provisions of this Indenture pursuant to an Amendment to the 2008 Bond Order adopted by the Town Council of the Town on October 17, 2023.

“2008 Bond” means the Town’s Water and Sewer Revenue Bond, Series 2008, originally issued in the aggregate principal amount of \$16,100,000 pursuant to the 2008 Bond Order, the current holder of which is PNC Bank, National Association.

“2020 Bond” means the Town’s Water and Sewer Revenue Refunding Bond, Series 2020, originally issued in the aggregate principal amount of \$5,242,435.61 pursuant to the 2008 Bond Order and the 2020 Supplemental Bond Order, the current holder of which is PNC Bank, National Association.

“2020 Supplemental Bond Order” means the Supplemental Bond Order and Series Resolution Authorizing and Providing for the Issuance of Up to \$5,600,000 Water and Sewer Revenue Refunding Bonds adopted by the Town Council on July 21, 2020, which supplemented the 2008 Bond Order and was amended to incorporate the provisions of the General Indenture pursuant to an Amendment to the 2020 Supplemental Bond Order adopted by the Town Council of the Town on October 17, 2023.

“2024 Bonds” means the Enterprise Systems Revenue Bonds, Series 2024 to be issued pursuant to the General Indenture and the 2024 Series Indenture.

“2024 Account” means the account by that name in the Construction Fund created pursuant to the 2024 Series Indenture for the 2024 Bonds.

“2024 Capitalized Interest Account” means the account by that name in the Construction Fund created pursuant to the 2024 Series Indenture for the 2024 Bonds.

“2024 Series Indenture” means Series Indenture, Number 1 dated as of July 1, 2024 and any amendments or supplements adopted in accordance with the terms thereof.

PLEDGE UNDER THE GENERAL INDENTURE

The Trust Estate is pledged, and the Town grants a security interest therein, to the Trustee for the benefit of Owners, to secure the payment of Bonds in accordance with their terms and the provisions of the

General Indenture. The Trust Estate is immediately subject to the lien of such pledge without any physical delivery thereof or further act and such lien will be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice thereof.

FUNDS AND ACCOUNTS

Under the General Indenture, the Town establishes and creates the following special Funds on its books and records which for administrative convenience may be subdivided by the Town Representative or the Trustee into Accounts with appropriate identification:

- (1) Enterprise Systems Operating Fund;
- (2) Debt Service Fund;
- (3) Extension and Replacement Fund;
- (4) Construction Fund;
- (5) Reserve Fund, if required; and
- (6) Surplus Fund.

The Trustee or the Town may also create such other Funds or Accounts as it deems necessary or desirable in the administration of the General Indenture.

The Debt Service Fund, the Construction Fund and the Reserve Fund will be held by the Trustee. If the Reserve Fund is used for a Series of Bonds, the related Series Indenture must establish the provisions for the use thereof. The Enterprise Systems Operating Fund, the Extension and Replacement Fund and the Surplus Fund will be held by one or more financial institutions determined by the Town.

Construction Fund. The Town has created the 2024 Account and 2024 Capitalized Interest Account within the Construction Fund under the 2024 Series Indenture. A portion of the proceeds of the 2024 Bonds will be deposited in the 2024 Account and 2024 Capitalized Interest Account and applied pursuant to the 2024 Series Indenture, including to the payment of Costs of Construction and Costs of Issuance on the filing from time to time with the Trustee of a requisition from the Town pursuant to the 2024 Series Indenture. Any balance remaining in the 2024 Account will be deposited in the Debt Service Fund and applied to the next payment due with respect to the 2024 Bonds unless otherwise directed by the Town in writing.

Enterprise Systems Operating Fund. (a) The Town will cause all Revenues to be deposited in the Enterprise Systems Operating Fund. There will also be deposited in the Enterprise Systems Operating Fund any other amounts required to be deposited therein pursuant to the General Indenture or any Supplemental Indenture and any other amounts available therefor and determined by the Town to be deposited therein. All amounts collected by the Town that do not constitute Revenues, which have been deposited in the Enterprise Systems Operating Fund, may be paid out of the Enterprise Systems Operating Fund in the amounts and at the times determined by the Town Representative.

(b) Except as provided in subsection (a) above, the Town will cause disbursements to be made from the Enterprise Systems Operating Fund as follows:

FIRST: Directly to the Persons entitled thereto at any time as may be required, the amount required to pay the Current Expenses as shown in the Annual Budget for the current Fiscal Year;

SECOND: To the Debt Service Fund, on or before the fifth day preceding each Interest Payment Date, an amount such that, after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Interest on the Bonds, there will be in the Debt Service Fund an amount equal to the Interest due on that Interest Payment Date;

THIRD: To the Debt Service Fund, on or before the fifth day preceding each Principal Payment Date, an amount such that, after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Principal of the Bonds, there will be in the Debt Service Fund an amount equal to the Principal due on that Principal Payment Date;

FOURTH: At any time as may be required, to the provider of any Qualified Reserve Fund Substitute in satisfaction of the then current obligations of the Town incurred in connection therewith;

FIFTH: At any time as may be required, to the Trustee for deposit in the Reserve Fund (1) the amount necessary for the balance therein to equal the Reserve Requirement, but if the Revenues are insufficient therefor, to each Account of the Reserve Fund *pro rata* on the basis of the Reserve Requirement for each Series of Bonds secured by an Account of the Reserve Fund or (2) if the Reserve Fund is less than 90% of the Reserve Requirement as a result of a valuation of investments therein, the amount necessary for the balance therein to equal the Reserve Requirement; but the Town is not required to transfer in any month more than an amount such that if the same amount were deposited in equal monthly installments over the subsequent 11 months, the Reserve Fund would equal the Reserve Requirement;

SIXTH: At any time as may be required, to the Persons entitled to payment of any principal, premium, if any, or interest on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing;

SEVENTH: At any time as may be required, to the paying agent or directly to the registered owners of General Obligation Indebtedness in an amount necessary to pay when due the principal of, premium, if any, and interest on the General Obligation Indebtedness;

EIGHTH: At any time as may be required, to the Persons entitled to payment with respect to any Other Indebtedness, an amount equal to the payment then due and owing;

NINTH: On the last day of each month, to the Extension and Replacement Fund, the amount necessary for the following month, if any, as shown in the Annual Budget; and

TENTH: On the first day of each Fiscal Year, to the Surplus Fund, the balance remaining in the Enterprise Systems Operating Fund as of the last day of the preceding Fiscal Year.

Debt Service Fund. The Trustee will disburse amounts deposited in the Debt Service Fund as follows:

(1) On each Interest Payment Date, to the Persons entitled thereto, Interest due on such date.

(2) Subject to the provisions requiring the application thereof to the payment or redemption of any particular Bond, on each Principal Payment Date, to the Owners, the amounts required for the payment of the Principal due on such date.

(3) On each Redemption Date, to the Owners, the amount required for redemption of Bonds called for redemption.

If on an Interest Payment Date or a Principal Payment Date, the amounts in the Debt Service Fund are insufficient to pay in full the Interest or Principal, the amounts in the Debt Service Fund will be applied *pro rata* first to the Persons entitled to Interest and then to the Persons entitled to Principal. Except as otherwise specifically provided in the General Indenture or in any Series Indenture, the Trustee has no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price, the Principal amount or at any other price, and any arms' length purchase by the Trustee will conclusively be deemed fair and reasonable.

If on any Interest Payment Date or Principal Payment Date, there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following Funds and in the order or priority set forth below:

- (1) Enterprise Systems Operating Fund;
- (2) Surplus Fund;
- (3) Extension and Replacement Fund;
- (4) the Account of the Reserve Fund securing a Series of Bonds to pay the Principal of and Interest on such Series of the Bonds, to the extent such deficiency is attributable to the Series of the Bonds secured by that Account of the Reserve Fund; and
- (5) Construction Fund.

Extension and Replacement Fund. There will be deposited in the Extension and Replacement Fund any amount required to be deposited therein pursuant to the Annual Budget and any other amounts available therefor and determined by the Town to be deposited therein.

The Extension and Replacement Fund may be applied for the following purposes:

- (1) paying the cost of extensions, additions and capital improvements to, or the renewal and replacement of capital assets of, or purchasing and installing new equipment for, the Enterprise Systems, or paying any extraordinary maintenance and repair or any expenses which are not Current Expenses;
- (2) transfer to the Debt Service Fund to make up any deficiency therein in accordance with the order of priorities provided in the General Indenture;
- (3) repayment of Subordinate Indebtedness, General Obligation Indebtedness or Other Indebtedness; and
- (4) any other purpose authorized by law.

Surplus Fund. There will be deposited from time to time in the Surplus Fund all amounts required to be deposited therein pursuant to the General Indenture or any Series Indenture and any other amounts available therefor and determined by the Town to be deposited therein.

Moneys held in the Surplus Fund shall be applied in the following order of priority: (1) first, to the Enterprise Systems Operating Fund and the Debt Service Fund to make up any deficiency therein to meet the obligations therefor; (2) second, to pay the Person entitled thereto a termination payment under a Derivative Agreement; (3) third, to the Persons entitled to payment of any principal, premium, if any, or interest on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing; (4) fourth, to the paying agent or directly to the registered owners of General Obligation Indebtedness in an amount necessary to pay when due the principal of, premium, if any, and interest on the General Obligation Indebtedness; (5) fifth, to the Persons entitled to payment with respect to any Other Indebtedness, an amount equal to the payment then due and owing; and (6) sixth, for any lawful purpose from time to time authorized by the Town.

INVESTMENTS

The Trustee will invest moneys held in the Debt Service Fund, the Construction Fund and the Reserve Fund, at the written direction of the Town or as otherwise set forth in a Series Indenture, in Investment Securities. The Town will invest all Funds and Accounts held by or on behalf of it pursuant to the General Indenture in such Investment Securities as it determines in its sole discretion. The proceeds of any remarketing of a Series of the Bonds will be held uninvested or will be invested in Federal Securities maturing not later than the earlier of 30 days or the date needed for payment. The Town will invest, and as

to the Debt Service Fund, the Reserve Fund and the Construction Fund, will direct the Trustee (in writing or orally with subsequent confirmation in writing) to invest all moneys held under the General Indenture pursuant to the investment instructions as provided in connection with a Series of Bonds. Whenever the Trustee has not received written direction from the Town and moneys in a Fund or Account created under the General Indenture or a Series Indenture are therefore uninvested, the Trustee shall invest the moneys in Federal Securities maturing the earlier of (i) the date such moneys are needed to meet an obligation under the General Indenture or a Series Indenture or (ii) 30 days after such investment.

Unless otherwise provided in a Series Indenture, the Trustee will deposit earnings from investment of moneys (i) in the Construction Fund immediately on receipt thereof into the Construction Fund, (ii) in the Debt Service Fund immediately on receipt thereof into the Debt Service Fund, and (iii) in the Reserve Fund as set forth in each Series Indenture. All other earnings from the investment of moneys held in any other Fund or Account will be credited to the Enterprise Systems Operating Fund.

COVENANTS OF THE CITY

Accounts and Reports. The Town will keep, or cause to be kept, proper books of record and account in which complete and accurate entries will be made relating to the Enterprise Systems, which will at all reasonable times be subject to the inspection of the Trustee and the Owners or their representatives duly authorized in writing.

The Town will file with the Trustee and the LGC, within 210 days after the close of each Fiscal Year, a copy of an audited annual financial report as to the obligations and activities of the Enterprise Systems during such Fiscal Year. The financial statements for each Fiscal Year, shall set forth in reasonable detail:

- (1) a balance sheet for the Enterprise Systems at the end of such Fiscal Year;
- (2) a statement of the Enterprise Systems revenues and expenses in accordance with the categories or classifications established by the Town for its operating and program purposes and showing the Revenues and Current Expenses during such Fiscal Year; and
- (3) a statement of cash flows of the Enterprise Systems as of the end of such Fiscal Year.

In addition, the Town will file with the Trustee and the LGC an audited calculation demonstrating its compliance with the Rate Covenant which may be contained (i) in the Town's annual financial report or (ii) in a separate document. The contents of the financial statements may vary from that set forth in clauses (1) through (3) if the Accountant certifies that they conform to then-existing generally accepted accounting principles. The financial statements must be accompanied by an Accountant's Certificate stating whether the financial statements examined fairly present the financial position of the Town, including the Enterprise Systems, at the end of the Fiscal Year, and whether the results of its operations and the changes in financial position for the period examined are in conformity with generally accepted accounting principles. The Trustee will make a copy of the financial statements available to any Owner of a Bond on written request therefor.

Within 210 days after the close of each Fiscal Year, the Town will file or cause to be filed with the Trustee and the LGC based on unaudited financial results (i) a certificate that no Event of Default has occurred or (ii) if an Event of Default has occurred, a special report, accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund under the General Indenture.

Annual Budgets. The Town Council will approve by July 1 of each year an Annual Budget covering the fiscal operations of the Enterprise Systems for the Fiscal Year. Such budget need not

necessarily be the budget prepared by the Town for budgeting purposes. The Annual Budget will set forth for such Fiscal Year the estimated Revenues; the Principal and Interest Requirements on the Bonds, the Principal and Interest Requirements on Subordinate Indebtedness, the Principal and Interest Requirements on General Obligation Indebtedness and the Principal and Interest Requirements on Other Indebtedness, due and payable or estimated to become due and payable during such Fiscal Year; estimated Current Expenses; and, unless capital expenditures for the Enterprise Systems are included in the Town's capital investment plan or similar document, the estimated amounts, if any, to be expended for extension, improvement, enlargement, renewal or replacement of the Enterprise Systems, whether begun, continued or completed during such Fiscal Year. The Town may at any time adopt an amended Annual Budget in the manner provided in the General Indenture for the adoption of the Annual Budget. Copies of the Annual Budget as then amended and in effect will be made available by the Town at normal business hours in the Trustee's designated corporate trust office for inspection by the Trustee or any Owner or will be made publicly available by posting such information on the Town's website or other publicly available site. If the Town does not approve or adopt an Annual Budget for a Fiscal Year on or before the first day of such Fiscal Year, the Annual Budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year has been adopted as above provided.

Rate Covenant. Before the commencement of each Fiscal Year, the Town will fix, establish or maintain or cause to be fixed, established and maintained such rates and charges for the provision of services of the Enterprise Systems, and revise or cause to be revised the same, as necessary, as will produce (a) Revenues, which together with 20% of the balance in the Surplus Fund at the end of the preceding Fiscal Year, at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Year plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Year plus, (v) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year, plus (vi) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing thereunder and (b) Revenues at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 110% of (1.10 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year, plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Year, plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Year, plus (v) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year, plus (vi) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing thereunder, provided that, for purposes of calculating compliance with the rate covenant in (a) and (b) above, the exception with respect to Balloon Indebtedness in the definition of Principal and Interest Requirements on the Bonds shall not apply. All users, including political subdivisions and public bodies (State or federal) who receive services from the Enterprise Systems will pay therefor at the established rates, fees and charges, unless otherwise prohibited by law, but the Town may adopt specific policies with respect to use by persons of low income and the rates, fees and charges need not be uniform.

If the Town fails to comply with the covenant set forth above, the Town will, within 30 days of the receipt by the Town of its audit report, request a Financial Consultant to make its recommendations, if any, as to a revision of the Town's rates and charges, Current Expenses or the method of operation of the Enterprise Systems in order to satisfy the foregoing requirements of the rate covenant. Copies of such request and of the recommendations of the Financial Consultant, if any, will be filed by the Town with the Trustee and the LGC. Promptly on its receipt of the recommendations of the Financial Consultant, the Town will, after giving due consideration to the recommendations, revise its rates and charges or Current Expenses or alter its methods of operation, which revisions or alterations need not comply with all of the

Financial Consultant's recommendations but which are projected by the Town to result in compliance with the rate covenant. If the Town complies with the recommendations of the Financial Consultant which are projected by the Town to result in compliance with the rate covenant, failure to comply with the provisions above will not constitute an Event of Default.

Issuance of Additional Bonds. (a) The Town will not issue any other obligations, except on the conditions and in the manner provided in the General Indenture, payable from the Revenues, having priority to or being on a parity with the lien of the Bonds issued pursuant to the General Indenture, nor voluntarily create or cause to be or suffer to be created any debt, lien, pledge, assignment, encumbrance or any other charge having priority to or being on a parity with the lien of the Bonds issued pursuant to the General Indenture.

(b) The Town may issue Bonds to refund all or any Principal amount of Bonds if the debt service on the Bonds remaining Outstanding after the issuance of the refunding Bonds will decrease as a result of such refunding. Otherwise, the Town must satisfy the requirements in paragraph (d) below.

(c) If the Town has issued Bonds, the proceeds of which were used to acquire or construct any portion of the Enterprise Systems and such proceeds are insufficient to pay the Costs of Construction, the Town may issue a Series of Bonds in an amount equal to (i) the insufficiency, (ii) any required deposit to the Reserve Fund with respect to such Series and (iii) the Costs of Issuance related thereto. Before the issuance of any Series of Bonds under this paragraph, the Town shall deliver to the Trustee a Certificate of a Consulting Engineer or a Financial Consultant stating that the proceeds from the Series of Bonds together with other available funds will be sufficient to pay the Costs of Construction of the portion of the Enterprise Systems for which such Series of Bonds are being issued.

(d) No Series of Bonds, other than the initial Series of Bonds and the Bonds described in paragraphs (b) and (c) above, will be issued under the General Indenture unless either:

(1) (A) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, together with 20% of the balance in the Surplus Account at the end of such Fiscal Year, were at least equal to (a) 120% of (1.20 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in the most recent Fiscal Year for which audited financial statements are available, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in the most recent Fiscal Year for which audited financial statements are available, and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in the most recent Fiscal Year for which audited financial statements are available, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds; and

(B) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, were at least equal to (a) 100% of (1.00 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in the most recent Fiscal Year for which audited financial statements are available, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in the most recent Fiscal Year for which audited financial statements are available, and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in the most recent Fiscal Year for which audited financial statements are available; or

(2) (A) the Town has met the Rate Covenant for the most recent Fiscal Year for which audited financial statements are available, as certified by the Finance Officer; and

(B) the Net Revenues, as projected by a report of a Financial Consultant, for the first two Fiscal Years following either (I) the date capitalized interest, if any, provided from the proceeds of the proposed Series of Bonds is expended in the case of the acquisition of assets for or construction of improvements to the Enterprise Systems or (II) the date the proposed Series of Bonds is issued, are at least equal to (a) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, for such Fiscal Years, (b) 100% of (1.00 times) the Principal and Interest Requirements on Subordinate Indebtedness to become due in such Fiscal Years, (c) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness to become due in such Fiscal Years and (d) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Years, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds; and

(3) no Event of Default under the General Indenture has occurred and is continuing.

(e) For purposes of calculating Net Revenues in paragraph (d)(1) or Revenues in paragraph (d)(2)(A), (1) if any rates, fees or charges of the Enterprise Systems have been increased since the date of such audited financial statements or are scheduled to be increased at the time the proposed Series of Bonds are issued, the Finance Officer may add to the Net Revenues his or her estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such rates, fees and charges had been in effect in such Fiscal Year and (2) if users of the Enterprise Systems have been added since the date of such audited financial statements, the Finance Officer may add to the Net Revenues his or her estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the Enterprise Systems as of the beginning of such Fiscal Year.

Insurance; Condemnation. The Town will carry or cause to be carried such insurance with a reputable insurance carrier or carriers, such as is maintained or carried by similar systems as the Enterprise Systems, including public liability insurance, and said property loss and damage insurance will at all times be in an amount sufficient to indemnify in amounts sufficient to repair the Enterprise Systems for loss, to the extent that such insurance is obtainable. The Town will deposit the proceeds of any insurance or condemnation, with respect to the Enterprise Systems, in excess of \$5,000,000 in any given Fiscal Year (i) in the Construction Fund, to rebuild or replace the Enterprise Systems or portion thereof giving rise to the referenced proceeds or (ii) in the Debt Service Fund, to redeem or pay the Principal of the Bonds pursuant to a Series Indenture. The Town may provide for and maintain the insurance required under the General Indenture partially or wholly by means of an adequate self-insurance fund. Reserves for a self-insurance fund will be determined by using actuarial principles. Any self-insurance fund will be reviewed annually by the Town's risk manager, the Executive Director or an Independent Insurance Consultant.

Adding to or Removing from the System. An enterprise within the Enterprise Systems may be sold, leased or otherwise disposed of, in whole or in part, to another political subdivision, public agency, public authority, public instrumentality or other entity authorized by law in the State to own and operate such systems only (i) if there is filed with the Trustee (A) a report prepared by a Financial Consultant satisfactory to the Trustee showing that there is no material adverse effect on the ability of the Enterprise Systems to produce Revenues to satisfy the Rate Covenant, (B) written evidence from any rating agency then rating the Bonds that such sale will not adversely affect its rating then in effect on the Bonds (without regard to gradation within category), (C) an opinion of counsel to the Town that such disposition has been properly authorized and (D) an opinion of Bond Counsel that such disposition will not adversely affect the federal or state income tax treatment of interest on the Bonds, if applicable and (ii) for a disposition in whole, if such political subdivision, public agency, public authority, public instrumentality or other entity described in this paragraph assumes all of the obligations of the Town related to such enterprise under the

General Indenture.

Any part of an enterprise within the Enterprise Systems constructed on behalf of or with funds provided by another governmental unit may be sold, leased or otherwise disposed of to that governmental unit, if the Trustee receives a certificate from the Financial Consultant which states that the projected Revenues of the Enterprise Systems as it will exist after the proposed disposition for each of the two Fiscal Years subsequent to the year in which the disposition is expected to be completed are equal to the sum of the Current Expenses projected for each such Fiscal Year plus 120% of (1.20 times) the Principal and Interest Requirements on the Bonds for such Fiscal Year plus 100% of (1.00 times) the maximum Principal and Interest Requirements on Subordinate Indebtedness plus the maximum Principal and Interest Requirements on General Obligation Indebtedness plus 100% of (1.00 times) the maximum Principal and Interest Requirements on Other Indebtedness due in any Fiscal Year.

Any part of an enterprise within the Enterprise Systems may be sold, mortgaged, leased or otherwise disposed of, in whole or in material part to a nongovernmental entity only if (1) the net proceeds to be realized will be sufficient, together with other moneys available therefor, to discharge the lien of the General Indenture as to all Series of Bonds or the portion thereof related thereto and such net proceeds are deposited in a separate segregated account for such purpose and (2) the Trustee has received (A) an opinion of counsel to the Town that such disposition has been properly authorized and is permitted by the law of the State, (B) an opinion of Bond Counsel to the effect that such disposition will not adversely affect the federal and state income tax treatment of the interest on the Bonds, if applicable (C) written evidence from any rating agency then rating the Bonds that such sale will not adversely affect its rating then in effect on the Bonds (without regard to gradation within category) and (D) a certificate from the Finance Officer that the disposition will not materially adversely affect the ability of the Town to meet its financial obligations under the General Indenture, including the ability of the Town to meet its Rate Covenant.

The Town reserves the right to sell, lease or otherwise dispose of any of the property comprising a part of the Enterprise Systems determined to be no longer necessary, useful or profitable in the operation thereof. Before any such sale, lease or other disposition of such property, a Town Representative will determine that such property comprising a part of the Enterprise Systems is no longer necessary, useful or profitable in the operation thereof and that the disposition of such property will not materially adversely affect the ability of the Town to meet its financial obligations under the General Indenture, including the ability of the Town to meet its Rate Covenant. Such findings will be approved by resolution of the Town Council if the amount to be received therefor is in excess of five percent (5%) of the total assets of the Enterprise Systems net of accumulated depreciation. All proceeds derived from the sale, lease or other disposition of any property comprising a part of the Enterprise Systems as provided above, will be deposited in the Enterprise Systems Operating Fund.

If the Town acquires an enterprise, or a portion thereof, the Town Council will designate, as soon as practicable, whether or not the acquired assets will constitute a part of the Enterprise Systems for purposes of the General Indenture. If the acquired assets will not be a part of the Enterprise Systems, the Town will maintain, operate and account for such assets in a way that the assets can be owned and operated independently of the Enterprise Systems. The Town Council may subsequently designate such assets be included as part of the Enterprise Systems.

An enterprise may be added to or removed from the Enterprise Systems if the Trustee receives (1) a certificate from the Financial Consultant which states that the projected Revenues of the Enterprise Systems as it will exist after the proposed addition or removal for each of the two Fiscal Years subsequent to the year in which the addition or removal is expected to be completed are projected to satisfy the Rate Covenant, (2) an opinion of Bond Counsel to the effect that the addition or removal will not adversely affect the federal income tax treatment of the interest on the Bonds, if applicable, and (3) written evidence from any rating agency then rating the Bonds that such addition or removal will not adversely affect its rating then in effect on the Bonds (without regard to gradation within category).

Liens or Charges. The Town may create liens on any vehicles or equipment for the Enterprise System to secure the issuance of Other Indebtedness as long as at the time of the creation of the lien loss of the vehicles or equipment secured by the lien will not materially adversely affect the ability of the Town to meet its financial obligations under the General Indenture, including the ability of the Town to meet its Rate Covenant. In addition to liens on vehicles and equipment and any existing liens related to the Town's Existing Other Indebtedness, the Town may create or permit to be created a lien on property for the Enterprise Systems in order to secure the issuance of Other Indebtedness as long as at the time of the creation of the lien (i) loss of the property secured by the lien will not materially adversely affect the ability of the Town to meet its financial obligations under the General Indenture, including the ability of the Town to meet its Rate Covenant and (ii) the current value of all parts of the Enterprise Systems subject to a lien securing Other Indebtedness, including property which may be added to the Enterprise Systems as a result of issuance of the proposed Other Indebtedness, does not exceed twenty percent (20%) of the current value of the Enterprise Systems' tangible assets. The Town will not otherwise create or permit to be created any lien or charge on the Enterprise Systems. The Town will pay or cause to be discharged or make provisions to satisfy and discharge, within 60 days after the same accrues, all claims and demands for labor, materials, supplies or other items which, if unpaid, might by law become a lien on the Enterprise Systems or the Revenues on a parity with the lien of the Bonds, except for the liens permitted by the General Indenture. The Town need not pay or cause to be discharged or make provision for any lien or charge as long as the validity thereof is being contested in good faith by appropriate legal proceedings.

Covenant to Obtain Permits. No approval or consent is required from any governmental authority with respect to the entering into or performance by the Town of the General Indenture and the performance by the Town of the transactions contemplated by the General Indenture, except certain approvals and consents relating to certain extensions, additions and capital improvements to, or the acquisition, renewal or replacement of capital assets of, or purchasing and installing new equipment for, the Enterprise Systems and if such approvals are required, will be duly obtained.

Waiver of Laws. The Town will not at any time insist on or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law now or at any time hereafter in force which may affect the covenants and agreements contained in the General Indenture or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by the Town.

Released Revenues. Revenues will become Released Revenues on the filing of the following with the Trustee:

(a) a resolution of the Town Council describing a specific identifiable portion of Revenues and approving that such Revenues be excluded from the term Revenues;

(b) either (1) a certificate prepared by the Finance Officer showing that Net Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of Revenues covered by the Town Council's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments under the General Indenture related to the Enterprise Systems Operating Fund, or (B) an amount not less than 150% of average Principal and Interest Requirements on the Bonds for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of Revenues; or (2) a certificate prepared by a Financial Consultant showing that the estimated Net Revenues (excluding the specific identifiable portion of Revenues covered in the resolution adopted by the Town Council described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Town Council, will not be less than the larger of (A) the amounts needed for making the required deposits and payments under the General Indenture related to the Enterprise Systems Operating Fund, or (B) an amount not less than 150%

of the average Principal and Interest Requirements on the Bonds for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of Revenues;

(c) an opinion of the Town's bond counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of Revenues and from the pledge and lien of the General Indenture will not, by itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; provided, however this provision is only applicable to those Bonds that are intended to be excludable from gross income for purposes of federal income tax; and

(d) written confirmation from each of the rating agencies that has been requested by the Town to maintain a rating on the Bonds and are then maintaining a rating on any of the Bonds to the effect that the exclusion of such specific identifiable portion of Revenues from the pledge and lien of the General Indenture will not cause a withdrawal or reduction in the rating then assigned to the Bonds.

Upon filing of such documents, the specific identifiable portion of Revenues described in the resolution of the Town Council and collected after such filing shall no longer be included in Revenues and shall be excluded from the pledge and lien of the General Indenture, unless subsequently included in Revenues and in the pledge and lien of the General Indenture under a Supplemental Indenture or a Series Indenture.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Effective On Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Town may be executed and delivered, which, on the filing with the Trustee of a copy thereof certified by a Town Representative and execution by the Trustee, will be fully effective in accordance with its terms:

(a) to close the General Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the General Indenture on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(b) to add to the covenants and agreements of and the limitations and restrictions on the Town in the General Indenture other covenants and agreements or limitations and restrictions to be observed by the Town which are not contrary to or inconsistent with the General Indenture as theretofore in effect;

(c) to surrender any right, power or privilege reserved to or conferred on the Town by the terms of the General Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Town contained in the General Indenture;

(d) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the General Indenture of the Trust Estate, including the Net Revenues or any other revenues or assets;

(e) to modify any of the provisions of the General Indenture in any respect whatsoever, but only if (i) such modification will be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Indenture cease to be Outstanding and (ii) such Supplemental Indenture will be specifically referred to in the text of all Bonds delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

- (f) to provide for the delivery of a Qualified Reserve Fund Substitute;
- (g) to include additional facilities, property or equipment within the definition of “*Enterprise Systems*” and the revenues therefrom within the definition of “*Revenues*”;
- (h) in the event of changes to generally accepted accounting principles or changes in law, in each case which become effective after the date of the General Indenture, to modify any definition in the General Indenture so as to perpetuate the meaning and effect of such definition as originally intended at the time of the execution of the General Indenture; or
- (i) provided that any changes do not, in the opinion of Bond Counsel, adversely affect the interests of the Owners of the Bonds.

Supplemental Indentures Effective On Consent of Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture may be executed and delivered, which, on (i) the filing with the Trustee of a copy thereof certified by a Town Representative, and (ii) the filing with the Trustee and the Town of an instrument in writing, made by the Trustee consenting thereto, will be fully effective in accordance with its terms:

- (a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the General Indenture;
- (b) to insert such provisions clarifying matters or questions arising under the General Indenture as are necessary or desirable and are not contrary to or inconsistent with the General Indenture as theretofore in effect; or
- (c) to effectuate such changes in the General Indenture which do not adversely affect the interests of the Owners.

Supplemental Indentures Effective On Consent of Owners. Exclusive of Supplemental Indentures covered by the provisions described above, the consent of the Owners of not less than a majority in aggregate Principal amount of the Bonds Outstanding, will be required for the execution by the Town and the Trustee of any indenture or indentures supplemental to the General Indenture; provided, however, that without the consent of the Owners of all the Bonds Outstanding affected thereby nothing contained in the General Indenture will permit, or be construed as permitting:

- (a) A change in the terms of redemption or maturity of the Principal amount of or the Interest on any Outstanding Bond, or a reduction in the Principal amount of or premium payable on any redemption of any outstanding Bond or the rate of interest thereon;
- (b) The deprivation of the Owner of any Bond Outstanding of the lien created by the General Indenture (other than as originally permitted by the General Indenture);
- (c) A privilege or priority of any Bond over any other Bond; or
- (d) A reduction in the aggregate Principal amount of the Bonds required for consent to such Supplemental Indenture.

If at any time the Town requests the Trustee to enter into a Supplemental Indenture for any of the purposes above, the Trustee will, on being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be given by mail to the Owners of the Bonds Outstanding at the address shown on the registration books maintained by the Registrar. Such notice will briefly set forth the nature of the proposed Supplemental Indenture and will state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Owners. If, within 60 days (or such longer period prescribed by the Town) following the giving of such notice, the Owners of not less

than a majority in aggregate Principal amount of the Bonds Outstanding (and in the case of Supplemental Indentures involving paragraphs (a) through (d) above, the Owners of all of the Bonds Outstanding) at the time of the execution of any such Supplemental Indenture have consented to and approved the execution thereof, no Owner will have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Town from executing the same or from taking any action pursuant to the provisions thereof.

The consent by the purchaser of a Series of Additional Bonds constitutes the consent of the Owners of that Series of Additional Bonds.

General Provisions. Notwithstanding anything in the General Indenture or a Series Indenture to the contrary, (1) any initial purchaser, underwriter or remarketing agent holding any Series of the Bonds may, regardless of its intent to sell or distribute such Bonds in the future, consent as the Owner of such Bonds to any amendment or supplemental indenture as required or permitted by the General Indenture, including any amendment or supplemental indenture that adversely affects the interests of other Owners, and (2) any Owner is not entitled to receive, nor is the Town required to provide, any prior notice or other documentation regarding such amendment or supplemental order.

DEFAULTS AND REMEDIES

Events of Default. If any of the following events occur, it is defined and deemed an “Event of Default” under the General Indenture:

- (a) A failure to pay the Principal of or premium, if any, on any Bond when the same becomes due and payable, whether at the stated maturity thereof or on proceedings for redemption including sinking fund redemptions;
- (b) A failure to pay any installment of Interest when the same becomes due and payable; and
- (c) A failure by the Town to observe and perform any covenant, condition, agreement or provision (other than as described in subsections (a) and (b) above) contained in the Bonds or in the General Indenture on the part of the Town to be observed or performed, which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Town by the Trustee, which may give such notice in its discretion and must give such notice at the written request of Owners of not less than 25% of the aggregate Principal amount of the Bonds, unless the Trustee, or the Trustee and Owners of a Principal amount of Bonds not less than the Principal amount of Bonds the Owners of which requested such notice, as the case may be, agrees in writing to an extension of such period prior to its expiration.

Further events which will constitute “Events of Default” may be set forth in a Series Indenture.

Remedies on Default. Notwithstanding any other provision of the General Indenture, the Bonds are not subject to acceleration.

On the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and on the written direction of Owners of not less than a majority in aggregate Principal amount of the Bonds Outstanding and receipt of indemnity to its satisfaction, must, in its own name and as the trustee of an express trust:

- (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners, and require the Town to carry out any agreements with or for the benefit of the Owners and to perform its duties under the General Indenture;

(ii) take custody of the Enterprise Systems Operating Fund, the Extension and Replacement Fund and the Surplus Fund; or

(iii) take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the Town.

If the Trustee takes possession of the Enterprise Systems Operating Fund, the Trustee will make the payments therefrom in accordance with the General Indenture and shall appoint a consultant satisfactory to the Trustee with experience in the operation and maintenance of municipal enterprise systems similar to the Enterprise Systems to assist the Trustee in evaluating the Annual Budget, the cost of which will be paid from the Enterprise Systems Operating Fund.

No right or remedy is intended to be exclusive of any other rights or remedies, but each and every such right or remedy will be cumulative and in addition to any other remedy given under the General Indenture existing at law or in equity or by statute. If any Event of Default has occurred and if requested by the Owners of a majority in aggregate Principal amount of Bonds Outstanding and indemnified as provided in the General Indenture, the Trustee will be obligated to exercise such one or more of the rights and powers conferred as the Trustee, being advised by counsel, deems most expedient in the interests of the Owners.

If the Town causes to be deposited with the Trustee a sum sufficient to pay all matured installments of the Principal of and Interest on all Bonds which have become due (with interest on such overdue installments of Interest, at the rate per annum borne by the respective Bonds) and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default shall otherwise be made good or secured to the satisfaction of the Trustee, the Trustee will relinquish possession and control over all money, securities, funds and Revenues then remaining unexpended in the hands of the Trustee that it took custody of and thereupon all Revenues shall thereafter be applied as otherwise provided in the General Indenture. No such payment over to the Town by the Trustee or resumption of the application of Revenues as provided in the General Indenture shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Priority of Payments After Default. (a) If, on the happening and continuance of any Event of Default, the funds held by the Trustee are insufficient for the payment of the Principal or Redemption Price then due of and Interest then due on the Bonds, such funds (other than funds held for the payment of particular Bonds which have theretofore become due at maturity or by redemption) and any other amounts received or collected by the Trustee acting pursuant to the General Indenture, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of its duties under the General Indenture, will be applied as follows:

(1) Unless the Principal of all of the Bonds has become or has been declared due and payable:

FIRST: To the payment to the Persons entitled thereto of all installments of Interest then due in the order of the maturity of such installments, and, if the amounts available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference;

SECOND: To the payment to the Persons entitled thereto of the unpaid Principal or Redemption Price of any Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Bonds due, then to the payment thereof ratably, according to the amounts of Principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference;

and

THIRD: To be held for the payment to the Persons entitled thereto, as the same become due, of the Principal or Redemption Price of and Interest on the Bonds which thereafter become due and, if the amounts available are not sufficient to pay in full all the Bonds due on any date, together with such Interest, payment will be made ratably according to the amount of Principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the Principal of all of the Bonds has become or has been declared due and payable, to the payment of the Principal and Interest then due and unpaid on the Bonds without preference or priority of Principal over Interest or of Interest over Principal, or of any installment of Interest over any other installment of Interest, or of any Bond over any other Bond, ratably, according to the amounts due collectively for Principal and Interest, to the Persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(b) Whenever moneys are to be applied by the Trustee described above, such moneys will be applied by the Trustee at such times, and from time to time, as required by the terms of the General Indenture and otherwise as the Trustee determines in its prudent discretion, having due regard to the amount of moneys available for such application. The setting aside of such moneys in trust for the proper purpose, will constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Town, to any Owner or to any other person for any delay in applying such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the General Indenture. Whenever the Trustee will exercise discretion in applying such moneys, it will fix the date (which must be an Interest Payment Date unless the Trustee deems another date more suitable) on which such application is to be made. The Trustee will not be required to make payment to any Owner unless its Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Owners' Right to Direct Proceedings. Anything in the General Indenture to the contrary notwithstanding, the Owners of a majority in aggregate Principal amount of the Bonds Outstanding will have the right, at any time, to the extent permitted by law, by instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the General Indenture, or for the appointment of a receiver, and any other proceedings under the General Indenture; provided that such direction may not be otherwise than in accordance with the provisions of the General Indenture. The Trustee will not be required to act on any direction given to it until the indemnity described in the General Indenture is furnished to it by such Owners.

Limitation on Rights of Owners. (a) No Owner will have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the General Indenture, for the protection or enforcement of any right under the General Indenture unless such Owner has given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than 25% in aggregate Principal amount of the Bonds Outstanding have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there has been offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the General Indenture or for any other remedy under the General Indenture or by law. It is

understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the General Indenture, or to enforce any right under the General Indenture or under law with respect to the Bonds or the General Indenture, except in the manner provided in the General Indenture, and that all proceedings at law or in equity must be instituted, had and maintained in the manner provided in the General Indenture and for the benefit of all Owners. Nothing contained in the provisions above will affect or impair the right of any Owner to enforce the payment of the Principal of and Interest on its Bonds at the time and place expressed in said Bond.

(b) Each Owner by its acceptance of a Bond will be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Indenture or any Series Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant. The provisions of this paragraph will not apply to any suit instituted by the Trustee, to any suit instituted by Owners of at least 25% in aggregate Principal amount of the Bonds Outstanding, or to any suit instituted by any Owner for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Subordination of Claims for Interest. No claim for interest appertaining to any of the Bonds which in any way at or after maturity has been transferred or pledged separate and apart from the Bond to which it appertains will, unless accompanied by such Bond, be entitled, in case of an Event of Default, to any benefit by or from the General Indenture, except after the prior payment in full of the Principal of all of the Bonds then due and of all claims for interest then due not so transferred or pledged.

DEFEASANCE

If the Town pays or causes to be paid or is deemed to have paid to the Owner of any Bond the Principal of and interest due and payable, and thereafter to become due and payable on such Bond, or any portion of such Bond in any integral multiple of the authorized denomination thereof, such Bond or portion thereof will cease to be entitled to any lien, benefit or security under the General Indenture. If the Town pays or causes to be paid the Principal of, premium, if any, and interest due and payable on all Outstanding Bonds, pays or causes to be paid all other sums payable by the Town, including all fees, expenses and other amounts payable to the Trustee and any Paying Agent and all amounts owing to the provider of a Qualified Reserve Fund Substitute, then the right, title and interest of the Trustee in and to the Trust Estate will thereupon cease, terminate and become void.

Any Bond will be deemed to be paid within the meaning of the General Indenture and for all purposes of the General Indenture when (a) payment of the Principal and premium, if any, of such Bond plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption) either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment and, in either case, the Trustee has received verification from an independent certified public accounting firm or other bona fide verification firm that the moneys or Federal Securities deposited with the Trustee, together with investment earnings thereon, will be sufficient to pay when due the Principal and premium, if any, of and interest due and to become due on the Bond on and before the redemption date or maturity date thereof, (1) moneys, sufficient to make such payment or (2) non-callable Federal Securities maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond is deemed to be paid under the General Indenture, as aforesaid, such Bond will no longer be secured by or entitled to the benefits of the General Indenture, except for the purposes of any such payment from

such moneys or Federal Securities.

Notwithstanding the foregoing paragraph, no deposit under clause (a)(ii) of the immediately preceding paragraph will be deemed a payment of such Bonds as aforesaid until (a) proper notice of redemption of such Bonds has been previously given in accordance with the applicable Series Indenture, or if said Bonds are not to be redeemed within the next 35 days, until the Town has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of such Bonds in accordance with the applicable Series Indenture, that the deposit required by (a)(ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating the maturity or redemption date on which moneys are to be available for the payment of the Principal and premium, if any, of said Bonds plus interest thereon to the due date thereof, or (b) the maturity of such Bonds.

AMENDMENT OF 2024 SERIES INDENTURE

The 2024 Series Indenture and the rights and obligations of the Town and the Owners may be modified or amended at the same times, in the same manner and for the same purposes as the General Indenture, but if the modification or amendment affects only the 2024 Bonds, the percentage to be applied under the General Indenture will be applied only to the Outstanding 2024 Bonds.

Before the Town and the Trustee enter into any supplemental indenture, there must have been delivered to the Trustee and the Town an opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the General Indenture and the 2024 Series Indenture, complies with the terms thereof, will, on the execution and delivery thereof, be valid and binding on the Town in accordance with its terms and will not adversely affect the exclusion from the gross income of the recipients thereof of interest on the 2024 Bonds for federal income tax purposes.

Notwithstanding anything in the General Indenture or the 2024 Series Indenture to the contrary, (1) any initial purchaser, underwriter or remarketing agent holding any 2024 Bonds or another Series of the Bonds issued after the issuance of the 2024 Bonds may, regardless of its intent to sell or distribute such Bonds in the future, consent as the Owner of such Bonds to any amendment or supplemental indenture as required or permitted by the 2024 Series Indenture, including any amendment or supplemental indenture that adversely affects the interests of other Owners, and (2) any such holder providing its consent under the 2024 Series Indenture is not entitled to receive, nor is the Town required to provide, any prior notice or other documentation regarding such amendment or supplemental indenture.

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APPENDIX F

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

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THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

The Local Government Commission (the “Commission”) is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue and five others by appointment (three by the Governor, one by the General Assembly upon recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

A major function of the Commission is the approval, sale and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes, upon request, on-site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit’s debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act and its ability to service the proposed debt. All general obligation issues are customarily sold on the basis of formal sealed bids submitted at the Commission’s offices in Raleigh and are subsequently delivered to the successful bidder by the Commission. The Commission maintains records for all units of local government of principal and interest payments coming due on bonded indebtedness in the current and future years and monitors the payment by the units of local government of debt service through a system of monthly reports.

As a part of its role in assisting and monitoring the fiscal programs of units of local government, the Commission attempts to ensure that the units of local government follow generally accepted accounting principles, systems and practices. The Commission’s staff also counsels the units of local government in treasury and cash management, budget preparation and investment policies and procedures. Educational programs, in the form of seminars or classes, are also provided by the Commission in order to accomplish these tasks. The monitoring of the financial systems of units of local government is accomplished through the examination and analysis of the annual audited financial statements and other required reports. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A written contract must be submitted to the Secretary of the Commission for his approval prior to the commencement of the audit.

The Commission has the statutory authority to impound the books and records of any unit of local government and assume full control of all its financial affairs (a) when the unit defaults on any debt service payment or, in the opinion of the Commission, will default on a future debt service payment if the financial policies and practices of the unit are not improved or (b) when the unit persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply with the provisions of The Local Government Finance Act. When the Commission takes action under this authority, the Commission is vested with all of the powers of the governing board of the unit of local government as to the levy of taxes, expenditure of money, adoption of budgets and all other financial powers conferred upon such governing board by law.

In addition, if a unit of local government fails to pay any installment of principal or interest on its outstanding debt on or before its due date and remains in default for 90 days, the Commission may take such action as it deems advisable to investigate the unit's fiscal affairs, consult with its governing board and negotiate with its creditors in order to assist the unit in working out a plan for refinancing, adjusting or compromising such debt. When a plan is developed that the Commission finds to be fair and equitable and reasonably within the ability of the unit of local government to meet, the Commission will enter an order finding that the plan is fair, equitable and within the ability of the unit to meet and will advise the unit to take the necessary steps to implement such plan. If the governing board of the unit declines or refuses to do so within 90 days after receiving the Commission's advice, the Commission may enter an order directing the unit to implement such plan and may apply for a court order to enforce such order. When a refinancing plan has been put into effect, the Commission has the authority (a) to require any periodic financial reports on the unit's financial affairs that the Secretary deems necessary and (b) to approve reject the unit's annual budget ordinance. The governing board of the unit of local government must also obtain the approval of the Secretary of the Commission before adopting any annual budget ordinance. The power and authority granted to the Commission as described in this paragraph will continue with respect to a defaulting unit of local government until the Commission is satisfied that the unit has performed or will perform the duties required of it in the refinancing plan and until agreements made with the unit's creditors have been performed in accordance with such plan.

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

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APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Letterhead of Parker Poe Adams & Bernstein LLP]

July __, 2024

Town of Holly Springs, North Carolina
Holly Springs, North Carolina

U.S. Bank Trust Company, National Association
Charlotte, North Carolina

\$66,865,000
Town of Holly Springs, North Carolina,
Enterprise Systems Revenue Bonds,
Series 2024

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and delivery by the Town of Holly Springs, North Carolina (the “*Town*”) of \$66,865,000 aggregate principal amount of its Enterprise Systems Revenue Bonds, Series 2024 (the “*Bonds*”). The Town is a municipal corporation, validly organized, existing and in good standing under and by the virtue of the laws of the State of North Carolina (the “*State*”) and is empowered to issue the Bonds pursuant to the State and Local Government Revenue Bond Act, General Statutes of North Carolina, Section 159-80 *et seq.*, as amended (the “*Act*”), subject to the approval of the North Carolina Local Government Commission.

The Bonds are issuable only as fully registered bonds and will be numbered, will bear interest payable at the rates and at the times, and will be subject to redemption, all as provided in the General Trust Indenture dated as of July 1, 2024 (the “*General Indenture*”), and Series Indenture, Number 1 dated as of July 1, 2024 (the “*Series Indenture*”), each between the Town and U.S. Bank Trust Company, National Association, as trustee (the “*Trustee*”).

All capitalized terms not defined herein have the meanings given to such terms in the General Indenture and the Series Indenture.

The Bonds are being issued to (1) finance its portion of the design and construction of an eighteen (18) MGD expansion of the City of Sanford’s Water Filtration Facility from its present capacity of twelve (12) MGD to thirty (30) MGD, (2) pay capitalized interest on the Bonds, and (3) pay the costs of issuing the Bonds.

In connection with the issuance of the Bonds, we have examined the following: (a) the Act; (b) certified copies of the General Indenture and Series Indenture; and (c) such other laws, documents, instruments, proceedings and opinions as we have deemed relevant in rendering this opinion, including (i) a Bond Order adopted by the Town Council of the Town (the “*Town Council*”) on August 5, 2008 (the “*2008 Bond Order*”), pursuant to which the Town issued its Water and Sewer Revenue Bond, Series 2008, in the aggregate principal amount of \$16,100,000 (the “*2008 Bond*”), as amended by an Amendment to a

Bond Order adopted by the Town Council on October 17, 2023 (the “2008 Bond Order Amendment” and together with the 2008 Bond Order, the “*Amended 2008 Bond Order*”), and (ii) a Supplemental Bond Order and Series Resolution adopted by the Town Council on July 21, 2020 (the “2020 Supplemental Bond Order”), pursuant to which the Town issued its Water and Sewer Revenue Refunding Bond, Series 2020, in the aggregate principal amount of \$5,242,435.61 (the “2020 Bond” and together with the 2008 Bond and the Bonds, the “*Parity Bonds*”), as amended by an Amendment to a Supplemental Bond Order and Series Resolution adopted by the Town Council on October 17, 2023 (the “2020 Supplemental Bond Order Amendment” and together with the 2020 Supplemental Bond Order, the “*Amended 2020 Supplemental Bond Order*”). We have also examined a specimen Bond.

From such examination, we are of the opinion that, under existing law:

1. The Town is a municipal corporation duly organized under the laws of the State. Pursuant to the Act, the Town is empowered to issue the Bonds for the purposes set forth in the General Indenture and to execute, deliver, and perform its obligations under the General Indenture and the Series Indenture.

2. The General Indenture and the Series Indenture have been duly authorized, executed, and delivered by the Town and, assuming due authorization and execution by the Trustee, are valid and binding on, and enforceable against, the Town. All right, title and interest of the Town in and to the Net Revenues (as defined in the General Indenture) have been validly pledged and assigned to the Trustee, and the General Indenture creates a valid pledge which it purports to create of the Net Revenues for the purposes and on the conditions permitted by the General Indenture.

3. The Bonds have been duly and validly authorized and issued in accordance with the General Indenture and the Series Indenture and represent valid, binding and enforceable special obligations of the Town. The Bonds are entitled to the benefits and security of the General Indenture and the Series Indenture for the payment thereof in accordance with the terms of the General Indenture and the Series Indenture.

4. The principal of and interest on the Bonds are special obligations payable by the Town solely from the sources described in the General Indenture and the Series Indenture. The principal of, premium, if any, and interest on the Bonds are not payable from the general funds of the Town, nor do they constitute a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the funds which are pledged under the General Indenture and the Series Indenture. Neither the credit nor the taxing power of the State or the Town are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no owner of the Bonds has the right to compel the exercise of the taxing power by the State or the Town or the forfeiture of any of its property in connection with any default thereon.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual alternative minimum tax; provided, however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations (as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “*Code*”)) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022. The opinion set forth in the preceding sentence is subject to the condition that the Town comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest on the Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in

gross income for federal income tax purposes retroactively to the date of the issuance of the Bonds. We express no opinion regarding other federal tax consequences of the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

6. Interest on the Bonds is exempt from State of North Carolina income taxation.

7. The 2008 Bond Order Amendment and the 2020 Supplemental Bond Order Amendment were duly adopted by the Town Council, are valid and binding on the Town, and are authorized and valid amendments to the 2008 Bond Order and the 2020 Supplemental Bond Order, respectively, enforceable against the Town in accordance with their terms.

8. The 2008 Bond remains subject to the Amended 2008 Bond Order, and the 2020 Bond remains subject to the Amended 2008 Bond Order and the Amended 2020 Supplemental Bond Order.

9. The 2008 Bond and the 2020 Bond are each secured by a pledge of the Net Revenues set forth in the General Indenture on a parity with the Bonds and any additional bonds hereafter issued under the General Indenture.

The rights of the owners of the Parity Bonds and the enforceability of the Parity Bonds, the General Indenture, the Series Indenture, the Amended 2008 Bond Order, and the Amended 2020 Supplemental Bond Order may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, liquidation, readjustment of debt and other similar laws affecting creditors' rights and remedies generally, and by general principles of equity, whether such principles are considered in a proceeding at law or in equity.

Our services as Bond Counsel in connection with the issuance of the Bonds have been limited to rendering the opinions expressed above based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of interest thereon. In rendering the foregoing opinions, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records and certifications, documents and other proceedings.

We express no opinion relating to the accuracy, completeness or sufficiency of the Preliminary Official Statement or the Official Statement (collectively, the "*Official Statement*"), or any other offering material relating to the Bonds (excepting only the matters set forth as our opinion in the Official Statement and the section entitled "**TAX TREATMENT**") or as to the financial resources of the Town, or the ability of the Town to make the payments required under the General Indenture and the Series Indenture, that may have been relied on by anyone in making the decision to purchase Bonds.

This opinion is delivered to you and for your benefit in connection with the above transaction; it may not be relied on by you for any other purposes and may not be relied on by, nor may copies be provided to, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

PARKER POE ADAMS & BERNSTEIN LLP

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APPENDIX H

DTC'S BOOK-ENTRY-ONLY SYSTEM

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DTC'S BOOK-ENTRY-ONLY SYSTEM

Beneficial ownership interests in the 2024 Bonds will be available only in a book-entry system. The actual purchasers of the 2024 Bonds (the "Beneficial Owners") will not receive physical bonds representing their interests in the 2024 Bonds purchased. So long as The Depository Trust Company ("DTC") or its nominee is the registered owner of the 2024 Bonds, references in this Official Statement to the Owners of the 2024 Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners.

THE FOLLOWING DESCRIPTION OF DTC, ITS PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE 2024 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE 2024 BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2024 BONDS AND/OR OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

DTC will act as securities depository for the 2024 Bonds. The 2024 Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond for each maturity of the 2024 Bonds will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2024 BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCE HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE 2024 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2024 BONDS.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers; banks trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2024 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2024 Bonds on DTC's records. The ownership interest of each actual purchaser of the 2024 Bonds defined above is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2024 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial owners will not receive physical bonds representing their ownership interests in 2024 Bonds, except in the event that use of the book-entry system for the 2024 Bonds is discontinued.

To facilitate subsequent transfers, all 2024 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2024 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the identities of the actual Beneficial Owners of the 2024 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2024 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2024 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2024 Bonds, such as redemptions, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the 2024 Bonds may wish to ascertain that the nominee holding the 2024 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2024 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2024 Bond to be prepaid.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2024 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts the 2024 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

BECAUSE DTC IS TREATED AS THE OWNER OF THE 2024 BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE BOND ORDER AND SERIES INDENTURE, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OR REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITY OF BENEFICIAL OWNERS IS UNKNOWN TO THE TOWN OR TO DTC, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE 2024 BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

Principal and interest payments on the 2024 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC (nor its nominee) or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the Town's responsibility, disbursement of such payments to Direct Participants is DTC's responsibility, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. THE TOWN CANNOT AND DOES NOT GIVE ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as securities depository with respect to the 2024 Bonds at any time by giving reasonable notice to the Town. Under such circumstances, in the event that a successor depository is not obtained, physical bonds are required to be printed and delivered. The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical bonds will be printed and delivered to DTC.

THE TOWN HAS NO RESPONSIBILITY OR OBLIGATION TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE 2024 BONDS, OR THE SENDING OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE 2024 BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE BOND ORDER AND SERIES INDENTURE TO BE GIVEN TO OWNERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL REDEMPTION OF THE 2024 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2024 BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Town believes to be reliable, but the Town takes no responsibility for accuracy thereof.

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