

\$65,205,000
TOWN OF FUQUAY-VARINA, NORTH CAROLINA
Combined Utilities Revenue Bonds
Series 2024B

Dated: Date of Delivery

Due: February 1, as shown on the inside cover

The bonds offered hereby (the "Series 2024B Bonds") will be special obligations of the Town of Fuquay-Varina, North Carolina (the "Town") secured by and payable from the Net Receipts of the Town's water and sanitary sewer systems and, under certain circumstances, the proceeds of the Series 2024B Bonds, investment earnings and certain net insurance and other proceeds. The Series 2024B Bonds are being issued for the purpose of providing funds, together with any other available funds, to (a) pay the Town's portion of the costs of the improvement and expansion of a water filtration facility in Sanford, North Carolina to serve the Town and other utilities in the region (the "WFF Expansion Project"), (b) pay the costs of certain other improvements to the water system (the "Utility Projects" and, together with the WFF Expansion Project, the "Series 2024B Project"), and (c) pay certain other costs incurred in connection with the sale and issuance of the Series 2024B Bonds. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE TOWN, THE STATE OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS ARE PLEDGED FOR PAYMENT OF THE SERIES 2024B BONDS, AND NO OWNER OF THE SERIES 2024B BONDS HAS THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE TOWN, THE STATE OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS OR THE FORFEITURE OF ANY OF THEIR RESPECTIVE PROPERTY IN CONNECTION WITH ANY DEFAULT THEREON OR TO APPLY ANY FUNDS OTHER THAN THE NET RECEIPTS FOR THE PAYMENT OF THE SERIES 2024B BONDS.

The Series 2024B Bonds initially will be 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, Jersey City, New Jersey ("DTC"). DTC will act as the initial securities depository for the Series 2024B Bonds. Individual purchases of the Series 2024B 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 Series 2024B 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 Series 2024B Bonds. So long as Cede & Co. is the registered owner of the Series 2024B Bonds, the principal of and interest on the Series 2024B Bonds are payable by the Bond Registrar 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 F hereto.

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

In the opinion of Sanford Holshouser LLP, Bond Counsel, and subject to the qualifications described in this Official Statement, interest on the Series 2024B Bonds is not includable in gross income for federal income tax purposes, and is exempt from current State of North Carolina income taxes. See "TAX TREATMENT" herein for additional information regarding tax consequences arising from ownership or receipt of interest on the Series 2024B Bonds, including information regarding the application of federal alternative minimum tax provisions to the Series 2024B Bonds and certain other federal, State and local tax consequences.

The Series 2024B 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 Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel. Certain legal matters will be passed upon for the Town by James S. Adcock, III, P.A., Fuquay-Varina, North Carolina, Town Attorney, and for the Underwriter by Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, counsel to the Underwriter. Davenport & Company LLC, Charlotte, North Carolina, is acting as financial advisor to the Town in connection with the issuance of the Series 2024B Bonds. Stantec Consulting Services, Inc., Tampa, Florida, has prepared the financial feasibility report included in Appendix B hereto. It is expected that delivery of the Series 2024B Bonds will be made through the facilities of DTC on or about August 15, 2024.

BAIRD

July 24, 2024

\$65,205,000
Combined Utilities Revenue Bonds
Series 2024B

MATURITY SCHEDULE

Due February 1	Principal Amount	Interest Rate	Yield	CUSIP[†]
2026	\$ 130,000	5.00%	2.89%	36106Q BT5
2027	135,000	5.00	2.86	36106Q BU2
2028	1,715,000	5.00	2.81	36106Q BV0
2029	1,805,000	5.00	2.82	36106Q BW8
2030	1,890,000	5.00	2.87	36106Q BX6
2031	1,985,000	5.00	2.90	36106Q BY4
2032	2,085,000	5.00	2.94	36106Q BZ1
2033	2,190,000	5.00	2.95	36106Q CA5
2034	2,300,000	5.00	2.92	36106Q CB3
2035	2,415,000	5.00	2.97 ^C	36106Q CC1
2036	2,535,000	5.00	3.01 ^C	36106Q CD9
2037	2,665,000	5.00	3.05 ^C	36106Q CE7
2038	2,795,000	5.00	3.12 ^C	36106Q CF4
2039	2,935,000	5.00	3.18 ^C	36106Q CG2
2040	3,080,000	5.00	3.28 ^C	36106Q CH0
2041	3,235,000	5.00	3.37 ^C	36106Q CJ6
2042	3,400,000	4.00	3.92 ^C	36106Q CK3
2043	3,535,000	4.00	3.97 ^C	36106Q CL1
2044	3,675,000	4.00	4.02	36106Q CM9
2045	3,820,000	4.00	4.05	36106Q CN7

\$16,880,000 4.00% Term Series 2024B Bonds Due February 1, 2049 - Yield 4.13% - CUSIP[†] 36106Q CP2

^C Yield to call on February 1, 2034 at par.

[†] 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 Series 2024B 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 Series 2024B Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Series 2024B 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 Series 2024B 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.

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, their respective 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 SERIES 2024B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither the Series 2024B Bonds, the Master Trust Agreement nor the Fourth Supplemental Trust Agreement (each as defined herein) have been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended. Any registration or qualification of the Series 2024B Bonds, the Master Trust Agreement or the Fourth Supplemental Trust Agreement in accordance with applicable provisions of securities laws of the states in which the Series 2024B Bonds, the Master Trust Agreement or the Fourth Supplemental Trust Agreement have been registered or qualified, if so required, and the exemption from registration or qualification in other states, shall not be regarded as a recommendation thereof.

References to web site 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 web sites and the information or links 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 (as defined herein).

This Official Statement is deemed to be a final official statement with respect to the Series 2024B 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.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expectations," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the expectations of the Town in any way, regardless of the level of optimism communicated in the information. The Town is not obligated to issue, nor does it plan to issue any updates or revisions to the forward-looking statements.

This page intentionally left blank.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
THE SERIES 2024B BONDS	3
Authorization	3
General	3
Redemption Provisions	4
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024B BONDS	5
General	5
Pledge of Net Receipts	5
Funds and Accounts	6
Application of Receipts	7
Parity and Subordinated Indebtedness	8
Rate Covenant	8
THE SERIES 2024B PROJECT	9
The WFF Expansion Project	9
The Utility Projects	11
ESTIMATED SOURCES AND USES OF FUNDS	11
ANNUAL DEBT SERVICE REQUIREMENTS	12
FINANCIAL FEASIBILITY REPORT	13
THE SYSTEM	13
Organization and Management	14
The Water System	16
The Sanitary Sewer System	19
Billing and Collection Procedures	22
Regulatory Oversight	22
Operating and Capital Budget Procedures	23
Capital Improvement Program	23
Rate Increases	24
Recent Operating Results	24
THE TOWN	24
General Description	24
Commercial, Industrial and Institutional Profile	25
Employment	28
Government Structure	29
Cybersecurity	29
Post-Employment Benefits	29
CONTINUING DISCLOSURE	30
LEGAL MATTERS	34
LITIGATION	34
TAX TREATMENT	34
Opinion of Bond Counsel	34
Discount Bonds	35
Premium Bonds	35
Other Tax Consequences	35
LEGALITY FOR INVESTMENT	36
RATINGS	36
UNDERWRITING	36
MISCELLANEOUS	37

APPENDIX A Financial Information of the Town

APPENDIX B Financial Feasibility Report

APPENDIX C Summary of Certain Provisions of the Master Trust Agreement and the Fourth Supplemental Trust Agreement, Including Definitions of Certain Terms

APPENDIX D The North Carolina Local Government Commission

APPENDIX E Proposed Form of Opinion of Bond Counsel

APPENDIX F DTC's Book-Entry-Only System



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION

**Official Statement
of the North Carolina Local Government Commission
Concerning**

**\$65,205,000
TOWN OF FUQUAY-VARINA, NORTH CAROLINA
Combined Utilities Revenue Bonds
Series 2024B**

INTRODUCTION

The purpose of this Official Statement, which includes the cover pages and the appendices, is to provide certain information in connection with the issuance by the Town of Fuquay-Varina, North Carolina (the "Town") of \$65,205,000 Combined Utilities Revenue Bonds, Series 2024B (the "Series 2024B Bonds"). The Series 2024B Bonds are being issued pursuant to a Master Trust Agreement, dated as of March 1, 2016 (the "Master Trust Agreement"), between the Town and U.S. Bank Trust Company, National Association, as successor trustee (the "Trustee"), and a Fourth Supplemental Trust Agreement, dated as of July 1, 2024 (the "Fourth Supplemental Trust Agreement"), between the Town and the Trustee.

Pursuant to the Master Trust Agreement, the Town has issued the following series of bonds which are currently outstanding: (a) \$30,185,000 Combined Utilities Revenue Bonds, Series 2016 (the "Series 2016 Bonds"), of which \$15,210,000 are currently outstanding, (b) \$17,351,000 Combined Utilities Revenue Bonds, Series 2021 (the "Series 2021 Bonds"), of which \$13,717,000 are currently outstanding and (c) \$65,225,000 Combined Utilities Revenue Bonds, Series 2024A (the "Series 2024A Bonds"), all of which are currently outstanding. The Town has also incurred System G.O. Indebtedness and installment financing installment obligations that the Town pays from the revenues of the System. Additionally, the Town has been awarded \$54,000,000 of clean water loans from the State (the "State Loans"). The State Loans will constitute Subordinate Indebtedness for purposes of the Master Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024B BONDS – Subordinate and Parity Indebtedness" herein.

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.

For the definition of certain terms used herein and a summary of certain provisions of the Master Trust Agreement and the Fourth Supplemental Trust Agreement, see Appendix C hereto. Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Master Trust Agreement and the Fourth Supplemental Trust Agreement unless otherwise indicated.

Authorization. The Series 2024B Bonds are being issued pursuant to 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 an order adopted by the Board of Commissioners of the Town on July 8, 2024.

Security. The Series 2024B Bonds will be special obligations of the Town, secured by and payable from the Net Receipts (hereinafter defined) of the Town's water and sanitary sewer systems (the "System") and, under certain circumstances, the proceeds of the Series 2024B Bonds, investment earnings and certain other proceeds. The Series 2024B Bonds will be additionally secured by certain funds, accounts and subaccounts held by the Trustee under the Master Trust Agreement and the Fourth Supplemental Trust Agreement.

The Master Trust Agreement provides that the Series 2024B Bonds will be secured by a pledge, charge and lien upon the Net Receipts on a parity with the outstanding Series 2016 Bonds, the outstanding Series 2021 Bonds, the outstanding 2024A Bonds and any other Parity Indebtedness (hereinafter defined) hereafter incurred by the Town. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024B BONDS" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE TOWN, THE STATE OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS ARE PLEDGED FOR PAYMENT OF THE SERIES 2024B BONDS, AND NO OWNER OF THE SERIES 2024B BONDS HAS THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE TOWN, THE STATE OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS OR THE FORFEITURE OF ANY OF THEIR RESPECTIVE PROPERTY IN CONNECTION WITH ANY DEFAULT THEREON OR TO APPLY ANY FUNDS OTHER THAN THE NET RECEIPTS FOR THE PAYMENT OF THE SERIES 2024B BONDS.

Purpose. The Series 2024B Bonds are being issued for the purpose of providing funds, together with any other available funds, to (a) pay the Town's portion of the costs of the improvement and expansion of a water filtration facility in Sanford, North Carolina to serve the Town and other utilities in the region (the "WFF Expansion Project"), (b) pay the costs of certain other improvements to the water system (the "Utility Projects" and, together with the WFF Expansion Project, the "Series 2024B Project") and (c) pay certain other costs incurred in connection with the sale and issuance of the Series 2024B Bonds. See "THE SERIES 2024B PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Details of Bonds. The Series 2024B Bonds will be dated the date of delivery thereof. Interest on the Series 2024B Bonds will be payable on February 1 and August 1, beginning February 1, 2025, at the rates shown on the inside front cover. Principal of the Series 2024B Bonds will be payable, subject to prior redemption of the Series 2024B Bonds as described herein, on February 1 in the years and amounts shown on the inside front cover.

The Series 2024B 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 Series 2024B Bonds. The Bond Registrar will make payment of principal of and interest on the Series 2024B Bonds to The Depository Trust Company, Jersey City, New Jersey ("DTC"), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the Series 2024B Bonds. Individual purchases of the Series 2024B Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof. See Appendix F hereto for more information regarding DTC and the book-entry-only system.

Town and System. See "THE TOWN" herein for certain information regarding the Town and "THE SYSTEM" herein for particular information regarding the Town's water system and sanitary sewer systems.

Tax Status. See "TAX TREATMENT" herein.

Professionals. Robert W. Baird & Co. Incorporated, Winston-Salem, North Carolina (the “Underwriter”), is underwriting the Series 2024B Bonds. Sanford Holshouser LLP, Carrboro, North Carolina is serving as Bond Counsel. Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, is serving as counsel to the Underwriter. James S. Adcock, III, P.A., Fuquay-Varina, North Carolina, is the Town Attorney. U.S. Bank Trust Company, National Association, Charlotte, North Carolina, is serving as the Trustee and Bond Registrar. Davenport & Company LLC, Charlotte, North Carolina, is acting as financial advisor to the Town in connection with the sale and issuance of the Series 2024B Bonds. Stantec Consulting Services, Inc., Tampa, Florida, has prepared the financial feasibility report included in Appendix B hereto.

Town’s Financial Statements. The Town’s basic financial statements have been audited by independent certified public accountants for each fiscal year through the fiscal year ended June 30, 2023. The Town’s basic financial statements and the notes thereto, lifted from the Town’s audited financial report for the fiscal year ended June 30, 2023, are included as Appendix A hereto.

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

THE SERIES 2024B BONDS

Authorization

The Series 2024B Bonds will be issued pursuant to the Act and an order adopted by the Board of Commissioners of the Town (the “Town Board”) on July 8, 2024. The Series 2024B Bonds will be issued pursuant to the Master Trust Agreement and the Fourth Supplemental Trust Agreement.

The issuance of the Series 2024B Bonds will be considered for approval by the North Carolina Local Government Commission (the “LGC”) on July 9, 2024. The LGC 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 LGC has been given wide statutory discretion to consider the need for and feasibility of the projects to be financed, 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 LGC is also responsible, with the issuing unit’s approval, for selling bonds issued pursuant to the Act. See Appendix D hereto for additional information on the LGC and its powers and duties.

General

The Series 2024B Bonds will be dated the date of delivery thereof, will bear interest from their dated date payable on each February 1 and August 1, beginning February 1, 2025, at the rates shown on the inside front cover (calculated on the basis of a 360-day year consisting of twelve 30-day months) and will mature, subject to prior redemption as described below, on February 1 in the years and amounts shown on the inside front cover. The Series 2024B 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 Series 2024B Bonds by the beneficial owners will be made in denominations of \$5,000 or integral multiples thereof.

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

Redemption Provisions

Optional Redemption. The Series 2024B Bonds maturing on or before February 1, 2034 will not be subject to optional redemption. The Series 2024B Bonds maturing on or after February 1, 2035 will be subject to redemption prior to maturity, at the option of the Town, from any funds that may be available to the Town for such purpose, in whole or in part on any date on or after February 1, 2034, at a redemption price equal to 100% of the principal amount of the Series 2024B Bonds to be redeemed, plus accrued interest to the redemption date.

Sinking Fund Redemption. The Series 2024B Bonds maturing on February 1, 2049, will be subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount to be redeemed plus accrued interest, if any, to the redemption date, without premium, on February 1, in the years and amounts as follows:

<u>Year</u>	<u>Amount</u>
2046	\$3,975,000
2047	4,135,000
2048	4,300,000
2049*	4,470,000

*Maturity.

Notice of Redemption. At least 30 days, but not more than 60 days, prior to the redemption date for Series 2024B Bonds, whether such redemption be in whole or in part, the Trustee will cause a notice of redemption to be mailed by registered or certified mail to each of registered owners of Series 2024B Bonds to be redeemed in whole or in part at their addresses as shown on the Trustee's registration books; provided, however, that notices to DTC will be sent in whatever manner may be provided for under DTC's standard operating rules as then in effect. Failure to give any such notice to any registered owner or any defect in such notice will not affect the validity of any proceedings for such redemption as to any other registered owner to whom such notice is properly given.

Any redemption notice, except a redemption notice in respect of a sinking fund payment date, may state that the redemption to be effected is conditioned upon (i) the Trustee's receipt on or prior to the redemption date of moneys sufficient to pay the principal of and interest on the Series 2024B Bonds to be redeemed or (ii) any other condition not unacceptable to the Trustee. If a notice contains a condition and the Trustee does not receive moneys sufficient to pay the principal of and interest on the Series 2024B Bonds on or prior to the redemption date or the stated condition is not fulfilled, then redemption will not be made and the Trustee must, within a reasonable time, give notice in the same manner in which the redemption notice was given that the moneys were not so received (or condition was not fulfilled) and the redemption was not made.

Selection of Series 2024B Bonds for Redemption. If less than all of the Series 2024B Bonds are called for optional redemption, the Series 2024B Bonds or portions thereof to be redeemed will be

selected among maturities by the Town in its discretion. If less than all the Series 2024B Bonds of any one maturity are called for redemption, the Series 2024B Bonds of such maturity to be redeemed will be selected (1) by DTC pursuant to its rules and procedures or (2) if a book-entry system is no longer in effect, by the Trustee by lot. The Series 2024B Bonds may be redeemed only in integral multiples of \$5,000, and in selecting the Series 2024B Bonds for redemption, each \$5,000 portion of the principal of the Series 2024B Bonds shall be counted as one Series 2024B Bond for such purpose. If a portion of a Series 2024B Bond is called for redemption, a new Series 2024B Bond in principal amount equal to the unredeemed portion thereof will be issued to the Owner upon surrender thereof.

Effect of Call for Redemption. If on or before the date fixed for redemption funds or Federal Securities are deposited with the Trustee to pay the principal of and interest accrued to the redemption date on Series 2024B Bonds called for redemption, the Series 2024B Bonds, or portions of the Series 2024B Bonds, called for redemption cease to accrue interest from and after the redemption date. Thereafter, those Series 2024B Bonds (a) are no longer entitled to the benefits provided by the Master Trust Agreement and (b) are not deemed to be Outstanding under the Master Trust Agreement.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024B BONDS

General

The Series 2024B Bonds will be special obligations of the Town, secured by and payable from the Net Receipts of the System and, under certain circumstances, the proceeds of the Series 2024B Bonds, investment earnings and certain net insurance and other proceeds. The Series 2024B Bonds will be additionally secured by certain funds, accounts and subaccounts held by the Trustee under the Master Trust Agreement and the Fourth Supplemental Trust Agreement. NEITHER THE CREDIT NOR THE TAXING POWER OF THE TOWN, THE STATE OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS ARE PLEDGED FOR THE PAYMENT OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2024B BONDS, AND NO OWNER OF THE SERIES 2024B BONDS HAS THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE TOWN, THE STATE, ANY OF THE STATE'S POLITICAL SUBDIVISIONS OR THE FORFEITURE OF ANY OF THEIR RESPECTIVE PROPERTY OTHER THAN THE NET RECEIPTS IN CONNECTION WITH ANY DEFAULT ON THE SERIES 2024B BONDS.

The System will be composed of the Town's water system and sanitary sewer system. See "THE SYSTEM" herein. The Master Trust Agreement authorizes the Town to add to the System other Enterprises, including any existing or future facilities or systems related to such Enterprises, upon compliance with certain terms set forth in the Master Trust Agreement. The Master Trust Agreement also authorizes the withdrawal of an Enterprise (other than the Town's water system and wastewater system) from the System upon compliance with certain provisions set forth in the Master Trust Agreement. See "System; Addition of Enterprise to System" and "Removal of Enterprise from System" in Appendix C hereto. The Town may also sell or dispose of and encumber certain components of the System upon compliance with the provisions set forth in the Master Trust Agreement. See "Covenant against Sale or Disposition; Exceptions" and the definition of Permitted Encumbrances in Appendix C hereto.

Pledge of Net Receipts

The Net Receipts of the System are pledged to the payment of, and as security for, the Series 2024B Bonds, the Series 2024A Bonds, the Series 2021 Bonds, the Series 2016 Bonds and any other Indebtedness secured by the Master Trust Agreement (see "Parity and Subordinated Indebtedness" below). Pursuant to the terms of the Master Trust Agreement, to the extent permitted by statute or

judicial decision, Net Receipts may also be pledged to the payment of, and as security for, Derivative Agreement obligations, subject to the provisions of the Master Trust Agreement.

Net Receipts for any particular period means the excess, if any, of Receipts after the payment of Current Expenses for such period. “Receipts” generally includes substantially all receipts, revenues, income, proceeds and money received in any period by or for the Town in respect of the System, and all rights to receive the same, whether in the form of accounts receivable, contract rights or other rights, and the proceeds of such rights whether now owned or held or hereafter coming into existence. “Current Expenses” generally includes the Town’s current expenses for the operation, maintenance and repair of the System as determined in accordance with generally accepted accounting principles, except that “Current Expenses” does not include reserves for extraordinary replacements and repairs, allowances for depreciation or amortization of financing expenses, deposits to any fund, account or subaccount created by the Master Trust Agreement or any Supplemental Agreement or debt service payments in respect of Parity Debt, Subordinated Indebtedness or System G.O. Indebtedness or installment financing contracts for any component of the System. See Appendix C hereto for complete definitions of “Receipts” and “Current Expenses.”

Funds and Accounts

Revenue Fund. The Revenue Fund is administered by the Town and is not a Trustee-held fund. The Town deposits all Receipts as received in the Revenue Fund.

Bond Fund. The Bond Fund is held by the Trustee and is composed of six separate accounts known as the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account and the Parity Reserve Account. Each Supplemental Agreement authorizing a Series of Bonds will provide for the creation, to the extent applicable, of separate subaccounts within the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account and the Redemption Account relating to the Series of Bonds authorized by such Supplemental Agreement. Moneys held in such subaccounts are pledged to the payment of the principal of (whether at maturity or pursuant to mandatory sinking fund redemption) and interest on the Series of Bonds for which such subaccounts are established and do not secure other Series of Bonds or other Parity Debt.

Parity Reserve Account. Each Parity Resolution providing for the issuance or incurrence of Parity Indebtedness may provide that the Parity Indebtedness authorized thereby will be secured by the Parity Reserve Account or by a Special Reserve Account held by the Trustee. If any Parity Indebtedness is secured by the Parity Reserve Account, the Town must fund the Parity Reserve Account in the amount equal to the Parity Reserve Account Requirement at the time of delivery and payment for such Parity Indebtedness. If the Parity Resolution authorizing Parity Indebtedness does not provide that such Parity Indebtedness will be secured by the Parity Reserve Account, such Parity Indebtedness will have no claim on the Parity Reserve Account.

THE SERIES 2024B BONDS WILL NOT BE SECURED BY THE PARITY RESERVE ACCOUNT OR A SPECIAL RESERVE ACCOUNT CREATED UNDER THE MASTER TRUST AGREEMENT.

Other Funds. A Project Fund and an Insurance and Condemnation Award Fund, each to be held by the Trustee, and a Capital Reserve Fund to be held by the Town, are created under the Master Trust Agreement and the Fourth Supplemental Agreement. See “Creation and Use of Project Fund” and “Establishment of Other Funds” in Appendix C hereto.

Application of Receipts

The Town will pay Current Expenses from Receipts deposited in the Revenue Fund, and Current Expenses will be a first charge against the Revenue Fund; provided, however, that the Town may pay Current Expenses from any other legally available sources. Current Expenses will be paid as they become due and payable in conformity with the Town's applicable budgetary and payment procedures. At such time or times as are specifically provided for in the Master Trust Agreement or in any Supplemental Agreement, Parity Resolution, Subordinated Indebtedness Resolution or Derivative Agreement, the Town will use amounts on deposit in the Revenue Fund to make the required deposits under such documents.

The Fourth Supplemental Trust Agreement provides that, with respect to the Series 2024B Bonds, the Town will deposit with the Trustee from moneys held in the Revenue Fund the following amounts for application in the following order:

- (a) into the Series 2024B Subaccount of the Interest Account, on or before the 25th day of the month immediately preceding each Interest Payment Date, the interest payable on the Series 2024B Bonds on the next ensuing Interest Payment Date;
- (b) into the Series 2024B Subaccount of the Principal Account, on or before the 25th day of January immediately preceding each February 1 on which principal matures on the Series 2024B Bonds, the principal of all Serial Bonds coming due on the next ensuing February 1; and
- (c) into the Series 2024B Subaccount of the Sinking Fund Account, on or before the 25th day of January immediately preceding each February 1 on which the Series 2024B Bonds are subject to mandatory redemption pursuant to a Sinking Fund Requirement, the amount required to retire the Series 2024B Term Bonds to be called by mandatory redemption or to be paid at maturity on the next ensuing February 1 in accordance with the Sinking Fund Requirements.

The Trustee will also deposit to the credit of the Series 2024B Subaccount of the Redemption Account all amounts as are delivered to the Trustee by the Town from time to time with instructions that such amounts be so deposited.

Moneys on deposit in the subaccounts mentioned above will be used to pay the scheduled payments of principal of and interest on the Series 2024B Bonds, including amounts payable pursuant to mandatory sinking fund redemption.

The deposits required by the Fourth Supplemental Trust Agreement mentioned above are subject to the provisions of the Master Trust Agreement governing the withdrawal and transfer of funds from the Revenue Fund as described in "Use of Money for Debt Service, Reserve Funds and Capital Reserve Fund" in Appendix C hereto.

Except during the continuation of an Event of Default, the Town, in its discretion, may transfer in any month any balance remaining in the Revenue Fund at the end of the preceding month after making the deposits or payments required by the Master Trust Agreement, in whole or in part, to the Town's general fund or any fund or account designated by the Town, provided that (1) a Town Representative first certifies to the Trustee that, in the opinion of that Town Representative, the transfer of such amount will not have a material adverse effect on the Town's ability during the following 12 calendar months to pay Current Expenses, to make the deposits required under the Master Trust Agreement and to meet all other financial obligations imposed by the Master Trust Agreement or any Parity Resolution and (2) the cumulative amount so transferred in any Fiscal Year will not exceed the total amount budgeted to be

transferred from the Revenue Fund in such Fiscal Year as shown in the Annual Budget for such Fiscal Year. ANY FUNDS SO TRANSFERRED, OTHER THAN TRANSFERS MADE TO ANY ACCOUNT OR SUBACCOUNT OF THE BOND FUND, WILL NO LONGER BE SUBJECT TO THE PLEDGE, CHARGE AND LIEN UPON THE NET RECEIPTS CREATED BY THE MASTER TRUST AGREEMENT.

Parity and Subordinated Indebtedness

Under the conditions and limitations set forth in the Master Trust Agreement and without the approval or consent of the Owners or Holders of Indebtedness, the Town may issue or incur additional Parity Indebtedness secured by a pledge, charge and lien upon the Net Receipts on a parity with the Series 2024B Bonds. See “Limitation on Parity Indebtedness” in Appendix C hereto. The Series 2024B Bonds will be payable on a parity with the Series 2024A Bonds, the Series 2021 Bonds, the Series 2016 Bonds and any additional Parity Indebtedness hereafter issued or incurred by the Town, including any additional Bonds issued under the Master Trust Agreement.

Under the conditions and limitations set forth in the Master Trust Agreement and without the approval or consent of the Owners or Holders of Indebtedness, the Town may issue or incur Subordinated Indebtedness which shall be subordinate and junior in right of payment to the prior payment in full of Parity Indebtedness to the extent and in the manner set forth in the Master Trust Agreement and that may be made payable from Net Receipts but only after the Town has made the cash deposits required under the Master Trust Agreement to pay, among other things, principal of and interest on the Series 2024B Bonds and any other Parity Indebtedness, and the amounts required by the related documentation to make up any deficiencies in the Parity Reserve Account or any Special Reserve Account. See “Limitation on Subordinated Indebtedness” in Appendix C hereto. The Town has been awarded \$54,000,000 of clean water loans from the State (the “State Loans”) to finance the WFF Expansion Project as defined and more particularly discussed under “THE SYSTEM – The Water System – General” herein. The State Loans will constitute Subordinate Indebtedness for purposes of the Master Trust Agreement.

System G.O. Indebtedness does not constitute Parity Indebtedness or Subordinated Indebtedness, and the Master Trust Agreement contains no limitations on the incurrence of System G.O. Indebtedness. On the issuance date of the Series 2024B Bonds, the Town will have \$4,850,000 aggregate principal amount of System G.O. Indebtedness outstanding.

The Town has also entered into an installment financing agreement to finance the building which contains the Town’s public utilities and public works departments. The debt service under this agreement is paid in part by revenues from the System. The Town’s obligations under the agreement, however, are secured solely by a lien on the building financed. In the event the Town defaults on such indebtedness, the secured party under such agreement may, as a remedy, exercise its right to foreclose on the secured property for the agreement. The Town is of the opinion that the loss of this asset pursuant to a default and the resulting foreclosure process would not materially impact the Town’s ability to operate the System. On the issuance date of the Series 2024B Bonds, the portion of the installment financing indebtedness paid by System revenues will be outstanding in the aggregate principal amount of \$1,400,000.

For more information on the Town’s debt outlook and capital improvement plans, see the Financial Feasibility Report in Appendix B hereto.

Rate Covenant

Under the Master Trust Agreement, the Town has covenanted as follows:

(a) to fix, charge and collect rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary, to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year, the sum of (i) the Income Available for Debt Service for each Fiscal Year and (ii) 15% of the System Unrestricted Net Assets as of the last day of the preceding Fiscal Year will not be less than 120% of the Long Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year;

(b) to fix, charge and collect rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary, to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year, the Income Available for Debt Service for each Fiscal Year will not be less than the sum of Long Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness and the debt service on System G.O. Indebtedness for such Fiscal Year; and

(c) to fix, charge and collect rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Receipts will be sufficient in each Fiscal Year (i) to pay the Current Expenses, (ii) to make the cash deposits in each Fiscal Year required under the Master Trust Agreement to pay, among other things, principal of and interest on the Bonds and any other Parity Indebtedness, and the amounts required by the related documentation to make up any deficiencies in the Parity Reserve Account or any Special Reserve Account and (iii) to make the cash deposits in each Fiscal Year required by Subordinated Indebtedness Resolutions with respect to the payment of interest on or principal of Subordinated Indebtedness.

In addition, the Town has covenanted that all users will pay for services at the established rates, fees and charges established by the Town from time to time in accordance with the Town's customary billing practices and policies.

THE SERIES 2024B PROJECT

The Series 2024B Project consists of the following improvements to the System:

The WFF Expansion Project

The Town has entered into an interlocal agreement (the "WFF Expansion ILA") with the Towns of Holly Springs 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 with a portion of the proceeds of the 2024B Bonds (\$53,600,826), the State Loans (\$54,000,000) and State grant funds and other available Town funds (\$15,294,372). In addition, the Town plans to use a portion of the proceeds of the 2024B Bonds and the proceeds of previously issued System G.O. Indebtedness to pay design, contingency and other related costs related to the WFF Expansion Project.

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

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.

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 2024B 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 2024B Bonds pursuant to the Master Trust Agreement 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.

The Utility Projects

The Utility Projects include improvements to water quality, quantity and pressure within the distribution system. The Town is installing waterlines to new locations, looping various waterlines and replacing pipes and waterlines. Approximately \$6,000,000 of the proceeds of the 2024B Bonds will be applied to pay the costs of the Utility Projects.

For a discussion of the System’s Capital Improvement Program, see Explanatory Note 5 of Appendix B attached hereto.

ESTIMATED SOURCES AND USES OF FUNDS

The Town estimates the sources and uses for the plan of financing to be as follows:

Sources:

Par Amount of Series 2024B Bonds	\$65,205,000
Net Original Issue Premium on the 2024B Bonds	4,364,788
State Loans	54,000,000
Grant Funds and Other Available Town Funds	<u>15,294,372</u>
Total	<u>\$138,864,160</u>

Uses:

Project Cost	\$138,298,260
Costs of Issuance ⁽¹⁾	<u>565,900</u>
Total	<u>\$138,864,160</u>

⁽¹⁾ Includes underwriter’s discount, legal fees, financial advisor fees, printing costs, rating agency fees, fees and expenses of the Trustee, fees of the feasibility consultant, the Bond Registrar, 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 System G.O. Indebtedness, the Series 2024B Bonds, the Series 2024A Bonds, the Series 2021 Bonds and the Series 2016 Bonds and certain installment financing obligations that the Town expects to pay from the revenues of the System (“Other Indebtedness”). System G.O. Indebtedness and Other Indebtedness do not constitute Parity Indebtedness or Subordinated Indebtedness under the Master Trust Agreement. As of the date hereof, the Town does not have any outstanding Subordinated Indebtedness. When entered into by the Town, the State Loans will constitute Subordinated Indebtedness. For more information on the Town’s debt outlook, see the Financial Feasibility Report in Appendix B hereto.

Fiscal Year Ending June 30,	<u>Series 2024B Bonds</u>		Series 2016 Bonds, Series 2021 Bonds, and Series 2024A Bonds ⁽¹⁾	System G.O. Indebtedness ⁽¹⁾	Other Indebtedness ⁽¹⁾	Total
	Principal	Interest				
2025		\$1,358,964	\$6,299,309	\$385,350	\$227,300	\$ 8,270,923
2026	\$ 130,000	2,947,150	6,263,506	387,600	223,400	9,951,656
2027	135,000	2,940,650	7,820,060	384,475	219,500	11,499,685
2028	1,715,000	2,933,900	6,863,724	385,975	215,600	12,114,199
2029	1,805,000	2,848,150	6,753,120	386,975	211,700	12,004,945
2030	1,890,000	2,757,900	6,750,804	382,600	207,800	11,989,104
2031	1,985,000	2,663,400	6,745,010	382,850	203,900	11,980,160
2032	2,085,000	2,564,150	6,633,510	382,600		11,665,260
2033	2,190,000	2,459,900	6,636,940	386,725		11,673,565
2034	2,300,000	2,350,400	6,635,438	385,225		11,671,063
2035	2,415,000	2,235,400	6,652,982	388,100		11,691,482
2036	2,535,000	2,114,650	6,637,482	385,350		11,672,482
2037	2,665,000	1,987,900	6,634,084	386,975		11,673,959
2038	2,795,000	1,854,650	6,684,916	382,975		11,717,541
2039	2,935,000	1,714,900	6,682,916	383,350		11,716,166
2040	3,080,000	1,568,150	6,684,916	382,975		11,716,041
2041	3,235,000	1,414,150	6,633,166	381,850		11,664,166
2042	3,400,000	1,252,400	4,640,450	386,600		9,679,450
2043	3,535,000	1,116,400	4,640,700	387,300		9,679,400
2044	3,675,000	975,000	4,637,700	382,500		9,670,200
2045	3,820,000	828,000	4,641,200			9,289,200
2046	3,975,000	675,200	4,638,600			9,288,800
2047	4,135,000	516,200	4,640,000			9,291,200
2048	4,300,000	350,800	4,640,000			9,290,800
2049	<u>4,470,000</u>	<u>178,800</u>	<u>4,638,400</u>			<u>9,287,200</u>
Total	<u>\$65,205,000</u>	<u>\$44,607,164</u>	<u>\$151,128,933</u>	<u>\$7,698,350</u>	<u>\$1,509,200</u>	<u>\$270,148,647</u>

⁽¹⁾ Includes principal and interest.

Note: Totals may not foot due to rounding.

FINANCIAL FEASIBILITY REPORT

The Financial Feasibility Report, which has been prepared by Stantec Consulting Services, Inc. is included in Appendix B hereto and should be read in its entirety. The forecasted operating results for the Fiscal Years ending June 30, 2024 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 B, shows the projected debt service coverage ratios for the Fiscal Years ended and ending June 30, 2024 to 2029, inclusive.

	<u>Fiscal Year Ending June 30,</u>					
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Total Operating Revenues	\$30,701,990	\$36,952,373	\$42,655,902	\$50,608,300	\$58,993,619	\$63,984,056
Total Operating Expenses	(14,618,048)	(16,090,483)	(17,295,216)	(19,204,313)	(20,361,916)	(21,719,058)
Total Non-Operating Revenues	(2,762,741)	8,737,872	1,024,977	744,324	817,787	817,899
Adjustments	<u>4,068,431</u>	<u>(7,357,979)</u>	=	=	=	=
Income Available for Debt Service	17,389,633	22,241,783	26,385,662	32,148,310	39,449,491	43,082,897
15% of Unrestricted Net Assets	1,938,718	3,013,604	4,064,904	4,301,398	5,042,459	5,553,561
Total Parity Indebtedness	3,264,930	11,351,579	17,375,736	19,213,131	23,422,120	23,308,336
Debt Service Coverage Ratio for Parity Indebtedness (includes 15% of Unrestricted Net Assets)	5.92	2.22	1.75	1.90	1.90	2.09
Total Parity, G.O. and Subordinated Indebtedness	3,424,330	11,736,929	17,763,336	19,597,606	26,821,295	26,990,391
Debt Service Coverage Ratio for Parity, G.O. and Subordinated Indebtedness (excludes 15% of Unrestricted Net Assets)	5.08	1.90	1.49	1.64	1.47	1.60

THE SYSTEM

The System is currently composed of the Town's water and sanitary sewer systems. The Trust Agreement authorizes the Town to add other Enterprises on compliance with certain terms set forth in the Trust Agreement. The Trust Agreement also authorizes removal of Enterprises, other than the Town's water and sanitary sewer systems, from the System on compliance with certain terms set forth in the Trust Agreement. "Enterprise" means any project, facilities or system constituting a "revenue bond project" under the Act. The Town may also sell or dispose of and encumber certain components of the System on compliance with the terms set forth in the Trust Agreement. See "System; Addition of Enterprise to

System,” “Removal of Enterprise from System” and “Covenant against Sale or Disposition; Exceptions” in Appendix C hereto.

Organization and Management

The water and sanitary sewer systems are owned by the Town and operated through its Public Utilities Department. The Public Utilities Department’s primary function is to maintain the Town’s water and sanitary sewer infrastructure in accordance with applicable guidelines and regulations. The Public Utilities Department has 39 full-time authorized employees organized by administration, water distribution, wastewater collection, wastewater treatment and meter reading functions. Other operational support is provided by Customer Services, a component of the Town’s Finance Department, which receives 75% of its funding from the Public Utilities Department. Customer Services is responsible for billing, collecting and customer service for the water and sanitary sewer systems. The Public Utilities Department is under the administrative control of the Town Manager, with the Public Utilities Director reporting to the Assistant Town Manager.

Adam Mitchell is the Town Manager. Mr. Mitchell was appointed Town Manager for the Town in December of 2013. He has been a North Carolina local government manager for 21 years and has worked in local government collectively for 22 years. As Town Manager, Mr. Mitchell manages operating budgets in excess of \$50 million and capital projects in excess of \$100 million. Additionally, he has extensive experience with public utilities, public finance, economic development, and land development planning. He previously served as a member of the Board of Directors for ElectriCities of North Carolina and the Neuse Regional Water and Sewer Authority. Mr. Mitchell is a member of the North Carolina City and County Management Association (NCCCMA), where he previously served on the Executive Board, and the International City and County Management Association (ICMA). In 2014, Mr. Mitchell became an ICMA Credentialed Manager. He previously served on the Tax and Finance Legislative Action Committee for the North Carolina League of Municipalities and presently serves on the Legislative Policy Committee. In 2015, Mr. Mitchell was recognized by *Cary Magazine* as one of 30 “Movers and Shakers” in the Triangle area and in 2017 was recognized by the *Triangle Business Journal* as one of 40 professionals under the age of 40 that are rising leaders in the triangle region. Mr. Mitchell possesses a Bachelor of Science in Business Administration degree with a concentration in finance and a Master of Business Administration degree from East Carolina University.

Mark D. Matthews is the Assistant Town Manager. Mr. Matthews, who has served in local government since 2005, has served as Assistant Town Manager with the Town since 2014. He is a member of the International City and County Management Association (ICMA) and the North Carolina City and County Management Association (NCCCMA), currently serving as Chair of the NCCCMA Conference Program Planning Committee. Since 2021, Mr. Matthews has been recognized as a Credentialed Manager by ICMA. In his time with the Town, Mr. Matthews has managed departments that impact public safety, operations, and quality of life, and has extensive experience previously managing departments in the development services area. Additionally, Mr. Matthews’ responsibilities include strategic planning, emergency management, intergovernmental relations, and leading budget and operational excellence initiatives. Prior to becoming Assistant Manager of the Town, Mr. Matthews served in a variety of budget and management support roles in Wake County, North Carolina and Fairfax and Loudoun Counties, Virginia. He holds a Master of Public Administration degree from the University of Kansas and a Bachelor of Arts Degree in Political Science from North Carolina State University.

Jim Seymour is Assistant Town Manager. In this role, he oversees, manages, and directs the operations and services of the Town’s Development Service Departments, responsible for facilitating residential and non-residential developments, roadway infrastructure, construction/building permitting inspections, economic and downtown developments, and public utility services. Before taking his

position as Assistant Town Manager, Mr. Seymour served as the Town's Economic Development Director, having been responsible for implementing the Town's economic development goals and completing various projects and initiatives that leveraged private sector investment into southern Wake County. Before working in local government, Mr. Seymour served in several economic development and policy roles within the State of New York's chief economic development agency, the Empire State Development Corporation. He holds a Bachelor of Arts degree in Political Science from North Carolina State University and a Master of Public Administration degree from the University of North Carolina at Pembroke. He is an active member of the International City and County Management Association (ICMA) and the North Carolina City and County Managers Association (NCCCMA), where he is a committee member. Mr. Seymour is an ICMA Credentialed Manager.

Michael Wagner is the Public Utilities Director. Mr. Wagner has his Master of Public Administration degree from North Carolina Central University and his Bachelors in Business Administration degree from St. Leo University. He also has his Utility Management Certification from Fresno State and the American Water College and maintains the following North Carolina water and wastewater certifications: A-Surface Water Treatment, Grade IV Biological Wastewater Treatment, Land Application of Biosolids, and Surface Irrigation. Mr. Wagner has over 18 years serving in various public utility operations and management roles and was the Public Utilities Director for the City of Goldsboro, North Carolina for five years before joining the Town in September 2021. Mr. Wagner is also a veteran of the United States Coast Guard.

Heather Adams is the Assistant Public Utilities Director. Prior to joining the Town in May of 2023 as Assistant Utilities Director, Ms. Adams served the Water and Wastewater Industry for the past 25 years in various capacities within water treatment, wastewater treatment, technical assistance, management, project management, and environmental compliance. Ms. Adams began her career as a water treatment plant operator and quickly assumed the responsibilities of becoming a water treatment plant superintendent for a surface water plant in the Sandhills of North Carolina. Ms. Adams was also employed with a publicly traded water utility company and played an instrumental role in the startup for one of the largest utility privatization contracts awarded by the U.S. Department of Defense. Prior to joining the Town, she was Utility Director for a water and wastewater utility in Harnett County. Ms. Adams is an active member of many National and North Carolina professional organizations and currently holds several State certifications including A-Surface, A-Distribution, Cross-Connection Control ORC, Biological Wastewater Operator II, Biological Wastewater Operator III OIT, Physical/Chemical I, and Collections III. Ms. Adams received her Bachelor of Science degree in Chemistry from Campbell University and a Certificate in Project Management from North Carolina State University.

Chris Grimes is the Public Utilities Operations Manager. Mr. Grimes has a grade B certification for Surface Water Treatment Facility Operator, a grade A certification for Water Distribution Operator, a grade IV certification in Biological Water Pollution Control System Operator and a grade IV certification in Collection System Operator. Mr. Grimes also has certifications in Land Application of Residuals Operator, Cross-Connection Control Operator and has multiple safety certifications that are required by OSHA. Mr. Grimes has been employed by the Town since 1998.

Scott Griffin is the Water Distribution Supervisor. Mr. Griffin has a grade A certification for Water Distribution System Operator. He also has certification for Cross-Connection Control Operator and multiple safety certifications that are required by OSHA. Mr. Griffin has been with the Town since 2002.

Jonathan Joyner is the Sewer Collections Supervisor. Mr. Joyner is the Operator in Responsible Charge (ORC) for the Town Sewer Collections System. Mr. Joyner is a Grade IV Collections System

Operator, Class II Maintenance Technologist, Class A CDL driver, and NC Pesticide applicator. He also has multiple safety certifications that are required by OSHA. Mr. Joyner has been with the Town since 2014 and currently serves as one of 18 mentors across the State for the NC Rural Water Association.

Adam Stephenson is the Wastewater Treatment Plant Supervisor. Mr. Stephenson is the Operator in Responsible Charge (ORC) for the Terrible Creek and Brighton Forest Wastewater Treatment facilities. Mr. Stephenson has a grade IV certification in Biological Water Pollution Control System Operator and has been with the Town since 2011.

JoAnne Crabtree is the Finance Director. Ms. Crabtree graduated from East Carolina University in 1989 with a Bachelor of Arts degree in Accounting. Ms. Crabtree worked as a staff accountant with a local CPA firm for six years after graduation. She began working in local government with Edgecombe County, North Carolina as an Assistant Finance Director in 1996. Ms. Crabtree has been a Certified Finance Officer since 1999. From 1998 to 2016, she served as the Finance Director for Edgecombe County, North Carolina until she moved to Johnston County, North Carolina to serve as the Assistant Finance Director with the Town of Garner, North Carolina. She started her service to the Town as the Finance Director in May of 2019. Ms. Crabtree is a member of both the State and national Governmental Finance Officer Associations.

Matthew B. Poling, P.E., CFM, is the Town Engineering Director. Mr. Poling is a Professionally Licensed Engineer with the State of North Carolina and has prior experience in the private sector and with the North Carolina Department of Environmental Quality. He has been with the Town for ten years.

The Town Board sets rates for all utilities, and no State or other authority has any regulatory control over the Town's utility rates. The Town and its consultants update the long-range financial plan and projection of water and wastewater rates annually. The Town reviews rates and fees each year as part of the annual budget process, with approval of any rate changes subject to consideration and approval by the Town Board.

The Town maintains water and sewer rates for customers located within the Town boundaries and separate rates for customers served outside the Town. From time to time, legislation has been introduced in the North Carolina General Assembly to limit the ability of public utilities to charge higher rates to outside customers.

The Water System

General. The Town currently purchases water for consumption pursuant to interlocal agreements with the City of Raleigh and Harnett and Johnston Counties. The quality of the water is monitored on a daily basis for quality control as well as monthly for water system regulatory compliance. This testing supplements the testing performed by the suppliers from which the Town purchases the water. At present, the Town has the capacity to obtain a total of 7.25 MGD per day from its water suppliers.

The Town's water distribution system currently consists of approximately 272 miles of water lines, two elevated water storage tanks and one water distribution booster pump station. The Town's current average daily water consumption is 3.2 MGD with summer peak demand increasing to approximately 4.45 MGD.

The Town has entered into arrangements with the City of Raleigh and Harnett and Johnston Counties to provide water system interconnections for the Town's water supply. The agreement with Johnston County requires a minimum purchase of an average daily volume of 0.20 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:

<u>Provider</u>	<u>Maximum Amount of Water Available</u>	<u>Expiration Date</u>
City of Raleigh	1.75 MGD	June 2046
Johnston County	1.50 MGD	May 2049 ⁽¹⁾
Harnett County	4.00 MGD	August 2039

⁽¹⁾ Assumes automatic renewal pursuant to the terms of the agreement.

As discussed above under “THE SERIES 2024B PROJECT – The WFF Expansion Project,” the Town has also entered into the WFF Expansion ILA which will provide the Town with an additional 6.00 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 demand continues to increase annually by approximately 0.10 MGD to 0.35 MGD due to development in the service area. The Town has contractual commitments for the above-referenced amounts through the applicable expiration dates. In order to continue to operate the System, the Town will need to ensure that it has sufficient capacity for its needs by developing its own capacity, negotiating extensions of the current interlocal agreements or entering into additional interlocal agreements with other providers.

Water Rates. The Town provides water services to customers inside and outside the limits of the Town. Each utility account is charged a fixed Water Base Rate based on meter size and a Water Consumption Rate per one thousand gallons used.

The rate schedule for the fiscal year ending June 30, 2025 is set forth below:

All Customers (both non-irrigation and irrigation meters)

<u>Size</u>	<u>Monthly In-Town Water Base Rate</u>
3/4”	\$ 15.51
1”	25.90
1 1/2”	51.66
2”	82.67
3”	155.11
4”	258.57
6”	516.99
8”	827.33
10”	2,171.40
In-Town Water Consumption Rate	\$7.84/1,000 gallons
Out of Town Consumption Rate	\$15.68/1,000 gallons

All rates for service provided to customers that are not within Town limits are double the above-listed rates.

The Town charges a water system development fee based on water service tap size. Such fees have been developed by the Town’s outside rate consultant in accordance with North Carolina’s Public

Water and Sewer System Development Fee Act. Due to the increased costs of capacity expansion projects, the Town updated the fees with the consultant again for the fiscal year ending June 30, 2025. Such fees will be re-evaluated at least every five years.

The water system development fees for the year ending June 30, 2025 are set forth in the table below.

All Customers (both non-irrigation and irrigation meters)

<u>Size</u>	<u>Fee</u>
3/4"	\$4,929
1"	8,214
1 1/2"	16,429
2"	26,287
3"	52,573
4"	82,146
6"	164,292
8"	262,864

In 2020, the Town was named in a class action lawsuit challenging the imposition and past collection of water and sewer system development fees. The claims in the lawsuits alleged that the fees did not comply with the Public Water and Sewer System Development Fee Act. In August 2023, the Town settled the lawsuit with the plaintiff parties without any admission of liability by the Town. For more information, see Note 5 in Appendix A hereto.

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

Number of Active Accounts. The following table shows the number of active water customer accounts at the end of each of the last five fiscal years and the nine-month period ending March 31, 2024:

<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>
2019	12,416	513	12,929	-
2020	12,503	515	13,018	1%
2021	12,887	514	13,401	3
2022	14,628	514	15,142	13
2023	17,396	510	17,906	18
2024	17,851	510	18,361	2.5

As of June 30, 2023, the water system's customers were comprised of approximately 92% residential customers (including multi-family accounts) and 8% commercial customers.

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 each such customer account, the annual revenue generated by each such account and the percentage of the total annual revenues for the water system generated by each such account.

<u>Customer Account</u>	<u>Consumption (Gallons)</u>	<u>Annual Water Revenues</u>	<u>Percentage of Total Water System Revenues</u>
Chandler Ridge Comm Partners LP	2,587,000	\$108,152.66	1.27%
ST Wooten Corporation	4,922,600	57,157.39	0.67
Wake Technical College	2,602,100	39,772.65	0.47
Retreat at Fuquay-Varina (large irrigation)	6,503,000	38,372.15	0.45
Windsor Point	5,612,400	33,946.16	0.40
Universal Health Care-Fuquay Varina Inc.	5,243,700	30,937.18	0.36
John Deere Turf Care	4,767,500	28,709.51	0.34
Wake County Public Schools	3,652,000	27,263.11	0.32
GA HC REIT II Fuquay-Varina, Senior Lifestyle Corp	4,467,900	26,825.14	0.32
Tyco Electronics	<u>4,264,200</u>	<u>24,669.20</u>	<u>0.29</u>
Total	<u>44,622,400</u>	<u>\$415,805.15</u>	<u>4.89%</u>

The Sanitary Sewer System

General. The Town's sanitary sewer system provides wastewater collection, treatment and disposal. The Town operates two wastewater treatment plants, 241 miles of wastewater lines and 31 wastewater pump stations. The Terrible Creek Wastewater Treatment Plant (the "Terrible Creek Plant") was originally built in 1997 as an 0.50 MGD treatment facility which discharges to Terrible Creek in the Neuse River Basin. In 2018, the Town constructed a replacement plant with a treatment capacity of 3 MGD. The Town has a current State permit allowing the expansion of the Terrible Creek Plant's wastewater treatment capacity up to 6.0 MGD. An expansion to the Terrible Creek Plant to increase the capacity to 6 MGD is in the design phase with construction anticipated to begin in 2025. The current average discharge at the Terrible Creek Plant is 1.438 MGD.

The Brighton Forest Wastewater Treatment Plant (the "Brighton Forest Plant") provides wastewater treatment services to two residential subdivisions consisting of 572 single family homes. The capacity of the Brighton Forest Plant is 0.117 MGD. The current average daily treated discharge is 0.067 MGD. The Town's discharge permit for the plant does not allow for any future plant expansions.

Wastewater effluent quality reports are submitted to the State on a monthly basis to help ensure that all quality standards are met at both plants. Monitoring tests are performed at the Town's laboratory, as well as at a State certified independent lab. The Terrible Creek Plant and the Brighton Forest Plant discharge treated effluent to the Neuse River basin.

The Town also discharges wastewater in the Cape Fear Basin through the North Harnett Regional Wastewater Treatment Plant (the "North Harnett Plant"). Pursuant to an interlocal agreement with Harnett County, the Town purchases treatment capacity of 2.60 MGD in the North Harnett Plant. The current average daily discharge to the regional plant by the Town is 1.493 MGD. Pursuant to the Town's interlocal agreement with Harnett County to provide wastewater treatment services, the Town pays Harnett County for wastewater treatment volumes at the current rate of \$2.75 per thousand gallons, plus \$0.25 per thousand gallons electric surcharge. Assuming automatic renewal pursuant to the terms of such agreement, the Harnett County interlocal agreement will expire in November 2080.

Pursuant to an amendment to the existing interlocal agreement, the Town will increase its current capacity of 2.60 MGD by an additional 3.40 MGD giving the Town a total treatment capacity of 6.0 MGD at the North Harnett Plant. The Town's portion of the expansion costs will be paid for with a portion of the proceeds of the Series 2024A Bonds.

The Town's total sewage treatment capacity is 5.717 MGD, with the Terrible Creek Plant rated at 3.0 MGD, the Brighton Forest Plant rated at 0.117 MGD and 2.60 MGD available in the North Harnett Plant.

In fiscal year 2023, average daily total usage of the Town's sanitary sewer system, including the treatment capacity it purchases from Harnett County, was 2.998 MGD. The Town's sanitary sewer system is anticipated to meet its wastewater demand through at least the year 2028, with expansion design underway to support demand through 2045.

The Town maintains an Infiltration and Inflow Program (the "I&I Program") to reduce the amount of water from other sources that reaches the Town's wastewater treatment system for processing. The I&I Program is targeted to reduce the amount of excess groundwater processed by the system during periods of heavy rainfall.

The Town's pretreatment program has, at present, one significant industrial user ("SIUs"). Through pretreatment, companies identified as SIUs reduce, eliminate or alter pollutants in wastewater before they are introduced into the sewer collection system. Federally-mandated pretreatment standards target pollutants that would interfere with the wastewater treatment plant's operation, would not be susceptible to treatment or would adversely affect plant equipment and personnel.

Sanitary Sewer Rates. The Town provides sanitary sewer services to residents inside and outside the limits of the Town. Each utility account is charged a fixed Sewer Base Rate based on water meter size and a Sewer Consumption Rate per one thousand gallons used based on 100% of a customer's water consumption as set forth in the table below.

The rate schedule for the fiscal year ending June 30, 2025 is set forth below:

All Customers

<u>Size</u>	<u>Monthly In-Town Water Base Rate</u>
3/4"	\$ 21.54
1"	35.97
1 1/2"	71.74
2"	114.82
3"	215.42
4"	359.10
6"	717.99
8"	1,148.70
10"	3,015.60
In-Town Sewer Consumption Rate	\$9.22/1,000 gallons
Out of Town Sewer Consumption Rate	\$18.44/1,000 gallons

All rates for service provided to customers that are not within Town limits are double the above-listed rates.

The Town charges a sewer system development fee based on water service tap size. Such fees have been developed by the Town's outside rate consultant in accordance with North Carolina's Public Water and Sewer System Development Fee Act. The fees were reviewed in 2023 by the Town's outside rate consultant and the newly calculated fees were adopted by the Town Board for implementation for the fiscal year ending June 30, 2024. Due to the increased costs of capacity expansion projects, the Town updated the fees with the consultant again for the fiscal year ending June 30, 2025. Such fees will be re-evaluated at least every five years.

The sanitary sewer system development fees for the year ending June 30, 2025 are set forth in the table below.

<u>Size</u>	<u>Fee</u>
3/4"	\$ 4,490
1"	7,482
1 1/2"	14,966
2"	23,946
3"	47,891
4"	74,830
6"	149,659
8"	239,452

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 following table shows the number of active sanitary sewer customer accounts at the end of each of the last five fiscal years and the nine-month period ending March 31, 2024:

<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>
2019	11,634	19	11,653	-
2020	13,068	20	13,088	12%
2021	13,381	20	13,401	3
2022	14,616	21	14,637	10
2023	16,355	22	16,377	12
2024	17,099	21	17,120	4.5

As of June 30, 2023, the sanitary sewer system's customer account mix was approximately 96% residential (including multi-family accounts) and 4% commercial and industrial.

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 2023, the volume treated for each such customer account and the percentage of total annual wastewater revenues generated by each such customer account.

<u>Customer Account</u>	<u>Volume Treated (Gallons)</u>	<u>Annual Wastewater Revenues</u>	<u>Percentage of Total Annual Wastewater Revenues</u>
Chandler Ridge Comm Partners LP	2,587,000	\$129,186.28	1.44%
ACG Southside LLC	3,941,000	55,871.96	0.62
Wake Technical College	2,602,100	48,976.11	0.55
Windsor Point	5,612,400	39,346.00	0.44
Universal Health Care-Fuquay-Varina Inc.	5,243,700	36,662.27	0.41
John Deere Turf Care	4,767,500	33,524.37	0.37
Wake County Public Schools	3,652,000	33,449.96	0.37
GA HC REIT II Fuquay-Varina, Senior	4,467,900	29,446.45	0.33
Lifestyle Copr DBA			
Tyco Electronics	4,264,200	29,163.99	0.33
Sam's Xpress Car Wash LLC #336	<u>3,944,000</u>	<u>27,071.61</u>	<u>0.30</u>
Total	<u>41,081,800</u>	<u>\$462,699.00</u>	<u>5.18%</u>

Billing and Collection Procedures

The Town uses both radio and non-radio read meters. Approximately 97% of the meters have been converted to radio read meters. Utility bills are prepared by the Customer Services Department within the Town's Finance Department. All customers are billed monthly.

Monthly accounts are due 15 days after the billing date. If the bill goes unpaid, a delinquency notice is mailed, giving the customer an additional five days to pay and a \$5.00 late fee is assessed. After the date on the delinquency notice, a \$15.00 penalty is added to the customer's account and service is discontinued. In addition to mailing the bills, the Town's Finance Department assumes collection and accounting responsibilities.

Before establishing service, utility customers must sign an agreement with the Town. Renters must pay a \$75.00 security deposit that is applied to the final bill when the customer ends services with the Town. The deposit is waived for owners of real property upon proof of ownership of such property.

Regulatory Oversight

General. The Town and the System are regulated by the United States Environmental Protection Agency and the North Carolina Department of Environmental Quality. The Town's water meets all federal guidelines for quality set by the Safe Drinking Water Act. Over the past five years, the Town has received one minor violation with respect to the water system. Such violation did not pose a risk to the public health and has been fully addressed by the Town. The Town is currently in compliance with all federal and state environmental legislation and regulation impacting the System.

PFAS. In April 2024, the EPA announced limits on certain perfluoroalkyl and polyfluoroalkyl substances (PFAS), also known as "forever chemicals," in drinking water. PFAS are a group of compounds used in a variety of industrial processes and in everyday products to increase resistance to water, grease, and stains. PFAS can be found in carpet, clothing, furniture fabric, food packaging, cookware, some firefighting foams, and other materials. This family of compounds has been around for decades, accumulating in the environment, including drinking water sources. All public water systems have three years (2024-2027) to complete initial monitoring for these chemicals. If the levels exceed the standards, systems have an additional two years (2027-2029) to reduce PFAS levels to meet the

standards. The Town has budgeted approximately \$10,265,400 million in its CIP to achieve compliance with the new rule. There is no guarantee such amount will be sufficient. The Town is currently a 100% purchased water system purchasing water from the City of Raleigh, Johnston County, and Harnett County. To remove PFAS, the City of Raleigh currently uses Powder Activated Carbon (PAC). Harnett County has limited PFAS filtering removal, but has Granular Activated Carbon filters (GAC). Johnston County is studying the best science for removing PFAS at its facility.

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 \$10,265,400 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 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 System.

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. The Town expects that data related to the Town's inventory will be published by after it is submitted to the North Carolina Department of Environmental Quality (NCDEQ) in October of 2024. To date, the Public Utilities Department has not found any lead service lines.

Operating and Capital Budget Procedures

Operating and capital budgets for the water and sanitary sewer systems are formulated in the same manner as those of other Town departments. The manager of each department prepares an initial budget request. The Town Manager reviews and may revise the submitted budget request and incorporates the request into the overall budget submitted to the Town Board for its consideration.

Capital Improvement Program

The Town's Capital Improvement Program (the "CIP") is a five-year plan prepared by the Town for the scheduling and appropriation of funds for major projects such as the construction, purchase or major renovation of buildings, physical structures and extensions of the water and wastewater system. The CIP represents the best judgment of the Town Board at the time the CIP is adopted and is subject to alteration prior to completion based on changing needs and constraints. The projects provided for in the CIP (fiscal years 2025 through 2029) include the Series 2024B Project, various other plant upgrades, sewer and water line rehabilitation and other improvements to the water and wastewater systems. The Town anticipates issuing one or more additional series of revenue bonds in the approximate amount of

\$137,000,000 within the next year to finance the design and construction of a water conveyance system to connect the Town to the expanded WFF and the expansion of the Terrible Creek Plant. For more information on the CIP, see the Financial Feasibility Report included as Appendix B hereto.

Rate Increases

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

Water Rate Increases

<u>Fiscal Year</u>	<u>Water Rate Increase⁽¹⁾</u>
2021	(3)%
2022	No change
2023	9.9
2024	20
2025	15

⁽¹⁾ Shows the combined increase for the Water Base Rate and the Water Consumption Rate.

Sewer Rate Increases⁽¹⁾

<u>Fiscal Year</u>	<u>Sanitary Sewer Rate Increase⁽¹⁾</u>
2021	(3)%
2022	No change
2023	9.1
2024	20
2025	15

⁽¹⁾ Shows the combined increase for the Sewer Base Rate charge and the Sewer Consumption Rate.

Over the next four years, the Town anticipates water and sanitary sewer rates to increase by 15% in each of the fiscal years ending June 30, 2026 to 2028, inclusive and by 5% for the fiscal year ending June 30, 2029. Such rate increases have not been adopted by the Town Board, and implementation of such increases remains subject to the Town Board's discretion. The Financial Feasibility Report included in Appendix B hereto reflects the implementation of such increases.

Recent Operating Results

For information on the historical financial performance of the Town's water and wastewater system, see the Town's financial statements and notes thereto in Appendix A hereto and the Financial Feasibility Report included as Appendix B hereto.

THE TOWN

General Description

The Town was formed in 1963 when the Town of Fuquay Springs, incorporated in 1909, joined the community of Varina as a single municipality. The Town is located in Wake County, North Carolina

(the “County”) between the piedmont and coastal plain areas of North Carolina, approximately 14 miles south of Raleigh, the state capital of North Carolina. The Town covers an area of approximately 19.185 square miles. The population of the Town continues to increase, having grown from approximately 7,900 in 2000 to approximately 37,676 in 2022, according to the Town Planning Department. The Town is located in close proximity to the Cities of Raleigh and Durham, Raleigh-Durham International Airport and Research Triangle Park.

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>
4,447	7,898	17,937	34,152

The North Carolina Office of State Budget and Management has estimated the population of the Town (most recent data available) to be as follows:

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
31,473	33,006	34,729	36,305	38,516

Per capita income data for the County and the State 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	56,703	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).

Commercial, Industrial and Institutional Profile

General. The Town has a diversified economy with a blend of service, trade and manufacturing businesses and local government and educational institutions. Due to its location near the Raleigh-Durham International Airport and Research Triangle Park, the Town has enjoyed significant residential, commercial and industrial growth in recent years. The Research Triangle Park (“RTP”), a nationally recognized center for research and light manufacturing, is partially located in the County. RTP’s primary objective is to attract research-related institutions to the area and is currently home to over 300 organizations including International Business Machines Corporation, GlaxoSmithKline, Cisco Systems, Inc., Credit Suisse, RTI International, Fidelity Investments, Lenovo, the United States Environmental Protection Agency, Biogen, and NetApp. The organizations in RTP employ approximately 60,000 employees and perform \$6 billion in combined research expenditures annually. Many Town residents commute to jobs in RTP, at N.C. State University in Raleigh, and government employers in the area, including the State of North Carolina.

The Town’s tax base has grown from approximately \$675 million in 2000 to approximately \$6.3 billion in 2024. The Town’s tax base has a current ratio of approximately 22% commercial/industrial to 78% residential.

Manufacturing and Supply. John Deere has been manufacturing professional turf and golf course equipment in the Town for approximately 26 years and employs 500 people. TE Connectivity has been manufacturing electronic connectivity equipment in the Town for 42 years and employs 375 people. Bob Barker Company, which maintains its headquarters in the Town, provides personal care and food service items, along with furnishings and security items, to correctional and detention facilities.

Recent Developments. The Gold Leaf Crossing Project is an 800,000-square foot commercial and retail project in the Town. The development will be designed as an open, multi-modal type of development, focusing on connecting patrons to a carefully selected tenant mix, offering a wide range of high-end restaurants, retail, and entertainment services and amenities. This type of large-scale commercial/retail development is an essential component of the Town's overall economic development strategy that aims to foster a sense of community that closely links the residents and local industries to a contemporary style of community-focused amenities. Construction on the project will begin in the first half of 2024. The approximately \$100 million project will be supported, in part, by infrastructure incentives provided by the Town.

The Town previously purchased 35 acres of industrial property to recruit advanced manufacturers that create high-paying employment opportunities and invest in the Town's tax base. In 2021, CCL Label announced plans to purchase the Town's industrial park to locate a \$29 million advanced manufacturing facility. The company, a leader in specialty packaging and labeling, will employ 150 new full-time employees. The project is expected to be complete by the summer of 2024. The project will be supported, in part, by incentive funding provided by the Town.

The Fuquay Family Fun Center will be the first of its kind in the Town. The project will invest \$10 million in new capital investment in the community and create 100 new full-time and part-time jobs. The center will be equipped with a bowling alley, laser tag, and an arcade. The project will be supported, in part, by incentive funding provided by the Town. The project is expected to be a major attraction. The Town has approved the development plan for the project; however, a construction start date is undetermined at this time.

TJ Maxx and Popshelf retail stores have retrofitted a vacant existing retail space in in the Town. Popshelf opened in January 2023, and TJ Maxx opened March 2023. The presence of these stores brings much-needed retail options to the community.

Berk Tek, a Leviton Company, a leading manufacturer of high-performance fiber optic cables in the telecommunications industry, is completing a \$27 million manufacturing facility expansion project in the Town. The expansion will double the company's footprint, adding more than 95,000 square feet to its existing 55,000 square feet. It will result in the creation of 100 new full-time jobs. The project is expected to be complete by the spring of 2024. The expansion will be supported, in part, by incentive funding provided by the Town and Wake County.

Aviator Brewing Company, a craft brewing manufacturing and distribution industry leader, is completing a \$4.5 million manufacturing, commercial, and distribution facility expansion project in the Town. This expansion will result in 75 new full and part-time jobs. The project is expected to be complete by the spring of 2024. The expansion will be supported, in part, by incentive funding provided by the Town.

FUJIFILM Diosynth Biotechnologies is building a \$2 billion cell culture contact biopharmaceutical plant nearby in the Town of Holly Springs, which is expected to open in 2025. Apple has announced plans for a new \$1 billion campus and engineering center to be located in RTP, which

could bring approximately 3,000 jobs to the area over a decade. Spinoff growth in the Town from FUJIFILM in Holly Springs and from the new Apple facility in RTP is expected to bring additional residents into the Town.

Downtown Development. The Q, a Class A mixed-use development located in the downtown historic district, was completed in 2022. The building is home to 18 residential condos on the third and fourth floors, consisting of one and two bedrooms with balcony views overlooking the historic downtown. The second floor is equipped with nearly 7,000 square feet of office space, and the first floor is now home to a Neighborhood Barre, a boutique exercise studio, and Happy's Golf Club, a state-of-the-art golf simulator bar. El Cantarito Mexican Grill opened in the Q in early 2023.

The Town is working with a developer to build an additional downtown mixed-use project consisting of residential and retail space. This new, mixed-use project is expected to be a \$65 million private sector investment for the downtown community.

The Fuquay-Varina Arts Center, a 300-plus seat theater located in the downtown area opened in March 2019. This state-of-the-art venue now provides creative arts programming fulfilling an increased demand by local businesses and citizens.

The following table lists the major employers in the Town as of June 2023.

<u>Company or Institution</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
Wake County Public Schools	Education	1,056
John Deere	Golf/Commercial Mowing Products	460
Town of Fuquay-Varina	Local Government	407
TE Connectivity	Manufacturing	375
InServ	Specialty Contractor	313
Walmart	Retail	304
Harris Teeter	Grocery	270
Food Lion	Grocery	219
Home Depot	Retail	195
Bob Barker Company	Institutional Supplies	170

Source: Survey of individual companies and institutions as of June 2023.

Total taxable sales in the County¹ 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 ²	25,362,896,739	--

¹ Separate data for the Town are not available.

² 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.

Construction activity is indicated by the following table which shows the number and value of building permits issued by the Town¹:

<u>Fiscal Year</u>	<u>Non-Residential</u>		<u>Residential</u>		<u>Total Value</u>
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	
2018	79	\$37,628,572	860	\$131,750,500	\$169,379,072
2019	66	41,537,306	897	138,448,226	179,985,532
2020	89	34,342,327	887	192,836,350	227,178,677
2021	32	38,705,391	1,440	333,638,170	372,343,561
2022	54	59,938,405	1,891	403,018,696	462,957,101
2023	53	17,988,933	1,100	268,360,619	286,349,552

¹ The Town issues building permits inside the corporate limits as well as in the extraterritorial jurisdiction, a one-mile area outside the corporate limits. The numbers shown in this table are cumulative.

Employment

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	3.6%	3.4%	3.2%	2.9%	3.3%	3.6%	3.6%	3.5%	3.0%	3.0%	3.1%	3.0%
2020	3.2	2.9	4.0*	11.9*	9.9	8.1	7.2	5.3	5.2	4.5	4.6	4.9
2021	5.3	4.7	4.4	4.1	3.9	4.5	4.2	4.1	3.2	3.5	3.2	2.9
2022	3.5	3.2	3.3	2.9	3.3	3.4	3.3	3.7	3.1	3.2	3.3	2.9
2023	3.5	3.3	3.2	2.8	3.0	3.2	3.2	3.3	3.0	3.2	3.2	3.4
2024	3.6	3.6	3.6	N/A	N/A							

*Onset of the COVID-19 Pandemic.

Source: North Carolina Department of Commerce, Labor and Economic Analysis Division.

For comparison, the average unemployment rate for 2023 was 3.2% for Fuquay-Varina, 3.0% for Wake County, 3.4% for North Carolina and 3.6% for the United States.

Government Structure

The Town operates under the Council-Manager form of government in which the citizens elect a Mayor and the Town Board as the Town's governing body. The Board appoints the Town Manager who serves as the Town's chief administrative officer.

As a principal elected official of the Town, the Mayor provides leadership to the governing body and community and presides at all Town Board meetings. The Mayor is elected for a two-year term.

As the legislative body of the Town, the Town Board is responsible for governing the Town and for establishing Town policies. The Town Board is comprised of commissioners who are directly elected by the entire voting population. All commissioners are elected on a nonpartisan basis to "at large" positions and may reside anywhere within the Town limits. The commissioners serve overlapping four-year terms.

Cybersecurity

The Town relies on a large and complex technology environment to conduct its operations. Like many other public and private entities, the Town faces multiple cybersecurity threats involving but being limited to unauthorized access, phishing campaigns, malware, and other attacks. To defend against cybersecurity threats, the Town relies on hardware and software defenses, and real-time intelligence feeds from the private sector, local, state, and federal partners.

Post-Employment Benefits

Retirement Plan. The Town participates in the North Carolina Local Governmental Employees' Retirement System (the "System"). The 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 6% 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 (including death benefit) for the fiscal year ending June 30, 2025, uniform for all employers, is 13.63% of eligible payroll for general employees and 15.04% of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employee's service rendered prior to the date the employer joins the System.

Members qualify for a vested deferred benefit at age 60 after at least five years of creditable service to the unit of local government. Unreduced benefits for general employees are available: at age 65, with at least five years of creditable service; at age 60, with at least 25 years of creditable service; regardless of age, with at least 30 years of creditable service. 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 other pension plans see the Notes to the Town's basic financial statements included in Note 2 in Appendix A hereto.

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

Other Post-Employment Benefits. The Town provides post-employment health care benefits ("OPEB") to retirees of the Town, provided they participate in the System and meet the Town's years of creditable service and age requirements. For those hired before January 1, 2006, and are at least 60 years of age with a minimum of 15 years of service with the Town, benefits are paid by the Town up to age 65. For those hired after January 1, 2006 and with 25 years of service with the Town, benefits are required. With 15 years to 25 years of service, employees pay 100% of the health care coverage cost. The Town pays for coverage on a "pay as you go basis". Retirees also can purchase coverage for their dependents at the Town's group rates. Currently, 13 Town retirees are eligible for OPEB.

The Town submitted information to an actuarial firm for an actuarial study on the other post-employment benefits completed for the fiscal year ended June 30, 2021, and in accordance with GASB 75. The Town's financial statements for fiscal year ended June 30, 2023 report the actuarial study determined that the Town's total liability is about \$3,574,369, and the Town's estimated recognition of deferred outflows as OPEB expense is approximately \$163,334. The Town has historically funded health benefits for retirees on a pay as you go basis. For the fiscal year ended June 30, 2022, the Town paid \$47,598 and for 2023 the Town paid \$48,958 for retiree health benefits.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12"), in the Fourth Supplemental Trust Agreement, the Town will undertake, for the benefit of the beneficial owners of the Series 2024B Bonds, to provide to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") system:

(a) by not later than seven months from the end of each of the Town's Fiscal Years, beginning with the Fiscal Year ended June 30, 2024, audited Town financial statements for such fiscal year, if available, prepared in accordance with Section 159-34 of the General Statutes or, if such audited financial statements are not available by seven months from the end of any fiscal year, unaudited Town financial statements for such fiscal year, to be replaced subsequently by audited Town financial statements to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each of the Town's Fiscal Years, beginning with the Fiscal Year ended June 30, 2024, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year (which data must be prepared at least annually, must specify the date as to which such information was prepared and must be delivered with any subsequent

material events notices specified in subparagraph (c) below) for the type of information included under the following headings in this Official Statement under the following captions:

(1) “THE SYSTEM –The Water System - General (capacity and consumption figures contained therein), - Water Rates (tables contained therein), - Number of Active Customer Accounts (table contained therein and customer mix) and - Major Water Customer Accounts (table contained therein); and

(2) “THE SYSTEM – The Sanitary Sewer System - General (capacity and usage figures contained therein), - Sanitary Sewer Rates (tables contained therein), - Number of Active Customer Accounts (table contained therein) and - Major Sanitary Sewer Customer Accounts (table contained therein);

in all cases to the extent those items are not included in the audited financial statements referred to in (a) above;

(c) in a timely manner, not in excess of ten Business Days after the occurrence of the event, notice of any of the following events with respect to the Series 2024B Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any 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 Series 2024B Bonds, or other material events affecting the tax status of the Series 2024B Bonds;

(7) modifications to rights of the beneficial owners of the Series 2024B Bonds, if material;

(8) calls for redemption of Series 2024B Bonds (other than calls pursuant to sinking fund redemption), if material, and tender offers;

(9) defeasances;

(10) release, substitution or sale of any property securing repayment of the Series 2024B Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar proceedings related to the Town, the Trustee or any other person or entity that may at any time become legally obligated to make Bond Payments (collectively, the “Obligated Persons”);

(13) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, 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 any such actions, other than pursuant to its terms, if material;

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(15) incurrence of a financial obligation (as defined below) 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 Town, any of which affect Bondholders, 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, not in excess of ten Business Days after the occurrence of the failure, 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.

“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 an obligation described in either clause (a) or (b). 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 of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended.

For the purposes of the events identified in subparagraph (c)(12) above, the event is considered to occur when any of the following occurs: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

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.

If the Town fails to comply with the undertaking described above, the Trustee may take action to protect and enforce the rights of all the beneficial owners of the Series 2024B Bonds with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking will not be an Event of Default and will not result in any acceleration of payment of the Series 2024B Bonds. All actions will be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Series 2024B Bonds.

The Town must provide the documents and other information referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Town may discharge its undertaking as set forth in this Section by providing such information in any manner that the United States Securities and Exchange Commission subsequently authorizes in lieu of the manner described above.

The Town reserves the right to modify from time to time the information to be provided, or the presentation of the information to be provided, to the extent necessary or appropriate in the Town's judgment, provided that:

(A) 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;

(B) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of the final Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(C) any such modification does not materially impair the interests of the beneficial owners, as determined by the Trustee, by Bond Counsel, or by the approving vote of the registered owners of a majority in principal amount of the Series 2024B Bonds pursuant to the terms of the Master Trust Agreement and the Fourth Supplemental Agreement, as they may be amended from time to time, at the time of the amendment.

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 undertakings described above will terminate upon payment, or provision having been made for payment, in a manner consistent with Rule 15c2-12, in full of all of the Series 2024B Bonds.

With respect to Series 2016 Bonds, operating data for the Town's fiscal year ended June 30, 2019 was filed to the EMMA system on February 10, 2020 (10 days after the January 31 due date). In addition, with respect to the Town's general obligation bonds, the Town's compiled budget for the fiscal year ending June 30, 2023 was filed to the EMMA system on March 23, 2023 (51 days after the January 31 due date). The Town filed a notice of these late filings promptly upon becoming aware of them.

The Town incurred financial obligations in the form of (1) a direct bank placement of the Series 2021 Bonds on July 15, 2021, and then (2) a direct bank placement installment financing on December 15, 2021. The Town filed notices of those obligations as required under Section (c)(15) of Rule 15c2-12 in May 2023.

The Town is aware of its obligation to file notices of the incurrence of financial obligations, and has done so on other occasions. The failures to file were a matter of oversight in the first instance. In the second instance, the financial obligation may not be material but in an abundance of caution the Town has made a filing.

The Town has reviewed its internal procedures to reduce the chance of future late filings. Except as described above, the Town is not aware of any instances of its failure to comply in all material respects with the terms of its prior undertakings under Rule 15c2-12.

LEGAL MATTERS

Certain legal matters related to the authorization and issuance of the Series 2024B Bonds are subject to the approving legal opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town (“Bond Counsel”). Certain legal matters will be passed upon for the Town by James S. Adcock, III, P.A., Fuquay-Varina, North Carolina, Town Attorney, and for the Underwriter by Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, counsel to the Underwriter.

Bond Counsel’s approving legal opinion will be provided at the Town’s expense and will be available at the time of the delivery of the Series 2024B Bonds. The proposed form of Bond Counsel’s approving opinion is attached as Appendix E. Bond Counsel’s approving legal opinion expresses Bond Counsel’s professional judgment as to the legal issues explicitly addressed in the opinion. By rendering a legal opinion, an opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Additionally, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction and a bond opinion is not a statement (either expressly or by implication) concerning the marketability, value or likelihood of payment of the Series 2024B Bonds.

Bond Counsel has not been engaged to investigate the Town’s operations or condition or the Town’s ability to provide for payments on the Series 2024B Bonds. Bond Counsel will express no opinion (1) as to the Town’s ability to provide for payments on the Series 2024B Bonds, or (2) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Series 2024B Bonds, including this Official Statement. In this transaction, Bond Counsel will serve only as bond counsel to the Town, and will not represent any other party.

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 authorization, execution or delivery of the Series 2024B Bonds, the Fourth Supplemental Trust Agreement or contesting the validity or the authority or proceedings for the authorization, execution or delivery of the Series 2024B Bonds, the Master Trust Agreement, the Fourth Supplemental Trust Agreement 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 impact on the Town’s condition, financial or otherwise.

TAX TREATMENT

Opinion of Bond Counsel

In the opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town (“Bond Counsel”), under existing law, interest on the Series 2024B Bonds (1) will not be included in gross income for federal income tax purposes, and (2) will be exempt from existing State of North Carolina income taxation. Interest on the Series 2024B Bonds is not a separate tax preference item for

purposes of the federal alternative minimum tax; 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,” as defined below) for the purpose of computing the alternative minimum tax imposed on corporations for tax years that begin after December 31, 2022.

Bond Counsel will express no other opinion regarding the federal or North Carolina tax consequences of the ownership of or the receipt or accrual of interest on the Series 2024B Bonds.

Bond Counsel will give its opinion in reliance upon certification by Town representatives and others as to certain facts relevant to the opinion and to the requirements of the United States Internal Revenue Code of 1986, as amended (the “Code”). The Town has covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds derived from the sale of the Series 2024B Bonds and the timely payment to the United States of any arbitrage profit with respect to the Series 2024B Bonds. The Town’s failure to comply with such covenants could cause interest on the Series 2024B Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2024B Bonds.

Discount Bonds

The initial public offering prices of the Series 2024B Bonds maturing on February 1, 2044, 2045 and 2049 (the “Discount Bonds”) are less than the respective amounts payable at maturity. An amount not less than the difference between the initial public offering prices of the Discount Bonds and the amounts payable at maturity constitutes original issue discount (“OID”). Owners of Discount Bonds should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID properly accruing each year with respect to the Discount Bonds and as to federal tax consequences and the treatment of OID for State of North Carolina and local tax purposes.

Premium Bonds

The Series 2024B Bonds maturing on February 1, 2026 to 2043, inclusive (the “Premium Bonds”), are greater than the amounts payable at maturity. The difference between the amount payable at maturity of the Premium Bonds and the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases the Premium Bonds at the initial offering price is “Bond Premium.” Bond Premium is amortized over the term of the Premium Bonds for federal income tax purposes. Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable Bond Premium attributable to each taxable year the Premium Bonds are held. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of the Premium Bonds and with respect to State of North Carolina and local tax consequences of owning and disposing of the Premium Bonds.

Bond Counsel’s opinion will not specifically address the tax treatment of OID or Bond Premium, or the status of any particular receipt or payment as the receipt or payment of OID or Bond Premium.

Other Tax Consequences

In addition to the matters addressed above, prospective purchasers of the Series 2024B Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and

casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2024B Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Interest on the Series 2024B Bonds may or may not be subject to state or local taxation in jurisdictions other than North Carolina. Prospective purchasers of the Series 2024B Bonds should consult their own tax advisors as to the status of interest on the Series 2024B Bonds under the tax laws of any such jurisdiction other than North Carolina.

LEGALITY FOR INVESTMENT

Section 159-140 of the General Statutes of North Carolina provides that the Series 2024B 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 Series 2024B 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.

RATINGS

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

UNDERWRITING

The Underwriter has entered into a Bond Purchase Agreement to purchase all of the Series 2024B Bonds, if any of the Series 2024B Bonds are to be purchased, at a purchase price equal to 100% of the principal amount thereof, plus a net original issue premium of \$4,364,787.50 and less an underwriter's discount of \$265,900.38. The obligation of the Underwriter to pay for the Series 2024B Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

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

MISCELLANEOUS

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the Series 2024B Bonds, but the LGC 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 D hereto.

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

This page intentionally left blank.

APPENDIX A

FINANCIAL INFORMATION OF THE TOWN

This page intentionally left blank.

Management Discussion and Analysis

The following is Management's Discussion and Analysis of the financial activities of the Town, lifted from the Town's audited financial statements 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.

This page intentionally left blank.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

As management of the Town of Fuquay-Varina, North Carolina (the "Town"), 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 Town's financial statements, which follow this section.

Financial Highlights

The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows at the close of the fiscal year by \$374.6 million (net position). Of this amount, \$42.8 million (unrestricted net position) may be used to meet the government's ongoing obligations to the citizens and creditors.

The Town's total net position increased by \$43.8 million of which \$23.5 million in infrastructure was constructed and donated to the Town by developers.

At the end of the fiscal year, the Town's governmental funds reported combined ending fund balances of \$117 million. The net increase of \$47.7 million of which \$34.4 million is from the issuance of General Obligation bonds and an installment purchase agreement. The Town was also reimbursed from ARPA funding for State and local governmental expenditures of \$9.6 million. Sales tax revenue was \$1.2 million above the prior year and property taxes were 1% above budgeted projections.

As of the close of the fiscal year, the Town's unassigned fund balance for the General Fund was \$32.5 million, or 60.3% of total General Fund expenditures and transfers out for the fiscal year. This amount is considered available for spending at the government's discretion for one-time non-operating purposes.

The Town's total debt increased by \$46.3 million during the 2022-2023 fiscal year. General Obligation bonds were issued for \$28.8 million for Recreation, transportation, water and sewer projects. In addition, the Town issued \$7.3 million for the construction of Fire Station #4 with additional funding from Wake County Fire and Rescue. The Town's bond rating is Aa1 by Moody's Investor's Service and AAA by Standard and Poor's Corporation. Neither rating changed during the fiscal year.

Overview of the Financial Statements

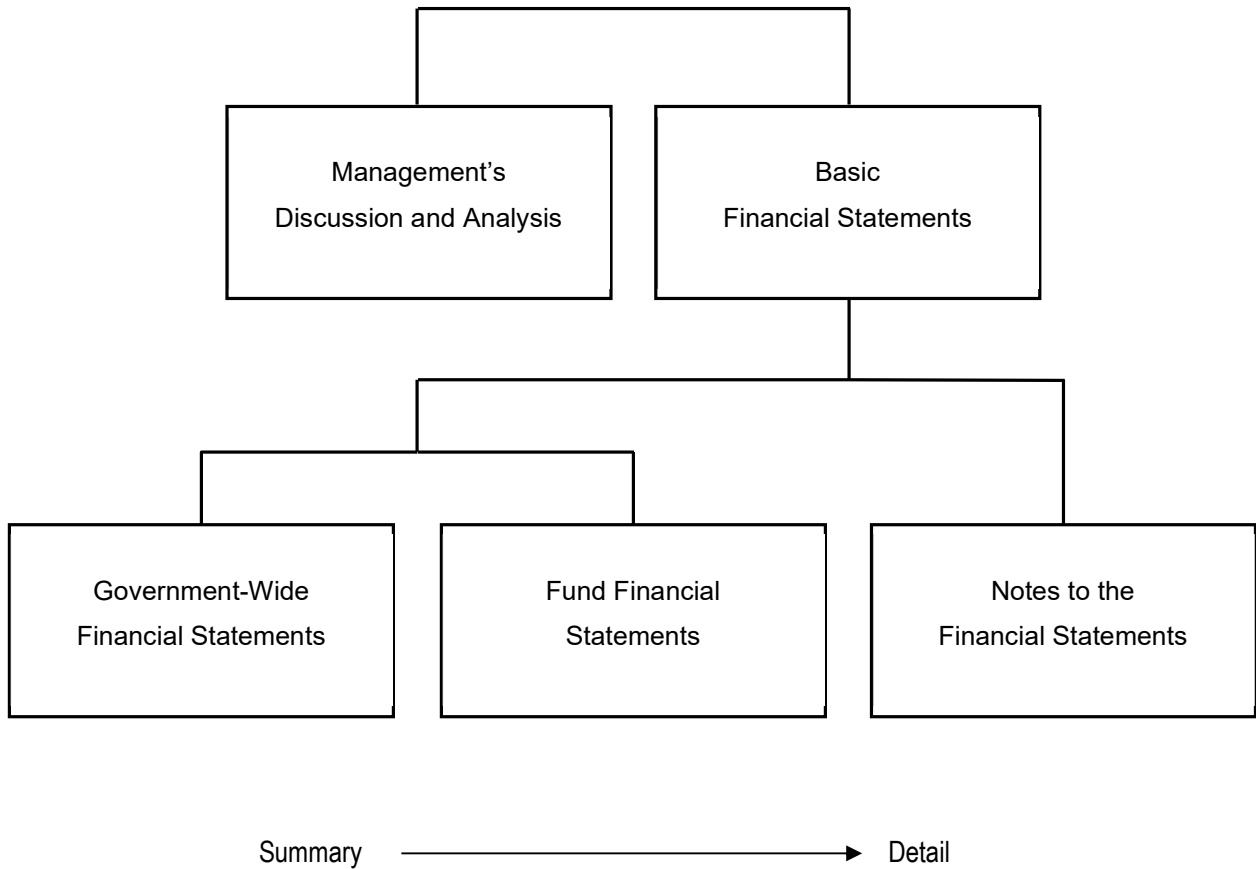
This discussion and analysis are intended to serve as an introduction to Fuquay-Varina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Fuquay-Varina.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Required Components of Annual Financial Report

Figure 1



TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

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 8) 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 budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes can also be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have 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 Statement of Activities presents information showing how the Town's net position has changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

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 water and sewer services offered by the Town of Fuquay-Varina.

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

Fund financial statements

Traditional users of governmental fund financial statements will find the fund financial statements presentation more familiar. The fund financial statements 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 Fuquay-Varina uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, such as the North Carolina General Statutes, and the Town's budget ordinance. All funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Governmental funds are reported using an accounting method called modified accrual accounting. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains five individual governmental funds. They are the General Fund, the Capital Projects Fund, the Debt Service Fund, the Special Revenue Fund, and the Capital Reserve Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for each of these funds. The Town has three major funds (General Fund, Special Revenue Fund, and Capital Projects Fund) and two non-major funds (Capital Reserve Fund and Debt Service Fund). As required by the General Statutes, the Town of Fuquay-Varina adopts an annual budget for its General Fund. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds. The Town of Fuquay-Varina has one proprietary fund to account for water distribution and wastewater collection. An *enterprise fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. Fuquay-Varina uses enterprise fund to account for its water and sewer activities. This fund is the same as those functions shown in the business-type activities in the statement of net position and the statement of activities. The proprietary funds financial statements can be found on pages 21-25 of this report.

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 for the financial statements can be found beginning on page 26 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Fuquay-Varina's progress in funding its obligation to provide pension benefits to its law enforcement officers and other post-employment benefits to its retirees. Required supplementary information can be found on pages 71-73 of this report.

Combining and individual fund statements and schedules are presented immediately following the required supplementary information. The individual fund statements and schedules can be found on pages 76-89 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Fuquay-Varina exceeded liabilities and deferred inflows by \$374.6 million as of June 30, 2023.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

The largest portion (69%) reflects the Town's net investment in capital assets. Net investment in capital assets is defined as the Town's investment in Town owned capital assets (e.g., land, buildings, vehicles, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town of Fuquay-Varina's net position, \$64.4 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$46 million is unrestricted.

The Town's net position increased by \$43.8 million during the current fiscal year. The governmental net position increased by \$29.4 million while business-type net position increased by \$14.4 million. Capital contributions of infrastructure development within the Town attribute to 23.5% of the increase in net position. In addition, the reimbursement for prior governmental expenditures from ARPA funding added \$9.6 million to net position.

The following table reflects the condensed statement of net position:

Net Position						
June 30, 2023						
With Prior Year Comparisons						
	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
Current and other assets	\$ 69,490,301	\$ 74,931,540	\$ 39,375,862	\$ 58,551,540	\$ 108,866,163	\$ 133,483,080
Restricted assets and cash equivalents	8,014,440	45,851,652	4,614,609	7,214,761	12,629,049	53,066,413
Capital assets	179,591,847	194,230,667	123,605,457	127,277,647	303,197,304	321,508,314
Total assets	<u>\$ 257,096,588</u>	<u>\$ 315,013,859</u>	<u>\$ 167,595,928</u>	<u>\$ 193,043,948</u>	<u>\$ 424,692,516</u>	<u>\$ 508,057,807</u>
Total deferred outflows of resources	<u>\$ 6,261,343</u>	<u>\$ 10,189,467</u>	<u>\$ 605,212</u>	<u>\$ 945,529</u>	<u>\$ 6,866,555</u>	<u>\$ 11,134,996</u>
Long-term debt outstanding	46,780,894	83,464,534	36,927,480	39,330,376	83,708,374	122,794,910
Other liabilities	8,546,074	7,769,873	1,906,957	11,283,487	10,453,031	19,053,360
Total liabilities	<u>\$ 55,326,968</u>	<u>\$ 91,234,407</u>	<u>\$ 38,834,437</u>	<u>\$ 50,613,863</u>	<u>\$ 94,161,405</u>	<u>\$ 141,848,270</u>
Total deferred inflows of resources	<u>\$ 5,952,924</u>	<u>\$ 2,493,667</u>	<u>\$ 577,098</u>	<u>\$ 203,764</u>	<u>\$ 6,530,022</u>	<u>\$ 2,697,431</u>
Net Position:						
Net Investment in Capital Assets	\$ 143,128,393	\$ 169,491,835	\$ 91,897,918	\$ 94,692,987	\$ 235,026,311	\$ 264,184,822
Restricted for:						
Stabilization by State Statute	3,963,990	4,600,933	-	-	3,963,990	4,600,933
Streets	2,063,192	7,530,705	-	-	2,063,192	7,530,705
Public Safety	91,824	3,729,522	-	-	91,824	3,729,522
Cultural and recreation	-	33,780,873	-	-	-	33,780,873
Other purposes	-	-	12,361,039	14,739,845	12,361,039	14,739,845
Unrestricted	52,830,640	12,341,384	24,530,648	33,739,018	77,361,288	46,080,402
Total net position	<u>\$ 202,078,039</u>	<u>\$ 231,475,252</u>	<u>\$ 128,789,605</u>	<u>\$ 143,171,850</u>	<u>\$ 330,867,644</u>	<u>\$ 374,647,102</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Changes in Net Position						
June 30, 2023						
With Prior Year Comparisons						
	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
Revenues:						
Program Revenues						
Charges for service	\$ 9,199,488	\$ 14,101,168	\$ 25,669,558	\$ 28,731,354	\$ 34,869,046	\$ 42,832,522
Operating grants and contributions	3,362,265	14,588,334	942,837	-	4,305,102	14,588,334
Capital grants and contributions	36,595,417	15,767,749	11,017,659	8,426,776	47,613,076	24,194,525
General Revenues						
Property taxes	21,264,997	25,409,287	-	-	21,264,997	25,409,287
Other taxes	12,099,826	13,635,656	-	-	12,099,826	13,635,656
Other	2,037,964	2,241,855	118,689	2,448,989	2,156,653	4,690,844
Total Revenues	84,559,957	85,744,049	37,748,743	39,607,119	122,308,700	125,351,168
Expenses:						
General government	4,105,568	6,464,018	-	-	4,105,568	6,464,018
Public safety	16,685,974	20,162,996	-	-	16,685,974	20,162,996
Transportation	5,526,943	7,769,260	-	-	5,526,943	7,769,260
Economic and physical development	2,448,246	2,073,457	-	-	2,448,246	2,073,457
Environmental protection	3,285,794	4,243,793	-	-	3,285,794	4,243,793
Cultural and recreation	5,174,630	6,780,143	-	-	5,174,630	6,780,143
Central services	3,119,548	2,775,444	-	-	3,119,548	2,775,444
Interest on long-term debt	1,193,235	1,300,833	-	-	1,193,235	1,300,833
Water and Sewer	-	-	17,266,881	30,001,766	17,266,881	30,001,766
Total Expenses	41,539,938	51,569,944	17,266,881	30,001,766	58,806,819	81,571,710
Increase in net position before transfers	43,020,019	34,174,105	20,481,862	9,605,353	63,501,881	43,779,458
Transfers	256,800	(4,776,892)	(256,800)	4,776,892	-	-
Extraordinary item: Legal settlement	-	-	(4,750,000)	-	(4,750,000)	-
Increase in net position	43,276,819	29,397,213	15,475,062	14,382,245	58,751,881	43,779,458
Net Position July 1	158,801,220	202,078,039	113,314,543	128,789,605	272,115,763	330,867,644
Net Position June 30	\$ 202,078,039	\$ 231,475,252	\$ 128,789,605	\$ 143,171,850	\$ 330,867,644	\$ 374,647,102

Changes in Net Position – Governmental Activities. The Town's total governmental revenues were \$85.7 million. Of the Town's revenue, 29% comes from property taxes, with an additional 35% from grants and Capital contributions. The Capital contributions are infrastructure improvements built by developers to the Town specifications as part of the requirements for new developments and once completed the assets are turned over to the Town. An additional \$9.6 million was revenue received from ARPA funds that was used to reimburse the Town for governmental expenditures.

Changes in Net Position – Business-Type Activities. The Town's total business-type revenues were \$39.6 million. Charges for services represented 72% of the business-type revenue. Capital contributions of infrastructure improvements built by developers to the Town equated to \$8.4 million for the fiscal year. Additional miscellaneous revenue and investment earnings of \$2.4 million also added to the increase in net position.

The total cost of all programs and services was \$81.6 million. The cost of public safety programs (building inspections, police, and fire) accounted for 24.7% of expenses. The additional cost is related to construction of the Fire Station # 4 capital project. Water distribution and sewer collection costs accounted for another 36.7% of total government cost. The increase in cost is due to expenditures related to design associated with the projects for capacity expansion for water and sewer for the Town.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

The following table presents the cost of each of the Town's programs, as well as each program's net cost (total cost less fees generated by the activities and intergovernmental aid). A negative net cost indicates the programs that are not self-supporting and are funded by the financial support provided by the Town's taxpayers through sales and property tax revenues.

Cost of Services				
June 30, 2023				
With Prior Year Comparisons				
	Total Cost of Services June 30, 2022	Total Cost of Services June 30, 2023	Net Cost of Services June 30, 2022	Net Cost of Services June 30, 2023
General government	\$ 4,105,568	\$ 6,464,018	\$ (4,054,912)	\$ 3,453,116
Public safety	16,685,974	20,162,996	(11,466,961)	(14,385,243)
Transportation	5,526,943	7,769,260	22,103,170	12,570,005
Environmental protection	3,285,794	4,243,793	(439,751)	169,050
Cultural and recreation	5,174,630	6,780,143	8,055,980	(3,504,399)
Economic and physical development	2,448,246	2,073,457	(2,267,511)	(1,338,945)
Central services	3,119,548	2,775,444	(3,119,548)	(2,775,444)
Interest on long-term debt	1,193,235	1,300,833	(1,193,235)	(1,300,833)
Water and sewer	17,266,881	30,001,766	20,363,173	7,156,364
Total	<u>\$ 58,806,819</u>	<u>\$ 81,571,710</u>	<u>\$ 27,980,405</u>	<u>\$ 43,671</u>

Program expenditures exceeded program revenues and contributions by \$44 thousand. Donated Infrastructure improvements to streets, curb & gutters by developers increased the Transportation program by \$15 million and donated water and sewer system infrastructure by developers added \$8 million to the Water & Sewer program activities. System development fees also contributed to revenues for water and sewer but are planned for use in future years within the Five-Year Plan for additional water capacity and wastewater treatment facilities needed to support growth and development within the Town. The Water and Sewer Enterprise fund is self-supported by the users of the system. All General governmental programs are not fully supported by user fees or contributions and are therefore funded with the sales and property tax revenue from Town taxpayers. A one-time ARPA grant reimbursed the Town for previous governmental costs during the pandemic and reduced the current year net general governmental service costs.

Financial Analysis of the Town's Funds

As noted earlier, the Town 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 spendable resources. Such information is useful in assessing the Town's financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

As of the end of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$117 million, an increase of 68%. The Capital projects fund increased fund balance by \$40.5 million due to the issuance of General Obligation bonds of \$27.1 million and an installment purchase agreement for Fire Station #4 for \$7.3 million. Unassigned fund balance of \$32.5 million, increased \$4.9 million from prior year. Continual growth in sales tax and property tax base has attributed the increase with revenues above budgeted projections for the year. The remainder of fund balance is restricted, committed, or assigned. The General Fund is the chief operating fund of the Town. As of the close of the fiscal year, the Town's unassigned fund balance for the General Fund was \$32.5 million (60%) of total General Fund expenditures and transfers out for the fiscal year. This amount is considered available for spending at the government's discretion. The total fund balance of the Town's General Fund increased approximately \$10.1 million during the current fiscal year. Growth in sales tax, tax base, and investment earnings above the budgeted projections attributed to half of the increase of unassigned fund balance, along with a reimbursement for governmental expenditures to the General Fund from ARPA funding.

The difference between the original budget and the final amended budget was \$7.4 million of which \$5.6 million was for various capital projects and development agreements. Other small adjustments were also made during the year for various grants and donations to the Town. The final variance of revenues over expenditures prior to other financing sources and uses was \$13.3 million. Actual revenues exceeded anticipated revenues by \$8.9 million. Actual expenditures were \$4.4 million less than appropriated. The variance in budget for expenditures is mainly due to lapsed salaries in the police and inspections departments due to turnover and market pressure in both professions.

Proprietary Fund. The Water & Sewer Fund sales and investment earnings attributed to \$2 million in revenues over budgeted amounts. Lapsed salaries due to turnover, attributed to \$1.6 million less in expenditures than projected. Over 2,000 customers have been added annually over the past few years. This coincides with the growth in building permits, sales tax and property tax base as seen in the General Fund revenues. While growth does result in additional revenue, there is also additional demand for capacity for both water and wastewater systems. Another significant cost was the pending settlement of \$7 million with developers regarding system development fees previously paid. Due to the extent of time and legal costs a settlement agreement was determined to be most cost effective. Of the \$30.5 million in unrestricted net position, approximately \$18 million has been assigned for various infrastructure improvement projects. Investment in system improvements and water and wastewater capacity has become a high priority due to extreme developmental growth of the town. Regional projects are currently in the design phase to facilitate regionalization for water and wastewater capacity to meet future needs. In preparation for the associated costs, the Town is actively seeking grant & loan funding along with a plan for rate and development fees increases to cover the costs of the capacity projects.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets as of June 30, 2023, amounts to \$321 million (net of accumulated depreciation). This investment in capital assets includes land, building improvements, and equipment. The total net increase in the Town's investment in capital assets for the current year was \$18.3 million which is attributed to the donation of infrastructure by developers.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
Land	\$ 46,332,274	\$ 47,679,355	\$ 421,341	\$ 421,341	\$ 46,753,615	\$ 48,100,696
Construction in Progress	3,390,406	7,505,230	6,458,671	3,706,576	9,849,077	11,211,806
Buildings	26,325,851	25,786,941	155,000	110,714	26,480,851	25,897,655
Other Improvements	6,057,746	7,121,974	75,459,592	82,052,924	81,517,338	89,174,898
Equipment	1,527,746	1,594,553	177,404	223,323	1,705,150	1,817,876
Vehicles	5,231,059	5,934,977	588,607	944,276	5,819,666	6,879,253
Infrastructure	90,726,765	98,565,362	-	-	90,726,765	98,565,362
Operating Plants			40,344,842	39,780,770	40,344,842	39,780,770
Right to use assets	-	42,275	-	37,723	-	79,998
Total	\$ 179,591,847	\$ 194,230,667	\$ 123,605,457	\$ 127,277,647	\$ 303,197,304	\$ 321,508,314

Additional information on the Town's capital assets can be found on pages 41 - 44 of the notes to the financial statements of this report.

Long-Term Debt.

At the end of the fiscal year, the Town had a total general obligation debt outstanding of \$46.4 million. The Town's total debt increased by \$46.3 million during the fiscal year, when pension liability, compensated absences, and OPEB liability are included. During the year, \$7.3 million was issued for the construction of Fire Station #4. In addition, \$20.15 million was issued for the construction of the Community Center North project.

The following is a chart which illustrates the composition of the debt for the Town.

	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
General Obligation Bonds	\$ 18,995,000	\$ 41,465,000	\$ -	\$ 5,000,000	\$ 18,995,000	\$ 46,465,000
Capitalized Leases	-	-	-	-	-	-
Limited Obligation Bonds	9,435,000	8,880,000	-	-	9,435,000	8,880,000
Revenue Bonds	-	-	33,179,000	31,075,000	33,179,000	31,075,000
Promissory Notes	-	-	-	-	-	-
Installment Purchases	5,279,000	11,833,000	-	-	5,279,000	11,833,000
Total	\$ 33,709,000	\$ 62,178,000	\$ 33,179,000	\$ 36,075,000	\$ 66,888,000	\$ 98,253,000

State statutes limit the amount of general obligation debt a governmental entity may issue up to 8% of the total assessed value of taxable property. The current legal debt margin for the Town is \$373 million. This is significantly more than the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in the notes to the financial statements on pages 60-69 of this report.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Economic Factors and Next Year's Budget

When the FY 2023 Recommended Budget was presented, management remained conservative on projections as the Town continued recovery post COVID. Contrary to expectations, property taxes, sales taxes, and developmental permitting revenues continued to remain strong and economic growth stable. Cultural and recreational programs also continued to outperform expectations with record registrations and participation. Consistent with the prior fiscal year, although fund balance was appropriated, it was not utilized for the fiscal year.

Budget Highlights for Fiscal Year Ending June 30, 2024

Governmental Activities: The approved FY 23-24 General Fund budget increased 14.4% over FY 22-23 budget ordinance adopted in June 2022. An ad valorem tax increase of 3 cent per \$100 in value was imposed, as planned, to facilitate the construction and operation of a new community center. In addition, 23 new positions were proposed including additional costs attributed to a pay study implementation, 4% cost of living, and 3% performance pay, 10% increase in health insurance, and additional retirement contribution requirements. Of the new General Fund positions proposed, three (3) are directly attributable to the opening of the new community center next year include a community center administrator, an active adult program specialist, and a recreation specialist. These positions will be phased in over the course of FY 2024. Eleven (11) positions were added in the Police Department including six (6) patrol officers (two primarily dedicated to the Downtown districts), two (2) School Resource Officers (SRO), an SRO supervisor, a telecommunicator, and an accreditation specialist. Also included in the General Fund were three (3) sanitation workers (an additional crew), a staff engineer and construction engineer in Engineering, a special events coordinator for the Arts Center, and an administrative assistant at Fire Station #4, The total number of full-time positions in the organization will increase from 344 to 368.

Business-Type Activities: The approved FY 23-24 Enterprise Fund budget was approximately 12.1% more than FY 22-23 budget adopted in June 2022. An increase in the base rate and consumption rate of 20% was implemented to support the cost of additional capacity expansion in both water and sewer systems. Three new positions are proposed in the Enterprise Fund to ensure the ability to support system expansion and continue to provide core services including a wastewater treatment plant operator, collections pump maintenance worker, and a water utility system operator. The need for these positions was identified by the Hazen Sawyer Public Utility Staffing study and are needed to properly maintain and improve the reliability and efficiency of the system. As in the General Fund, a pay study implementation and a 4% cost of living and 3% performance pay was included for employees and significant project expenditures were included in the budget. The FY 2024 budget includes numerous capital projects that primarily involve increasing the capacity of the water and sewer system as well and making provisions for additional water supply required to support development activity and user growth.

Request for Information

This financial report is designed to provide a general overview of the Town of Fuquay-Varina's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or request for additional financial information, should be addressed to JoAnne J. Crabtree - Finance Director, Town of Fuquay-Varina, 134 N. Main Street, Fuquay-Varina, North Carolina 27526.

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 Fuquay-Varina, 134 N. Main Street, Fuquay-Varina, North Carolina 27526.

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

This page intentionally left blank.

Basic Financial Statements

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF NET POSITION

JUNE 30, 2023

Exhibit 1

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 70,307,243	\$ 56,585,837	\$ 126,893,080
Restricted cash and cash equivalents	45,851,652	7,214,761	53,066,413
Taxes receivable, net	116,593	-	116,593
Accounts receivable	180,774	1,965,703	2,146,477
Due from other governments	4,319,730	-	4,319,730
Prepaid expenditures	7,200	-	7,200
Capital Assets:			
Land, nondepreciable improvements, and construction in progress	55,184,585	4,127,917	59,312,502
Other capital assets, net of depreciation	139,003,807	123,112,007	262,115,814
Right to use assets, net of amortization	42,275	37,723	79,998
Total Assets	315,013,859	193,043,948	508,057,807
DEFERRED OUTFLOWS OF RESOURCES			
Pension and OPEB deferrals	10,189,467	945,529	11,134,996
Total Deferred Outflows of Resources	10,189,467	945,529	11,134,996
LIABILITIES			
Accounts payable and accrued liabilities	2,189,979	888,474	3,078,453
Unearned revenues	515,032		515,032
Accrued interest payable	530,162	279,233	809,395
Legal settlement liability	-	7,067,998	7,067,998
Customer deposits	-	307,111	307,111
Current Portion of long-term liabilities	3,664,376	2,228,701	5,893,077
Payable from restricted assets	871,876	511,794	1,383,670
Long-Term Liabilities:			-
Due in more than one year	83,462,982	39,330,552	122,793,534
Total Liabilities	91,234,407	50,613,863	141,848,270
DEFERRED INFLOWS OF RESOURCES			
Prepaid property taxes	15,242	-	15,242
Pension and OPEB deferrals	2,478,425	203,764	2,682,189
Total Deferred Inflows of Resources	2,493,667	203,764	2,697,431
NET POSITION			
Net investment in capital assets	169,491,835	94,692,987	264,184,822
Restricted for:			
Stabilization by State Statute	4,600,933		4,600,933
Street improvements	7,530,705		7,530,705
Public Safety	3,729,522		3,729,522
Cultural and recreation	33,780,873		33,780,873
Other purposes	-	14,739,845	14,739,845
Unrestricted	12,341,384	33,739,018	46,080,402
Total Net Position	\$ 231,475,252	\$ 143,171,850	\$ 374,647,102

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 6,464,018	\$ 310,800	\$ 9,606,334	\$ -	\$ 3,453,116	\$ -	\$ 3,453,116
Public safety	20,162,996	2,549,742	3,228,011		(14,385,243)	-	(14,385,243)
Transportation	7,769,260	3,465,326	1,106,190	15,767,749	12,570,005	-	12,570,005
Environmental protection	4,243,793	4,175,536	237,307	-	169,050	-	169,050
Cultural and recreation	6,780,143	2,865,252	410,492	-	(3,504,399)	-	(3,504,399)
Economic and physical development	2,073,457	734,512	-	-	(1,338,945)	-	(1,338,945)
Central services	2,775,444	-	-	-	(2,775,444)	-	(2,775,444)
Interest on long-term debt	1,300,833				(1,300,833)		(1,300,833)
Total Governmental Activities	51,569,944	14,101,168	14,588,334	15,767,749	(7,112,693)	-	(7,112,693)
Business-Type Activities:							
Water and sewer	30,001,766	28,731,354	-	8,426,776	-	7,156,364	7,156,364
Total Business-Type Activities	30,001,766	28,731,354	-	8,426,776	-	7,156,364	7,156,364
Total Primary Government	\$ 81,571,710	\$ 42,832,522	\$ 14,588,334	\$ 24,194,525	(7,112,693)	7,156,364	43,671
General Revenues:							
Taxes:							
Property taxes levied for general purpose					25,409,287	-	25,409,287
Other taxes					437,653	-	437,653
Unrestricted intergovernmental revenue					13,198,003	-	13,198,003
Unrestricted investment earnings					1,769,155	1,417,552	3,186,707
Miscellaneous					472,700	1,031,437	1,504,137
Transfers					(4,776,892)	4,776,892	-
Total general revenues and transfers					36,509,906	7,225,881	43,735,787
Change in net position					29,397,213	14,382,245	43,779,458
Net position - beginning					202,078,039	128,789,605	330,867,644
Net position - ending					<u>\$ 231,475,252</u>	<u>\$ 143,171,850</u>	<u>\$ 374,647,102</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2023

Exhibit 3

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General	Special Revenue	Capital Projects		
ASSETS					
Cash and cash equivalents	\$ 40,057,924	\$ -	\$ 20,469,207	\$ 9,780,112	\$ 70,307,243
Restricted cash	2,582,334	-	43,269,318	-	45,851,652
Receivables:					
Taxes, net	100,429	-	-	-	100,429
Accounts	180,774	-	-	-	180,774
Prepays	7,200	-	-	-	7,200
Due from other governments	4,097,837	-	221,893	-	4,319,730
Total Assets	<u>47,026,498</u>	<u>-</u>	<u>63,960,418</u>	<u>9,780,112</u>	<u>120,767,028</u>
LIABILITIES					
Liabilities:					
Accounts payable and accrued liabilities	2,189,979	-	871,876	-	3,061,855
Unearned revenue	-	-	-	515,032	515,032
Total Liabilities	<u>2,189,979</u>	<u>-</u>	<u>871,876</u>	<u>515,032</u>	<u>3,576,887</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes receivable	100,429	-	-	-	100,429
Prepaid property taxes	15,242	-	-	-	15,242
Total Deferred Inflows of Resources	<u>115,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,671</u>
FUND BALANCES					
Non Spendable:					
Prepayments	7,200	-	-	515,032	522,232
Restricted:					
Federal forfeitures	61,324	-	-	-	61,324
Stabilization by State statute	4,379,040	-	221,893	-	4,600,933
Street improvements	2,582,334	-	4,948,371	-	7,530,705
Recreation	-	-	33,780,873	-	33,780,873
Public Safety	-	-	3,668,198	-	3,668,198
Committed:					
Economic development	-	-	1,053,250	-	1,053,250
Capital projects	-	-	19,415,957	-	19,415,957
Assigned:					
Parks and recreation	2,500	-	-	-	2,500
Capital reserve	-	-	-	6,956,693	6,956,693
Debt service	-	-	-	1,793,355	1,793,355
Law enforcement officers' pension benefits	373,390	-	-	-	373,390
Projects carried forward	726,005	-	-	-	726,005
Subsequent year's expenditures	4,000,000	-	-	-	4,000,000
Unassigned	32,589,055	-	-	-	32,589,055
Total Fund Balances	<u>44,720,848</u>	<u>-</u>	<u>63,088,542</u>	<u>9,265,080</u>	<u>117,074,470</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 47,026,498</u>	<u>\$ -</u>	<u>\$ 63,960,418</u>	<u>\$ 9,780,112</u>	<u>\$ 120,767,028</u>

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

JUNE 30, 2023

Exhibit 3

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

Ending fund balance - governmental funds	\$ 117,074,470
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	194,230,667
Earned revenues considered deferred inflows of resources in fund statements.	100,429
Accrued interest on Taxes receivable not recorded receivable in the fund statements.	16,164
Deferred outflows of resources related to pensions and OPEB are not reported in the funds	10,189,467
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Long-term debt	(69,493,296)
Accrued interest	(530,162)
Net LEOSSA obligation	(1,802,625)
Total OPEB obligation	(3,268,216)
Net pension liability	(12,563,221)
Pension and OPEB related deferrals	(2,478,425)
Net position of governmental activities	<u>\$ 231,475,252</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023
Exhibit 4

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General	Special Revenue	Capital Projects		
Revenues					
Ad valorem taxes	\$ 25,378,868	\$ -	\$ -	\$ -	\$ 25,378,868
Other taxes and license	61,563	-	-	-	61,563
Unrestricted intergovernmental	13,612,164	-	-	157,735	13,769,899
Restricted intergovernmental	4,112,705	9,606,334	537,285	-	14,256,323
Permits and fees	3,592,607	-	-	4,698,898	8,291,505
Sales and services	5,176,452	-	-	25,298	5,201,749
Investment earnings	1,664,964	145,331	428,883	238,691	2,477,868
ARPA Reimbursement	9,606,334	-	-	-	9,606,334
Miscellaneous	420,743	-	90,491	-	511,233
Total Revenues	63,626,399	9,751,664	1,056,658	5,120,622	79,555,343
Expenditures					
Current:					
Governmental	4,322,290	9,606,334	751,364	-	14,679,987
Public safety	19,014,654	-	4,604,965	-	23,619,619
Transportation	3,217,829	-	806,318	-	4,024,147
Environmental protection	4,102,662	-	262,914	-	4,365,576
Cultural and recreation	5,649,538	-	1,656,223	-	7,305,761
Economic and physical development	1,936,437	-	-	-	1,936,437
Central services	3,769,883	-	-	-	3,769,883
Debt service:					-
Principal	-	-	-	2,636,000	2,636,000
Interest and other charges	-	-	-	1,408,010	1,408,010
Total Expenditures	42,013,293	9,606,334	8,081,783	4,044,010	63,745,420
Excess (deficiency) of revenues over (under) expenditures	21,613,106	145,331	(7,025,125)	1,076,612	15,809,923
Other Financing Sources (Uses)					
Transfers from other funds	553,874	-	10,927,492	4,345,313	15,826,679
Transfer to other funds	(12,057,393)	(150,186)	-	(8,395,992)	(20,603,571)
Sale of capital assets	-	-	2,257,000	-	2,257,000
Issuance of debt - Installment purchase	-	-	7,305,000	-	7,305,000
Issuance of debt - General Obligation Bonds	-	-	23,800,000	-	23,800,000
Premium on sale of bonds	-	-	3,281,017	-	3,281,017
Lease liabilities issued	11,472	-	-	-	11,472
IT subscription agreement	37,052	-	-	-	37,052
Total Other Financing Sources (Uses)	(11,454,995)	(150,186)	47,570,509	(4,050,679)	31,914,649
Net change in fund balances	10,158,110	(4,855)	40,545,384	(2,974,067)	47,724,572
Fund balance - beginning	34,562,738	4,855	22,543,158	12,239,147	69,349,898
Fund balance - ending	\$ 44,720,848	\$ -	\$ 63,088,542	\$ 9,265,080	\$ 117,074,470

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES

YEAR ENDED JUNE 30, 2023

Exhibit 4

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

Net change in fund balances - total governmental funds	\$ 47,724,572
--	---------------

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. The components of the change are as follows:

Capital outlay & CIP	8,768,584
Sale of capital asset	(1,638,139)
Depreciation expense	(7,615,535)

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

Donated assets	15,123,910
Change in unavailable revenue for property tax revenue	30,419

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	2,508,645
--	-----------

Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	48,699
---	--------

OPEB benefit payments and administrative expenses made subsequent to the measurement date.	44,552
--	--------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is net effect of these differences in the treatment of long-term debt and related items.

General obligation bonds issued	(23,800,000)
Premium on General Obligation Bonds issued	(3,281,017)
Installment Purchase Issued	(7,305,000)
Principal payments	2,636,000
Accrued interest payable	(31,464)

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	(222,795)
Pension expense	(3,215,096)
LEOSSA expense	(256,330)
OPEB expense	(122,792)

Change in net position of governmental activities	<u>\$ 29,397,213</u>
---	----------------------

TOWN OF FUQUAY-VARINA, NORTH CAROLINA**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND**

YEAR ENDED JUNE 30, 2023

Exhibit 5

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues				
Ad valorem taxes	\$ 25,089,894	\$ 25,089,894	\$ 25,378,868	\$ 288,974
Other taxes and licenses	58,289	58,289	61,563	3,274
Unrestricted intergovernmental	12,293,620	12,366,820	13,612,164	1,245,344
Restricted intergovernmental	3,643,471	3,789,354	4,112,705	323,351
Permits and fees	4,887,188	3,307,521	3,592,607	285,086
Sales and services	4,575,700	4,734,100	5,176,452	442,352
Investment earnings	15,000	15,000	1,664,964	1,649,964
Miscellaneous	50,000	5,339,649	10,027,077	4,687,428
Total Revenues	<u>50,613,162</u>	<u>54,700,627</u>	<u>63,626,399</u>	<u>8,925,772</u>
Expenditures				
Current:				
General government	4,568,259	4,651,530	4,322,290	329,240
Public safety	18,757,972	20,121,656	19,014,654	1,107,002
Transportation	3,878,172	4,126,089	3,217,829	908,260
Environmental protection	4,014,391	4,326,938	4,102,662	224,276
Cultural and recreational	5,586,159	6,093,173	5,649,538	443,635
Economic and physical development	2,248,816	2,414,125	1,936,437	477,688
Central services	5,477,868	4,676,022	3,769,883	906,139
Total Expenditures	<u>44,531,637</u>	<u>46,409,533</u>	<u>42,013,293</u>	<u>4,396,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,081,525</u>	<u>8,291,094</u>	<u>21,613,106</u>	<u>13,322,012</u>
Other Financing Sources (Uses)				
Transfers from other funds	403,688	403,688	553,874	150,186
Transfers to other funds	(6,827,631)	(12,418,913)	(12,057,393)	361,520
Lease liabilities issued	-	-	11,472	11,472
IT subscription agreement	-	-	37,052	37,052
Fund balance appropriations	342,418	3,724,131	-	(3,724,131)
Total Other Financing Sources (Uses)	<u>(6,081,525)</u>	<u>(8,291,094)</u>	<u>(11,454,995)</u>	<u>(3,163,901)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	10,158,110	<u>\$ 10,158,110</u>
Fund balance - beginning			34,562,738	
Fund balance - ending			<u>\$ 44,720,848</u>	

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUND

JUNE 30, 2023

Exhibit 6

	Water and Sewer Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 56,585,837
Restricted cash	7,214,761
Accounts receivable (net), billed	867,253
Accounts receivable (net), unbilled	1,098,450
Total Current Assets	<u>\$ 65,766,301</u>
Noncurrent Assets:	
Capital Assets:	
Land and other nondepreciable assets	\$ 4,127,917
Other capital asset, net of accumulated depreciation	123,149,730
Capital Assets (net)	<u>127,277,647</u>
Total Noncurrent Assets	<u>\$ 127,277,647</u>
Total Assets	<u>\$ 193,043,948</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension and OPEB deferrals	\$ 945,529
Total Deferred Outflows of Resources	<u>\$ 945,529</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 888,474
Liabilities payable from restricted assets	511,794
Legal settlement liability	7,067,998
Accrued interest payable	279,233
Customer deposits	307,111
Compensated absences, current	68,146
Lease Liability, current	12,555
Revenue bonds payable, current	2,148,176
Total Current Liabilities	<u>\$ 11,283,487</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUND

JUNE 30, 2023

Exhibit 6

	Water and Sewer Sewer Fund
Noncurrent Liabilities:	
Lease Liability	\$ 26,296
Net pension liability	1,587,737
Total OPEB liability	306,153
General obligation bonds payable, net	5,714,249
Revenue bonds payable, net	31,630,060
Compensated absences	65,881
Total Noncurrent Liabilities	<u>\$ 39,330,376</u>
 Total Liabilities	 <u>\$ 50,613,863</u>
 DEFERRED INFLOWS OF RESOURCES	
Pension and OPEB deferrals	\$ 203,764
Total Deferred Inflows of Resources	<u>\$ 203,764</u>
 NET POSITION	
Net investment in capital assets	\$ 94,692,987
System Development reserves	7,832,194
Other purposes	6,907,651
Unrestricted	33,739,018
Total Net Position	<u><u>\$ 143,171,850</u></u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2023

Exhibit 7

	Water and Sewer Sewer Fund
Operating Revenues:	
Charges for services	\$ 27,847,008
Water and sewer tap fees	584,170
Other operating revenues	300,176
Total Operating Revenues	<u>28,731,354</u>
Operating Expenses:	
Water treatment and distribution	10,862,818
Waste collection and treatment	5,351,261
Depreciation and amortization	5,689,328
Total Operating Expenses	<u>21,903,407</u>
Operating Income	<u>6,827,947</u>
Nonoperating Revenue (Expense):	
Investment earnings	1,417,552
Lease income	122,890
Miscellaneous revenue, net	908,547
Legal settlement	(7,067,998)
Interest and other charges	(1,030,361)
Total Nonoperating Expense	<u>(5,649,370)</u>
Income Before Transfers, extraordinary item and contributions	1,178,577
Transfers out	(223,108)
Transfers in	5,000,000
Capital contributions	<u>8,426,776</u>
Change in net position	14,382,245
Total net position - beginning	128,789,605
Total net position - ending	<u>\$ 143,171,850</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2023

Exhibit 8

	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 27,843,697
Cash paid for goods and services	(12,822,963)
Cash paid to or on behalf of employees for services	(2,730,181)
Customer deposits	21,550
Other operating revenues	300,176
Net cash flows from operating activities	<u>12,612,279</u>
Cash flows from noncapital financing activities:	
Net Transfers In(out)	4,776,892
Miscellaneous noncapital financing	490,954
Net cash flows used by noncapital financing activities	<u>5,267,846</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,068,918)
Debt premium net of issuance costs	714,249
Principal paid on bond maturities and installment contracts	(2,103,878)
Interest paid and other finance costs	(1,189,000)
Proceeds from debt	5,000,000
Developer improvements	538,220
Net cash flows from capital and related financing activities	<u>1,890,673</u>
Cash flows from investing activities	
Interest on investments	<u>1,417,552</u>
Net change in cash and cash equivalents	21,188,350
Cash and cash equivalents	
Beginning of year	<u>42,612,248</u>
End of year	<u><u>\$ 63,800,598</u></u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2023

Exhibit 8

**Water and Sewer
Fund**

Reconciliation of operating income to net cash from operating activities:

Operating Income (loss)	\$ 6,827,947
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation & Amortization	5,689,328
Change in assets, deferred outflows, liabilities, and deferred inflows:	
Decrease (increase) in accounts receivable	(587,480)
Decrease (increase) in related to pensions and OPEB	564,238
Increase (decrease) in accounts payable and accrued liabilities	53,718
Increase (decrease) in unearned revenue	8,499
Increase (decrease) in customer deposits	21,550
Increase (decrease) in compensated absences	34,479
Net cash from operating activities	<u>\$ 12,612,279</u>

Supplemental schedule of noncash capital and related finance activities

Donation of capital assets	<u>\$ 8,426,776</u>
----------------------------	---------------------

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies

The accounting policies of the Town of Fuquay-Varina (the “Town”) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Financial reporting entity - basis of presentation, measurement focus

The Town of Fuquay-Varina is a municipal corporation, which is governed by an elected mayor and five-member council. The Town has no component units.

B. Government-wide and fund 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. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities 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. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and developer contributions to the water and sewer system, are presented as general revenues.

Fund Financial Statements - The fund financial statements provide information about the Town’s funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds, if any, 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. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

B. Government-wide and fund financial statements (continued)

The Town reports the following major governmental funds:

General Fund – This fund is the Town’s operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Special Revenue Fund - The Special Revenue Fund accounts for financial resources from the State and Local Fiscal Recovery Fund - American Rescue Plan.

Capital Projects Fund - The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessments, or trust funds). The Town accounts for several capital projects within the Capital Projects Fund.

The Town reports the following nonmajor governmental funds:

Capital Reserve Fund - This fund accounts for specific revenue sources that are set aside by resolution to be expended for future capital projects.

Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Town reports the following major enterprise fund:

Water and Sewer Fund - This fund is used to account for the Town’s water and sewer operations. The Town accounts for several water and sewer capital projects within the Water and Sewer Fund.

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

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 nonoperating 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 revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 leases and IT subscriptions 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, 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 all registered motor vehicles on behalf of all municipalities and special tax districts, including the Town. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Wake County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual. Grant revenues, for which requirements have not been met, 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 are 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 general revenues.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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, Capital Reserve Funds, Debt Service Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund, Special Revenue Fund and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multiyear funds. The budget officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to 10% of the appropriated monies for the functional areas whose allocation is reduced; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10% must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. 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 can be adopted.

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Deposits and investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State Law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and 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"). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT – Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

In accordance with the State law, the Town 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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

The Town pools monies from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted assets

The unexpended Bond, loan, and proceeds Fire Station 4, Community Center North, and Street improvement projects are classified as restricted assets in the governmental type activities because their use is completely restricted to the purpose for which the loan was approved. The unexpended Powell Bill proceeds are also included in restricted assets because their use is restricted for street construction and maintenance expenditures.

The unexpended Bond proceeds for water and sewer projects are classified as restricted assets in the Water and Sewer Fund because their use is completely restricted to the purpose for which the loan was approved. Customer deposits are held by the Town before any services are supplied and are restricted to the service for which the deposit was collected.

Restricted assets

<u>Town of Fuquay-Varina Restricted Cash</u>	
Governmental Activities	
General Fund	
Streets – Powell Bill	\$ 2,582,334
Capital Projects Fund – Streets	5,071,555
Capital Projects Fund – Parks & Recreation	33,780,873
Capital Projects Fund – Public Safety	4,416,890
	<hr/>
Total governmental activities	<u>\$45,851,652</u>
Business-Type Activities	
Water and Sewer Fund	
Unspent Bond Proceeds	\$ 6,907,650
Deposits	307,111
	<hr/>
Total Business-type Activities	<u>7,214,761</u>
Total Restricted Cash and Cash Equivalents	<u><u>\$53,066,413</u></u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

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 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2022. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for doubtful accounts

All governmental and proprietary funds receivable that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. These amounts are estimated by analyzing the percentage of receivables that were written off in prior years.

Capital Assets

The government defines capital assets as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Donated capital assets are recorded at acquisition value at the date of donation. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2004, consist of the road network and water and sewer system assets and are reported at estimated historical cost using deflated replacement cost. 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 on a straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Computer equipment	3 - 5 years
Equipment	5 years
Infrastructure	20 - 40 years
Operating plants	25 - 40 years
Other improvements (including sewer capacity rights)	5 - 80 years
Vehicles	2 - 5 years

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

Leases

The Town's capital assets also include certain right to use assets. These right to use assets arise in association with agreements where the Town reports a lease or agreements where the Town reports an Information Technology (IT) Subscription in accordance with the requirements of GASB 87 and GASB 96, respectively.

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

Subscriptions

For the year ended June 30, 2023, the financial statements include the adoption of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize subscription liability and an intangible right-to-use subscription asset.

The right to use IT subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any subscription payments made at the start of the subscription term, if applicable, plus capitalizable initial implementation costs at the start of the subscription term, less any incentives received from the IT subscription vendor at the start of the subscription term. Subscription payments, as well as payments for capitalizable implementation costs made before the start of the subscription term should be reported as a prepayment (asset). Such prepayments should be reduced by any incentives received from the same vendor before the start of the subscription term if a right of offset exists. The net amount of the prepayments and incentives should be reported as an asset or liability, as appropriate, before the start of the subscription term at which time the amount should be included in the initial measurement of the subscription asset. The right to use subscription assets should be amortized on a straight-line basis over the subscription term.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period and, therefore, will not be recognized as an expense or expenditure until then. The Town has three items that meet this criterion – pension and other post-employment benefits (“OPEB”) deferrals for the 2023 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period and, therefore, will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – prepaid taxes, property taxes receivable, unavailable revenues (reported only on the Balance Sheet of the Governmental Funds), of pension and OPEB deferrals.

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 deferred and 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 are expensed in the reporting period in which they are incurred.

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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

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 financial statements 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'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.

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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

Net position/fund balances (continued)

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

Restricted for Federal Forfeitures - portion of fund balance which is restricted by revenue source for law enforcement purposes.

Restricted for Stabilization by State Statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute." *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as 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 balance sheet.

Restricted for Street Improvements - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Public Safety – The portion of fund balance that is restricted by revenue source for the construction of Fire Station #4. This amount represents the balance of the total unexpended loan proceeds.

Restricted for Cultural and Recreation – The portion of fund balance that is restricted by revenue source for the construction of the Community Center North. This amount represents the balance of General Obligation bonds issued for the project and unexpended at year end.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

Net position/fund balances (continued)

Committed Fund Balances - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's Board of Commissioners (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Capital Projects - portion of fund balance that has been approved by the Town's Board of Commissioners for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Committed for Economic development – portion of fund balance that has been approved by the Town's Board of Commissioners for various economic development agreements

Assigned Fund Balances - portion of fund balance that the Board of Commissioners intends to use for specific purposes.

Assigned for Parks and Recreation - portion of fund balance that has been budgeted for future parks and recreation expenditures.

Assigned for Capital Reserve Fund - portion of fund balance that has been budgeted to be expended for future capital projects.

Assigned for Debt Service Fund - portion of fund balance that has been budgeted to be used for principal and interest on long-term general obligation debt of governmental funds.

Assigned for Law Enforcement Officers' Pension Benefits - portion of fund balance that has been assigned for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

Net position/fund balances (continued)

Assigned for Projects Carried Forward – portion of fund balance that was for specific board approved projects that were not started in the current year but will be rolled forward into the coming fiscal year.

Assigned for Subsequent Year's Expenditures – portion of fund balance that was for specific board approved expenditures in the next fiscal year.

Unassigned - the 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.

State law (G.S.159-13(b) (16)) restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

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, and 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.

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

Total fund balance – General Fund	\$ 44,720,848
Less:	
Federal forfeitures	61,324
Stabilization by State statute	4,386,240
Streets – Powell Bill	2,582,334
Law enforcement officers' pension benefits	373,390
Subsequent year's expenditures	4,000,000
Projects carried forward	726,005
Parks and recreation	2,500
Remaining fund balance – General Fund	<u>\$ 32,589,055</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

E. Assets, liabilities, deferred outflows/inflows of resources, and fund equity (continued)

Net position/fund balances (continued)

The Town has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 15% of budgeted expenditures. Any portion of the general fund balance in excess of 15% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

F. Defined Benefit Cost Sharing Plans

Pensions

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.

Other postemployment benefit plan

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, 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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds

A. Assets

Deposits

All of the Town's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town's agent 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 noninterest 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 amount 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.

At June 30, 2023, the Town's deposits had a carrying amount of \$37,431,736 and a bank balance of \$38,112,873. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2023, the Town's petty cash fund totaled \$2,640.

Investments

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

<u>Investments by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at June 30, 2023</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust – Government Portfolio	Fair Value Level 1	\$142,525,117	n/a	AAAm

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

A. Assets (continued)

Investments (continued)

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.

The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2023. The Town has no policy regarding credit risk.

Receivables – Allowances for Doubtful Accounts

The amount of taxes receivable presented in the balance sheet and the statement of net position includes penalties levied and outstanding in the amount of \$-0-.

The amounts presented in the balance sheet and the statement of net position are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>June 30, 2023</u>
General Fund:	
Taxes receivable	\$ 5,580
Other accounts receivable	87,115
	<u>\$ 92,695</u>
Water and Sewer Fund:	
Water and sewer receivable	<u>\$ 462,432</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

Capital Assets

Governmental capital assets

Capital asset activity for the primary government for the year ended June 30, 2023 were as follows:

	Beginning Balance	Increase	Decrease and Transfers	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 46,332,274	\$ 2,985,220	\$ (1,638,139)	\$ 47,679,355
Construction in progress	3,390,406	6,141,255	(2,026,431)	7,505,230
Total capital assets not being depreciated	<u>\$ 49,722,680</u>	<u>\$ 9,126,475</u>	<u>\$ (3,664,570)</u>	<u>\$ 55,184,585</u>
Capital assets being depreciated:				
Buildings	34,098,457	308,726	(108,658)	34,298,525
Other improvements	8,318,672	1,717,705	(86,300)	9,950,077
Equipment	4,764,013	569,788	(21,229)	5,312,572
Vehicles	11,916,675	2,015,266	(51,997)	13,879,944
Infrastructure	114,116,179	12,138,690	-	126,254,869
Total capital assets being depreciated	<u>\$ 173,213,996</u>	<u>\$ 16,750,175</u>	<u>\$ (268,184)</u>	<u>\$ 189,695,987</u>
Less accumulated depreciation for:				
Buildings	7,772,606	847,636	(108,658)	8,511,584
Other improvements	2,260,926	653,477	(86,300)	2,828,103
Equipment	3,257,625	481,623	(21,229)	3,718,019
Vehicles	6,664,258	1,332,706	(51,997)	7,944,967
Infrastructure	23,389,414	4,300,093	-	27,689,507
Total accumulated depreciation	<u>\$ 43,344,829</u>	<u>\$ 7,615,535</u>	<u>\$ (268,184)</u>	<u>\$ 50,692,180</u>
Total capital assets being depreciated, net	<u>129,869,167</u>			<u>139,003,807</u>
Capital assets being amortized:				
Right to use assets:				
Lease equipment	\$	11,472	\$ -	\$ 11,472
IT subscriptions	-	37,052	-	37,052
Total Capital assets being amortized	<u>\$ -</u>	<u>\$ 48,524</u>	<u>\$ -</u>	<u>\$ 48,524</u>
Less accumulated amortization for:				
Right to use assets:				
Lease equipment	\$	3,041	\$ -	\$ 3,041
IT subscriptions	-	3,208	-	3,208
Total accumulated amortization	<u>\$ -</u>	<u>\$ 6,249</u>	<u>\$ -</u>	<u>\$ 6,249</u>
Total capital assets being amortized, net	<u>\$ -</u>			<u>\$ 42,275</u>
Governmental Activities capital assets, net	<u>\$ 179,591,847</u>			<u>\$ 194,230,667</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

Capital assets (continued)

Governmental capital assets (continued)

Additions to the capital assets related to Governmental Activities include donations of capital assets from Town developers of \$15,123,910.

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

General Government	\$ 667,898
Public Safety	967,145
Transportation	4,491,334
Environmental Protection	254,121
Cultural & Recreation	968,857
Economic & Physical Dev.	42,279
Central Services	223,900
Total Current Year Dep.	<u>\$7,615,535</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 - Detail Notes on All Funds (continued)

Capital Assets (continued)

Business-type capital assets

Capital asset activity for the business-type activities for the year ended June 30, 2023 were as follows:

	Beginning Balance	Increase	Decrease/ Transfers	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 421,341	\$ -	\$ -	\$ 421,341
Construction in progress	6,458,671	345,265	(3,097,360)	3,706,576
Total capital assets not being depreciated	6,880,012	345,265	(3,097,360)	4,127,917
Capital assets being depreciated				
Buildings	155,000	-	-	155,000
Other improvements	117,375,799	10,653,490	-	128,029,289
Equipment	1,495,079	123,492	-	1,618,571
Vehicles	1,439,487	590,759	-	2,030,246
Operating plants	49,908,762	683,000	-	50,591,762
Total capital assets being depreciated	170,374,127	12,050,741	-	182,424,868
Less accumulated depreciation for:				
Buildings	22,143	22,143	-	44,286
Other improvements	41,916,207	4,060,158	-	45,976,365
Equipment	1,295,531	99,717	-	1,395,248
Vehicles	850,880	235,090	-	1,085,970
Infrastructure	9,563,920	1,247,072	-	10,810,992
Total accumulated depreciation	53,648,681	5,664,180	-	59,312,861
Total capital assets being depreciated, net	116,725,446			123,112,007
Capital assets being amortized:				
Right to use assets:				
Lease facility	-	62,871	-	62,871
Total Capital assets being amortized	-	62,871	-	62,871
Less accumulated amortization for:				
Right to use assets:				
Lease facility		25,148	-	25,148
Total accumulated amortization	-	25,148	-	25,148
Total capital assets being amortized, net	-			37,723
Business-type Activities capital assets, net	<u>\$ 123,605,458</u>			<u>\$ 127,277,646</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

Assets (continued)

Capital assets (continued)

Business-type capital assets (continued)

Additions to the capital assets of the Water and Sewer Fund include donations of capital assets from Town developers of \$ 8,426,776.

Active construction

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

<u>Project Name</u>	<u>Spent-to-Date</u>	<u>Commitment</u>
1MG Tank	\$ 107,786	\$ 86,425
AMI	1,478,140	394,361
Bass Lake/Sunset Lake/Hilltop Needmore Intersection	83,450	247,550
Community Center North/Senior Center	1,906,440	27,233,622
Downtown Varina Pedestrian Improvements	148,225	16,091
Fiber Network	28,543	2,007
Fire Station #4	5,849,771	3,078,526
Future Water Supply Infrastructure	2,664,550	1,081,367
Garner Booster Pump Upgrade	-	245,500
Holly Ridge Pump Station Upgrade	9,794	8,637
Hwy 55/James Slaughter Road	24,447	94,353
Jones Street Sidewalks	114,059	11,645
Kennebec Road Waterlines (Willow Spring HS to Tram Road)	266,994	109,983
Middle Creek Interceptor Design	83,184	9,416
Migrate Pump Station SCADA	-	50,000
Mills Branch & Middle Creek Pump Station Improvements	147,824	37,176
NE Judd & Hwy 55 Intersection	210,085	4,528
Pedestrian Facilities US Hwy 401	-	17,689
Police Parking Lot Paving	108,501	66,139
Police Station Renovations	1,775	2,725
Sanford Conveyance Project	1,786,062	4,759,015
SE Judd Parkway Pedestrian	17,421	50,768
SE Judd Parkway/Angier Road Intersection	54,525	186,875
South Judd & South Main Street Intersection	-	154,049
Southern Oaks Sewer Lines	-	2,932,319
Sunset Lake/Purfoy/Main Street Intersection	224,795	49,001
SW Judd & Academy Street	114,663	117,088
Terrible Creek WWTP	562,575	4,820,915
Town Hall Upfit & Renovations	408,803	8,009
Town Hall Window Replacement	-	151,988
Walter Myatt Pump Station	19,000	1,500
Water Capacity Study	903,127	309,097
Water Line Replacement Projects	155,301	27,799
Whitted Road Roundabout	89,405	143,386
	<u>\$ 17,569,243</u>	<u>\$ 46,509,549</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

B. Liabilities

Pension plan obligations

Local governmental employees' retirement system

Plan Description - The Town is a participating employer in the statewide Local Governmental Employee's Retirement System ("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 governmental 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, NC 27699-1410 or by calling (919) 707-0500, 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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees' retirement system (continued)

Contributions - Contribution provisions are established by General Statute 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's contractually required contribution rate for the year ended June 30, 2023 was 13.0% of compensation for law enforcement officers 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 \$2,756,753 for the year ended June 30, 2023.

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 \$14,150,958 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. 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 (measurement date), the Town's proportion was 0.25%, which was an increase of 0.02% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Town recognized pension expense of \$4,022,759. 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	Deferred Inflows of
Differences between expected and actual experience	\$ 609,752	\$ 59,783
Changes of assumptions	1,411,948	-
Net difference between projected and actual earnings on pension plan investments	4,677,040	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	214,669	84,174
Town contributions subsequent to the measurement date	2,756,753	-
	<u>\$ 9,670,162</u>	<u>\$ 143,957</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees' retirement system (continued)

\$2,756,753 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date 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:

Fiscal Years Ending June 30:

2024	\$	2,114,332
2025		1,829,002
2026		597,890
2027		2,228,228
	\$	<u>6,769,452</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	2.5%
Salary increases	3.25 to 8.25%, including inflation and productivity factor
Investment rate of return	6.50%, 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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees' retirement system (continued)

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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.1%
Global Equity	42.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	7.5%
Opportunistic Fixed Income	7.0%	5.0%
Inflation Protection	6.0%	2.7%
Total	<u>100%</u>	

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%. Return projections do not include any excess return expectations over benchmark averages. 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 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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees' retirement system (continued)

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 6.50%, 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 (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease (5.5%)	1% Decrease (6.5%)	1% Decrease (7.5%)
Town's proportionate share of the net pension liability(asset)	<u>\$ 25,540,657</u>	<u>\$ 14,150,958</u>	<u>\$ 4,765,185</u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report for the State of North Carolina.

Law enforcement officers' special separation allowance

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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. 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 benefit 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, 2022, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>54</u>
Total	<u>56</u>

Summary of Significant Accounting Policies - 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 and refunds are recognized when due and payable in accordance with the terms of the plan.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Law enforcement officers' special separation allowance (continued)

The Separation Allowance has no assets accumulated in a trust.

Actuarial Assumptions - The entry age 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 rate	4.31%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2021.

Mortality rates are based on the Pub-201 amount-weighted tables, projected forward to the valuation date using generational improvement with Scale MP-2019.

Contributions - The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made through 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 \$97,398 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 - On June 30, 2023, the Town reported a total pension liability of \$1,802,625. 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 the actuarial assumptions. For the year ended June 30, 2023, the Town recognized pension expense of \$256,330.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Law enforcement officers' special separation allowance (continued)

	Deterred Outflows of	Deterred Inflows of
Differences between expected and actual experience	\$ 265,511	\$ -
Changes of assumptions and other inputs	314,912	418,148
Benefit payments and administrative expenses subsequent to the measurement date	48,699	-
Total	<u>\$ 629,122</u>	<u>\$ 418,148</u>

\$ 48,699 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources 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:

Years Ending June 30:

2024	\$ 62,192
2025	57,072
2026	55,727
2027	48,260
2028	(21,544)
Thereafter	(39,432)
	<u>\$ 162,275</u>

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate - The following presents 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	<u>\$ 1,994,841</u>	<u>\$ 1,802,625</u>	<u>\$ 1,630,840</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

**Schedule of Changes in Total Pension Liability
Law Enforcement Officer' Special Separation Allowance**

	<u>2023</u>
Beginning balance	\$ 1,955,864
Service cost	147,381
Interest on total pension liability	42,977
Difference between expected and actual experience	167,991
Change in assumptions and other inputs	(420,079)
Benefit payments	<u>(91,509)</u>
	<u>\$ 1,802,625</u>

The plan currently uses mortality tables that vary by age, 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.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 4,022,759	\$ 256,330	\$ 4,279,089
Pension Liability	14,150,958	1,802,625	15,953,583
Proportionate share of the net pension liability	0.25%	100%	
Deferred Outflows of Resources			
Differences between expected and actual experience	609,752	265,511	875,263
Changes of assumptions	1,411,948	314,912	1,726,860
Net difference between projected and actual earning on plan invest	4,677,040	-	4,677,040
Changes in proportion and differences between contributions and proportionate share of contributions	214,669	-	214,669
Benefit payments and administrative costs paid subsequent to the measurement date	2,756,753	48,699	2,805,452
Deferred Inflows of Resources			
Changes of assumptions	-	418,148	418,148
Net difference between projected and actual earning on plan invest	59,783	-	59,783
Changes in proportion and differences between contributions and proportionate share of contributions	84,174	-	84,174

Supplemental retirement income plan for law enforcement officers

Plan Description - The Town contributes to the Supplemental Retirement Income Plan (the “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 authority to establish and amend benefit provisions to the North Carolina General Assembly. The Town has also elected to have employees not engaged in law enforcement to participate in the Plan. The 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 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.

Funding Policy - Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the Plan. The Town made contributions of \$348,708 for the reporting year, which consisted of \$222,417 from the Town and \$126,291 from the law enforcement officers.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Supplemental retirement income plan for employees other than law enforcement officers

Plan Description - All other full-time employees of the Town (excluding law enforcement officers) also participate in the Supplemental Retirement Income Plan, a defined contribution plan as described above.

Funding Policy - The Town contributes an amount equal to 5% of each non-law enforcement employee's salary, and all amounts contributed are vested immediately. These non-law enforcement employees may also make voluntary contributions to the plan. The Town made contributions of \$1,536,561 in the reporting year, which consisted of \$889,099 from the Town and \$647,462 from the non-law enforcement employees. There are no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits.

Other post-employment benefits

Plan Description - The Town administers a single-employer defined benefit Healthcare Benefits Plan (the "HCB Plan"). As of January 1, 2006, this plan provides post-employment benefits to retirees of the Town who participate in the North Carolina Local Government Employees' Retirement System (the "System") and have at least 25 years of creditable service with the Town. Prior to January 1, 2006, employees qualified for the same level of benefits after at least 15 years of creditable service with the Town. The Town pays full cost of coverage for these benefits until they reach the age 65 or until they are eligible to receive Medicare benefits, whichever comes first. At that time such coverage is terminated, and the Town pays full cost of a Medicare supplement policy. Also, retirees who retired before January 1, 2006 can purchase coverage at the Town's group rates for themselves and for their dependents at the Town's group rates for healthcare and dental. The Town may amend the benefit provisions. A separate report was not issued for the HCB Plan. There are no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits.

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

Retirees receiving benefits	13
Active plan members	<u>266</u>
Total	<u><u>279</u></u>

Total OPEB Liability - The Town's total OPEB liability of \$3,574,369 was measured as of June 30, 2022 and was determined by an actuarial valuation as of that June 30, 2021.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other post-employment benefits (continued)

Actuarial Assumptions and Other Inputs - The total OPEB liability in the June 30, 2023 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%
Salary increases	3.25% - 8.41%, average, including inflation
Discount rate	3.54%
Dental	4.00%
Vision	2.50%
Healthcare cost trend rates	
Pre-Medicare Medical	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
Medicare Medical	5.125% for 2021 decreasing to an ultimate rate of 4.50% by 2024

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Changes in the Total OPEB Liability -

	Total OPEB Liability
Balance as of June 30, 2022	\$ 4,409,064
Changes for the year	
Service cost at the end of the year	249,792
Interest	100,120
Differences between expected and actual experience	(9,838)
Changes in assumptions or other inputs	(1,127,171)
Net Benefit payments and implicit subsidy credit**	(47,598)
Net changes	(834,695)
Balance as of June 30, 2023	\$ 3,574,369

Changes in assumptions and other inputs reflect a change in the discount rate from 2.16% to 3.54%.

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 were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2019, adopted by the LGERS. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2022 valuation were based on a review of recent plan experience done concurrently with the June 30, 2021 valuation.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other post-employment benefits (continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54%) or 1-percentage-point higher (4.54%) than the current discount rate:

	1% Decrease (2.54%)	Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	\$ 4,348,867	\$ 3,574,369	\$ 2,975,479

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the Town, as well as what the Town's total 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	1% Increase
Total OPEB liability	\$ 2,881,747	\$ 3,574,369	\$ 4,504,032

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2023, the Town recognized OPEB expense of \$163,334. 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	\$ 1,956	\$ 614,936
Changes of assumptions and other inputs	784,798	1,505,148
Benefit payments and administrative expenses subsequent to the measurement date	48,958	-
Total	<u>\$ 835,712</u>	<u>\$ 2,120,084</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other employment benefits (continued)

\$48,958 was reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB 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>Fiscal Years Ending June 30,</u>	
2024	\$ (186,578)
2025	(186,578)
2026	(186,578)
2027	(186,578)
2028	(165,307)
Thereafter	(421,711)
Total	<u>\$ (1,333,330)</u>

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the LGERS (the "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 LGERS, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in LGERS 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 months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The Town considers these contributions to be immaterial.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Deferred outflows and inflows of resources

Deferred outflows of resources at year-end are comprised of the following:

	Statement of Net Position	General Fund Balance Sheet
Deferred Outflows of Resources:		
LGERS	\$ 9,670,162	\$ -
LEOSSA	629,122	-
OPEB	835,712	-
	\$ 11,134,996	\$ -

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

	Statement of Net Position	General Fund Balance Sheet
Prepaid property taxes (General Fund)	\$ 15,242	\$ 15,242
Taxes receivable, net	-	100,429
Deferred inflow of Resources:		
LGERS	143,957	-
LEOSSA	418,148	-
OPEB	2,120,084	-
	\$ 2,697,431	\$ 115,671

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

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 several self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town has the following coverage:

Public officials liability	5,000,000
Public employee blanket bond/crime	100,000
Auto liability	5,000,000
Real and personal property, including boiler and machinery \$5,000,000	92,097,561
Employee benefits	5,000,000
Computer equipment and media	2,050,000
Municipal equipment	780,647

The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$1,000,000 and \$500,000 and up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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 the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town has also elected to purchase commercial flood insurance for \$5,000,000 of annual aggregate coverage for zones B, C, or X.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$1,000,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations

Leases

Principal and Interest Requirements to Maturity

Fiscal Year	Business-Type Activities		
	Principal Payments	Interest Payments	Total Payments
2024	\$ 12,555	\$ 175	\$ 12,731
2025	13,005	108	13,113
2026	13,468	39	13,506
	<u>\$ 39,027</u>	<u>\$ 322</u>	<u>\$ 39,350</u>

Fiscal Year	Governmental Activities		
	Principal Payments	Interest Payments	Total Payments
2024	\$ 2,173	\$ 47	\$ 2,220
2025	2,187	33	2,220
2026	2,201	19	2,220
2027	1,660	5	1,665
	<u>\$ 8,220</u>	<u>\$ 105</u>	<u>\$ 8,325</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Subscriptions Payable

Principal and Interest Requirements to Maturity

Fiscal Year	Governmental Activities		
	Principal Payments	Interest Payments	Total Payments
2024	\$ 11,379	\$ 621	\$ 12,000
2025	12,673	327	13,000
	<u>\$ 24,052</u>	<u>\$ 948</u>	<u>\$ 25,000</u>

Installment purchase

Serviced by the General Fund:

Installment note payable for the renovation/construction to the existing Community Center, dated April 1, 2007, payable in annual payments of \$100,000 plus interest (4.34%), with a final payment of principal and interest due April 1, 2026.

\$ 300,000

Installment note payable for construction on the Town's Public Works building, dated July 1, 2015, payable in annual payments of \$400,000 plus interest (2.84%), with a final payment of principal and interest due July 15, 2030.

\$ 3,200,000

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Installment Purchase (continued)

Installment note payable for a fire truck, dated December 15, 2021, payable annually in the amounts of \$251,000 in 2022, \$252,000 in 2023, \$255,000 in 2024, \$259,000 in 2025, and \$262,000 in 2026, plus interest (1.27%) applicable to each payment, with a final payment of principal and interest due November 1, 2026.

\$ 1,028,000

Installment note payable for Fire Station 4, dated August 17, 2022, level principal payments with the average annually amount of \$366,000, plus interest (3.41%) applicable to each payment, with a final payment of principal and interest due August 1, 2042

\$ 7,305,000

The future minimum payments of the above installment purchase as of June 30, 2023, including interest of \$ 2,829,421 for the general long-term debt are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,118,000	\$ 331,336
2025	1,121,000	303,515
2026	1,125,000	275,656
2027	1,028,000	247,746
2028-2032	3,426,000	918,156
2033-2037	1,825,000	528,976
2038-2043	2,190,000	224,037
Total	<u>\$ 11,833,000</u>	<u>\$ 2,829,421</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

General obligation indebtedness

The Town's general obligation bonds serviced by the governmental funds were issued to finance the transportation projects, downtown improvements, parks and recreation facilities. The Town's general obligation bonds serviced by the enterprise funds were issued to finance the construction of facilities utilized in the operation of the water and sewer system are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Serviced by the General Fund:

\$3,500,000 public improvement bonds, issued October 9, 2012, interest payments due every April and October and principal payments due annually each April 1 beginning April 1, 2013 and Ending April 1, 2032, interest rate of 1.0% - 2.0%

\$ 1,750,000

\$17,350,000 public improvement bonds, issued December 20, 2018, interest payments due every January and July and principal payments due annually each January 1, 2020 and ending January 1, 2039, interest rate of 3.6% - 5%

\$ 13,850,000

\$ 2,900,000 refunding bonds, issued May 16, 2019, interest payments due every February and August and principal payments due annually each August 1 beginning August 1, 2020 and ending August 1, 2029, interest rate of 5.0%

\$ 2,065,000

\$1,650,000 2/3 public building bond, Series 2023A, issued May 31, 2023, interest payments due every February and August and principal payments due annually each August 1 beginning August 1, 2024 and ending February 1, 2028, interest rate of 5.0%

\$ 1,650,000

\$27,150,000 public improvement bond, Series 2023B, issued June 1, 2023, interest payments due every February and August and principal payments due annually each August 1 beginning August 1, 2024 and ending February 1, 2043, interest rate of 5.0%, \$18,500,000 is for Community Center North/Senior Center and 3,650,000 is for Streets. \$3,000,000 and 2,000,000 are serviced by Water and Sewer Revenues respectively.

Serviced by General Fund \$ 22,150,000

Serviced by Water and Sewer 5,000,000

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

General Obligation Bonds (continued)

Annual debt service requirements to maturity for general obligation bonds, including interest of \$20,009,375 on the general obligation bonds of the General fund bonds:

Funded by General Fund:		
Fiscal Year Ending June 30,	Principal	Interest
2024	\$ 1,335,000	\$ 1,494,300
2025	2,535,000	1,787,388
2026	2,535,000	1,665,888
2027	2,540,000	1,544,263
2028	2,545,000	1,422,213
2029-2033	11,830,000	5,358,238
2034-2038	10,185,000	2,942,000
2039-2043	6,775,000	913,638
2044	1,185,000	23,700
	<u>\$ 41,465,000</u>	<u>\$ 17,151,625</u>

Funded by Water & Sewer Fund:		
Fiscal Year Ending June 30,	Principal	Interest
2024	\$ -	\$ 159,400
2025	150,000	235,350
2026	160,000	227,600
2027	165,000	219,475
2028	175,000	210,975
2029-2033	1,010,000	911,750
2034-2038	1,305,000	623,625
2039-2043	1,660,000	262,075
2044	375,000	7,500
	<u>\$ 5,000,000</u>	<u>\$ 2,857,750</u>

Total General Obligation Bonds	<u>\$ 46,465,000</u>	<u>\$ 20,009,375</u>
--------------------------------	----------------------	----------------------

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Limited obligation indebtedness

The Town's limited obligation bonds serviced by the governmental funds were issued to finance the new Town hall project. All limited obligation bonds are collateralized by both the buildings and land comprising the existing Town hall and newly constructed Town hall. Principal and interest requirements are appropriated when due.

Serviced by the General Fund:

\$11,115,000 limited obligation bonds, issued 28, 2018, interest payments due every May and November and principal payments annually November 1 beginning November 1, 2019 and ending November 1, 2039, interest rate of 3.75% to 5%

\$ 8,880,000

Annual debt service requirements to maturity for limited obligation bonds, including interest of \$3,253,721 on the limited obligation bonds of the General fund bonds:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	555,000	409,438
2025	555,000	381,688
2026	550,000	354,063
2027	550,000	326,563
2028-2032	2,780,000	1,217,313
2033-2037	2,785,000	523,125
2038-2039	1,105,000	41,531
TOTAL	<u>\$ 8,880,000</u>	<u>\$ 3,253,721</u>

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Revenue Bonds

Serviced by the Water and Sewer Fund:

\$30,185,000 water and sewer revenue bonds, issued March 1, 2016, interest payments due every April and October and principal payments annually April 1 beginning April 1, 2019 and ending April 1, 2041, interest rate of 3.0% to 5.0%

\$ 16,185,000

\$17,351,000 combined utility bonds, issued July 15, 2021, interest payments due every April and October and principal payments due annually April 1 beginning April 1, 2022 and ending April 1, 2041, interest rate of 2.2%

\$ 14,890,000

The Town has pledged future water and wastewater customer revenues, net of specified operating expenses, to repay \$30,185,000 in revenue bonds issued in 2016. Proceeds from the bonds provided financing for improvements to the Town's Terrible Creek wastewater treatment plant and to pay related costs. The bonds are payable solely from net revenues (along with bond proceeds if available, insurance proceeds that may arise and certain other limited sources) and are payable through 2041. The total principal and interest remaining to be paid on the bonds is \$ 41,576,678. Principal payments began April 1, 2019 and interest payments began on October 1, 2016.

Annual debt service requirements to maturity for revenue bonds, including interest of \$10,501,678 on the revenue bonds of the Water and Sewer Fund bonds:

Fiscal Year Ending June 30,	Principal	Interest
2024	2,148,000	1,116,930
2025	2,184,000	1,052,124
2026	2,223,000	985,806
2027	2,273,000	907,360
2028-2032	7,072,000	3,481,418
2033-2037	7,767,000	2,231,676
2038-2039	7,408,000	726,364
TOTAL	\$ 31,075,000	\$ 10,501,678

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Revenue bonds (continued)

The revenue bonds contain covenants from the Town regarding, among others, the use and operation of the system and minimum coverage of net revenues over the debt service requirements. The Town believes it was in compliance with all applicable covenants in Section 4.03 of the agreement as of June 30, 2022, which require minimum ratios of 120% and 100% of the calculations below, respectively. The revenue coverage calculations for the year ended June 30, 2023 were as follows:

Income available for debt service in the fiscal year ended June 30, 2023	\$	7,898,266
15% of system unrestricted net position in the prior year		<u>3,679,597</u>
Total		11,577,863
Long-term debt service requirement for parity indebtedness		<u>3,292,878</u>
Debt service coverage ratio		<u>352%</u>

Operating Revenues	\$	28,731,354
Operating expenses*		<u>16,214,079</u>
Operating income		12,517,275
Nonoperating revenues(expenses)**		<u>(4,619,009)</u>
Income available for debt service		7,898,266
Debt service, principal and interest paid (Revenue bond only)	\$	3,292,878
Debt service coverage ratio		240%

*Per rate covenants, this does not include the depreciation expense of \$ 5,689,328

** Per rate coenants, this does not include revenue bond interest paid of \$ 1,030,361

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Changes in long-term liabilities

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2023</u>	<u>Current Portion</u>
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 18,995,000	\$ 23,800,000	\$ 1,330,000	\$ 41,465,000	\$ 1,335,000
Limited obligation bonds	9,435,000	-	555,000	8,880,000	555,000
Installment purchase	5,279,000	7,305,000	751,000	11,833,000	1,118,000
Total bonds and notes payable	<u>\$ 33,709,000</u>	<u>\$ 31,105,000</u>	<u>\$ 2,636,000</u>	<u>\$ 62,178,000</u>	<u>\$ 3,008,000</u>
Deferred adjustments:					
Premium	2,754,454	3,281,017	205,321	5,830,150	-
Total bonds and notes payable, net	<u>\$ 36,463,454</u>	<u>\$ 34,386,017</u>	<u>\$ 2,841,321</u>	<u>\$ 68,008,150</u>	<u>\$ 3,008,000</u>
Other liabilities:					
Net pension liability	\$ 3,119,249	\$ 9,443,972	\$ -	\$ 12,563,221	\$ -
LEOSSA pension liability	1,955,864	-	153,239	1,802,625	-
OPEB obligation	4,012,248	-	744,032	3,268,216	-
Lease liability		10,379	2,159	8,220	2,173
IT subscriptions		35,052	11,000	24,052	11,379
Compensated absences	1,230,079	865,619	642,824	1,452,874	642,824
Total other liabilities	<u>\$ 10,317,440</u>	<u>\$ 10,355,022</u>	<u>\$ 1,553,254</u>	<u>\$ 19,119,208</u>	<u>\$ 656,376</u>
Total long-term liabilities	<u>\$ 46,780,894</u>	<u>\$ 44,741,039</u>	<u>\$ 4,394,575</u>	<u>\$ 87,127,358</u>	<u>\$ 3,664,376</u>

Compensated absences and pension and OPEB liabilities for governmental activities have typically been liquidated in the General Fund.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Changes in long-term liabilities (continued)

	June 30, 2022	Additions	Retirements	June 30, 2023	Current Portion
Business -type activities:					
Bonds and notes payable:					
General obligation bonds	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
Revenue Bonds	33,179,000	-	2,104,000	31,075,000	2,148,000
Lease Obligations	-	39,027	-	39,027	12,555
Compensated absences	99,551	102,622	68,146	134,027	68,146
Total OPEB obligation	396,816	-	90,664	306,152	-
Net pension liability	394,526	1,193,211	-	1,587,737	-
Total bonds and notes payable	\$ 34,069,893	\$ 6,334,860	\$ 2,262,810	\$ 38,141,943	\$ 2,228,701
Deferred adjustments:					
Premium	2,857,587	714,249	154,526	3,417,310	-
Total long-term liabilities	\$ 36,927,480	\$ 7,049,109	\$ 2,417,336	\$ 41,559,253	\$ 2,228,701

Note 3—Interfund balances and activity

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

	Transfers out				Total
	General Fund	Major Funds	Nonmajor Funds	Proprietary Fund	
Transfers in:					
General Fund	\$ -	\$ 150,186	\$ 403,688	\$ -	\$ 553,874
Major Funds	3,394,282	-	7,533,210	-	10,927,492
Nonmajor Funds	3,663,111	-	459,094	223,108	4,345,313
Proprietary Fund	5,000,000	-	-	-	5,000,000
Total transfers out	\$ 12,057,393	\$ 150,186	\$ 8,395,992	\$ 223,108	\$ 20,826,679

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. For the year ended June 30, 2023, the Water and Sewer fund made a \$223,108 transfer for a debt service payment to the Debt Service Fund.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 4—Joint ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State's Insurance Commissioner appoints an additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the Board of Trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2023. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees filed an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

Note 5—Summary disclosure of significant contingencies

Federal and State-Assisted Programs - The Town has received proceeds from several federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreement. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provisions have been made in the accompanying financial statements for the refund of grant monies.

Litigation - The Town is a defendant in various lawsuits. Although the outcome of some of these lawsuits is not presently determinable, in the opinion of management that other than the item mentioned below, the resolution of these other matters will not have a material adverse effect on the financial condition of the Town.

A lawsuit was filed against the Town in June of 2020 seeking the return of water and sewer capacity fees from the period of June 2018 through June 2020. Although not settled at June 30, 2023, an amount for settlement of \$7 million was measurable before the statement date and therefore included in these financial statements as a liability at year end.

Note 6—Subsequent events

The Town has evaluated subsequent events through October 20, 2023, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

Required Supplemental Financial Data

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS ENDING

Schedule of Proportionate Share of Net Pension Liability (Asset)*

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.25%	0.23%	0.23%	0.22%	0.21%	0.20%	0.19%	0.19%	(0.18%)	0.18%
Town's proportion of the net pension liability (asset) (\$)	\$ 14,150,958	\$ 3,513,775	\$ 8,219,956	\$ 6,119,180	\$ 4,976,225	\$ 3,045,974	\$ 4,063,213	\$ 832,603	\$ (1,058,830)	\$ 2,147,994
Town's covered employee payroll (of the measurement period)	17,377,467	15,489,600	13,989,136	13,151,948	11,897,168	10,986,456	9,498,524	8,733,956	8,188,640	7,891,068
Town's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	81.43%	22.68%	58.76%	46.53%	41.83%	27.72%	42.78%	9.53%	(12.93%)	27.22%
Plan fiduciary net position as a percentage of the total pension liability	84.14%	95.51%	88.61%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%	96.45%

Schedule of Contributions:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 2,756,753	\$ 2,003,970	\$ 1,599,657	\$ 1,278,955	\$ 1,045,054	\$ 984,082	\$ 819,239	\$ 647,699	\$ 623,270	\$ 582,279
Contributions in relation to the contractually required contribution	2,756,753	2,003,970	1,599,657	1,278,955	1,045,054	984,082	819,239	647,699	623,270	582,279
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered employee payroll	\$ 22,376,596	\$ 17,377,467	\$ 15,489,600	\$ 13,989,136	\$ 13,151,948	\$ 11,897,168	\$ 10,986,456	\$ 9,498,524	\$ 8,733,956	\$ 8,188,640
Contributions as a percentage of covered employee payroll	12.32%	11.53%	10.33%	9.14%	7.95%	8.27%	7.46%	6.82%	7.14%	7.11%

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS'SPECIAL SEPARATION ALLOWANCE

LAST SEVEN FISCAL YEARS ENDING*

Schedule of Changes in Total Pension Liability

	2023	2022	2021	2020	2019	2018	2017
Total pension liability, beginning balance	\$ 1,955,864	\$ 1,788,748	\$ 1,137,538	\$ 980,487	\$ 952,702	\$ 811,166	\$ 793,225
Service cost at end of year	147,381	137,890	85,447	73,406	68,439	58,705	52,473
Interest	42,977	34,120	36,620	35,122	29,613	30,622	27,601
Difference between expected and actual experience	167,991	101,063	51,900	37,416	6,992	22,707	-
Changes in assumptions and other inputs	(420,079)	(64,227)	505,720	42,285	(46,081)	65,191	(21,932)
Benefit payments	(91,509)	(41,730)	(28,477)	(31,178)	(31,178)	(35,689)	(40,201)
Total pension liability, ending balance	<u>\$ 1,802,625</u>	<u>\$ 1,955,864</u>	<u>\$ 1,788,748</u>	<u>\$ 1,137,538</u>	<u>\$ 980,487</u>	<u>\$ 952,702</u>	<u>\$ 811,166</u>

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

Schedule of Total Pension Liability as a Percentage of Covered Employee Payroll

	2023	2022	2021	2020	2019	2018	2017
Total pension liability	\$ 1,802,625	\$ 1,955,864	\$ 1,788,748	\$ 1,137,538	\$ 980,487	\$ 952,702	\$ 811,166
Covered employee payroll	\$ 17,377,467	\$ 15,489,600	\$ 13,989,136	\$ 13,151,948	\$ 11,897,168	\$ 10,986,456	\$ 9,498,524
Total Pension Liability as a percentage of covered employee payroll	10.37%	12.63%	12.79%	8.65%	8.24%	8.67%	8.54%

Notes to the schedules:

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.
Information is not available for years prior to those presented.

There are no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

*LAST SIX FISCAL YEARS ENDING**

Total OPEB Liability	2023	2022	2021	2020	2019	2018
Service Cost	\$ 249,792	\$ 253,252	\$ 158,810	\$ 172,111	\$ 184,646	\$ 212,847
Interest	100,120	110,498	125,886	139,569	128,027	113,176
Differences between expected and actual experience	(9,838)	(485,028)	(10,143)	(333,175)	(13,456)	4,584
Changes of assumptions	(1,127,171)	(187,134)	1,095,406	(61,966)	(241,918)	(424,765)
Benefit payments and implicit subsidy credit	(47,598)	(58,036)	(64,258)	(68,591)	(62,871)	(76,261)
Net change in total OPEB liability	(834,695)	(366,448)	1,305,701	(152,052)	(5,572)	(170,419)
Total OPEB liability - beginning	4,409,064	4,775,512	3,469,811	3,621,863	3,627,435	3,797,854
Total OPEB liability - ending	\$ 3,574,369	\$ 4,409,064	\$ 4,775,512	\$ 3,469,811	\$ 3,621,863	\$ 3,627,435
Covered employee payroll	\$ 17,377,467	\$ 15,489,600	\$ 13,989,136	\$ 13,151,948	\$ 11,897,168	\$ 10,986,456
Total OPEB liability as a percentage of covered payroll	20.57%	28.46%	34.14%	26.38%	30.44%	33.02%

Notes to Schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate for each period.
The following are the discount rates used in each period:

Fiscal Year	Rate
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

Notes:

There are no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan.

The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. Information is not available for years prior to those presented.

APPENDIX B
FINANCIAL FEASIBILITY REPORT

This page intentionally left blank.



Financial Feasibility Report
Town of Fuquay-Varina, NC

July 15, 2024

Honorable Mayor and Board of Commissioners
Town of Fuquay-Varina, North Carolina

RE: Town of Fuquay-Varina, NC
Financial Feasibility Study, Series 2024B Bonds

Dear Mayor and Board of Commissioners:

The accompanying financial projections for the Combined Water and Sewer Fund (the "System", or "Enterprise Funds") of the Town of Fuquay-Varina, NC (the "Town") consist of a forecast of the financial results of operations for each of the Fiscal Years ("FY") from July 1, 2023, through June 30, 2029. The projection presents Town staff's estimates of the most probable results of operations and debt service coverage for each year of the forecast period. The projection reflects the Town staff's judgment, based upon present circumstances, as to the most likely set of conditions and Town staff's most likely course of action.

We have prepared the financial projections in accordance with generally accepted standards for developing such a financial projection. Our analysis included such procedures as we considered necessary to evaluate the assumptions and data provided by Town staff to be used in the presentation of the projection. We have no responsibility to update this report for events and circumstances occurring after the date of this report. The accompanying financial projection indicates that, based upon the assumptions presented herein, sufficient revenues are projected to be generated by the System to meet its operations and maintenance, debt service obligation and coverage requirements, and capital cost requirements through Fiscal Year 2029.

Based upon our analysis, we believe that the accompanying financial feasibility report is presented in conformity with generally accepted guidelines for the presentation of a financial projection and that the underlying assumptions provide a reasonable basis for the financial projections. However, there will usually be differences between the projection and actual results, as events and circumstances frequently do not occur as expected, and those differences may be material.

Sincerely,

A handwritten signature in black ink, appearing to read "David Hyder", written in a cursive style.

David Hyder
Senior Principal - Financial Services



Town of Fuquay-Varina, NC

Financial Feasibility Report: Combined Utilities Revenue Bonds, Series 2024B

July 15, 2024



TABLE OF CONTENTS

- 1. Introduction1**
- 2. Historical Operating Results.....2**
- 3. Projected Operating Results.....4**
 - 3.1 Principal Considerations and Assumptions..... 4
 - 3.2 Projected Operating Results and Debt Service Coverage 5
- 4. Background and Demand For Services8**
 - 4.1 Background and Scope of Operations 8
 - 4.2 Demand for Services 8
- 5. Capital Improvements Plan11**
 - 5.1 Capital Improvement Plans 11
- 6. Financing Plan16**
- 7. Operating and Non-Operating Expenses18**
- 8. Rates, Fees, and Charges19**
 - 8.1 Water and Sewer User Rates..... 19
 - 8.2 System Development Fees 21
- 9. System Revenues22**
- 10. Fund Balances23**

1. INTRODUCTION

Presented herein is the Financial Feasibility Report (the “Report”) we have prepared on behalf of the Town of Fuquay-Varina, NC (the “Town”), which includes the Town’s Water and Sewer Fund (the “System” or “Enterprise Funds”). The report provides a summary of the analysis performed in conjunction with the issuance of the Combined Utilities Revenue Bonds, Series 2024B (the “2024B Bonds”). The 2024B Bonds are being issued for the purposes of (1) financing the expansion of the Town’s portion of the City of Sanford Water Treatment expansion (2) financing the design and construction of specific water line projects and (3) paying the costs of issuance of the 2024B Bonds.

The Town has retained Stantec Consulting Services, Inc. (“Stantec”) as the Financial Feasibility Consultant to develop a projection of the financial operations of the System. In preparing this Report, Stantec has relied upon financial, statistical, engineering, and operational information about the System derived from operating reports, data, and records prepared by the Town. While we believe that such information is reasonable for the purpose of this Report, no assurances are offered concerning the information. Moreover, actual results realized during the projection period may vary materially from those projected. As such, the projections provided in this Report are subject to change, and Stantec can provide no assurances that the projections will be realized.

This Report summarizes the findings and results as of the date of the Report. Prospective purchasers of, and others associated with, the issuance of the 2024B Bonds, should not rely upon the information contained in this Report for a current description of any matter set forth herein, as of any date after the date of this Report. Changing conditions occurring or becoming known after such date could affect the material presented herein.

2. HISTORICAL OPERATING RESULTS

The historical revenues and expenses of the System for the Fiscal Year (“FY”) 2018 through 2023 are summarized in Table 1. The historical results are based upon audited information from the Town’s Annual Comprehensive Financial Reports (“ACFR”). In summary, Gross Revenues less Operating Expenses results in Net Revenues available for existing debt service.

Table 1
Historical Operating Results and Debt Service Coverage
Last Six Fiscal Years

	Fiscal Year Ending June 30 (1)					
	2018	2019	2020	2021	2022	2023
1 Operating Revenue						
2 Charges for Services (2)	\$ 10,962,166	\$ 11,614,572	\$ 12,384,365	\$ 13,412,486	\$ 14,360,369	\$ 17,444,206
3 Water and Sewer Tap fees	232,055	223,566	344,232	585,390	678,630	584,170
4 Other Operating Revenue (3)	204,156	288,006	196,793	221,684	264,207	300,176
5 System Development Fees	3,469,748	3,595,306	8,000,571	7,780,210	11,309,189	10,402,734
6 Total Operating Revenue	\$ 14,868,125	\$ 15,721,450	\$ 20,925,961	\$ 21,999,770	\$ 26,612,395	\$ 28,731,286
7 % change	12.7%	5.7%	33.1%	5.1%	21.0%	8.0%
8 Operating Expenses						
9 Water Treatment and Distribution	\$ (3,381,707)	\$ (3,472,975)	\$ (4,430,652)	\$ (5,090,812)	\$ (7,256,913)	\$ (10,862,818)
10 Waste Collection and Treatment	(3,602,928)	(3,616,666)	(3,328,311)	(4,550,105)	(3,410,751)	(5,351,261)
11 Depreciation	(3,069,207)	(3,205,101)	(4,323,823)	(4,641,719)	(5,225,507)	(5,689,328)
12 Total Operating Expenses	\$ (10,053,842)	\$ (10,294,742)	\$ (12,082,786)	\$ (14,282,636)	\$ (15,893,171)	\$ (21,903,407)
13 % change	1.9%	2.4%	17.4%	18.2%	11.3%	37.8%
14 Non-Operating Revenue (Expenses)						
15 Investment Earnings	\$ 226,298	\$ 298,440	\$ 267,083	\$ 4,268	\$ 42,533	\$ 1,417,552
16 Lease Income	58,527	72,444	118,377	99,733	104,431	122,890
17 Miscellaneous Expense (4)	-	-	-	(806,498)	(765,973)	(7,067,998)
18 Miscellaneous Revenue, net	169,399	51,723	803,545	141,131	437,897	908,547
19 Interest and Other Charges	(1,422,023)	(1,439,049)	(1,347,614)	(1,261,423)	(1,073,909)	(1,030,361)
20 Total Non-Operating Revenue (Expenses)	\$ (967,799)	\$ (1,016,442)	\$ (158,609)	\$ (1,822,789)	\$ (1,255,021)	\$ (5,649,370)
21 Adjustments						
22 Depreciation	\$ 3,069,207	\$ 3,205,101	\$ 4,323,823	\$ 4,641,719	\$ 5,225,507	\$ 5,689,328
23 Interest and Other Charges	1,422,023	1,439,049	1,347,614	1,261,423	1,073,909	1,030,361
24 Total Adjustments	\$ 4,491,230	\$ 4,644,150	\$ 5,671,437	\$ 5,903,142	\$ 6,299,416	\$ 6,719,689
25 Income Available for Debt Service	\$ 8,337,714	\$ 9,054,416	\$ 14,356,003	\$ 11,797,487	\$ 15,763,619	\$ 7,898,198
26 Add: 15% of Unrestricted Net Assets (line 38 * 15%)	2,204,208	2,312,843	3,120,048	2,547,222	3,484,914	3,679,597
27 Income Available for Parity Debt Service	\$ 10,541,922	\$ 11,367,259	\$ 17,476,051	\$ 14,344,709	\$ 19,248,533	\$ 11,577,795
28 Parity Debt Service						
29 Existing Parity Debt Service (5)	\$ 1,285,544	\$ 2,075,544	\$ 2,076,044	\$ 2,074,544	\$ 3,293,258	\$ 3,292,878
30 Total Annual Parity Debt Service	\$ 1,285,544	\$ 2,075,544	\$ 2,076,044	\$ 2,074,544	\$ 3,293,258	\$ 3,292,878
31 Parity Debt Service Coverage (line 27/ line 30) with 15% Net Assets Required 1.20	8.20	5.48	8.42	6.91	5.84	3.52
32 Parity Debt Service Coverage (line 25/ line 30) without 15% Net Assets	6.49	4.36	6.92	5.69	4.79	2.40
33 Other Indebtedness						
34 Public Service Center Debt (6)	\$ 279,520	\$ 273,840	\$ 268,160	\$ 262,480	\$ 258,160	\$ 251,120
35 Total Other Indebtedness	\$ 279,520	\$ 273,840	\$ 268,160	\$ 262,480	\$ 258,160	\$ 251,120
36 Total Debt Service	\$ 1,565,064	\$ 2,349,384	\$ 2,344,204	\$ 2,337,024	\$ 3,551,418	\$ 3,543,998
37 Total Debt Service Coverage (line 25/ line 36) Required 1.00 (7)	5.33	3.85	6.12	5.05	4.44	2.23
38 Net Revenues After Debt Service	\$ 6,772,650	\$ 6,705,032	\$ 12,011,799	\$ 9,460,463	\$ 12,212,201	\$ 4,354,200
39 Total Unrestricted Net Assets - Prior Year	\$ 14,694,721	\$ 15,418,950	\$ 20,800,317	\$ 16,981,477	\$ 23,232,757	\$ 24,530,645
40 Total Unrestricted Net Assets - End of Year	\$ 15,418,950	\$ 20,800,317	\$ 16,981,477	\$ 23,232,757	\$ 24,530,645	\$ 33,739,018
41 End of Year Days Cash on Hand	806	1,071	799	880	839	760

Notes to Historical Operating Results:

- (1) Historical operating results through June 30th of each year are as reported in each of the Town's audited Annual Comprehensive Financial Reports for each respect Fiscal Year.
- (2) Annual fixed and volume charges for all water and sewer sales.
- (3) Other operating revenues include meter fees, tower rental, penalties, and user surcharges.
- (4) The miscellaneous expense in FY 2023 is related to a one-time legal settlement.
- (5) The Town has two prior series of outstanding revenue bonds including 2021 Combined Utilities Revenue Bonds and 2016 Combined Utilities Revenue Bonds, outlined in Table 9.
- (6) Other indebtedness includes payments to the General Fund for the utilities portion of the Public Service Center installment financing annual debt service. At present, the Town has no Subordinate indebtedness or System G.O. indebtedness.
- (7) Coverage excludes 15% of prior year ending net assets per Master Trust Agreement.

3. PROJECTED OPERATING RESULTS

The estimated and projected annual revenues and expenses of the System for the Fiscal Years beginning on July 1, 2023, and ending June 30, 2029 are based upon the Town's Fiscal Year 2024 and 2025 Budgets, adjusted annually thereafter for projected growth, rate adjustments, and cost inflation assumptions developed in consultation with Town staff. Projected operating results reflect an extension of current economic conditions and historical trends in water demands.

3.1 PRINCIPAL CONSIDERATIONS AND ASSUMPTIONS

In the preparation of this Report, certain considerations and assumptions were made with respect to future conditions. Stantec believes that the considerations and assumptions are reasonable for the purpose of this Report, they are dependent upon future events and actual conditions which may differ from those assumed. In addition, it is important to note that certain information and assumptions provided or prepared by others have been used and relied upon in the preparation of this Report. To the extent that actual conditions differ from those assumed herein or from information or assumptions provided or prepared by others, the actual results will vary from those estimated and projected herein.

The principal considerations and assumptions used in the projections of operating results for the System presented herein include the following:

- Customer and consumption growth projections used herein reflect conservative assumptions based upon (i) current local and national economic conditions and (ii) available treatment capacity within the System. The detailed growth assumptions schedule is presented in Section 2 of this Report.
- Future water and sewer rate adjustments have been provided by the Town and are based on the Town's long-term financial planning activities. Rate increases beyond FY 2025 have not yet been adopted by the Town Board, but the Board has been briefed on the future rate adjustment forecast as part of the Town's annual financial planning process for the System.
- Operating Expenses were adjusted to account for the future cost of inflation and customer growth. As verified with Town staff, inflation is applied to each System's expenses on a categorical basis. The annual escalation factors used in the forecast are discussed in Section 7 of this Report. Note that the financial projection utilizes the Town's Adopted Budgets for Fiscal Year 2024 and FY 2025, as such, escalation factors are applied in FY 2026 and over the remainder of the forecast period.
- The analysis presented herein includes the preliminary annual debt service requirements for the proposed 2024B Bonds as prepared by RW Baird on June 12, 2024. Anticipated borrowing proceeds are assumed to be utilized for funding identified capital project requirements for the cost of the construction of the Town's portion of the City of Sanford Water Treatment plant expansion and the design and construction of water lines projects.

- Future borrowing requirements were calculated based on projected future capital requirements and available resources. It is projected that the Town will require additional borrowings periodically during the remainder of the projection period to fund projected annual capital spending requirements. The assumed future debt service associated with future borrowing assumptions for the Town's System was provided by Davenport & Company, LLC.

3.2 PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE

Projections of operating results and debt service coverage for Fiscal Years 2023 through 2029 are summarized in Table 2 and reflect the considerations and assumptions discussed herein. Current expenses and revenues have been calculated consistent with the definitions contained within the Town's Master Trust Agreement, dated March 1, 2016. The debt service coverage has been calculated consistent with the requirements outlined in Section 4.03 Rate Covenant (the "Rate Covenant") within the Master Trust Agreement. The Rate Covenant states that "The Town covenants to fix, charge and collect rates, fees, rentals and charges for the use of and for services furnished or to be furnished by the System, and, from time to time and as often as it shall appear necessary, to revise those rates, fees, rentals and charges as may be necessary or appropriate, in order that for the Fiscal Year ending June 30, 2017, and for each Fiscal Year thereafter, the sum of (i) the Income Available for Debt Service for such Fiscal Year and (ii) 15% of the System Unrestricted Net Assets as of the last day of the preceding Fiscal Year will be not less than 120% of the Long-Term Debt Service Requirement for Parity Indebtedness for that Fiscal Year."

The Master Trust Agreement also states "the Town covenants to fix, charge and collect rates, fees, rentals and charges for the use of and for services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary, to shall revise those rates, fees, rentals and charges as may be necessary or appropriate, in order that for the Fiscal Year ending June 30, 2017, and for each Fiscal Year thereafter, the Income Available for Debt Service for that Fiscal Year will be not less than the sum of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness and the debt service on System G.O. Indebtedness for that Fiscal Year."

The debt service coverage shown in Table 2 has been calculated with the application of system development fees as revenues, given that the projects funded with the 2024B Bonds and future borrowing are necessitated to accommodate growth in the System. As such, the Town plans to the use the annual revenue generated from the fees to fund a portion of future debt service.

Table 2
Projected Operating Results, Debt Service Requirements and Coverage

	Fiscal Year Ending June 30					
	2024	2025	2026	2027	2028	2029
1 Operating Revenue						
2 Charges for Services (1)	\$ 21,974,110	\$ 26,666,573	\$ 32,370,102	\$ 39,380,600	\$ 47,765,919	\$ 52,756,356
3 Water and Sewer Tap fees	682,800	650,000	650,000	650,000	650,000	650,000
4 Other Operating Revenue (2)	241,800	216,800	216,800	216,800	216,800	216,800
5 System Development Fees	7,803,280	9,419,000	9,419,000	10,360,900	10,360,900	10,360,900
6 Total Operating Revenue	\$ 30,701,990	\$ 36,952,373	\$ 42,655,902	\$ 50,608,300	\$ 58,993,619	\$ 63,984,056
7 % change		20.4%	15.4%	18.6%	16.6%	8.5%
8 Operating Expenses (3)						
9 Water Treatment and Distribution	\$ (9,544,893)	\$ (10,506,324)	\$ (11,292,958)	\$ (12,539,508)	\$ (13,295,368)	\$ (14,181,518)
10 Waste Collection and Treatment	(5,073,154)	(5,584,159)	(6,002,258)	(6,664,805)	(7,066,548)	(7,537,541)
11 Total Operating Expenses	\$ (14,618,048)	\$ (16,090,483)	\$ (17,295,216)	\$ (19,204,313)	\$ (20,361,916)	\$ (21,719,058)
12 % change		10.1%	7.5%	11.0%	6.0%	6.7%
13 Non-Operating Revenue (Expenses)						
14 Investment Earnings	\$ 1,155,690	\$ 1,266,693	\$ 911,777	\$ 631,124	\$ 704,587	\$ 704,699
15 Lease Income	100,000	90,000	90,000	90,000	90,000	90,000
16 Miscellaneous Revenue, net	50,000	23,200	23,200	23,200	23,200	23,200
17 Net Transfers Out (4)	(5,000,000)	-	-	-	-	-
18 Capital Project Reimbursements (Capital Fund) (5)	931,569	7,357,979	-	-	-	-
19 Total Non-Operating Revenue (Expenses)	\$ (2,762,741)	\$ 8,737,872	\$ 1,024,977	\$ 744,324	\$ 817,787	\$ 817,899
20 Adjustments						
21 Net Transfers Out	\$ 5,000,000	\$ -	\$ -	\$ -	\$ -	\$ -
22 Capital Project Reimbursements (Capital Fund)	(931,569)	(7,357,979)	-	-	-	-
23 Total Adjustments	\$ 4,068,431	\$ (7,357,979)	\$ -	\$ -	\$ -	\$ -
24 Income Available for Debt Service	\$ 17,389,633	\$ 22,241,783	\$ 26,385,662	\$ 32,148,310	\$ 39,449,491	\$ 43,082,897
25 Add: 15% of Unrestricted Net Assets (line 54 * 15%)	1,938,718	3,013,604	4,064,904	4,301,398	5,042,459	5,553,561
26 Income Available for Parity Debt Service	\$ 19,328,351	\$ 25,255,387	\$ 30,450,566	\$ 36,449,708	\$ 44,491,950	\$ 48,636,457
27 Parity Debt Service						
28 Existing Parity Debt Service	\$ 3,264,930	\$ 3,236,124	\$ 3,208,806	\$ 3,180,360	\$ 2,223,274	\$ 2,115,920
29 Series 2024A Bonds (6)	-	3,063,185	3,054,700	4,639,700	4,640,450	4,637,200
30 Series 2024B Bonds (7)	-	1,598,880	3,587,450	3,590,550	5,088,075	5,089,063
31 Series 2024C Bonds (8)	-	3,453,390	6,906,780	6,906,780	10,157,581	10,153,413
32 Future Parity Debt (9)	-	-	618,000	895,740	1,312,740	1,312,740
33 Total Parity Debt Service	\$ 3,264,930	\$ 11,351,579	\$ 17,375,736	\$ 19,213,131	\$ 23,422,120	\$ 23,308,336
34 Parity Indebtedness Coverage (line 26 / line 33) with 15% of Net Assets Required 1.20	5.92	2.22	1.75	1.90	1.90	2.09
35 Parity Indebtedness Coverage (line 24 / line 33) without 15% of Net Assets	5.33	1.96	1.52	1.67	1.68	1.85
36 G.O. Indebtedness						
37 Series 2023B G.O. Bonds (10)	\$ 159,400	\$ 385,350	\$ 387,600	\$ 384,475	\$ 385,975	\$ 386,975
38 Total G.O. Indebtedness	\$ 159,400	\$ 385,350	\$ 387,600	\$ 384,475	\$ 385,975	\$ 386,975
39 Subordinated Indebtedness						
40 Future State Revolving Fund Loans (11)	-	-	-	-	3,013,200	3,295,080
41 Total Annual Subordinate Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 3,013,200	\$ 3,295,080
42 Subtotal: Parity, G.O. and Subordinated Indebtedness	\$ 3,424,330	\$ 11,736,929	\$ 17,763,336	\$ 19,597,606	\$ 26,821,295	\$ 26,990,391
43 Debt Coverage - Parity, G.O. & Subordinated (line 24 / line 42) Required 1.00	5.08	1.90	1.49	1.64	1.47	1.60
44 Other Indebtedness						
45 Public Service Center	\$ 231,200	\$ 227,300	\$ 223,400	\$ 219,500	\$ 215,600	\$ 211,700
46 Total Other Indebtedness	\$ 231,200	\$ 227,300	\$ 223,400	\$ 219,500	\$ 215,600	\$ 211,700
47 Total Annual Debt Service	\$ 3,655,530	\$ 11,964,229	\$ 17,986,736	\$ 19,817,106	\$ 27,036,895	\$ 27,202,091
48 All-In Debt Service Coverage (line 24 / line 47)	4.76	1.86	1.47	1.62	1.46	1.58
49 Net Revenues After Debt Service	\$ 13,734,103	\$ 10,277,554	\$ 8,398,926	\$ 12,331,204	\$ 12,412,595	\$ 15,880,805
50 Other Expenditures						
51 Operating Fund Pay-Go Funded Projects	(2,189,250)	(3,470,563)	(10,168,591)	(8,144,420)	(9,005,253)	(18,869,200)
52 Capital Reserve Fund (SDF) Pay-Go	(1,192,600)	(13,000,000)	-	-	-	-
53 Total Other Expenditures	\$ (3,381,850)	\$ (16,470,563)	\$ (10,168,591)	\$ (8,144,420)	\$ (9,005,253)	\$ (18,869,200)
54 Non-Operating Revenues (Expenses)	\$ (4,068,431)	\$ 7,357,979	\$ -	\$ -	\$ -	\$ -
55 Use of (Contributions to) Capital Reserve SDF Fund	\$ 882,081	\$ 5,843,698	\$ 3,346,292	\$ 753,623	\$ -	\$ -
56 Total Unrestricted Net Assets - Prior Year (12)	\$ 12,924,789	\$ 20,090,692	\$ 27,099,360	\$ 28,675,987	\$ 33,616,394	\$ 37,023,737
57 Surplus / (Deficit)	\$ 7,165,903	\$ 7,008,668	\$ 1,576,627	\$ 4,940,407	\$ 3,407,343	\$ (2,988,395)
58 Total Unrestricted Net Assets - End of Year	\$ 20,090,692	\$ 27,099,360	\$ 28,675,987	\$ 33,616,394	\$ 37,023,737	\$ 34,035,342
59 End of Year - Unrestricted Days Cash on Hand	502	615	605	639	664	572
60 End of Year - Total Days Cash on Hand	800	753	663	677	700	606

Notes to Projected Operating Results:

- (1) FY 2024 charges for service reflect estimated revenues based on adopted rate increases applied to FY 2023 actuals. Future years are based on forecasted increases in rates and increases in billed volumes. Table 14 presents the projected rate increases and changes in volumes.
- (2) Other operating revenues include meter fees, tower rental, penalties and user surcharges based on FY 2024 budget. Other revenues are held constant over the forecast period.
- (3) Operating expenses based on FY 2024 adopted budget and the FY 2025 preliminary budget, unless otherwise noted. Future years based on estimates of inflation by expenditure type. Assumptions are discussed in Section 7 of this report.
- (4) Represents a transfer out for a legal settlement. The transfer out totals \$7 million but is offset by a transfer in from the General Fund of \$2 million in FY 2024.
- (5) The Town plans to reimburse the Capital Reserve Fund with future borrowings for use of funds from the Capital Reserve.
- (6) Series 2024A Bonds were used to finance the Town's portion of the Northern Harnett County WWTP Expansion and Southern Oaks Sewer Pump Station.
- (7) Series 2024B Bonds financing of the Town's portion Sanford Water Plant Expansion design and construction and water line projects. Assumes project amount of \$69.0 million, 25-year term and 4.785% interest rate with interest only payments in FY 2025. Sources and uses are shown in Table 8.
- (8) Series 2024C Bonds financing of the Town's portion of Sanford Conveyance design and construction and the design and construction the Terrible Creek Wastewater Treatment plant expansion. Assumes project amount of \$136.85 million, 25-year term and 5.00% interest rate with interest only payments in FY 2025, FY 2026 and FY 2027. Sources and uses are shown in Table 8. It should be noted that the projections conservatively assume a combined borrowing for the two projects described herein however there is the potential for the financing for the Sanford Conveyance project to occur in a subsequent issuance but still within FY 2025.
- (9) Future bonds for System projects discussed in Section 5 of this report.
- (10) The Town recently issued the Series 2023B G.O. Bonds of which a portion are for System projects discussed in Section 5 of this report. Such bonds constitute System G.O. Indebtedness.
- (11) The Town has secured a loan from the North Carolina Department of Environmental Quality totaling \$54 million for a portion of the Sanford Plant Expansion project. The terms of the loan include a 20-year maturity at 1.16% interest rate. Such loan constitutes Subordinated Indebtedness.
- (12) The prior year unrestricted net assets reflect the ending balance in the Town's Operating Fund (Fund 061) and excludes non-cash items and cash within the Town's Capital Projects Fund (Funds 059 and 060).

4. BACKGROUND AND DEMAND FOR SERVICES

4.1 BACKGROUND AND SCOPE OF OPERATIONS

The water system and wastewater system components of the System are owned by the Town and operated through its Public Utilities Department. The Public Utilities Department has the equivalent of 34.5 full time employees organized by administration, water distribution, wastewater collection, wastewater treatment, and meter reading functions. Other operational support is provided by Customer Services, a component of the Finance Department, which is responsible for billing, collecting, and customer service for the water and wastewater system operation. The Town's Mayor and Board of Commissioners appoint a Town Manager to serve as the Town's chief executive officer. The Town Manager serves at the Town Board's pleasure, implements its policies, directs its business and administrative procedures, and appoints its department directors. The Public Utilities Department lies under the administrative control of the Town Manager, with the Public Utilities Director reporting directly to the Town Manager. The Town Board sets rates for all utilities, and no State or other authority has any regulatory control over the Town's utility rates.

Water System

The Town's water infrastructure is maintained and operated by the Town's Distribution Department. The water system consists of approximately 272 miles of water lines, 3 booster pumps and 2 elevated water tanks. The Town currently purchases water from the City of Raleigh, Harnett County and Johnston County. The water system currently has an allocated capacity of 7.25 million gallons per day (MGD) available from its wholesale providers. The Town is entering an Interlocal Agreement with the City of Sanford to participate in the funding of the expansion of the Sanford Water Treatment Plant. The Town will receive an allocation of an additional 6 MGD from the Stanford plant. This equates to 33.3% of the total 18 MGD expansion project being undertaken by Sanford. The resulting costs of this project and other replacement and expansion projects for the water system are outlined in Section 5 of this report.

Wastewater System

The Town maintains two wastewater treatment plants, the Northern Harnett County Wastewater Treatment Plant (WWTP) and the Terrible Creek WWTP. Wastewater is collected and conveyed through 241 miles of sewer lines and 31 pump stations. The total current sewage treatment capacity available to the Town is approximately 5.72 MGD. Over the past several years the Town has developed plans to update the Town's sewer system including the expansion of both wastewater treatment plants. The Town plans to expand the Northern Harnett WWTP by 3.4 MGD and the Terrible Creek WWTP by 3.0 MGD. Costs associated with these expansions and additional capital projects are outlined in Section 5 of this Report.

4.2 DEMAND FOR SERVICES

The Town serves as the provider of water services to all retail customers within the Town limits as well as some customers located outside the Town. Town staff provided historical water and sewer customer

account and consumption data dating back to Fiscal Year 2018. Table 3 presents the totals for the past six years for each part of the System. The tables demonstrate that the vast majority of the Town's customers are located within the Town limits. The tables demonstrate that customer growth has been substantial within the Town's water and sewer system with water customers increasing by an average of about 7.3% per year and sewer customer counts increasing by 6.7%.

Table 3
Historical Water Customer Billed Volumes and Customer Accounts

<i>Fiscal Year Ending June 30</i>						
	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual
1 Water Accounts						
2 In-Town	11,996	12,590	13,079	14,036	15,849	17,254
3 Out-of-Town	520	521	513	512	520	520
4 Total Water Accounts	12,516	13,111	13,593	14,548	16,369	17,774
		4.7%	3.7%	7.0%	12.5%	8.6%
5 Billed Water Flow (1,000 gallons)						
6 In-Town	677,224	695,399	728,383	773,279	860,587	934,453
7 Out-of-Town	55,498	56,490	51,351	49,118	49,546	49,546
8 Total Water Customer Billed Volumes	732,722	751,889	779,734	822,397	910,133	983,999
		2.6%	3.7%	5.5%	10.7%	8.1%
9 Sewer Accounts						
10 In-Town	9,480	10,150	10,698	11,244	11,617	13,061
11 Out-of-Town	13	14	14	14	15	15
12 Total Sewer Accounts	9,493	10,164	10,711	11,258	11,631	13,075
		7.1%	5.4%	5.1%	3.3%	12.4%
13 Billed Sewer Flow (1,000 gallons)						
14 In-Town	605,249	621,759	653,273	702,946	761,454	855,989
15 Out-of-Town	28,421	30,751	26,113	19,679	23,072	23,072
16 Total Sewer Customer Billed Volumes	633,670	652,511	679,386	722,625	784,526	879,061
		3.0%	4.1%	6.4%	8.6%	12.0%

Table 4 presents a forecast of the estimated flows and customer accounts for each system over the projection period. The forecasts were based on the FY 2023 actual results and discussions with Town staff regarding anticipated increases in demands. The forecast of customer growth assumes 1,000 new water and sewer accounts in FY 2024, FY 2025 and FY 2026 and then annual growth of 1,100 new accounts for each subsequent year of the projection period. These customers are assumed to all be located within the Town limits. Based on discussions with Town staff, the growth in customers is conservative given recent annual growth in accounts and known planned developments within the Town. The growth in billed volumes is based on the corresponding increase in account growth.

Table 4
Projected Customer Billed Volumes and Customer Accounts

<i>Fiscal Year Ending June 30</i>						
	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
1 Water Accounts						
2 In-Town	18,254	19,254	20,254	21,354	22,454	23,554
3 Out-of-Town	520	520	520	520	520	520
4 Total Water Accounts	18,774	19,774	20,774	21,874	22,974	24,074
5 <i>Additional Accounts</i>	<i>1,000</i>	<i>1,000</i>	<i>1,000</i>	<i>1,100</i>	<i>1,100</i>	<i>1,100</i>
	5.6%	5.3%	5.1%	5.3%	5.0%	4.8%
6 Billed Water Flow (1,000 gallons)						
7 In-Town	987,027	1,039,601	1,092,174	1,150,006	1,207,837	1,265,668
8 Out-of-Town	49,546	49,546	49,546	49,546	49,546	49,546
9 Total Water Billed Volumes	1,036,573	1,089,147	1,141,720	1,199,551	1,257,382	1,315,213
	5.3%	5.1%	4.8%	5.1%	4.8%	4.6%
10 Sewer Accounts						
11 In-Town	14,061	15,061	16,061	17,161	18,261	19,361
12 Out-of-Town	15	15	15	15	15	15
13 Total Sewer Accounts	14,075	15,075	16,075	17,175	18,275	19,375
14 <i>Additional Accounts</i>	<i>1,000</i>	<i>1,000</i>	<i>1,000</i>	<i>1,100</i>	<i>1,100</i>	<i>1,100</i>
	7.6%	7.1%	6.6%	6.8%	6.4%	6.0%
16 Billed Sewage (1,000 gallons)						
17 In-Town	921,457	986,924	1,052,392	1,124,406	1,196,421	1,268,435
18 Out-of-Town	23,072	23,072	23,072	23,072	23,072	23,072
19 Total Sewer Billed Volumes	944,529	1,009,996	1,075,464	1,147,478	1,219,493	1,291,507
	7.4%	6.9%	6.5%	6.7%	6.3%	5.9%

5. CAPITAL IMPROVEMENTS PLAN

5.1 CAPITAL IMPROVEMENT PLANS

The Town has provided capital improvement plans through FY 2029 that outline the planned investments in the Town's water and sewer infrastructure. The capital plans provide for major system expansions and system replacements as well as minor capital investments in repair and rehabilitation type projects. Tables 5 and 6 present the FY 2024 budgeted capital plan and the projected five-year capital plan for FY 2025 to FY 2029 for the water and sewer systems. The tables also present the anticipated funding sources for each of the capital projects.

Table 5
Water System Capital Improvements Plan

Funding Source		Fiscal Year Ending June 30						Total				
		2024	2025	2026	2027	2028	2029					
WATER CAPITAL PROJECTS												
1	Sanford Project - Conveyance (Design)	Sanford Conveyance (2024C Bonds)	\$	-	\$ 5,136,565	\$	-	\$	-	\$	-	\$ 5,136,565
2	Sanford Project - Conveyance (Construction) (-\$28.6M APP)	Sanford Conveyance (2024C Bonds)		-	62,331,296	-	-	-	-	-	-	62,331,296
3	Sanford Project - Design	Sanford WTF (2024B Bonds)		-	3,745,917	-	-	-	-	-	-	3,745,917
4	Sanford Project - Plant Expansion (Construction)	Multiple Sources*		-	131,938,725	-	-	-	-	-	-	\$131,938,725
5	Water Line Replacements (Fund 60)	Pay-Go		500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000			\$ 5,500,000
6	Water Line Oversizing (Fund 60)	Pay-Go		50,000	50,000	50,000	50,000	50,000	50,000			\$ 300,000
7	Valve Replacement Program	Pay-Go		50,000	50,000	50,000	50,000	50,000	50,000			\$ 300,000
8	Miscellaneous Water Projects	Pay-Go		225,000	236,250	248,062	260,465	268,279	276,327			\$ 1,514,383
9	1 mgd tank - location TBD	Water Tanks (2025 & 2027 Bonds)		-	7,000,000	-	-	-	-			\$ 7,000,000
10	Donny Brook Rd - Lake Wheeler to 401	Pay-Go		778,000	-	-	-	-	-			\$ 778,000
11	Burt Road from Fleming Road to Starchase lane	Capital Reserve Fund		728,600	2,700,000	-	-	-	-			\$ 3,429,600
12	Wagstaff Rd - Howard to Weststone Dr.	Capital Reserve Fund		463,000	-	-	-	-	-			\$ 463,000
13	Purchase Harnett County Water District	Water Purchase (2025 Bonds)		-	5,000,000	-	-	-	-			\$ 5,000,000
14	Piney Grove Wilbon - Fleming Rd to Phelps West Rd	Capital Reserve Fund		-	-	-	-	-	-			\$ -
15	Judd Parkway Loop (North East)	Capital Reserve Fund		-	1,800,000	-	-	-	-			\$ 1,800,000
16	Holland Rd - Judd Parkway to PSC to 55	Pay-Go		-	-	1,316,000	-	-	-			\$ 1,316,000
17	Johnson Pond Rd Loop at Main St. and 401	Pay-Go		-	-	652,000	-	-	-			\$ 652,000
18	Old Powell Road from Wilbon to Southern Wake Academy (c	Pay-Go		-	-	1,379,000	-	-	-			\$ 1,379,000
19	Dwight Rowland - Kennebec to NC Hwy 42	Pay-Go		-	-	615,000	-	-	-			\$ 615,000
20	1.5 mgd tank - location TBD (proximity to PSC)	Water Tanks (2025 & 2027 Bonds)		-	-	-	7,500,000	-	-			\$ 8,000,000
21	Johnson Pond Rd Loop - Brighton Forest to Spicewood Dr.	Pay-Go		-	-	-	-	2,471,000	-			\$ 2,471,000
22	Clayton Rd. Hwy 55 to Maude Stewart	Pay-Go		-	-	-	-	1,456,000	-			\$ 1,456,000
23	Kennebec from Maude Stewart to Walter Myatt	Pay-Go		-	-	-	-	858,000	-			\$ 858,000
24	Ten Ten Road - Lake Wheeler to Johnson Pond	Pay-Go		-	-	-	-	1,352,000	-			\$ 1,352,000
25	Buck Roland from Walter Myatt to Kennebec Road	Pay-Go		-	-	-	-	-	1,098,000			\$ 1,098,000
26	Johnson Pond Loop - Ten Ten Rd to Optimist Farm	Pay-Go		-	-	-	-	-	1,040,400			\$ 1,040,400
27	Panther Lake from NC42 to John Adams	Pay-Go		-	-	-	-	-	3,188,000			\$ 3,188,000
28	Water Line Projects	Water Lines (2024B Bonds)		-	6,000,000	-	-	-	-			\$ 6,000,000
29	Total Capital Improvement Plan		\$	2,795,600	\$226,988,753	\$5,810,062	\$ 8,860,465	\$7,505,279	\$6,702,727			\$258,662,886
30	Anticipated Funding Sources											
31	Capital Reserve Fund			1,192,600	4,500,000	-	-	-	-			5,692,600
32	Pay-Go			1,603,000	1,336,250	5,310,062	1,360,465	7,505,279	6,702,727			23,817,783
33	Stanford WTF (General Obligation Bond 2023B)*			-	3,390,270	-	-	-	-			3,390,270
34	Sanford WTF (SRF Funding)*			-	54,000,000	-	-	-	-			54,000,000
35	Sanford WTF (2024B Bonds)*			-	63,000,000	-	-	-	-			63,000,000
36	Stanford WTF (State Appropriations & ARPA)*			-	15,294,372	-	-	-	-			15,294,372
37	Water Lines (2024B Bonds)			-	6,000,000	-	-	-	-			6,000,000
38	Sanford Conveyance (2024C Bonds)			-	67,467,861	-	-	-	-			67,467,861
39	Water Purchase (2025 Bonds)			-	5,000,000	-	-	-	-			5,000,000
40	Water Tanks (2025 & 2027 Bonds)			-	7,000,000	500,000	7,500,000	-	-			15,000,000
41	Total Capital Improvement Plan		\$	2,795,600	\$226,988,753	\$5,810,062	\$ 8,860,465	\$7,505,279	\$6,702,727			\$258,662,886

Table 6
Sewer System Capital Improvements Plan

		Funding Source		Fiscal Year Ending June 30						Total
				2024	2025	2026	2027	2028	2029	
SEWER CAPITAL PROJECTS										
1	Terrible Creek WWTP Expansion Design (3 mgd to 6 mgd)	TC WWTP (2024C Bonds)	\$ -	\$ 5,383,490	\$ -	\$ -	\$ -	\$ -		5,383,490
2	Terrible Creek WWTP Expan. Construct (3 mgd to 6 mgd)	TC WWTP (2024C Bonds)	-	64,000,000	-	-	-	-	-	64,000,000
3	Northern Harnett County Wastewater Treatment Plant Expansion	Harnett WWTP Expansion (2024A Bonds)	44,000,000	-	-	-	-	-	-	44,000,000
4	Southern Oaks Sewer Pump Station	Southern Oaks (2024A Bonds)	27,681,031	-	-	-	-	-	-	27,681,031
5	Southern Oaks Sewer Pump Station - GO Bond	General Obligation Bond 2023B	2,260,653	-	-	-	-	-	-	2,260,653
6	Sewer Line Oversizing (Fund 60)	Pay-Go	50,000	50,000	50,000	50,000	50,000	50,000		300,000
7	Miscellaneous Sewer Projects	Pay-Go	225,000	236,250	248,063	260,466	268,280	276,328		1,514,387
8	Sewer line Inflow & Infiltration (I&I)	Pay-Go	236,250	248,063	260,466	273,489	281,694	290,144		1,590,106
9	Migrate Pump Station SCADA	Pay-Go	75,000	-	-	-	-	-	-	75,000
10	Sewer Line System Evaluation Repairs	Pay-Go	-	1,600,000	-	-	-	-	-	1,600,000
11	Brighton Forest WWTP Gravity Sewer (70%)	Capital Reserve Fund	-	8,500,000	-	-	-	-	-	8,500,000
12	PSC Equipment Shelter	Pay-Go	-	-	4,300,000	-	-	-	-	4,300,000
13	Fanny Brown Road Pump station and Force Main (90 gpm, 4" F)	Pay-Go	-	-	-	6,200,000	-	-	-	6,200,000
14	Terrible Creek Pump Station and Force Main	Pay-Go	-	-	-	-	450,000	2,100,000		2,550,000
15	Terrible Creek Interceptor	Pay-Go	-	-	-	-	450,000	1,950,000		2,400,000
16	Walter Myatt Pump Station	Pay-Go	-	-	-	-	-	7,500,000		7,500,000
17	Total Capital Improvement Plan		\$74,527,934	\$80,017,803	\$4,858,529	\$6,783,955	\$ 1,499,974	\$12,166,473		\$179,854,668
Anticipated Funding Sources										
18	Capital Reserve Fund		-	8,500,000	-	-	-	-		8,500,000
19	General Obligation Bond 2023B		2,260,653	-	-	-	-	-		2,260,653
20	Pay-Go		586,250	2,134,313	4,858,529	6,783,955	1,499,974	12,166,473		28,029,494
21	Southern Oaks (2024A Bonds)		27,681,031	-	-	-	-	-		27,681,031
22	Harnett WWTP Expansion (2024A Bonds)		44,000,000	-	-	-	-	-		44,000,000
23	TC WWTP (2024C Bonds)		-	69,383,490	-	-	-	-		69,383,490
24	Total Capital Improvement Plan		\$74,527,934	\$80,017,803	\$4,858,529	\$6,783,955	\$ 1,499,974	\$12,166,473		\$179,854,668

The Town plans to fund the water and sewer system capital improvement plans from several different funding sources. The planned funding sources reflected in this Report represent estimates of planned funding at this time. A summary of the capital plan funding is shown in Table 7 and a description of the anticipated funding sources for the capital improvement projects is provided following the Table.

Table 7
Summary of Water and Sewer Capital Plan Funding

Total Project Amounts	Fiscal Year Ending June 30						Total
	2024	2025	2026	2027	2028	2029	
1 Total Water Projects	\$ 2,795,600	\$ 226,988,753	\$ 5,810,062	\$ 8,860,465	\$ 7,505,279	\$ 6,702,727	\$ 258,662,886
2 Total Sewer Projects	74,527,934	80,017,803	4,858,529	6,783,955	1,499,974	12,166,473	179,854,668
3 Total Capital Improvements Plan	\$ 77,323,534	\$ 307,006,556	\$ 10,668,591	\$ 15,644,420	\$ 9,005,253	\$ 18,869,200	\$ 438,517,554
4 Sources of Funds							
5 Pay-Go (User Rates)	\$ 2,189,250	\$ 3,470,563	\$ 10,168,591	\$ 8,144,420	\$ 9,005,253	\$ 18,869,200	\$ 51,847,277
6 Capital Reserve Fund (SDF)	1,192,600	13,000,000	-	-	-	-	14,192,600
7 General Obligation Bond 2023B	2,260,653	3,390,270	-	-	-	-	5,650,923
8 SRF Funding (Sanford Plant)	-	54,000,000	-	-	-	-	54,000,000
9 Series 2024A Bonds (Southern Oaks)	27,681,031	-	-	-	-	-	27,681,031
10 Series 2024A Bonds (NHRWWTP Expansion)	44,000,000	-	-	-	-	-	44,000,000
11 Series 2024B Bonds (Sanford WTF Plant)	-	63,000,000	-	-	-	-	63,000,000
12 Series 2024B Bonds (Water Lines)	-	6,000,000	-	-	-	-	6,000,000
13 Series 2024C Bonds (Sanford Conveyance)	-	67,467,861	-	-	-	-	67,467,861
14 Series 2024C Bonds (Terrible Creek WWTP)	-	69,383,490	-	-	-	-	69,383,490
15 State Appropriation & ARPA	-	15,294,372	-	-	-	-	15,294,372
16 Future Bonds - Harnett Water Purchase (2025 Bonds)	-	5,000,000	-	-	-	-	5,000,000
17 Future Bonds - Water Tanks (2025 & 2027 Bonds)	-	7,000,000	500,000	7,500,000	-	-	15,000,000
18 Total Sources of Funds	\$ 77,323,534	\$ 307,006,556	\$ 10,668,591	\$ 15,644,420	\$ 9,005,253	\$ 18,869,200	\$ 438,517,553

- **Pay-Go (User Rates):** Represents the use of revenues generated from the annual water and sewer charges for service. The Town anticipates using rate revenue to fund routine capital maintenance projects, for the purchase of heavy equipment and vehicles, repair and replacement projects.
- **Capital Reserve Fund (SDF):** The Town collects system development fees from new connections into the system. Per North Carolina State Statutes, the Town can use the proceeds from these fees to fund capital improvement projects within the water and sewer system. The Town anticipates using water SDF revenues to fund various capital projects as identified in Tables 5 and 6. In some instances the

Town plans to use funds from the Capital Reserve for the design portion of capital projects. The Town plans to reimburse these funds from future borrowings.

- **Future Bonds:** Projects funded with future Revenue Bonds, as described in the following subsection of this Report. Debt service associated with future bonds is presented in Table 9.
- **SRF Funding :** The Town anticipates funding \$54.0 million of the Sanford Plant Expansion project with State Revolving Fund (SRF) loans.
- **State Appropriations and American Rescue Plan Act (ARPA):** The Town has received state appropriations of \$6.3 million and ARPA funding totaling \$9.0 million for the Sanford Water Plant Expansion project.

Projects to be funded with the Series 2024B Bonds

Sanford Water Treatment Plant Expansion: The City of Sanford owns and operates the Sanford Water Treatment Plant (Sanford WTP), which was originally constructed in 1970 with a capacity of 6 million gallons per day (MGD). In 1990, the plant was expanded to 12 MGD. The Sanford WTP has seen an increase in demand that is rapidly approaching the plant's maximum capacity. As a result, the City has been in discussions with neighboring municipalities interested in purchasing water to address their respective future water demands given rapid growth within the region. The City, with participation from the Town, selected Hazen and Sawyer (Hazen), to provide engineering services to expand the Sanford WTP. The City of Sanford has asked the Town to enter into an Interlocal Agreement (ILA) to determine mutual interest and benefits for collaborating on the Sanford WTP expansion to serve each community's future water needs. The other jurisdictions committed to participating in the Sanford WTP expansion project include the Town of Holly Springs and the Town of Pittsboro. According to the ILA, each of these jurisdictions will mutually share in the costs of conducting joint engineering and design work for the incremental expansion of the Sanford WTP by 18 MGD. Each entity's incremental capacity allocation determines each jurisdiction's cost participation requested out of the total 18 MGD Sanford WTP expansion project. Of the 18 MGD expansion, the Town is requesting six (6) MGD of capacity allocation, which equates to 33.3% of the total expansion. The proceeds from the Series 2024B Bonds will be used to fund the Town's portion of the design and construction of the 18 MGD Sanford WTP expansion. The Series 2024B Bonds will be used to finance approximately \$63.0 million of the cost of the construction of the Sanford WTP Expansion. The remainder of the Town's portion of the project will be funded with \$54.0 million in State Revolving Loan Funds (SRF) and State appropriations and ARPA (\$15.3 million in total) for a total cost for construction to the Town of \$132.20 million. The Town used \$3.39 million in proceeds from the 2023B GO Bonds to fund a portion of the WTP Expansion design, total design costs were \$3.75 million.

Water Line Projects: Town plan to extend and replace water lines within the water distribution system. The water line projects include:

- Southwest Judd and Academy St. waterline which will loop 1,600 ft of 16" waterline to ensure water quality, quantity, and pressure.
- Kennebec and Maude Stewart waterline extension which provides approximately 11,000 ft of ductile iron pipe extension to loop the distribution system and support water quality and pressure.

- Ransdell Road waterline replacement which will replace 1,200 ft of 8" asbestos concrete waterline.
- 2020 Waterline replacements projects which replaces galvanized, asbestos concrete and cast iron waterline sections on Vance Street, Holland Road, Main Street, Woodland Drive, Reynolds Drive, and Depot Street.

Projects to be funded with the Series 2024C Bonds

Sanford Conveyance: To accommodate the transmission of water from the Sanford WTP to the Town and other participating jurisdictions, a water conveyance system will need to be constructed. The Town has engaged the engineering consulting firms Hazen and Sawyer and Freese Nichols for the Preliminary Engineering Report (PER) to design the required water conveyance system from the Sanford WTP and entered into a Memorandum of Understanding (MOU) with the Town of Holly Springs to share PER costs. The design and engineering MOU details a cost-sharing arrangement for design and engineering services to convey potable water from the Sanford WTP to the Town and Holly Springs. According to this MOU, each of these jurisdictions will mutually share in the costs of conducting joint engineering and design work for the incremental conveyance of water in the amount of 16 MGD. Each entity's incremental capacity allocation determines each jurisdiction's cost participation requested from the total 16 MGD in the water conveyance line. These estimates also include costs for the conveyance line's booster pump stations and separate costs related to the infrastructure needed to connect to each jurisdiction's water distribution systems. Of the 16 MGD of capacity in the conveyance line, the Town is requesting ten (10) MGD of capacity allocation (63.2%), with the Town of Holly Springs requesting the remaining six (6) MGD of capacity allocation (36.8%). The Town's total portion of the design and construction of the conveyance system is approximately \$67.48 million. The Town plans to fund its portion of the cost of the conveyance project from the issuance of Series 2024C Bonds.

Terrible Creek WWTP Expansion: The Terrible Creek WWTP (TCWWTP) treats sanitary sewer in the Neuse River Basin for Town sewer customers. In June 2018, the plant's capacity was increased to 3 MGD, permitted to 6 MGD, and was anticipated to provide capacity until 2035. Robust growth in the service area currently provides average daily flows of approximately 1.4 MGD with allocated capacity (not yet tributary flows) exceeding 80% of the 3 MGD total capacity. Expansion of the TCWWTP is needed to accommodate long-term growth and sewer capacity needs. This project proposes to design and facilitate permitting necessary to upgrade the TCWWTP capacity to 6.0 MGD. The total cost of the project (including design) is estimated to be \$69.38 million will be funded from the issuance of Series 2024C Bonds.

Projects to be funded with future bonds

Based on a five-year capital improvements plan, there are several projects for which the Town anticipates issuing future bonds. These projects include the following:

Elevated Storage Tanks (2025 Bonds and 2027 Bonds)

The Town currently has 700,000 gallons of water storage capacity within (2) two elevated storage tanks. The Town is working through design of a new 1.0 million gallon (MG) elevated storage tank. The additional tank is needed to maintain system integrity, will increase maintain and improve water pressure in low-pressure areas, equalize volume during peak demands when water usage is high, and will increase overall elevated storage tank capacity and maintain emergency water storage supply. The 1 MG tank is estimated to be constructed within the next two years and will cost \$7.0 million. The Town plans to issue future

revenue bonds to fund the storage tank. Within the planning horizon, the Town anticipates needing to construct an additional storage tank with a capacity of 1.5 MG. This tank will be constructed in the FY 2027 timeframe, is estimated to cost \$8.0 million and will be funded with future revenue bonds.

Purchase Harnett County Water District (2025 Bonds)

The Town currently maintains an agreement with the Harnett County for the purchase of water totaling 4 MGD. With growth, Harnett County began encroaching their water system into Wake County without approval and serving new developments. Through agreements, Fuquay-Varina was identified to purchase the infrastructure within Wake County and serve those residents. The Town needs to loop its existing water system into the existing Harnett County water system in Wake County to provide those customers service and purchase the depreciated and/or dedicated assets. The cost of the purchase is \$5.0 million and the Town plans to use future revenue bonds to fund the purchase.

6. FINANCING PLAN

Davenport & Company, LLC has provided the Town with various financing strategies for the applicable capital improvement projects funded through the Series 2024B Revenue Bonds. The Town has selected a financing plan designed to accomplish the following objectives:

- Conform with credit criteria established by rating agencies;
- Minimize debt service and related charges;
- Provide funds most cost-effectively; and
- Conform to the covenants within the Town's Master Trust Agreement.

This Report assumes that the Series 2024B Bonds will be sold, and the proceeds will be available before the end of August 2024, resulting in approximately \$69 million in proceeds to finance the project described in Section 5 of this Report. The estimated sources and uses of funds schedule for the Series 2024B Bonds, as assumed in this Financial Feasibility Report, and reflecting current market conditions, are presented in Table 8. The table also presents the estimated sources and uses for future bond issues.

		Series 2024B (Sanford WTF Expansion)	Series 2024B (Water Line Projects)	Series 2024C (Sanford Conveyance)	Series 2024C (Terrible Creek WWTP)	Future Bonds	
						2025	2027
1	Sources of Funds:						
2	Bond Proceeds:						
3	Par Amount	\$ 61,370,000	\$ 5,850,000	\$ 68,101,001	\$ 70,034,607	\$ 12,360,000	\$ 8,340,000
4	Net Premium	2,429,067	229,351	-	-	-	-
5		\$ 63,799,067	\$ 6,079,351	\$ 68,101,001	\$ 70,034,607	\$ 12,360,000	\$ 8,340,000
6	Uses of Funds:						
7	Project Fund Deposits:						
	Project Fund	\$ 63,000,000	\$ 6,000,000	\$ 67,467,861	\$ 69,383,490	\$ 12,000,000	\$ 8,000,000
8	Delivery Date Expenses:						
9	Cost of Issuance	547,783	52,217	295,801	304,199	300,000	300,000
10	Underwriter's Discount	248,754	23,712	337,339	346,917	60,000	40,000
11		\$796,538	\$75,929	\$633,140	\$651,117	\$360,000	\$340,000
12	Other Uses of Funds:						
13	Additional Proceeds	2,530	3,422	-	-	-	-
14		\$ 63,799,067	\$ 6,079,351	\$ 68,101,001	\$ 70,034,607	\$ 12,360,000	\$ 8,340,000

Table 9 presents the existing and proposed long-term debt service for the Town incorporating the future borrowing represented in Table 8.

Table 9
Existing and Proposed Long-Term Debt Service

	Fiscal Year Ending June 30					
	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
1 Existing Parity Indebtedness						
2 2021 Combined Utilities Bond						
3 Principal	\$ 1,173,000	\$ 1,169,000	\$ 1,168,000	\$ 1,163,000	\$ 232,000	\$ 128,000
4 Interest	327,580	301,774	276,056	250,360	224,774	219,670
5 Subtotal	<u>\$ 1,500,580</u>	<u>\$ 1,470,774</u>	<u>\$ 1,444,056</u>	<u>\$ 1,413,360</u>	<u>\$ 456,774</u>	<u>\$ 347,670</u>
6 2016 Revenue Bonds						
7 Principal	\$ 975,000	\$ 1,015,000	\$ 1,055,000	\$ 1,110,000	\$ 1,165,000	\$ 1,225,000
8 Interest	789,350	750,350	709,750	657,000	601,500	543,250
9 Subtotal	<u>\$ 1,764,350</u>	<u>\$ 1,765,350</u>	<u>\$ 1,764,750</u>	<u>\$ 1,767,000</u>	<u>\$ 1,766,500</u>	<u>\$ 1,768,250</u>
10 Southern Oaks Sewer Pump Station (2024A Bonds)						
11 Principal	\$ -	\$ -	\$ -	\$ 610,000	\$ 645,000	\$ 675,000
12 Interest	-	1,182,776	1,179,500	1,179,500	1,149,000	1,116,750
13 Subtotal	<u>\$ -</u>	<u>\$ 1,182,776</u>	<u>\$ 1,179,500</u>	<u>\$ 1,789,500</u>	<u>\$ 1,794,000</u>	<u>\$ 1,791,750</u>
14 Northern Harnett County WWTP Expansion - Construction (2024A Bonds)						
15 Principal	\$ -	\$ -	\$ -	\$ 975,000	\$ 1,020,000	\$ 1,070,000
16 Interest	-	1,880,409	1,875,200	1,875,200	1,826,450	1,775,450
17 Subtotal	<u>\$ -</u>	<u>\$ 1,880,409</u>	<u>\$ 1,875,200</u>	<u>\$ 2,850,200</u>	<u>\$ 2,846,450</u>	<u>\$ 2,845,450</u>
18 Existing G.O. Indebtedness						
19 General Obligation 2023B (Water)						
20 Principal	-	90,000	95,000	100,000	105,000	110,000
21 Interest	95,633	141,200	136,575	131,700	126,575	121,200
22 Subtotal	<u>\$ 95,633</u>	<u>\$ 231,200</u>	<u>\$ 231,575</u>	<u>\$ 231,700</u>	<u>\$ 231,575</u>	<u>\$ 231,200</u>
23 General Obligation 2023B (Wastewater)						
24 Principal	-	60,000	65,000	65,000	70,000	75,000
25 Interest	63,767	94,150	91,025	87,775	84,400	80,775
26 Subtotal	<u>\$ 63,767</u>	<u>\$ 154,150</u>	<u>\$ 156,025</u>	<u>\$ 152,775</u>	<u>\$ 154,400</u>	<u>\$ 155,775</u>
28 Existing Other Indebtedness						
29 Public Service Center						
30 Principal	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
31 Interest	31,200	27,300	23,400	19,500	15,600	11,700
32 Subtotal	<u>\$ 231,200</u>	<u>\$ 227,300</u>	<u>\$ 223,400</u>	<u>\$ 219,500</u>	<u>\$ 215,600</u>	<u>\$ 211,700</u>
33 Total Existing Debt Service	<u>\$ 3,655,530</u>	<u>\$ 6,911,959</u>	<u>\$ 6,874,506</u>	<u>\$ 8,424,035</u>	<u>\$ 7,465,299</u>	<u>\$ 7,351,795</u>
34 Proposed Debt Service						
35 Future Parity Indebtedness						
36 Sanford Plant Expansion - Design and Construction (2024B Bonds)						
37 Principal	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,585,000
38 Interest	-	1,459,128	3,164,375	3,164,375	3,164,375	3,078,125
39 Subtotal	<u>\$ -</u>	<u>\$ 1,459,128</u>	<u>\$ 3,164,375</u>	<u>\$ 3,164,375</u>	<u>\$ 4,664,375</u>	<u>\$ 4,663,125</u>
40 Water Line Projects (2024B Bonds)						
41 Principal	\$ -	\$ -	\$ 120,000	\$ 130,000	\$ 135,000	\$ 145,000
42 Interest	-	139,751	303,075	296,175	288,700	280,938
43 Subtotal	<u>\$ -</u>	<u>\$ 139,751</u>	<u>\$ 423,075</u>	<u>\$ 426,175</u>	<u>\$ 423,700</u>	<u>\$ 425,938</u>
44 Sanford Conveyance - Design and Construction (2024C Bonds)						
45 Principal	-	-	-	-	\$ 1,643,742	\$ 1,725,929
46 Interest	-	1,702,525	3,405,050	3,405,050	3,363,957	3,279,715
47 Subtotal	<u>\$ -</u>	<u>\$ 1,702,525</u>	<u>\$ 3,405,050</u>	<u>\$ 3,405,050</u>	<u>\$ 5,007,698</u>	<u>\$ 5,005,644</u>
48 Terrible Creek WWTP Expansion - Construction (2024 C Bonds)						
49 Principal	-	-	-	-	\$ 1,690,413	\$ 1,774,933
50 Interest	-	1,750,865	3,501,730	3,501,730	3,459,470	3,372,836
51 Subtotal	<u>\$ -</u>	<u>\$ 1,750,865</u>	<u>\$ 3,501,730</u>	<u>\$ 3,501,730</u>	<u>\$ 5,149,883</u>	<u>\$ 5,147,770</u>
52 Elevated 1MGD Water Tank (2025 Bonds)						
53 Principal	-	-	-	\$ 162,015	\$ 170,116	\$ 178,622
54 Interest	-	-	360,500	360,500	352,399	343,893
55 Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,500</u>	<u>\$ 522,515</u>	<u>\$ 522,515</u>	<u>\$ 522,515</u>
56 Purchase Harnett County Water District (2025 Bonds)						
57 Principal	-	-	-	\$ 115,725	\$ 121,511	\$ 127,587
58 Interest	-	-	257,500	257,500	251,714	245,638
59 Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,500</u>	<u>\$ 373,225</u>	<u>\$ 373,225</u>	<u>\$ 373,225</u>
60 1.5 mgd tank Construction (2027 Bonds)						
61 Principal	-	-	-	\$ -	\$ -	\$ -
62 Interest	-	-	-	-	417,000	417,000
63 Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 417,000</u>	<u>\$ 417,000</u>
64 Future Subordinate Indebtedness						
65 Sanford Plant Expansion - Design and Construction SRF						
66 Principal	-	-	-	\$ -	\$ 2,700,000	\$ 2,700,000
67 Interest	-	-	-	-	313,200	595,080
68 Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,013,200</u>	<u>\$ 3,295,080</u>
69 Total Proposed Debt Service	<u>\$ -</u>	<u>\$ 5,052,270</u>	<u>\$ 11,112,230</u>	<u>\$ 11,393,071</u>	<u>\$ 19,571,596</u>	<u>\$ 19,850,296</u>
70 Total: Annual Debt Service	<u>\$ 3,655,530</u>	<u>\$ 11,964,229</u>	<u>\$ 17,986,736</u>	<u>\$ 19,817,106</u>	<u>\$ 27,036,895</u>	<u>\$ 27,202,091</u>

7. OPERATING AND NON-OPERATING EXPENSES

Expenditures are categorized as operating expenses and non-operating expenses. Operating expenses represent normal recurring expenses. Projected operating expenses are based on budget information from the FY 2024 adopted budget and the FY 2025 preliminary budget. For future years, costs are escalated for each of the budgetary line items assuming an annual increase across the budget categories, based on historical trends and discussions with Town staff. The escalation factors used annually in the forecast are shown below:

Salaries, Wages and Retirement:	5%
Repair & Maintenance:	5%
Chemicals:	10%
Fuel & Utilities:	4%

Non-operating expenses include debt service costs for existing and proposed debt. Proposed debt obligations include the Series 2024B Bonds and the anticipated future debt issues (discussed in Section 6). Interest payments from debt service on the Series 2024B Bonds are assumed to begin in FY 2025, as indicated in the amortization schedule and shown in Table 9. Other budgeted expenditures include Pay-Go (i.e., cash-funded capital projects from current revenues and reserves). Tables 5 and 6 show the anticipated projects that will be funded by cash from current revenues and reserves throughout the forecast for the water and sewer systems respectively. Table 10 presents a combined forecast of operating and non-operating expenses over the projection period.

Table 10
Operating and Non-Operating Expenditure Projection

	Fiscal Year Ending June 30					
	2024 Budget	2025 (1) Budget	2026 (1) Forecast	2027 (1) Forecast	2028 (1) Forecast	2029 (1) Forecast
1 Operating Expenses						
2 Water Treatment and Distribution	\$ (9,544,893)	\$ (10,506,324)	\$ (11,292,958)	\$ (12,539,508)	\$ (13,295,368)	\$ (14,181,518)
3 Waste Collection and Treatment	(5,073,154)	(5,584,159)	(6,002,258)	(6,664,805)	(7,066,548)	(7,537,541)
4 Total Operating Expenses	\$ (14,618,048)	\$ (16,090,483)	\$ (17,295,216)	\$ (19,204,313)	\$ (20,361,916)	\$ (21,719,058)
5 % Change		10.1%	7.5%	11.0%	6.0%	6.7%
6 Non-Operating Expenses						
7 Cash-Funded Capital (User Pay-Go)	(2,189,250)	(3,470,563)	(10,168,591)	(8,144,420)	(9,005,253)	(18,869,200)
8 Cash-Funded Capital (Capital Fund / SDF)	(1,192,600)	(13,000,000)	-	-	-	-
9 Current Outstanding Parity Debt Service	(3,264,930)	(3,236,124)	(3,208,806)	(3,180,360)	(2,223,274)	(2,115,920)
10 Parity Debt Service (2024A Bonds)	-	(3,063,185)	(3,054,700)	(4,639,700)	(4,640,450)	(4,637,200)
11 Parity Debt Service (2024B Bonds)	-	(1,598,880)	(3,587,450)	(3,590,550)	(5,088,075)	(5,089,063)
12 Parity Debt Service (2024C Bonds)	-	(3,453,390)	(6,906,780)	(6,906,780)	(10,157,581)	(10,153,413)
13 Future Parity Debt Service	-	-	(618,000)	(895,740)	(1,312,740)	(1,312,740)
14 Current Outstanding GO Debt Service	(159,400)	(385,350)	(387,600)	(384,475)	(385,975)	(386,975)
15 Future Subordinated Debt Service (SRF Loans)	-	-	-	-	(3,013,200)	(3,295,080)
16 Other Indebtedness (Public Service Center)	(231,200)	(227,300)	(223,400)	(219,500)	(215,600)	(211,700)
17 Total Capital and Debt Expenses	(7,037,380)	(28,434,792)	(28,155,327)	(27,961,526)	(36,042,148)	(46,071,291)
18 Total Expenses	\$ (21,655,428)	\$ (44,525,275)	\$ (45,450,544)	\$ (47,165,839)	\$ (56,404,064)	\$ (67,790,350)
19 % Change		105.6%	2.1%	3.8%	19.6%	20.2%

(1) Operating expenses include the addition of new personnel at annual amounts shown below:

	2025	2026	2027	2028	2029
Additional Personnel	\$418,536	\$213,277	\$695,257	\$423,048	\$213,707

8. RATES, FEES, AND CHARGES

The Town Board of Commissioners has the authority under North Carolina State Statutes to establish and collect rates, fees, and other charges to recover the cost of providing water and sewer service, as well as to establish and collect system development fees for the connection to the System. The Town's current rates, fees, and charges have been established through a series of resolutions and are not subject to approval by any other local or state agency.

8.1 WATER AND SEWER USER RATES

The Town collects fixed and variable monthly charges for recovering the cost of operating, maintaining, and expanding the System, including operating and maintenance costs, capital project requirements, debt service expenses and corresponding net income to debt service coverage ratios, and adequate levels of reserves. The Town generates revenues to meet the needs of the system from two primary sources including fixed charges and usage rates.

Fixed Charges: The fixed charges are assessed to each customer account based on the meter size serving the account and are collected for water and sewer service. The fixed charges are assessed and collected regardless of metered water use.

Water Usage Rates: The Town assesses water usage rates based on the metered quantities of water measured for each customer account. The rates are charged on a per 1,000-gallon basis and the rates are the same for all classes of customers.

Sewer Usage Rates: The Town assesses the sewer usage rate based on the metered quantities of water measured for each customer account. The sewer usage rates are charged on a per 1,000-gallon of water usage basis and the rates are the same for all classes of customers.

The Town maintains water and sewer rates for customers located within the Town boundaries and separate rates for customers served outside the Town. The out-of-Town rates are approximately 2.00 times the in-Town rates. The following table provides historical water and sewer rate increases the Town has adopted and implemented over the last six fiscal years.

Table 11
Historical Water and Sewer Rate Changes

Fiscal Year	Water Rate Change ⁽¹⁾	Sewer Rate Change ⁽¹⁾
2019	2%	4%
2020	2.1%	1%
2021	(3%)	(3%)
2022	No Change	No Change
2023	9.9%	9.1%
2024	20%	20%

(1) Shows the combined increase for the rate charge and the consumption rate.

Table 12 presents the in-Town water and sewer user rates that were place in FY 2024, the current rates for FY 2025 and a forecast over the projection period. It should be noted that the forecasted charges (FY 2026 - FY 2029) have not been adopted by the Town Board. The rate forecasts have been shared with the Town Board during public meetings. The projected revenues outlined in Table 2 and discussed in Section 9 of this Report, are based on the projected charges shown in Table 12.

Table 12
Current and Projected Water and Sewer User Rates

	<i>Fiscal Year Ending June 30</i>					
	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Water Rate Adjustment	20.0%	15.0%	15.0%	15.0%	15.0%	5.0%
Water User Rates - Inside						
Fixed Charges						
3/4" Meter	\$13.49	\$15.51	\$17.84	\$20.52	\$23.60	\$24.78
1" Meter	\$22.52	\$25.90	\$29.79	\$34.26	\$39.40	\$41.37
1.5" Meter	\$44.92	\$51.66	\$59.41	\$68.32	\$78.57	\$82.50
2" Meter	\$71.89	\$82.67	\$95.07	\$109.33	\$125.73	\$132.02
3" Meter	\$134.88	\$155.11	\$178.38	\$205.14	\$235.91	\$247.71
4" Meter	\$224.84	\$258.57	\$297.36	\$341.96	\$393.25	\$412.91
6" Meter	\$449.56	\$516.99	\$594.54	\$683.72	\$786.28	\$825.59
8" Meter	\$719.42	\$827.33	\$951.44	\$1,094.15	\$1,258.27	\$1,321.19
Usage Rates						
All Usage (per 1,000 gallons)	\$6.82	\$7.84	\$9.02	\$10.37	\$11.93	\$12.53
Sewer Rate Adjustment	20.0%	15.0%	15.0%	15.0%	15.0%	5.0%
Sewer Utility Rates						
Sewer User Rates - Inside						
Fixed Charges						
3/4" Meter	\$18.73	\$21.54	\$24.77	\$28.49	\$32.76	\$34.40
1" Meter	\$31.28	\$35.97	\$41.37	\$47.58	\$54.72	\$57.46
1.5" Meter	\$62.38	\$71.74	\$82.50	\$94.88	\$109.11	\$114.57
2" Meter	\$99.84	\$114.82	\$132.04	\$151.85	\$174.63	\$183.36
3" Meter	\$187.32	\$215.42	\$247.73	\$284.89	\$327.62	\$344.00
4" Meter	\$312.26	\$359.10	\$412.97	\$474.92	\$546.16	\$573.47
6" Meter	\$624.34	\$717.99	\$825.69	\$949.54	\$1,091.97	\$1,146.57
8" Meter	\$998.87	\$1,148.70	\$1,321.01	\$1,519.16	\$1,747.03	\$1,834.38
Usage Rates						
All Usage (per 1,000 gallons)	\$8.02	\$9.22	\$10.60	\$12.19	\$14.02	\$14.72

Table 13 shows the actual and projected monthly water and sewer bills for a typical residential customer from FY 2024 through FY 2029 and the annual percentage increase in the monthly bill each year. A typical residential customer is defined as having a 5/8" meter and as using 5,000 gallons of water per month.

Table 13
Typical Monthly Customer Bills

	<i>Fiscal Year Ending June 30</i>					
	2024	2025	2026	2027	2028	2029
	Actual	Actual	Forecast	Forecast	Forecast	Forecast
Water Bill	\$47.59	\$54.71	\$62.94	\$72.37	\$83.25	\$87.43
Sewer Bill	\$58.83	\$67.64	\$77.77	\$89.44	\$102.86	\$108.00
Combined Bill	\$106.42	\$122.35	\$140.71	\$161.81	\$186.11	\$195.43
<i>Percent Change</i>		15.0%	15.0%	15.0%	15.0%	5.0%

8.2 SYSTEM DEVELOPMENT FEES

The Town requires that all new and expanded capacity connections to the water and sewer systems pay system development fees. The system development fees that are currently in place were developed by an outside rate consultant and adopted in compliance with North Carolina State Statutes. Given the increases in the capital improvement plan the Town engaged Stantec to evaluate the fees for FY 2025. The analysis supported an increase in the fees in FY 2025. The Town Board adopted the new system development fees on July 8, 2024 effective following this date for FY 2025. The fees are assessed based on meter size. For purposes of the forecast, the system development fees are held constant following FY 2025 as shown in Table 14.

Table 14
System Development Fees

	<i>Fiscal Year Ending June 30</i>					
	2024	2025	2026	2027	2028	2029
	Actual	Adopted	Forecast	Forecast	Forecast	Forecast
System Development Fees						
Water						
5/8" x 3/4" Meter	\$3,912	\$4,929	\$4,929	\$4,929	\$4,929	\$4,929
1" Meter	\$6,519	\$8,214	\$8,214	\$8,214	\$8,214	\$8,214
1.5" Meter	\$13,039	\$16,429	\$16,429	\$16,429	\$16,429	\$16,429
2" Meter	\$20,863	\$26,287	\$26,287	\$26,287	\$26,287	\$26,287
3" Meter	\$41,725	\$52,573	\$52,573	\$52,573	\$52,573	\$52,573
4" Meter	\$65,196	\$82,146	\$82,146	\$82,146	\$82,146	\$82,146
6" Meter	\$130,392	\$164,292	\$164,292	\$164,292	\$164,292	\$164,292
8" Meter	\$208,624	\$262,864	\$262,864	\$262,864	\$262,864	\$262,864
Sewer						
5/8" x 3/4" Meter	\$3,891	\$4,490	\$4,490	\$4,490	\$4,490	\$4,490
1" Meter	\$6,485	\$7,482	\$7,482	\$7,482	\$7,482	\$7,482
1.5" Meter	\$12,971	\$14,966	\$14,966	\$14,966	\$14,966	\$14,966
2" Meter	\$20,753	\$23,946	\$23,946	\$23,946	\$23,946	\$23,946
3" Meter	\$41,506	\$47,891	\$47,891	\$47,891	\$47,891	\$47,891
4" Meter	\$64,852	\$74,830	\$74,830	\$74,830	\$74,830	\$74,830
6" Meter	\$129,705	\$149,659	\$149,659	\$149,659	\$149,659	\$149,659
8" Meter	\$207,525	\$239,452	\$239,452	\$239,452	\$239,452	\$239,452

9. SYSTEM REVENUES

To meet the financial obligations of the Series 2024B Bonds, other debt service obligations and system expenditures, the Town's revenue requirements must be recovered exclusively from revenues associated with the rates, fees, and service charges. Revenues, as defined in the Town's Bond Order, include operating revenues (charges for services and other operating revenues) and certain non-operating revenues as identified in this Report. Table 15 presents the projection of operating and non-operating revenues during the projection period.

Operating revenues are comprised of revenues from water and sewer user rates collected from water and sewer customers as outlined in Sections 8 and 4 of this Report, respectively. Other revenues include lease income, tap fees, and user surcharges and are based on the Town's FY 2024 budget. Other revenues have been held constant over the projection period. Non-operating revenues include lease income, capital project reimbursements and other miscellaneous revenues.

Table 15
Estimated Annual System Revenues

	<i>Fiscal Year Ending June 30</i>					
	2024 Budget	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
1 Annual Rate Adjustments						
2 <i>Rate Increase - Water</i>	20.0%	15.0%	15.0%	15.0%	15.0%	5.0%
3 <i>Rate Increase - Sewer</i>	20.0%	15.0%	15.0%	15.0%	15.0%	5.0%
4 Annual Growth In Volumes Sold						
5 <i>Change in Water Volumes</i>	5.3%	5.1%	4.8%	5.1%	4.8%	4.6%
6 <i>Change in Sewer Volumes</i>	7.4%	6.9%	6.5%	6.7%	6.3%	5.9%
7 Operating Revenue						
8 Charges for Services	\$21,974,110	\$26,666,573	\$32,370,102	\$39,380,600	\$47,765,919	\$52,756,356
9 Water and Sewer Tap fees	682,800	650,000	650,000	650,000	650,000	650,000
10 Other Operating Revenue	241,800	216,800	216,800	216,800	216,800	216,800
11 System Development Fees	7,803,000	9,419,000	9,419,000	10,360,900	10,360,900	10,360,900
12 Total Operating Revenue	\$30,701,710	\$36,952,373	\$42,655,902	\$50,608,300	\$58,993,619	\$63,984,056
13 <i>Change</i>		20.4%	15.4%	18.6%	16.6%	8.5%
14 Non-Operating Revenue						
15 Investment Earnings	\$ 1,155,690	\$ 1,266,693	\$ 911,777	\$ 631,124	\$ 704,587	\$ 704,699
16 Lease Income	100,000	90,000	90,000	90,000	90,000	90,000
17 Miscellaneous Revenue, net	50,000	23,200	23,200	23,200	23,200	23,200
18 Capital Project Reimbursements	931,569	7,357,979	-	-	-	-
19 Total Non-Operating Revenue	\$ 2,237,259	\$ 8,737,872	\$ 1,024,977	\$ 744,324	\$ 817,787	\$ 817,899
20 Total Revenue	\$32,938,969	\$45,690,245	\$43,680,879	\$51,352,624	\$59,811,407	\$64,801,955
21 <i>Change</i>		38.7%	-4.4%	17.6%	16.5%	8.3%

10. FUND BALANCES

As shown in Table 16, as of the beginning of FY 2024, The Town had System Unrestricted Net Assets of approximately \$12.9 million. This amount consists of only the cash within the Town's Operating Fund (Fund 061) and does not include cash held within the Town's Capital Projects Funds (Funds 059 and 060) as these funds are reserved for ongoing capital projects. The Town is anticipated to maintain strong Unrestricted New Assets over the projection period. Table 16 also presents the balances maintained within the Town's Capital Reserve Fund (Fund 071). These funds are restricted for future capital projects and consist of funds generated from system development fees.

Table 16
Projected Ending Fund Balances

	Fiscal Year Ending June 30					
	2024 Budget	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
1 Beginning Unrestricted Net Assets (Operating Fund)	\$ 12,924,789	\$ 20,090,692	\$ 27,099,360	\$ 28,675,987	\$ 33,616,394	\$ 37,023,737
2 System Cash Flow Surplus / (Shortfall)	9,355,153	12,595,483	16,743,262	21,567,910	28,872,991	32,510,297
3 Pay-Go Projects Paid from Operating Fund	(2,189,250)	(3,470,563)	(10,168,591)	(8,144,420)	(9,005,253)	(18,869,200)
4 Use of Funds for Water Capital Reserve Fund	-	-	-	(2,371,526)	(9,368,421)	(9,616,127)
5 Use of Funds for Sewer Capital Reserve Fund	-	(2,116,252)	(4,998,045)	(6,111,557)	(7,091,975)	(7,013,364)
6 Ending Unrestricted Net Assets (Operating Fund)	\$ 20,090,692	\$ 27,099,360	\$ 28,675,987	\$ 33,616,394	\$ 37,023,737	\$ 34,035,342
7 Days Cash On Hand - Operating Fund Only	502	615	605	639	664	572
8 Beginning Water Capital Reserve (SDF)	\$ 5,197,740	\$ 4,871,273	\$ 5,099,915	\$ 1,753,623	\$ 1,000,000	\$ 1,000,000
9 Water System Development Fee Revenues	3,911,940	4,929,000	4,929,000	5,421,900	5,421,900	5,421,900
10 Water Pay-Go (SDF Capital Projects)	(1,192,600)	(4,500,000)	-	-	-	-
11 Net Transfers Out (Legal Settlement)	(2,500,000)	-	-	-	-	-
12 Water Bond Proceed Reimbursements	-	3,773,479	-	-	-	-
13 Use of Water Capital Reserve (Debt Service)	(545,807)	(3,973,837)	(8,275,292)	(8,547,048)	(14,790,321)	(15,038,027)
14 Transfer from Unrestricted Cash for Capital	-	-	-	2,371,526	9,368,421	9,616,127
15 Ending Water Capital Reserve	\$ 4,871,273	\$ 5,099,915	\$ 1,753,623	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
16 Beginning Sewer Capital Reserve (SDF)	\$ 7,627,954	\$ 7,072,340	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
17 Sewer System Development Fee Revenues	3,891,340	4,490,000	4,490,000	4,939,000	4,939,000	4,939,000
18 Sewer Pay-Go (SDF Capital Projects)	-	(8,500,000)	-	-	-	-
19 Net Transfers Out (Legal Settlement)	(2,500,000)	-	-	-	-	-
20 Sewer Bond Proceed Reimbursements	931,569	3,584,500	-	-	-	-
21 Use of Sewer Capital Reserve (Debt Service)	(2,878,523)	(7,763,092)	(9,488,045)	(11,050,557)	(12,030,975)	(11,952,364)
22 Transfer from Unrestricted Cash for Capital	-	2,116,252	4,998,045	6,111,557	7,091,975	7,013,364
23 Ending Sewer Capital Reserve	\$ 7,072,340	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
24 Combined Beginning Cash Balance - Capital Reserve (SDF)	\$ 12,825,694	\$ 11,943,613	\$ 6,099,915	\$ 2,753,623	\$ 2,000,000	\$ 2,000,000
25 Combined Ending Cash Balance - Capital Reserve (SDF)	\$ 11,943,613	\$ 6,099,915	\$ 2,753,623	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
26 Days Cash on Hand - Capital Fund (SDF)	298	138	58	38	36	34

Disclaimer

This document was produced by Stantec Consulting Services, Inc. (“Stantec”) for the Town of Fuquay-Varina (“Town”) and is based on a specific scope agreed upon by both parties. Stantec’s scope of work and services do not include serving as a “municipal advisor” for purposes of the registration requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) or the municipal advisor registration rules issued by the Securities and Exchange Commission. Stantec is not advising the Town or any municipal entity or other person or entity regarding municipal financial products or the issuance of municipal securities, including advice concerning the structure, terms, or other similar matters concerning such products or issuances.

In preparing this report, Stantec utilized information and data obtained from the Town or public and/or industry sources. Stantec has relied on the information and data without independent verification, except only to the extent such verification is expressly described in this document. Any projections of future conditions presented in the document are not intended as predictions, as there may be differences between projected and actual results, and those differences may be material.

Additionally, the purpose of this document is to summarize Stantec’s analysis and findings related to this project, and it is not intended to address all aspects that may surround the subject area. Therefore, this document may have limitations, assumptions, or reliance on data that are not readily apparent on the face of it. Moreover, the reader should understand that Stantec was called on to provide judgments on a variety of critical factors which are incapable of precise measurement. As such, the use of this document and its findings should only occur after consultation with Stantec, and any use of this document and findings by any other person is done so entirely at their own risk.

This page intentionally left blank.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST AGREEMENT AND THE FOURTH SUPPLEMENTAL TRUST AGREEMENT, INCLUDING DEFINITIONS OF CERTAIN TERMS

This page intentionally left blank.

APPENDIX C

Summary of Certain Provisions of the Master Trust Agreement and the Fourth Supplemental Trust Agreement, Including Definitions of Certain Terms

The following is a brief summary of some of the provisions of the Master Trust Agreement and the Fourth Supplemental Trust Agreement (called the “Fourth Supplemental” in this summary and, together with the Master Trust Agreement called the “Trust Agreements” in this summary). This summary is not intended to be complete or definitive, and it is qualified in its entirety by reference to the complete Trust Agreements. Copies of the Trust Agreements are available from the Trustee at its office in Charlotte, North Carolina.

A list of certain definitions used in the Trust Agreements is set out at the end of this Appendix. Other capitalized terms have the definitions assigned in the main text of this Official Statement.

Creation and Use of Project Fund

The Trustee will establish a special fund designated as the “Fuquay-Varina 2024B Project Fund.” The Trustee will deposit into the Project Fund all amounts paid to it for deposit in the Project Fund, including the net proceeds of the sale of the 2024B Bonds.

The Trustee will keep this Fund separate and apart from all other funds and moneys held by it, and will hold and administer this Fund as provided in the Fourth Supplemental. The Trustee will disburse moneys in the Project Fund from time to time, either to pay Project Costs of the 2024B Project directly or to reimburse the Town for previous expenditures on any of those costs, upon receipt by the Trustee of a requisition substantially in the form provided for in the Fourth Supplemental. The Trustee may rely conclusively on requisitions as authorization for payments, and the Trustee has no duty or responsibility to verify any matters in the requisitions. The Trustee is not required to disburse any moneys from the Project Fund during the continuation of any Event of Default.

Establishment of Other Funds

The Trust Agreements create the following funds and accounts, to be held, maintained, and administered as provided in the Trust Agreements:

- (a) Fuquay-Varina System Revenue Fund;
- (b) Fuquay-Varina System Bond Fund, in which there are established six special accounts to be known as the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account and the Parity Reserve Account;
- (c) Fuquay-Varina System Capital Reserve Fund; and
- (d) Fuquay-Varina System Insurance and Condemnation Award Fund.

The Trustee shall hold the Bond Fund and the accounts and subaccounts therein, as well as the Insurance and Condemnation Award Fund. The Town shall establish the Revenue Fund and the Capital Reserve Fund and hold those funds with a Depositary selected by the Town.

Each Supplemental Agreement shall provide, to the extent applicable, for the creation of a separate subaccount within the Capitalized Interest Account, the Interest Account, the Principal Account, the Redemption Account and the Sinking Fund Account with respect to each Series of Bonds, which subaccounts shall bear the designation of such Series of Bonds. The Fourth Supplemental Trust Agreement provides for the creation of a “2024B Subaccount” in each of the Interest Account, the Principal Account, the Redemption Account and the Sinking Fund Account. There is no “2024B Subaccount” in the Capitalized Interest Account or the Parity Reserve Account, and the 2024B Bonds have no claim on the Parity Reserve Account or any Special Reserve Account.

Receipts Received by the Town. Except as otherwise provided in the Trust Agreements, the Town shall deposit all Receipts in the Revenue Fund when received. In addition, all proceeds of any Derivative Agreement shall be deposited in the Revenue Fund.

Application of Money in Revenue Fund. (a) The Town shall use and expend moneys in the Revenue Fund only in the manner and order specified in the Trust Agreements.

(b) The Town shall pay the Current Expenses as the same become due and payable in conformity with the Town's applicable budgetary and payment procedures. The Current Expenses are a first charge and lien against the Revenue Fund.

(c) At such time or times as are specifically provided for in the Trust Agreements, any Parity Debt Resolution, or any Derivative Agreement, the Town shall withdraw from the Revenue Fund the amount necessary to make the deposits required by the Trust Agreements.

(d) The Town, in its discretion and except during the continuation of an Event of Default, may transfer in any month any balance remaining in the Revenue Fund at the end of the preceding month after making all deposits or payments required by the Trust Agreements, in whole or in part, to the General Fund or any other fund or account designated by the Town, provided that (i) a Town Representative shall first certify to the Trustee that, in that Representative's opinion, the transfer will not have a material adverse effect on the Town's ability over the next twelve calendar months to pay the Current Expenses, to make all deposits required by the Trust Agreements, and to meet all other financial obligations imposed by the Trust Agreements or any Parity Resolution and (ii) the cumulative amount so transferred in any Fiscal Year shall not exceed the total amount budgeted to be transferred from the Revenue Fund in that Fiscal Year as shown in the Annual Budget for that Fiscal Year.

Any funds transferred from the Revenue Fund in accordance with subsection (d), other than transfers made to any account or subaccount of the Bond Fund, shall no longer be subject to the pledge, charge and lien upon the Net Receipts created by the Trust Agreements.

Use of Money for Debt Service, Reserve Funds and Capital Reserve Fund.
The Town shall apply amounts withdrawn from the Revenue Fund in accordance with the Trust Agreements in the following manner and order:

(a) At such time or times as provided in any Parity Resolution or Derivative Agreement, the Town shall (i) deliver to the Trustee the amounts required by the Parity Resolution for deposit in the appropriate subaccounts of the Interest Account, (ii) pay the Person entitled thereto the amounts required by the Parity Debt Resolution for the payment of interest on Parity Debt, and (iii) pay the Person entitled thereto the amount of any Derivative Agreement Scheduled Payments required by the Derivative Agreement to be paid by the Town, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments shall be made to the Trustee and to each appropriate Person designated in such Parity Debt Resolutions or Derivative Agreements ratably according to the amount so required to be deposited or paid.

(b) At such time or times as provided in the Parity Resolutions, the Town shall deliver to the Trustee (i) the amounts required by any Supplemental Agreement for deposit in the appropriate subaccounts of the Principal Account and Sinking Fund Account and (ii) the amounts required by any Parity Debt Resolution for the payment of principal on Parity Debt, whether at maturity or pursuant to an amortization requirement, for deposit with or payment to the appropriate Persons designated in such Parity Debt Resolutions, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments shall be made to each such subaccount of the Principal Account and the Sinking Fund Account and to each appropriate Person designated in such Parity Debt Resolutions ratably according to the amount so required to be deposited or paid.

(c) At such time or times as provided in the Parity Resolutions, if the amount in the Parity Reserve Account is less than the Parity Reserve Account Requirement or the amount in any Special Reserve Account is less than the applicable Special Reserve Account Requirement, the Town shall deliver to the Trustee (i) the amounts required by this Trust Agreement to make up any deficiency in the Parity Reserve Account for deposit in the Parity Reserve Account and (ii) the amounts required by any Supplemental Agreement or Parity Debt Resolution to make up any deficiencies in any Special Reserve Account for deposit in such Special Reserve Accounts or payment to the appropriate parties designated in such Supplemental Agreements or Parity Debt Resolutions, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments shall be made to the Parity Reserve Account and each Special Reserve Account ratably according to the amount so required to be deposited or paid. If a deficiency exists in the Parity Reserve Account, it shall be made-up as described under this subsection in accordance with the provisions of the Trust Agreements. If a deficiency exists in any Special Reserve Account, it shall be made-up under this subsection in accordance with the provisions of the Parity Resolution creating such Special Reserve Account.

(d) If any System G.O. Indebtedness is outstanding, the Town, in its sole discretion, may pay principal of and interest on System G.O. Indebtedness as the same become due and payable.

(e) If any installment purchase, lease purchase, conditional sale or other similar types of indebtedness incurred to finance all or any part of the System are outstanding, the Town, in its sole discretion, may pay principal of and interest on that indebtedness, or corresponding installment, lease or other similar type payments, as the same become due and payable.

Notwithstanding anything in the Trust Agreements to the contrary, failure by the Town to make any deposits required by subsections (d) and (e) above shall not in and of itself be an Event of Default under the Trust Agreements.

Application of Money in Interest Account and Capitalized Interest Account.

Not later than 10:00 A.M. on each Interest Payment Date or date upon which Bonds are to be redeemed, or on such other date as may be specified in the applicable Supplemental Agreement, the Trustee shall withdraw from the applicable subaccount in the Interest Account and remit to the Owners, in Federal Reserve or other immediately available funds, the amounts required for paying interest on the respective Bonds on such Interest Payment Date.

Application of Money in Principal Account. Not later than 10:00 A.M. on each principal payment date, the Trustee shall withdraw from the applicable subaccount in the Principal Account and remit to the Owners, in Federal Reserve or other immediately available funds, the amount necessary to pay the principal of such Bonds at their respective maturities.

Application of Money in Sinking Fund Account. Money held for the credit of the subaccounts in the Sinking Fund Account shall be applied to the retirement, purchase, redemption or payment of Term Bonds in the manner provided in the applicable Supplemental Agreement.

Application of Money in the Redemption Account. Money held for the credit of the subaccounts in the Redemption Account shall be applied to the purchase or redemption of Bonds in the manner provided in the applicable Supplemental Agreement.

Deposit and Application of Money in Capital Reserve Fund. Moneys held for the credit of the Capital Reserve Fund shall be used only for the following:

(a) in the Town's sole discretion, to make deposits to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account to remedy any deficiency therein or to pay interest on or the principal of or amortization requirements in respect of any Parity Debt when due, whenever moneys are insufficient for such purposes; and

(b) to pay all or a portion of the cost of unusual or extraordinary maintenance, repairs, renewals or replacements or capital improvements related to the System in accordance with the applicable procedures used in the payment of Current Expenses or as provided in the Capital Improvements Budget.

Insurance and Eminent Domain Proceeds. (a) If, as a result of any casualty occurring to any part of the System or as a result of any taking by Eminent Domain of any part of the System, the revenue-producing capabilities of the System will, as certified by a Town Representative, be materially impaired for a period in excess of one hundred twenty consecutive days, all Net Insurance Proceeds received by the Town and all Net Eminent Domain Proceeds received by the Town, as the case may be, shall be delivered to the Trustee for deposit in the Insurance and Condemnation Award Fund and shall be applied, to the extent permitted by law, at the election of the Town:

(1) to replace, repair, rebuild or restore the System to substantially the same condition as that which existed prior to such damage, destruction or taking, with such alterations and additions as the Town may determine and as will not impair or otherwise adversely affect the revenue-producing capability of the System;

(2) under conditions specified in the Trust Agreements, to the redemption of Bonds or Parity Debt as provided in the Parity Resolutions, but only at the times and in the manner otherwise allowed for the Bonds in the Trust Agreements and the Parity Debt Resolutions;

(3) if not applied to repair or replacement and not used for redemption, to transfer to the General Fund or any other Town fund or account, free from the lien of the Trust Agreements, under conditions specified in the Trust Agreements.

Restriction on Incurring Additional Obligations

The Town will not (a) issue any Bonds, (b) otherwise borrow money from any source, (c) enter into any contract or agreement that is treated for accounting purposes as substantially equivalent to the borrowing of money, or (d) incur any other liabilities, in all cases in connection with the acquisition or construction of improvements, extensions, additional and replacements to, or for any other purpose in connection with, the System, other than with respect to normal operations and maintenance, except in accordance with the provisions of the Trust Agreement and in compliance with the terms of the Trust Agreement.

The Town may issue System G.O. Indebtedness without regard to any provisions of the Trust Agreements imposing limits on borrowing.

Limitation on Parity Indebtedness. Subject to the conditions hereinafter provided, the Town shall have the right to incur Parity Indebtedness for any purpose for

which Bonds may be issued under the Trust Agreements in accordance with the limitations of the Trust Agreements.

(a) Long-Term Indebtedness constituting Parity Indebtedness may be incurred if prior to incurrence the conditions set forth in either (i), (ii) or (iii) is met.

(i) Long-Term Indebtedness constituting Parity Indebtedness may be incurred if prior to incurrence there is delivered to the Trustee an Officer's Certificate certifying that:

(A) the sum of (1) the Income Available for Debt Service and (2) 15% of the System's Net Position - Unrestricted (as shown on Town's most recently available audited financial statements) is not less than 120% of the Maximum Long-Term Debt Service Requirement with respect to Parity Indebtedness that would result from all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) and the Long-Term Indebtedness proposed to be incurred; and

(B) the Income Available for Debt Service is not less than the maximum amount of debt service in any succeeding Fiscal Year that would result from combining for such Fiscal Year (1) the Long-Term Debt Service Requirement with respect to all Outstanding Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness to be incurred), all Outstanding Subordinated Indebtedness (excluding any Long-Term Indebtedness constituting Subordinated Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) and the Long-Term Indebtedness to be incurred and (2) the annual debt service on System G.O. Indebtedness;

provided, however, that if the rates, fees and charges for the use of the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Town Representative may add to the Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Trust Agreement, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Town Representative, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; and provided further that if an existing Enterprise that is not a part of the System is to be made a part of the System prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Town Representative may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of this Trust Agreement, that would have

been included in the calculation of Income Available for Debt Service, in the judgment of such Town Representative, if the Enterprise had been part of the System at the beginning of such Fiscal Year.

(ii) Long-Term Indebtedness constituting Parity Indebtedness may be incurred if prior to incurrence there is delivered to the Trustee:

(A) an Officer's Certificate certifying that the Town complied with the revenue covenant set forth in the Trust Agreements (and as described below in the section of these summaries "**Security for the Bonds, Other Parity Indebtedness and Derivative Agreement Obligations – Rate Covenant**"); provided, however, that if the Town failed to so comply and the rates, fees and charges for the use of the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Town Representative may adjust the amount of Income Available for Debt Service utilized in determining compliance with the revenue covenant by adding an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of this Trust Agreement, that would have been included in the calculation, in the judgment of such Town Representative, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; and provided further that if an existing Enterprise that is not a part of the System is to be made a part of the System prior to or concurrently with the incurrence of such Long-Term Indebtedness, such Town Representative may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of this Trust Agreement, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Town Representative, if the Enterprise had been part of the System at the beginning of such Fiscal Year; and

(B) a report of an Appropriate Consultant showing that for each of the first two Fiscal Years next succeeding the date on which capitalized interest provided from the proceeds of the Long-Term Indebtedness is expended, or the date on which the Long-Term Indebtedness is incurred if there is no allowance for capitalized interest, the sum of (1) the forecasted Income Available for Debt Service and (2) 15% of the forecasted System's Net Position - Unrestricted as of the last day of the immediately preceding Fiscal Year is at least 120% the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness constituting Parity Indebtedness to be incurred) and the Long-Term Indebtedness proposed to be incurred for that Fiscal Year; and

(C) a report of an Appropriate Consultant showing that the forecasted Income Available for Debt Service for the first two Fiscal Years next succeeding the date on which capitalized interest provided from the proceeds of the Long-Term Indebtedness is expended, or the date on which the Long-Term Indebtedness is incurred if there is no allowance for capitalized interest, is at least equal to the sum of (1) the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness constituting Parity Indebtedness to be incurred), all Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness (excluding any Long-Term Indebtedness constituting Subordinated Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) and the Long-Term Indebtedness proposed to be incurred and (2) the debt service on System G.O. Indebtedness for each of such Fiscal Years; or

(iii) Long-Term Indebtedness constituting Parity Indebtedness may be incurred if prior to incurrence there is delivered to the Trustee an Officer's Certificate certifying that for the most recent Fiscal Year for which audited statements are available, such Long-Term Indebtedness, together with any other Long-Term Indebtedness constituting Parity Indebtedness incurred as described under this paragraph (iii) and then Outstanding, does not exceed 10% of Total Operating Revenues for such Fiscal Year.

(b) Completion Indebtedness constituting Parity Indebtedness may be incurred without limitation; provided, however, that prior to the incurrence of such Completion Indebtedness, the Town shall furnish to the Trustee (i) a certificate of a licensed architect or engineer estimating the costs of completing the facilities for which such Completion Indebtedness is to be incurred and (ii) an Officer's Certificate certifying that the amount of Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of the facilities as estimated by the architect or engineer in respect of which such Completion Indebtedness is to be incurred.

(c) Long-Term Indebtedness constituting Parity Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Parity Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof, an Officer's Certificate is delivered to the Trustee (i) determining that the proceeds of such Long-Term Indebtedness, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Parity Indebtedness to be Outstanding after the incurrence of such Long-Term Indebtedness to

accomplish the refunding and after the refunding of such Long-Term Indebtedness will not be greater by more than 10% than the Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Parity Indebtedness Outstanding immediately prior to the incurrence of such Long-Term Indebtedness to accomplish such refunding, including the Long-Term Indebtedness to be refunded, or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of subsection (a) above.

(d) Short-Term Indebtedness constituting Parity Indebtedness may be incurred if, immediately after the incurrence of such Short-Term Indebtedness, the Outstanding principal amount of all Short-Term Indebtedness constituting Parity Indebtedness does not exceed 25% of the Revenue Fund balance at the end of the most recent Fiscal Year preceding the date of incurrence of such Short-Term Indebtedness for which audited financial statements are available; provided, however, that for a period of twenty consecutive calendar days in each Fiscal Year, no such Short-Term Indebtedness may be Outstanding.

(e) Put Indebtedness constituting Parity Indebtedness may be incurred if prior to the incurrence of such Put Indebtedness (i) the conditions described in subsections (a), (b) or (c) above are met and (ii) a Credit Facility exists to provide financing sufficient to pay the purchase price or principal of such Put Indebtedness on any date on which the Owner or Holder of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness.

Whenever subsections (a) or (d) above require a certification for the most recent Fiscal Year preceding the date of incurrence of the Parity Indebtedness in question for which audited financial statements are available, the Town may, in its discretion, provide a certificate, opinion or report of an independent accountant, in lieu of the audit for such Fiscal Year, on financial statements covering twelve consecutive calendar months of the eighteen full consecutive calendar months preceding the date of incurrence of the Parity Indebtedness in question.

Limitation on Subordinated Indebtedness. The Town may incur Subordinated Indebtedness from time to time for any purpose for which Bonds may be issued under the Trust Agreements. The Trust Agreements contain a series of limitations on the Town's issuing Subordinated indebtedness that are similar to the limitations on incurring Parity Indebtedness.

Revenue Bond Anticipation Notes. The Town may issue Revenue Bond Anticipation Notes from time to time for any purpose for which Bonds may be issued under the Trust Agreements. Revenue Bond Anticipation Notes may be issued as Parity

Indebtedness or Subordinated Indebtedness and, except to the extent otherwise expressly provided in this Trust Agreement, shall be issued in compliance, to the extent applicable, with the provisions of the Trust Agreements.

Grant Anticipation Notes. The Town may issue Grant Anticipation Notes from time to time for any purpose for which Bonds may be issued under the Trust Agreements in anticipation of the receipt of moneys from firm grant commitments for such purpose from the State or the United States or any agencies of either. Grant Anticipation Notes shall constitute Subordinated Indebtedness and, except to the extent otherwise expressly provided in this Trust Agreement, shall be issued in compliance, to the extent applicable, with the provisions of the Trust Agreements.

State Revolving Loan Program and State Bond Loan Program. For purposes of the Trust Agreements, obligations or debt instruments executed and delivered to the State as part of the State Revolving Loan Program are deemed to be Subordinated Indebtedness. For purposes of the Trust Agreements, obligations or debt instruments executed and delivered to the State as part of the State Bond Loan Program are deemed to be Parity Debt.

Secured, Non-Revenue Debt. The Town may incur obligations secured by a lien on (a) rolling stock comprising a part of the System without limitation and (b) other property, plant and equipment comprising a part of the System; provided, however, that the principal amount of such obligations outstanding at any one time shall not exceed 10% of the net property, plant and equipment of the System (not taking into account any outstanding obligations with respect to rolling stock that is a part of the System) as shown on the audited financial statements of the Town for the most recent Fiscal Year for which audited financial statements are available. The Town may incur this debt without compliance with any of the requirements for issuing Additional Bonds or any similar requirements.

Financing of Special Purpose Facilities. The Town may finance the acquisition or construction of any Special Purpose Facilities as permitted by law upon the conditions provided for in the Trust Agreements. These conditions do not include compliance with any of the requirements for issuing Additional Bonds or any similar requirements, but do require the Town to obtain a statement signed by an Appropriate Consultant, to the effect that in its opinion the acquisition or construction of such Special Purpose Facilities will not materially adversely affect the Income Available for Debt Service or impair the operating efficiency of the System

If the Town finances Special Purpose Facilities, the Town shall put in place necessary measures in order to account for, and keep separate and apart from Receipts

and Current Expenses, the gross revenues received from the operation of such Special Purpose Facilities as well as the operating and maintenance expenses of such Special Purpose Facilities, any debt service or reserve requirements with respect thereto and any other necessary related costs and expenses.

Investments

The Trustee must invest and reinvest moneys held by it under the Trust Agreements upon the Town's written direction in Investment Obligations that are Legal Investments. If the Town does not provide the Trustee with written direction as to any investment or reinvestment provided for under this Agreement, the Trustee will invest or reinvest such moneys in the North Carolina Capital Management Trust (or its successor).

The Trustee may purchase or sell, to itself or to any affiliate, as principal or agent, any investments of funds held under this Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment, and may make any investment through its bond or investment department or those of its affiliates, and may charge its ordinary and customary fees for such trades.

The Trustee is not responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreements. The Trustee may rely on the Town's investment directions as to both the suitability and legality of any investment made at the Town's direction.

To determine the amount on deposit in any Fund or Account held under this Agreement, the Trustee must value any investment credited to a Fund or Account at its market value.

Security for the Bonds, Other Parity Indebtedness and Derivative Agreement Obligations

Pledge of Net Receipts; Funds and Accounts. As security for the payment of the Bonds and any Parity Debt and the interest thereon and as authorized by the Act, and the payment of all amounts required to be paid by the Town under a Derivative Agreement, the Town grants to the Trustee a pledge, charge and lien upon the Net Receipts, subject to the terms of the Trust Agreements.

In addition, as further security for the payment of each Series of Bonds and the interest thereon, the Town grants to the Trustee a pledge, charge and lien upon the money and Investment Obligations in any and all of the related accounts and subaccounts of the

Bond Fund and Accounts established under the Supplemental Agreements relating to their issuance.

Payment of Principal, Interest and Premium; Limited Obligation. The Town shall cause to be paid, when due, the principal of (whether at maturity, by acceleration, by call for mandatory redemption or otherwise) and the premium, if any, and interest on the Bonds and Parity Debt at the places, on the dates and in the manner provided in this Agreement and in the Bonds and Parity Debt and the documentation securing such Bonds and Parity Debt, according to the true intent and meaning thereof.

The Bonds are special obligations of the Town payable solely from the Net Receipts, the Town's right to receive the same, and money, Investment Obligations and Reserve Alternative Instruments held in the applicable funds, accounts and subaccounts created under this Master Agreement for each such Series of Bonds, and the income from Investment Obligations in those funds, accounts and subaccounts. The Bonds shall not constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the Town's property or upon any of its income, receipts or revenues, except as provided in this Agreement or in any applicable Supplemental Agreement. Neither the faith and credit nor the taxing power of the Town is pledged for the payment of the principal of or interest on the Bonds, and no Owner has the right to compel the exercise of the Town's taxing power or the forfeiture of any Town property in connection with any default on Bonds, except as provided in this Agreement or in any applicable Supplemental Agreement.

Rate Covenant. (a) The Town covenants to fix, charge and collect rates, fees, rentals and charges for the use of and for services furnished or to be furnished by the System, and, from time to time and as often as it shall appear necessary, to revise those rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year, the sum of (i) the Income Available for Debt Service for such Fiscal Year and (ii) 15% of the System Unrestricted Net Assets as of the last day of the preceding Fiscal Year will be not less than 120% of the Long-Term Debt Service Requirement for Parity Indebtedness for that Fiscal Year.

In addition, the Town covenants to fix, charge and collect rates, fees, rentals and charges for the use of and for services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary, to revise those rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year, the Income Available for Debt Service for that Fiscal Year will be not less than the sum of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness and the debt service on System G.O. Indebtedness for that Fiscal Year.

(b) In addition, the Town also covenants to fix, charge and collect rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary, to revise those rates, fees, rentals and charges as may be necessary or appropriate, in order that the Receipts will be sufficient in each Fiscal Year (i) to pay Current Expenses, (ii) to make the cash deposits in each Fiscal Year required by the Trust Agreements, and (iii) to make the cash deposits in each Fiscal Year required by Subordinated Indebtedness Resolutions with respect to the payment of interest on or principal of Subordinated Indebtedness.

(c) The Town covenants that all users will pay for services at the rates, fees and charges established by the Town from time to time in accordance with the Town's customary billing practices and policies and that no customers of the System shall receive service free of charge. The Town also covenants that the Town's rates, fees, rentals and charges for each component of the System will be reasonable and non-discriminatory.

(d) If the Town fails to comply with the covenants set forth in subsections (a) and (b) above, it shall, within thirty days of the receipt by the Town of the audit report required by the Trust Agreements, request an Appropriate Consultant to make its recommendations, if any, as to a revision of the Town's rates, fees, rentals and charges, its Current Expenses, or its method of System operation in order to satisfy the foregoing requirements. Copies of the request and of the Appropriate Consultant's recommendations, if any, shall be filed by the Town with the Trustee and the LGC. Promptly upon its receipt of the Appropriate Consultant's recommendations, the Town shall, after giving due consideration to the recommendations, revise its rates, fees, rentals and charges or its Current Expenses or alter its methods of operation. The Town need not comply with the Appropriate Consultant's recommendations, but the Town must make changes that the Town projects will result in compliance with the covenants set forth in subsections (a) and (b) above.

The Town and Appropriate Consultant shall promptly advise the Trustee of the actions taken by the Town with respect to the recommendations of the Appropriate Consultant. If the Town substantially complies with all of the recommendations of the Appropriate Consultant, failure to comply with the provisions of subsections (a) and (b) above shall not constitute an Event of Default under the Trust Agreements. Compliance with the Appropriate Consultant's recommendations will not remediate any Event of Default other than an Event of Default related to the failure to meet this covenant.

System Operation. The Town shall establish and enforce reasonable rules and regulations governing the operation and use of the System, operate the System in an efficient and economical manner, maintain the properties constituting the System in good repair and in sound operating condition for so long as the same are necessary for the

operation of the System, and comply with all valid acts, rules, regulations, orders and directions of any legal or regulatory authority that applies to the System.

Insurance. The Town covenants that it will obtain and maintain an appropriate insurance program, with reasonable terms, conditions, provisions and costs, that the Town determines (i) will afford adequate protection against loss caused by damage to or destruction of the System or any part thereof and (ii) will include reasonable liability insurance on all of the System for bodily injury and property damage resulting from the construction or operation of the System. The Town may fulfill its insurance requirements through blanket or umbrella policies, by means of an adequate self-insurance fund or risk-retention program, or by participation in a group risk pool or similar program, all under the conditions provided in the Trust Agreements.

Within 60 days of the end of each Fiscal Year, a Town Representative shall file with the Trustee a report listing the policies of insurance then outstanding and in force, the names of the companies issuing the insurance, the amounts and expiration date or dates of the insurance, the risks covered thereby, stating that the insurance complies with the provisions of the Trust Agreements, stating whether the Town employed an Appropriate Consultant during the Fiscal Year for purposes of insurance, and including a copy of any reports filed by that Consultant.

Payment of Charges; Covenant against Encumbrances. Except as otherwise provided in the Trust Agreements, the Town shall not create or suffer to be created any lien or charge upon the System or any part thereof, or on the Net Receipts, except for Permitted Encumbrances.

Covenant against Sale or Disposition; Exceptions. The Town covenants that, except as permitted in the Trust Agreements, it will not sell, exchange or otherwise dispose of the System or any part thereof.

The Town may from time to time sell, exchange or otherwise dispose of any equipment, motor vehicles, machinery, fixtures, apparatus, tools, instruments or other movable property if it determines that such articles are no longer needed or are no longer useful in connection with the System, and the proceeds thereof may be used for any lawful purpose determined by the Town.

The Town may from time to time sell, exchange or otherwise dispose of (but not lease, contract or agree for the use thereof except as permitted under the Trust Agreements) any other property of the System, including one or more entire Enterprises added to the System pursuant to the Trust Agreements and comprising a part of the System, if, in addition to (i) obtaining an Opinion of Bond Counsel to the effect that such sale, exchange or disposition of property of the System shall not adversely affect the tax

status of interest on Bonds and (ii) otherwise complying with the provisions of the Trust Agreements, it determines by resolution:

(a) that the sale, exchange or other disposition thereof would not materially adversely affect the operating efficiency of the System and would not materially reduce Net Receipts; or

(b) that the sale, exchange or other disposition thereof would not materially adversely affect the ability of the Town to comply with the rate covenant.

The Trust Agreements contain other procedural requirements for the disposition of property and contain restrictions on the disposition of proceeds.

Additional Projects; Additions to the System. All buildings, structures and items of personal property that are constructed, placed or installed in or upon the properties constituting the System as an addition or improvement to, as a substitute for, or in renewal, replacement or alteration of, any buildings, structures, and personal property constituting part of the System, and all real property acquired as an addition to, in replacement of, or as a substitute for real property constituting a part of the System shall thereupon become part of the System.

Contracts, Leases and Other Agreements. The Town may lease, as lessor, all or any part of the System, or contract or agree for the performance by others, of operations or services on or in connection with the System or any part thereof, for any lawful purpose, provided, that:

(a) the Town shall remain fully obligated and responsible under this Trust Agreement to the same extent as if such lease, contract or agreement, or any amendment or rescission thereof, had not been executed, and

(b) the obligation of the Town under such lease, contract or agreement shall not impair the performance of the Town's obligations under this Trust Agreement.

System; Addition of Enterprise to System. (a) The existing water system and the existing wastewater system of the Town are combined into one integral System for purposes of the Act.

(b) The Town may add Additional Enterprises to the System from time to time at the Town's discretion by resolution of the Town Board upon terms and conditions set forth in the Trust Agreements, including conditions related to compliance with the revenue covenant and related to debt ratios and bond ratings.

Removal of Enterprise from System. The Town may remove an Enterprise from the System, other than the Town's water system and wastewater system initially comprising the System, upon terms and conditions set forth in the Trust Agreements,

including conditions related to compliance with the revenue covenant and related to debt ratios and bond ratings.

Tax Covenants

The Town covenants that it will not take or permit, or omit to take or cause to be taken, any action that would cause the 2024B Bonds to be "arbitrage bonds" or "private activity bonds" within the meaning of the Code. The Town also covenants that if it should take or permit, or omit to take or cause to be taken, any such action, then the Town will take or cause to be taken all lawful actions within its power reasonably necessary to rescind or correct such actions or omissions promptly upon having knowledge of the effect of such actions.

Events of Default; Remedies

An "Event of Default" is any of the following:

(a) Default in the payment of the principal of any Bond when the same becomes due and payable, whether at the stated maturity thereof or upon proceedings for mandatory (but not optional) redemption.

(b) Default in the payment of any interest on any Bond when the same becomes due and payable.

(c) The Town breaches or fails to perform or observe any term, condition or covenant of the Trust Agreements or in the Bonds on its part to be observed or performed, other than as referred to in the preceding subsections, for a period of 90 days after written notice specifying such failure and requesting that it be remedied has been given to the Town, unless the Trustee agrees in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot reasonably be corrected within the applicable period and the Town institutes corrective action within the applicable 90-day notice period, no Event of Default will be deemed to have occurred so long as the Town diligently pursues the remedial action.

(d) Any warranty, representation or statement made by the Town in the Trust Agreements is found to be incorrect or misleading in any material respect as of the date of its first execution and delivery among the parties.

(e) Any warranty, representation or statement made by the Town in a Supplemental Agreement or in any related Bonds is found to be incorrect or misleading in

any material respect as of date of the original delivery of those Bonds to their original purchaser.

Acceleration. If any Event of Default is continuing, then the Trustee, alone or at the direction of the Majority Owners, and by notice to the Town, may declare the principal of and accrued interest with respect to the Bonds to be due and payable immediately, and that principal and interest will thereupon become and be immediately due and payable. The Trustee must immediately give notice of any acceleration to the Owners. The Trustee may rescind an acceleration and its consequences if all existing Events of Default have been cured or waived, if the rescission would not conflict with any judgment or decree.

Trustee Control of Receipts. In addition to any other remedies available to the Trustee under the Trust Agreements, and under State and federal law, upon the occurrence of an Event of Default the Trustee may, and, upon the written request of the Majority Owners, shall:

(a) require the Town (i) to endorse, to the order of the Trustee, all checks and other negotiable instruments representing Receipts immediately upon their receipt, and (ii) to deliver the endorsed instruments to the Trustee daily;

(b) notify any or all account debtors of the Town to pay any amounts representing Receipts, when due and owing, directly to the Trustee, as Trustee, in such manner as the Trustee may direct; and

(c) require the Town to deliver to the Trustee all money and Investment Obligations held by the Town in the Revenue Fund.

The Town's endorsement and delivery requirements, and the requirements for payment of Receipts directly to the Trustee, as described above continue until any Event of Default has been cured to the Trustee's satisfaction.

The Trustee's disposition of Receipts is subject to the provisions of the Trust Agreements to the same extent as if the Town had deposited those Receipts in the Revenue Fund. Notwithstanding anything contained herein to the contrary, the Trustee's disposition of Receipts held for the payment of Current Expenses is in the Trustee's discretion. The provisions of this Section are also subject to the provisions of the Trust Agreements concerning the Trustee's duties and responsibilities generally. See the section below in these summaries "**The Trustee.**"

Other Remedies. If an Event of Default is continuing, the Trustee may pursue any other remedy at law or in equity to collect the principal or interest with respect to the Bonds or to enforce the performance of any provision of this Agreement or the Bonds.

The Trustee may maintain a proceeding even if it does not possess any of the Bonds or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Owner in exercising any right or remedy accruing upon an Event of Default does not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Waiver of Past Defaults. The Majority Owners, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver extends to any subsequent or other Event of Default or impair any right consequent to it.

Majority's Control. The Majority Owners may, upon satisfactory indemnification of the Trustee, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. The Trustee, however, may refuse to follow any direction that it reasonably believes conflicts with law or this Agreement or that the Trustee determines is unduly prejudicial to the rights of other Owners or would involve the Trustee in personal liability.

Limitation on Suits. An Owner may not pursue any remedy with respect to this Agreement or the Bonds (except for the payment of principal and interest on the Bonds as provided in the Trust Agreements) unless (a) the Owner gives the Trustee notice stating that an Event of Default is continuing, (b) the Majority Owners make a written request to the Trustee to pursue the remedy, (c) that Owner or Owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity.

An Owner may not use this Agreement to prejudice the rights of another Owner or to obtain a preference or priority over the other Owners.

Rights To Receive Payment. The right of any Owner to receive payment of principal and interest with respect to a Bond, on or after the due dates expressed in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, is preserved under this Agreement and may not be impaired or affected without such Owner's consent.

Collection Suit by Trustee. If an Event of Default occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Town for the whole amount remaining unpaid.

Priorities. If the Trustee collects any money pursuant to exercising its remedies under the Trust Agreements, it must deposit that money in a special account in the Payment Fund and pay out that money in the following order:

(a) If the principal of all Bonds has not become or will not be declared due and payable, all the moneys in the Payment Fund will be applied as follows:

First, Costs and Expenses: to the payment of the costs and expenses of the Trustee and of the Owners in declaring the Event of Default and pursuing remedies under this Agreement, including reasonable compensation to its or their agents, attorneys and counsel;

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of the installments, and, if the amount available is not sufficient to pay in full any installment or installments coming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal with respect to any Bonds which have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal at a rate equal to the rate paid with respect to the Bonds, and, if the amount available is not sufficient to pay in full all of the amounts due with respect to the Bonds on any date, together with the required interest, then to the payment thereof ratably, according to the amounts of principal due on that date to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Bonds has become or has been declared due and payable, all the money will be applied (i) first to pay the Trustee's fees and expenses, and then (ii) to the payment of principal and interest then due with respect to the Bonds, without preference or priority of principal or interest, 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 respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal with respect to all Bonds has been declared due and payable and if the declaration thereafter is rescinded and annulled under the provisions of the Trust Agreements, then, subject to the provisions of subsection (b) above, if the principal

with respect to all Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the Payment Fund will be applied in accordance with the provisions of subsection (a) above.

The Trustee

Rights and Duties. If an Event of Default is continuing, the Trustee must exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of that person's own affairs.

Except during the continuance of an Event of Default:

- (a) the Trustee need perform only those duties that are specifically set forth in the Trust Agreements and no other; and
- (b) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates, opinions or other writings furnished to the Trustee and conforming to the requirements of the Trust Agreements which the Trustee actually and in good faith believes to be genuine and to have been signed or presented by the proper person. The Trustee, however, must examine the certificates and opinions to determine whether it conforms to the requirements of the Trust Agreements.

The Trustee may not be relieved from liability for its own negligent action, its own grossly negligent failure to act or its own willful misconduct, except that:

- (i) this paragraph does not limit the Trustee's obligation to act prudently during the continuation of an Event of Default;
- (ii) the Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction from the Majority Owners received by it pursuant to the Trust Agreements;
- (iii) no provision of the Trust Agreements requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreements or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against the risk or liability is not reasonably assured to it; and

(iv) the Trustee will not be liable with respect to any information contained in any offering documents (except to the extent of information about the Trustee provided by the Trustee specifically for inclusion in the offering document).

Eligibility. The Town will maintain a Trustee for the Trust Agreements that is a corporation organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized under such laws and the laws of the State to exercise corporate trust powers, is subject to supervision or examination by the United States, any state or the District of Columbia and has a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Resignation; Removal; Replacement. The Trustee may resign at any time by delivering notice of its resignation to the Town at least 30 days prior to the effective date of the resignation. The Town may remove the Trustee at any time by delivering notice of the removal to the removed Trustee at least 30 days prior to the effective date of the removal, so long as no Event of Default is continuing at the time the Town sends the notice. The Majority Owners may remove the Trustee at any time by delivering notice of the removal to the Town and the removed Trustee at least 30 days prior to the effective date of the removal, and may at the same time (or at any time during the 30-day notice period) appoint a new Trustee by notice to the Town and the removed Trustee.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Town must promptly appoint a successor Trustee (except when that right is exercised by the Majority Owners as described in the preceding paragraph). If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Town or the Majority Owners may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Discharge of the Trust Agreements

Any Bond will be deemed paid for all purposes of the Trust Agreements when (a) payment of the principal, premium, if any, and interest with respect to that Bond to the due date of such amounts (whether at maturity, upon redemption or otherwise) either (i) has been made in accordance with the terms of the Bonds or (ii) has been provided for by irrevocably depositing with the Trustee or other fiduciary in escrow (A) cash sufficient to make the payments or (B) Federal Securities maturing as to principal and interest in such amounts and at such times as will ensure, without reinvestment, the availability of sufficient moneys to make those payments and which are not subject to redemption or purchase prior to maturity at the option of anyone other than the holder, and (b) all

compensation and expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction.

The sufficiency of the deposit referenced above must be evidenced or verified by a certificate or other writing, in form and substance satisfactory to the Trustee, of an Appropriate Consultant selected by the Town and acceptable to the Trustee.

When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Trust Agreements, and all rights to payment of that Bond will be limited to payment from moneys or Federal Securities under (a)(ii) above, and except that it may be transferred, exchanged, registered or replaced as provided in the Trust Agreements.

Notwithstanding the foregoing, the Town may make no deposit under clause (a)(ii) above until the Town has furnished the Trustee an Opinion of Bond Counsel to the effect that the deposit of cash or Federal Securities will not cause the Bonds to become "arbitrage bonds" within the meaning of the Code.

Amendments of and Supplements to Trust Agreements

Without Owners' Consent. The Town and the Trustee may amend or supplement this Agreement without notice to or consent of any Owner for any of the following purposes, or for any combination of the following purposes:

- (a) to cure any ambiguity, inconsistency or formal defect or omission
- (b) to grant to the Trustee for the benefit of the Owners additional rights, remedies, powers or authority
- (c) to subject to the Trust Agreements additional collateral or to add other agreements of the Town
- (d) to permit the qualification of the Trust Agreements under any federal or state statute, whenever enacted, and, in that connection, to add to the Trust Agreements or any other supplemental trust agreement such other terms, conditions and provisions as may be permitted or required by such federal or state statute
- (e) to provide for the issuance of Additional Bonds as otherwise permitted by the Trust Agreements
- (f) to provide for Bonds to be issued or exchanged for Bonds in any other form or format at that time permitted by law

(g) to evidence the succession of a new Trustee, or to provide for the appointment and operation of a Bond Registrar separate from the Trustee

(h) to make any other change that does not materially adversely affect the rights of any Owner

At least thirty days prior to the execution and delivery of any supplemental trust agreement for any of the purposes described in this Section, the Trustee shall provide for a notice of the proposed agreement to be mailed first-class, postage prepaid, to the LGC and to all Owners of Bonds. The notice must briefly set forth the nature of the proposed agreement and state that copies of the proposed agreement are available to all Owners of Bonds upon request to the Town or the Trustee at addresses set forth in the notice.

With Owners' Consent. (a) If the Trust Agreements do not permit an amendment of or supplement to the Trust Agreements without any consent of Owners, the Town and the Trustee may enter into that amendment or supplement only with the consent of the Majority Owners.

(b) Without the consent of each Owner affected, however, no amendment or supplement to this Agreement may (i) extend the maturity of the principal or interest with respect to any Bond, (ii) reduce the principal amount of, or rate of interest on, any Bond, (iii) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iv) reduce the percentage of the principal amount of the Bonds required for consent to any amendment or supplement, (v) intentionally impair any exclusion of interest on the Bonds from the federal gross income of the Owner of any Bond to which that interest was intended to be entitled, (vi) eliminate any mandatory redemption of the Bonds, extend the due date for any call for mandatory redemption, reduce the redemption price, or otherwise change the redemption terms of those Bonds, (vii) create a lien ranking prior to or on a parity with the lien of this Agreement on the property pledged under this Agreement (except with respect to a parity pledge for the benefit of the Owners of Additional Bonds), or (viii) deprive any Owner of the lien created by this Agreement on any property.

In addition, if moneys or Federal Securities have been deposited or set aside with the Trustee pursuant to the Trust Agreements for the payment of Bonds and those Bonds have not in fact actually been paid in full, no amendment to the provisions of that Article may be made without the consent of the Owner of each Bond affected.

LGC's Consent Required. No amendment or supplement to the Trust Agreements or the Bonds will become effective unless the LGC delivers to the Town and the Trustee its prior written consent to the amendment or supplement.

Notice of Amendments. The Trust Agreements contain provisions for providing notice of amendments or supplements to Bondholders.

Definitions

"2024B Bonds" means the Town of Fuquay-Varina's Combined Utilities Revenue Bonds, Series 2024B, offered pursuant to this Official Statement.

"2024B Project" means the System improvements for which the 2024B Bonds are being issued, including (a) contributing to the costs of improvements and expansions to the City of Sanford's water treatment plant, (b) water line replacements and expansions, and (c) any additional System improvements the Town may designate to the Trustee in a Town Certificate.

"Accreted Amount" means with respect to Capital Appreciation Bonds of any Series, the amount set forth in the related Supplemental Agreement as the amount representing the initial public offering price, plus the accumulated and compounded interest on those Capital Appreciation Bonds.

"Act" means The State and Local Government Revenue Bond Act, the same being Article 5 of Chapter 159 of the General Statutes of North Carolina.

"Additional Bonds" means any Bonds delivered by the Town pursuant to the provisions of the Trust Agreements that allow for the issuance of additional obligations secured by a lien on Net Receipts.

"Additional Derivative Agreement Payments" means payments required to be paid by the Town under a Derivative Agreement other than Derivative Agreement Scheduled Payments, including termination payments required to be paid in connection with the termination of a Derivative Agreement, whether voluntarily or upon the occurrence of an event of default, termination event or similar event thereunder.

"Additional Project" means any addition, acquisition, improvement, betterment or extension of or relating to the System. The term "Additional Project" does not include any Special Purpose Facilities unless the indebtedness incurred to finance the Special Purpose Facilities has been retired or provision has been made for the payment thereof, and the Town has determined by resolution to include such Special Purpose Facilities as an Additional Project.

“Annual Budget” means the Town’s budget for a Fiscal Year adopted pursuant to the provisions of the Local Government Budget and Fiscal Control Act, that being Article 3 of Chapter 159 of the General Statutes of North Carolina.

“Appropriate Consultant” means one or more independent persons having (at the time retained for the purposes of the Trust Agreements) a favorable reputation for skill and experience in an appropriate area of expertise, as may be selected by the Town from time to time to perform and to carry out the duties imposed on an Appropriate Consultant by the Trust Agreements.

“Balloon Long-Term Indebtedness” means fixed or variable rate Long-Term Indebtedness 25% or more of the principal payments of which are due in a single twelve-month period if that portion of the principal is not required by the documents pursuant to which the Indebtedness is incurred to be amortized by redemption or prepayment prior to the expiration of the period.

“Bonds” means, together, the Prior Bonds, the 2024B Bonds and all Additional Bonds.

"Bond Counsel" means such attorney or firm of attorneys nationally recognized on the subject of municipal obligations as may be selected by the Town.

“Bond Fund” means the fund created and designated the Fuquay-Varina System Bond Fund by the Trust Agreements.

“Bond Insurance Policy” means a municipal bond insurance policy or similar arrangement permitted by the Act and obtained or established in connection with the incurrence of any Parity Indebtedness or Subordinated Indebtedness.

“Bond Registrar” means, with respect to any Series of Bonds, the Bond Registrar at the time serving as such under the Supplemental Agreement relating to such Series, whether the original or a successor Bond Registrar, and in the absence of a contrary designation means the Trustee itself.

"Business Day" means any day (a) other than a day on which banks in New York, New York, or the city to which notices to the Trustee under the Trust Agreements are to be sent, are required or authorized to close, and (b) on which the New York Stock Exchange is not closed.

“Capital Appreciation Bonds” means Bonds (by whatever name designated) the interest on which is compounded at the rates and on the dates set forth in a Supplemental Agreement and is payable upon redemption or on the maturity date of such Bonds.

“Capital Improvements Budget” for any Fiscal Year means the budget for capital improvements adopted by the Town in accordance with the Trust Agreements.

“Capitalized Interest Account” means the account in the Bond Fund created and so designated by the Trust Agreements.

“Capital Reserve Fund” means the fund created and designated the Fuquay-Varina System Capital Reserve Fund by the Trust Agreements.

"Closing Date" means the date on which the Fourth Supplemental Trust Agreement is first executed and delivered by the parties and the 2024B Bonds are delivered to their initial purchaser. The Town expects the Closing Date will be August 15, 2024.

"Code" means the Internal Revenue Code of 1986, as amended, including regulations, rulings and revenue procedures promulgated thereunder or under the Internal Revenue Code of 1954, as amended, as applicable to the Bonds. Reference to any specific Code provision includes any successor provisions.

“Completion Indebtedness” means any Long-Term Indebtedness incurred for the purpose of financing the completion of (a) any project for which the Prior Bonds were issued, (b) the 2024B Project, and (c) any Additional Project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions hereof, to the extent necessary to complete such Additional Project, in the manner and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such Additional Project, as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness theretofore incurred was originally incurred.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit facility permitted by the Act (but excluding a Bond Insurance Policy) and established or obtained in connection with the incurrence of any Parity Indebtedness or Subordinated Indebtedness.

“Credit Provider” means the Person providing a Credit Facility, as designated in the Supplemental Agreement providing for the issuance of the Bonds or in the Parity

Debt Resolution providing for the incurrence of Parity Debt or in the Subordinated Indebtedness Resolution providing for the incurrence of Subordinated Indebtedness; provided, however, that the Credit Provider may not be the Trustee unless an arrangement satisfactory to the LGC has been established designating a co-trustee or separate trustee for the purpose of drawing on the Credit Facility. If and to the extent permitted by law, the Town may be a Credit Provider for the sole purpose of providing liquidity support with the approval of the LGC.

“Current Expenses” means the Town’s current expenses for the operation, maintenance and repair of the System as determined in accordance with generally accepted accounting principles, except as modified by this definition, including

- all ordinary and usual expenses of operation, maintenance and repair, which may include expenses not annually recurring,
- direct and allocable indirect administrative expenses,
- salaries and other compensation,
- operating lease payments,
- payments to any pension or retirement plan or plans properly chargeable to the System,
- insurance premiums and expenses,
- engineering and architectural expenses relating to the operation, maintenance or repair of the System,
- fees and expenses of the Trustee, any Bond Registrar, Depositary, tender agent or paying agent, legal expenses, Credit Facility fees, remarketing fees and fees of Appropriate Consultants,
- penalty fees and fees or interest on late payments, and
- any other similar-type current expenses required to be paid by the Town under the Master Trust Agreement⁺ or by law;

but Current Expenses does not include

- any reserves for extraordinary replacements or repairs,
- any allowance for depreciation or any amortization of financing expense,
- any deposits to any fund, account and subaccount created under the Master Trust Agreement and payments of principal, premium, if any, and interest from such funds, accounts and subaccounts,
- any debt service payments or reserves or deposits for debt service payments in respect of Parity Debt, Subordinated Indebtedness or System G.O. Indebtedness or installment financing contracts for any component of the System.

“Depository” means one or more banks or trust companies or other institutions, including the Trustee, duly authorized by law to engage in the banking business and designated by the Town as a depository of moneys under this Trust Agreement.

“Derivative Agreement” means an interest rate swap, cap, collar, floor, forward, option, put, call or other agreement, arrangement or security however denominated, entered into in order to hedge interest rate fluctuations on all or a portion of any Indebtedness or to provide debt management by changing payments to be made by the Town with respect to all or a portion of any Indebtedness.

“Derivative Agreement Scheduled Payments” means scheduled payments required to be paid by the Town under a Derivative Agreement that are based upon a fixed or variable imputed rate on a notional amount set forth in the Derivative Agreement and which are intended by the Town to correspond to interest payments on the underlying Derivative Indebtedness.

“Derivative Indebtedness” means the portion of any Indebtedness meeting the requirements set forth in clauses (i) and (ii) below:

(i) in connection with that Indebtedness, the Town has entered into a Derivative Agreement in respect of all or a portion of that Indebtedness, and

(ii) (A) if the Indebtedness bears interest at a variable rate, the Derivative Agreement provides that during the Derivative Period, the Town shall pay to the provider of the Derivative Agreement a fixed rate (the “Synthetic Fixed Rate”) and the provider of the Derivative Agreement shall pay to the Town a variable rate on a notional amount equal to all or a portion of the Outstanding principal amount of such Indebtedness, or (B) if the Indebtedness bears interest at a fixed rate, the Derivative Agreement provides that

during the Derivative Period, the Town shall pay to the provider of the Derivative Agreement a variable rate (the “Synthetic Variable Rate”) and the provider of the Derivative Agreement shall pay to the Town a fixed rate on a notional amount equal to all or a portion of the Outstanding principal amount of such Indebtedness.

“Derivative Period” means the period during which a Derivative Agreement is in effect.

"DTC" means The Depository Trust Company, Jersey City, New Jersey, its successors as the securities depository maintaining a book-entry system for recording beneficial ownership interests in the Bonds.

“Eminent Domain” means the eminent domain or condemnation power by which all or any part of the System may be taken for another public use or any agreement that is reached in lieu of proceedings to exercise such power.

“Enterprise” means any project, facilities or system constituting a “revenue bond project” under the Act.

"Event of Default" has the meaning set forth in the Trust Agreements.

"Federal Securities" means, to the extent such are legal investments for the Town's funds at the time of purchase, (a) direct obligations of the United States of America for which its full faith and credit are pledged, or (b) securities or obligations evidencing direct ownership interests in specified portions (principal or interest) of obligations described in (a), and expressly includes (i) stripped Government Obligations stripped by the United States Treasury itself and (ii) interest-only portions of obligations issued by the Resolution Funding Corporation.

"Fiscal Year" means the Town's fiscal year beginning July 1, or such other fiscal year as the Town may later lawfully establish.

“Fourth Supplemental” means the Fourth Supplemental Trust Agreement dated as of August 1, 2024, between the Town and the Trustee, providing for the issuance of the 2024B Bonds.

“General Fund” means the Town’s existing general fund.

“Grant Anticipation Notes” means any grant anticipation notes issued by the Town in compliance with the provisions of the Trust Agreements.

“Holders” means the beneficial owners of all Indebtedness other than Bonds, except that for any Indebtedness held in a registered form, “Holders” means the registered owners of that Indebtedness.

“Income Available for Debt Service” means, for any period, the Town’s excess of Revenues over Current Expenses. Unless otherwise specified, when any amount of Income Available for Debt Service is to be determined, it is to be determined by reference to the Town’s audited financial statements for the most recent Fiscal Year for which those statements are available.

“Indebtedness” means all obligations incurred or assumed by the Town in connection with the ownership or operation of the System:

(a) for payments of principal and interest with respect to borrowed money, including any obligation to repay a Credit Provider for moneys drawn to pay and retire or purchase Indebtedness; and

(b) for payments under leases which are required to be capitalized in accordance with generally accepted accounting principles and under installment or lease purchase or conditional sale contracts;

provided, however, that (i) Indebtedness shall include only such obligations as are secured by a pledge of Net Receipts, (ii) any obligation to pay a Credit Provider for moneys drawn to purchase, but not pay and retire, Indebtedness shall constitute Indebtedness only to the extent such payments are in excess of any scheduled payments of principal and interest required to be made to such Credit Provider as an Owner or Holder of such Indebtedness and (iii) Indebtedness shall not include System G.O. Indebtedness.

"Independent Counsel" means an attorney duly admitted to the practice of law in the State that is selected by the Town.

“Insurance and Condemnation Award Fund” means the fund created and designated the Fuquay-Varina System Insurance and Condemnation Award Fund by the Trust Agreements.

“Interest Account” means the account in the Bond Fund created and so designated by the Trust Agreements.

“Interest Payment Date” means, with respect to any Series of Bonds, each of the interest payment dates provided for in the Supplemental Agreement relating to such Series.

"Legal Investments" means such investments as from time to time are legal investments for the Town's funds, as determined at the time of investment, and "Investment Obligations" means the securities purchased as Legal Investments and held under the Trust Agreements.

"LGC" means the North Carolina Local Government Commission, or any successor to its functions.

"Long-Term Debt Service Requirement" means, for any period of twelve consecutive calendar months for which such determination is made, the aggregate of the required deposits to be made in respect of Principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness during such period, also taking into account:

(a) with respect to Balloon Long-Term Indebtedness, the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of twenty years (or the actual number of years over which such Balloon Long-Term Indebtedness is being amortized, if greater than twenty years, but in no event greater than thirty years) on a level debt service basis at an interest rate equal to the current market rate for an obligation with such assumed amortization as set forth in an opinion of an Appropriate Consultant delivered to the Trustee as the interest rate at which the Town could reasonably expect to borrow the same by incurring Indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve calendar months of the actual final maturity date of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation, unless a commitment acceptable to the Town and the LGC by an institutional lender or municipal underwriting firm exists, which commitment may contain typical and customary conditions, to provide financing to refinance such Indebtedness and such commitment provides for the refinancing of such Indebtedness on terms which would, if such commitment was implemented, constitute Long-Term Indebtedness, then in such case the payment terms contained in such commitment shall be utilized for purposes of calculating the Long-Term Debt Service Requirement with respect to such Balloon Long-Term Indebtedness;

(b) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a

twelve-month period), except that with respect to new Variable Rate Indebtedness proposed to be incurred, the interest rate for such Variable Rate Indebtedness shall be the lower of (i) the rate certified by a financial institution or investment banking firm acceptable to the Town as the average of the actual interest rates which would have been in effect (weighted according to the length of the period during which each such interest rate was in effect) on the Variable Rate Indebtedness for the most recent twelve month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period) and (ii) the initial rate to be borne by such Variable Rate Indebtedness, and thereafter shall be calculated as set forth above;

(c) with respect to any Credit Facility, (i) to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement and (ii) to the extent that the Town has reimbursed a Credit Provider for a drawing on a Credit Facility to pay principal or interest on Indebtedness that is already included in the Long-Term Debt Service Requirement, only the portion of the reimbursement payment that is in excess of the payment of principal and interest paid from the drawing shall be included in the Long-Term Debt Service Requirement; and

(d) with respect to Derivative Indebtedness, during any Derivative Period and for so long as the provider of the Derivative Agreement has not defaulted on its payment obligations under the Derivative Agreement, the amount of interest payable on such Derivative Indebtedness shall be calculated as follows:

(1) if such Derivative Indebtedness bears interest at a variable rate, by adding (x) the amount of interest payable by the Town on such Derivative Indebtedness at such variable rate (calculated as provided in subparagraph (b) above) and (y) the amount of interest payable by the Town under the Derivative Agreement at the Synthetic Fixed Rate and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the variable rate specified in the Derivative Agreement (calculated as provided in subparagraph (b) above); and

(2) if such Derivative Indebtedness bears interest at a fixed rate, by adding (x) the amount of interest payable by the Town on such Derivative Indebtedness at such fixed rate and (y) the amount of interest payable by the Town under the Derivative Agreement at the Synthetic Variable Rate (calculated as provided in subparagraph (b) above) and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the fixed rate specified in the Derivative Agreement;

provided, however, that accrued and capitalized interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness or otherwise provided so as to be available for deposit into an account for capitalized interest or similar account not later than the date of delivery of and payment for such Long-Term Indebtedness; and provided further that notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal and interest on Outstanding Long-Term Indebtedness shall not include principal or interest payable from Qualified Escrow Funds.

“Long-Term Indebtedness” means all Indebtedness for any of the following:

- (a) money borrowed for an original term, or renewable at the option of the Town for a period from the date originally incurred, of longer than one year;
- (b) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the Town for a period from the date originally incurred, of longer than one year; and
- (c) installment purchase, installment financing or conditional sale contracts having an original term in excess of one year.

Long-Term Indebtedness includes Short-Term Indebtedness if a Credit Facility exists to provide financing to retire such Short-Term Indebtedness and such Credit Facility provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness. Long-Term Indebtedness shall also include the current portion of Long-Term Indebtedness. Long-Term Indebtedness shall only include the obligations described in (a), (b) and (c) to the extent that such obligations are Indebtedness.

“Majority Owners” means, as of any date, the Owners of at least a majority in principal amount of the Bonds then Outstanding.

“Maximum Long-Term Debt Service Requirement” means the highest Long-Term Debt Service Requirement for the present and any succeeding Fiscal Year.

“Net Eminent Domain Proceeds” means the gross proceeds paid to the Town as a final award for the taking by Eminent Domain of any of the System less payment of attorneys’ and other fees and expenses properly incurred in the collection of such gross proceeds.

“Net Insurance Proceeds” means the gross proceeds paid to the Town as a result of any casualty insurance policy with respect to the System or as a result of any liability insurance policy less payment of attorneys’ and other fees and expenses properly incurred in the collection of such gross proceeds.

“Net Receipts” for any particular period means the excess, if any, of Receipts after the payment of Current Expenses for such period.

“Officer’s Certificate” means a certificate signed by a Town Representative.

"Opinion of Counsel" or “Opinion of Bond Counsel” means a written opinion of Independent Counsel or Bond Counsel, as appropriate.

“Outstanding” when used with reference to Bonds means, as of a particular date, all Bonds theretofore authenticated and delivered under the Trust Agreements, except

(a) Bonds theretofore canceled by the Bond Registrar or delivered to the Bond Registrar for cancellation;

(b) Bonds deemed to be no longer Outstanding pursuant to the Trust Agreements;

(c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Trust Agreements;

(d) Bonds deemed to have been paid in accordance with the Trust Agreements; and

(e) Bonds constituting Put Indebtedness deemed to have been purchased in accordance with the provisions of the applicable Supplemental Agreement in lieu of which other Bonds have been delivered under such Supplemental Agreement.

When used with reference to Parity Debt, “Outstanding” means, as of a particular date, all Parity Debt except:

(a) Parity Debt theretofore canceled by the Town;

(b) Parity Debt for the payment or redemption of which money, Defeasance Obligations, or a combination of both, in an amount sufficient to pay on the date when such Parity Debt is to be paid or redeemed the principal amount of or Redemption Price of, and the interest accruing to such date on, the Parity Debt to be paid or redeemed, has

been deposited with an escrow agent in trust for the Holders of such Parity Debt; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Parity Debt on a specified date if the principal and the interest on such Defeasance Obligations, when due, together with any money left uninvested, will be sufficient to pay on such date the principal amount of or Redemption Price of, and the interest accruing on, such Parity Debt to such date;

(c) Parity Debt in exchange for or in lieu of which other Parity Debt has been delivered under the documentation securing such Parity Debt;

(d) Parity Debt deemed to have been paid in accordance with the defeasance or like provisions of the Parity Debt Resolution providing for the issuance of the Parity Debt; and

(e) Parity Debt constituting Put Indebtedness deemed to have been purchased in accordance with the provisions of the applicable Parity Debt Resolution in lieu of which other Parity Debt has been incurred under the Parity Debt Resolution.

"Owner," when used with reference to Bonds, or "Bondholder," means the person in whose name a Bond is registered on the registration books maintained by the Trustee.

"Payment Date" means the dates specified for principal and interest payments with respect to any Bonds or Parity Debt.

"Payment Fund" means the Town of Fuquay-Varina Bond Payment Fund established in the Trust Agreements.

"Parity Debt" means all Indebtedness incurred by the Town in respect of the System and not evidenced by Bonds which is secured on a parity (as so designated in the Parity Debt Resolution) with the Bonds by a pledge, charge and lien upon the Net Receipts as provided in this Trust Agreement.

"Parity Debt Resolution" means the resolution and any other documentation adopted or executed and delivered by the Town providing for the incurrence of Parity Debt. If Parity Indebtedness is to be the subject of a Credit Facility providing for repayments for draws under the Credit Facility on a parity basis, then the term Parity Debt Resolution shall include any reimbursement agreement or similar repayment agreement executed and delivered by the Town in connection with the provision of a Credit Facility for any Series of Bonds or any Parity Debt.

"Parity Indebtedness" means the Bonds and Parity Debt.

“Parity Reserve Account” means the account in the Bond Fund created and so designated by the Trust Agreements.

“Parity Reserve Account Requirement” means the lesser of (i) the Maximum Long-Term Debt Service Requirement for all Bonds and Parity Debt secured by the Parity Reserve Account, (ii) 125% of the average annual Long-Term Debt Service Requirement for all Bonds and Parity Debt secured by the Parity Reserve Account and (iii) 10% of the stated principal amount of all Bonds and Parity Debt secured by the Parity Reserve Account; provided, however, that if any Series of Bonds or Parity Debt secured by the Parity Reserve Account has original issue discount or premium that exceeds 2% of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriter’s compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the 10% limitation. The Parity Reserve Account Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments, or any combination of the foregoing, as the Town may determine.

“Parity Resolution” means a Supplemental Agreement or a Parity Debt Resolution, or both, as the case may be, authorizing the issuance of a Series of Bonds or the incurrence of Parity Debt.

“Permitted Encumbrances” means in addition to any charge created or permitted by the Trust Agreements upon the System or any part thereof or on the Net Receipts:

(a) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith by the Town;

(b) (i) covenants, easements, encumbrances, defects of title, reservations, restrictions and conditions existing at the time of delivery of the 2016 Bonds, and (ii) defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations, and clouds on title, none of which materially impairs the use of the property affected thereby for its intended purposes;

(c) mechanics’, workers’, repairmen’s, architects’, engineers’, surveyors’, or carriers’ liens or other similar liens provided that the same shall be discharged in the ordinary course of business and without undue delay or the validity of the same shall be contested in good faith with any pending execution thereof appropriately stayed;

(d) other liens, charges and encumbrances that, in an Opinion of Counsel, a copy of which is filed with the Trustee, do not prevent or materially impair the use of the System (the certifying counsel may rely upon a certificate of any engineer or any architect as to whether such liens, charges and encumbrances prevent or materially impair the use of the System); and

(e) encumbrances on property, plant and equipment comprising a part of the System to the extent permitted by the Trust Agreements.

“Person” includes corporations, firms, associations, partnerships, joint ventures, joint stock companies, trusts, unincorporated organizations, and public bodies, as well as natural persons.

“Principal” means (a) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an Event of Default, in which case “Principal” means the initial public offering price of a Capital Appreciation Bond and the difference between the Accreted Amount and the initial public offering price shall be deemed to be interest and (b) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity or in satisfaction of a Sinking Fund Requirement, if applicable.

“Principal Account” means the account in the Bond Fund created and so designated by the Trust Agreements.

“Prior Bonds” means, together, the Town’s Combined Utilities Revenue Bonds previously issued as (a) Series 2016 Bonds in the original principal amount of \$30,185,000 (the “2016 Bonds”), (b) Series 2021 Bonds in the original principal amount of \$17,351,000, and (c) Series 2024A Bonds in the original principal amount of \$65,225,000.

“Project Costs” means all costs of the design, planning, constructing, acquiring, installing, equipping and improving any improvements to the System, all as determined in accordance with generally accepted accounting principles and that will not adversely affect the exclusion from gross income for federal income tax purposes of interest on Bonds to which it is intended that interest will be entitled. “Project Costs” include (a) sums required to reimburse the Town or its agents for advances made for any costs otherwise described in this definition, (b) interest during the period of acquisition and construction of Improvements and for up to six months thereafter, and (c) all costs related to the financing of improvements, the issuance of Bonds and all related transactions.

“Project Fund” means the Fuquay-Varina 2024B Project Fund established pursuant to the Fourth Supplemental.

“Put Indebtedness” means fixed or variable rate Long-Term Indebtedness 25% or more of the principal of which may, at the option of the Owner or Holder thereof, be tendered to the Town, the Trustee, a Depositary or a paying agent or other fiduciary, or an agent of any of the foregoing, for payment or purchase at one time.

“Qualified Escrow Funds” means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Town’s payment obligations with respect to principal or interest on (a) the Long-Term Indebtedness which is incurred under the documents establishing such fund or account or (b) Long-Term Indebtedness which is incurred prior to the establishment of such fund or account.

“Rating Agency” means any nationally recognized Person in the business of offering ratings on municipal obligations for the purpose of expressing an opinion on the creditworthiness of those obligations that at the time of evaluation is maintaining a rating on Bonds at the Town’s request.

“Receipts” means all receipts, revenues, income, proceeds and money received in any period by or for the Town in respect of the System, including, but without limiting the generality of the foregoing,

(a) all payments, proceeds, fees, charges, rents, including, without limiting the generality of the foregoing, tap, connection, sampling and monitoring fees, and all other income derived by or for the Town for the use of and for the services and facilities furnished by or from the operation or ownership of the System, and all other income derived by the Town from the operation or ownership of the System, and all rights to receive the same, whether in the form of accounts receivable, contract rights or other rights, and the proceeds of such rights whether now owned or held or hereafter coming into existence, and

(b) any proceeds of use and occupancy or business interruption insurance;

(c) developer, plant capacity and impact fees and special assessments (unless and to the extent an Officer’s Certificate filed with the Trustee states that, pursuant to a resolution adopted by the Town Board, any particular fees or assessments are not to be Receipts),

(d) the proceeds of any appropriation or similar payment made by any political subdivision of the State or the State or a State Agency to the Town, including (but not limited to) appropriations or similar payments to subsidize, in whole or in part, the debt service payment requirements on Indebtedness, if (1) such proceeds or payments constitute “revenues” of the System, as determined in accordance with generally accepted accounting principles or (2) the Town Board adopts a resolution to the effect that such appropriations or similar payments shall be “Receipts” and “Revenues” hereunder.

but there shall not be included in “Receipts”

- (a) the proceeds of any gifts, grants, bequests, contributions or donations,
- (b) the proceeds from the sale or disposition of all or any part of the System,
- (c) reimbursements received by the Town of advances made by it in respect of (i) the Project, (ii) any Additional Project, (iii) any refinancing of Indebtedness and (iv) any capital improvements;
- (d) the investment income realized on, and the income and gains realized upon the maturity or sale of, securities held by or on behalf of the Town in any funds, accounts and subaccounts established by or pursuant to this Trust Agreement, but only to the extent such income and gains as so realized are required to be deposited to some fund, account or subaccount other than the Revenue Fund as may be provided in this Trust Agreement or in any Parity Resolution,
- (e) to the extent and for so long as such payments are pledged to secure the financing of the same, debt service or other payments made to the Town in respect of Special Purpose Facilities, except to the extent otherwise provided by the Town in respect of any such payments,
- (f) Net Insurance Proceeds or Net Eminent Domain Proceeds other than the net proceeds of any use and occupancy or business interruption insurance,
- (g) the proceeds of any appropriation made by any political subdivision in the State or by the State or any State Agency, except as provided above,
- (h) the income from the investment of Qualified Escrow Funds to the extent such income is applied to the payment of the principal of or the interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement,

(i) the proceeds of any security deposits or moneys received to make refunds to users, and

(j) the proceeds of any Indebtedness.

"Record Date" means the end of the calendar day on the 15th day of the month (whether or not a Business Day) preceding a Payment Date.

"Redemption Account" means the account in the Bond Fund created and so designated by the Trust Agreements.

"Redemption Price" means, with respect to any Indebtedness or portion thereof, the principal amount of such Indebtedness or portion called for redemption plus the applicable premium, if any, payable upon redemption thereof.

"Reserve Alternative Instrument" means an unconditional insurance policy or surety bond or irrevocable letter of credit or guaranty deposited in the Parity Reserve Account or a Special Reserve Account in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Parity Reserve Account Requirement or a Special Reserve Account Requirement. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account in order to provide for the timely payment of interest and principal (whether at maturity or pursuant to Sinking Fund Requirements therefor). Subject to the provisions of any Parity Resolution, the provider of a Reserve Alternative Instrument shall be (a) an insurer that has been assigned either (A) one of the two highest policyholder ratings accorded insurers by A. M. Best & Co. or any comparable service or (B) for bonds insured by the provider of the Reserve Alternative Instrument, a rating by Fitch, Moody's or S&P in one of the two highest rating categories (without regard to gradations of such categories) or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which have been assigned a rating by Fitch, Moody's or S&P in one of the two highest rating categories (without regard to gradations of such categories).

"Revenue Bond Anticipation Notes" means any revenue bond anticipation notes issued by the Town in compliance with the provisions of the Trust Agreements.

"Revenue Fund" means the fund created and designated the Fuquay-Varina System Revenue Fund by the Trust Agreements.

“Revenues” means revenues of the System, as determined in accordance with generally accepted accounting principles; provided, however, that revenues shall include, without limiting the generality of the foregoing, (i) tap, connection and sampling and monitoring fees, and (ii) developer, plant capacity and impact fees and special assessments (unless and to the extent an Officer’s Certificate filed with the Trustee states that, pursuant to a resolution adopted by the Town Board, any particular fees or assessments are not to be Receipts). No determination of Revenues shall take into account any unrealized gain or loss on investments or any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets. In addition, “Revenues” does not include any of the following:

- (a) any gifts, grants, bequests, contributions or donations,
- (b) reimbursements to the Town of advances made by it in respect of (i) the project for which the Town issued the 2016 Bonds (ii) any Additional Project, (iii) any refinancing of Indebtedness and (iv) any capital improvements,
- (c) the investment income on, and the income and gains upon the maturity or sale of, securities held by or on behalf of the Town in any funds, accounts and subaccounts established by, or pursuant to this Trust Agreement, but only to the extent such income and gains are required to be deposited to some fund, account or subaccount other than the Revenue Fund as may be provided in this Trust Agreement or in any Parity Resolution,
- (d) to the extent and for so long as such payments are pledged to secure the financing of the same, debt service or other payments made to the Town in respect of Special Purpose Facilities,
- (e) Net Insurance Proceeds or Net Eminent Domain Proceeds other than the net proceeds of any use and occupancy or business interruption insurance,
- (f) the proceeds of any appropriation made by any political subdivision in the State or by the State or any State agency to the Town, except as hereinafter provided,
- (g) the income from the investment of Qualified Escrow Funds to the extent such income is applied to the payment of the principal of or the interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement,
- (h) the proceeds of any security deposits or moneys received to make refunds to users,

(i) the proceeds of any Indebtedness, and

(j) the proceeds derived from any Derivative Agreement, other than proceeds received in connection with the termination of the Derivative Agreement.

“Revenues” will also include the proceeds of any appropriation or similar payment made by any political subdivision of the State or the State or a State Agency to the Town, including (but not limited to) appropriations or similar payments to subsidize, in whole or in part, the debt service payment requirements on Indebtedness, if (1) those proceeds or payments constitute “revenues” of the System, as determined in accordance with generally accepted accounting principles or (2) the Town Board adopts a resolution to the effect that those appropriations or similar payments will be “Receipts” and “Revenues” under the Trust Agreement

“Serial Bonds” means the Bonds of any Series that are stated to mature in consecutive annual installments.

“Series,” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series

“Short-Term Indebtedness” means all Indebtedness incurred for borrowed money other than the current portion of Long-Term Indebtedness for any of the following:

(a) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(b) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(c) installment purchase, installment financing or conditional sale contracts having an original term of one year or less.

“Sinking Fund Account” means the account in the Bond Fund created and so designated by the provisions of the Trust Agreements.

“Sinking Fund Requirement” means, with respect to any Series of Bonds, the Sinking Fund Requirement provided in the Supplemental Agreement relating to such Series.

“Special Purpose Facilities” means any additions, acquisitions, improvements, betterments, land, buildings, structures or other facilities, including equipment, acquired or constructed, and the preparation and grading of land, relating to the System which are financed by the issuance of obligations which are issued in compliance with the provisions of the Trust Agreements but are not, directly or indirectly, secured by or payable from Receipts or Net Receipts or issued under or secured by the provisions of this Trust Agreement, nor is the operation and maintenance of such Special Purpose Facilities payable as a Current Expense.

“Special Reserve Account” means a special debt service reserve account, if any, created by a Parity Resolution as a debt service reserve account only for the particular Parity Indebtedness authorized thereby.

“Special Reserve Account Requirement” means the amount required to be placed or maintained in a Special Reserve Account as may be required by the Parity Resolution creating such Account. The Special Reserve Account Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments or any combination of the foregoing, as the Town may determine.

“State” means the State of North Carolina.

“State Bond Loan Program” means the program established by the Education, Clean Water, and Parks Bond Act of 1993, Chapter 542 of the 1993 Session Laws, as amended, providing for loans to local governments for water and wastewater projects, other than loans funded through the State Revolving Loan Program.

“State Revolving Loan Program” means the program established by the Clean Water Revolving Loan and Grant Act providing for loans to local governments for water and wastewater capital projects.

“Subordinated Indebtedness” means all Indebtedness incurred by the Town in respect of the System which may be made payable from Net Receipts but only after the other payments required by the Trust Agreements have been made. Subordinated Indebtedness shall not include any obligations issued in compliance with the provisions of the Trust Agreements to finance Special Purpose Facilities.

The terms of any Subordinated Indebtedness shall provide that it shall be subordinated and junior in right of payment to the prior payment in full of Parity Indebtedness to the extent and in the manner set forth below:

In the event (a) of any insolvency or bankruptcy proceedings, any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the Town or to the System, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Town or the System whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred, or (c) any Event of Default under this Trust Agreement shall occur and be continuing and (1) written notice of such default shall have been given to the Town and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on Parity Indebtedness and within 90 days in the case of any other default after the giving of such notice, then, for so long as any action described in clause (a), (b) or (c) hereof shall not have been remedied or cured in the opinion of the Trustee, then the Holders of Parity Indebtedness shall be entitled to receive payment in full of all principal, premium and interest on all Parity Indebtedness before the Holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal of or interest on the Subordinated Indebtedness, and to that end the owners of Parity Indebtedness shall be entitled to receive for application in payment thereof any payment or distribution of any kind of character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect to such Parity Indebtedness.

“Subordinated Indebtedness Resolution” means the resolution and any other documentation adopted or executed by the Town providing for the incurrence of Subordinated Indebtedness. If the Subordinated Indebtedness is to be the subject of a Credit Facility, the Credit Facility must provide for repayments on a subordinated basis and the term Subordinated Indebtedness Resolution shall include any reimbursement agreement or similar repayment agreement executed and delivered by the Town in connection with the provision of a Credit Facility for any Subordinated Indebtedness.

“Supplemental Agreement” means an order or resolution of the Town authorizing any particular Series of Bonds, together with a supplemental trust agreement executed and delivered by the Town in connection with the issuance of such Series of Bonds that is required to be executed and delivered by this Trust Agreement prior to the issuance of any such Series. The term “Supplemental Agreement” includes the Fourth Supplemental.

"System" means all the Town's plants, systems, facilities, equipment or other assets, including both real and personal property, used or useful (a) in the collection, treatment, purification, transmission or disposal of wastewater or (b) in the collection,

supply, storage, treatment and distribution of water. “System” also includes the assets of any other Enterprise that may be added thereto by resolution of the Town in accordance with the Trust Agreements, but does not include any Enterprise that is removed from the System in accordance with the Trust Agreements.

“System G.O. Indebtedness” means general obligation indebtedness incurred by the Town to finance all or any part of the System or to refinance indebtedness incurred to finance all or any part of the System, whether outstanding on the Closing Date or issued later.

“System Unrestricted Net Assets” means the Utility System Enterprise Fund Unrestricted Net Assets as shown in the Town’s most recent comprehensive annual financial report in the Statement of Net Assets—Proprietary Funds, or, if the name of the report of such net assets is changed to another name, the name of the report of the net assets containing substantially the same information as is now included in Statement of Net Assets—Proprietary Funds.

“Term Bonds” means the Bonds of any Series, other than Serial Bonds, that are designated as such in the Supplemental Agreement for such Series, including the 2024B Bonds now offered that are stated to mature on February 1, 2049.

“Total Operating Revenues” means, as to any period of time, total operating revenues of the System as determined in accordance with generally accepted accounting principles.

“Town” means the Town of Fuquay-Varina, North Carolina, or its successors.

"Town Board" means the Town's governing board as from time to time constituted.

"Town Representative" means the Town Manager, the Town’s statutory finance officer or any other person or persons at the time designated, by a written certificate furnished to the Trustee and signed on the Town's behalf by the Town Manager or the Town’s Mayor (or successor officer) to act on the Town's behalf for the purpose of performing any act (or any specified act) under this Agreement.

“Trustee” means the bank or trust company from time to time serving as trustee under the Trust Agreements, whether the original or a successor Trustee.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

APPENDIX D

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

This page intentionally left blank.

APPENDIX D

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 or 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 E

PROPOSED FORM OF OPINION OF BOND COUNSEL

This page intentionally left blank.

SanfordHolshouser

209 Lloyd Street, Suite 350 | Carrboro, NC 27510
www.shlawgroup.com

August ____, 2024

Town of Fuquay-Varina, North Carolina

\$65,205,000

Town of Fuquay-Varina, North Carolina
Combined Utilities Revenue Bonds, Series 2024B

We have acted as bond counsel to the Town of Fuquay-Varina, North Carolina (the "Town"), in connection with the Town's issuance today of the above-captioned bonds (the "Bonds"). The Town is and has been our only client in this transaction.

We have examined the applicable law and certified copies of proceedings and documents relating to this issuance. The Bonds are issued pursuant to a Bond Order adopted by the Town's governing Board of Commissioners on July 8, 2024 (the "Bond Order"), a Master Trust Agreement between the Town and a trustee (the "Trustee") dated as of March 1, 2016 (the "Master Agreement"), and a Fourth Supplemental Trust Agreement between the same parties dated August 1, 2024 (the "Fourth Supplemental Agreement" and together with the Master Agreement as previously supplemented, the "Trust Agreements").

Reference is made to the Bonds, the Trust Agreements and the Official Statement dated July 24, 2024 (the "Official Statement"), related to the offering of the Bonds, for additional information concerning the details of the Bonds, their payment and redemption provisions, their purposes and the proceedings pursuant to which they are executed and delivered.

Without undertaking to verify the same by independent investigation, we have relied on representations and certifications by representatives of the Town, the North



Carolina Local Government Commission and others as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Town has made certain covenants (the "Covenants") to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of Bond proceeds and the timely payment of any arbitrage rebate required under the Code, all as set forth in the proceedings and documents providing for the issuance of the Bonds.

We have assumed the capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies or specimens. We have assumed the enforceability of the Trust Agreements against the Trustee and the Trustee's due authentication and delivery of the Bonds.

Based on the foregoing, as of today and under existing law, we are of the following opinions:

1. The Town has duly authorized, executed and delivered the Trust Agreements. Both the Master Agreement and the Fourth Supplemental Agreement are legal, valid and binding special obligations of the Town, enforceable in accordance with their respective terms. The Master Agreement and the Fourth Supplemental Agreement are effective to create a lien on the "Net Receipts," as defined in the Master Agreement, and on the money and investments in the funds and accounts created under the Trust Agreements as described in those Agreements.

2. The Town has duly authorized and issued the Bonds. The Bonds are legal, valid and binding special obligations of the Town, enforceable in accordance with their terms and secured as provided in the Trust Agreements.

Our opinions as set forth in paragraphs 1 and 2 are subject to the effect (a) of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and (b) of general principles of equity, regardless of whether applied in a proceeding in equity or at law.

The Town's faith and credit are not pledged for the payment of the principal of or interest on the Bonds, and no owner of the Bonds has the right to compel the exercise of any governmental taxing power in connection with any default in payment. The Bonds are payable solely from the Net Receipts and other revenues and funds pledged therefor as provided in the Bond Order and the Trust Agreements. The Town may issue or incur additional obligations that are also secured by a lien on Net Receipts upon the terms and conditions set forth in the Trust Agreements.

3. Interest on the Bonds paid by the Town is not included in gross income for federal income tax purposes. Interest on the Bonds is not a separate tax preference item for purposes of the federal alternative minimum tax; 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. The Town's failure to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

4. Interest on the Bonds is exempt from existing State of North Carolina income taxes.

We express no opinion regarding other federal or North Carolina tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we have deemed necessary to evaluate the legality, validity and enforceability of the Bonds and to evaluate the status of the interest on the Bonds under the federal and North Carolina tax laws referenced above.

We have not made any investigation concerning the Town's operations or condition. We express no opinion (a) as to the Town's ability to provide for payments on the Bonds, (b) as to the accuracy, completeness or fairness of any information that

may have been relied on by anyone in deciding to purchase the Bonds, including the Official Statement, or (c) as to any party's compliance with any terms or conditions precedent to any purchase of the Bonds.

This opinion is based on constitutional and statutory provisions and judicial decisions existing today. We assume no responsibility to update this opinion or take any other action regarding changes in facts, circumstances or the applicable law.

Very truly yours,

[To Be Signed, "Sanford Holshouser LLP"]

APPENDIX F

DTC'S BOOK-ENTRY-ONLY SYSTEM

This page intentionally left blank.

APPENDIX F

DTC'S BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2024B Bonds. The Series 2024B Bonds will be delivered as fully-registered certificates 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 certificate for each maturity of the Series 2024B 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 SERIES 2024B BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE SERIES 2024B BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2024B BONDS.

DTC 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 is rated "AA+" by Standard & Poor's. 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 and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of Series 2024B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2024B Bonds on DTC's records. The ownership interest of each actual purchaser of Series 2024B Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. 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 Series 2024B 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 certificates representing their ownership interests in the Series 2024B Bonds, except in the event that use of the book-entry system for the Series 2024B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2024B Bonds deposited by Direct Participants with the Trustee, as custodian for 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 Series 2024B Bonds with the Trustee, as custodian for DTC, and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual identities of the Beneficial Owners of the Series 2024B Bonds; DTC's records reflect only the identities of the Direct Participants to whose accounts the Series 2024B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants are 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 and Indirect Participants to Beneficial Owners of the Series 2024B Bonds 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 Series 2024B Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2024B Bonds, such as redemption, tenders, defaults and proposed amendments to the documents authorizing and securing the Series 2024B Bonds. For example, Beneficial Owners of the Series 2024B Bonds may wish to ascertain that the nominee holding the Series 2024B Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be sent directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2024B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2024B Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2024B 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 or voting rights to those Direct Participants to whose accounts the Series 2024B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2024B 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 Direct and Indirect 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 Direct and Indirect Participants and not of DTC (nor its nominee), the Town, the Trustee or the Bond Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and interest to DTC is the responsibility of the Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC and disbursements of such payments to the Beneficial Owners shall be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its service as securities depository with respect to the Series 2024B Bonds at any time by giving reasonable notice to the Town and the Trustee. Under such circumstances, or in the event that a successor depository is not obtained, Series 2024B Bonds will be printed and delivered. The Town may decide to discontinue participation in the system of book-entry transfer through DTC (or a successor securities depository). In that event, Series 2024B Bonds will be printed and delivered to DTC.

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from DTC, and the Town takes no responsibility for the accuracy thereof.

The Town, the Trustee and the Bond Registrar cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the Series 2024B Bonds (a) payments of principal of or and interest on the Series 2024B Bonds, (b) confirmations of their ownership interests in the Series 2024B Bonds or (c) redemption or other notices sent to DTC or Cede & Co, its partnership nominee, as the registered owner of the Series 2024B Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

NEITHER THE TOWN, THE TRUSTEE NOR THE BOND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS ON (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR REDEMPTION PRICE OR INTEREST ON THE SERIES 2024B BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS OF THE SERIES 2024B BONDS UNDER THE TERMS OF THE MASTER TRUST AGREEMENT OR THE FOURTH SUPPLEMENTAL TRUST AGREEMENT; AND (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2024B BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

This page intentionally left blank.