

In the opinion of Bond Counsel, under current law and assuming compliance with certain covenants and the accuracy of certain representations and certifications made by the Town described herein, interest on the 2022 Bonds (i) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) is not treated as a preference item in calculating the federal alternative minimum tax on individuals. However, for taxable years beginning after December 31, 2022, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. Bond Counsel is also of the opinion that interest on the 2022 Bonds is exempt from State of North Carolina income taxes. See "TAX MATTERS" herein.

\$95,800,000
TOWN OF CLAYTON, NORTH CAROLINA
Water and Sewer System Revenue Bonds
Series 2022

Dated: Date of Delivery

Due: August 1, as shown on the inside cover

This Official Statement has been prepared by the Local Government Commission of North Carolina and the Town of Clayton, North Carolina (the "Town") to provide information on the \$95,800,000 Water and Sewer System Revenue Bonds, Series 2022 (the "2022 Bonds"). Selected information is presented on this cover page for the convenience of the user. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2022 Bonds offered hereby will be special obligations of the Town secured by and payable from the Net Revenues (as defined herein) of the Town's water and sewer system facilities (collectively, the "System"), amounts in certain funds and accounts created under the Bond Order and the Series Resolution (each as defined herein), and, under certain circumstances, the proceeds of the 2022 Bonds, investment earnings and certain net insurance and other proceeds. The 2022 Bonds are being issued for the purpose of providing funds, together with any other available funds, to (a) finance certain improvements to the System as further described herein and (b) pay certain costs incurred in connection with the sale and issuance of the 2022 Bonds.

The 2022 Bonds are not payable from the general funds of the Town and do not constitute a legal or equitable pledge, charge, lien or encumbrance on any of its property or on any of its income, receipts or revenues, except the Net Revenues and other funds pledged to their payment. Neither the credit nor the taxing power of the Town is pledged for the payment of the principal of, or interest on, the 2022 Bonds, and no registered owner of the 2022 Bonds has the right to compel the exercise of the taxing power by the Town or the forfeiture of any of its property in connection with any default on the 2022 Bonds.

The 2022 Bonds are subject to optional and mandatory sinking fund redemption as described herein.

The 2022 Bonds are offered subject to prior sale, when, as and if issued and accepted by the Underwriters, subject to the approval of their validity and certain other matters by McGuireWoods LLP, Raleigh, North Carolina, Bond Counsel. Certain legal matters will be passed upon for the Town by Cauley Pridgen, P.A., Raleigh, North Carolina, Town Attorney, and for the Underwriters by Pope Flynn, LLC, Charlotte, North Carolina. Davenport & Company LLC, Charlotte, North Carolina, is acting as financial advisor to the Town in connection with the issuance of the 2022 Bonds. Stantec Consulting Services, Inc., Washington, DC, has prepared the Financial Feasibility Report included in Appendix B hereto. It is expected that delivery of the 2022 Bonds will be made through the facilities of DTC on or about December 20, 2022.



MATURITY SCHEDULE

\$95,800,000
TOWN OF CLAYTON, NORTH CAROLINA
Water and Sewer System Revenue Bonds
Series 2022

Due August 1	Principal Amount	Interest Rate	Yield	CUSIP**
2025	\$2,305,000	5.000%	2.430%	184383AA5
2026	2,420,000	5.000	2.480	184383AB3
2027	2,545,000	5.000	2.510	184383AC1
2028	2,675,000	5.000	2.550	184383AD9
2029	2,815,000	5.000	2.560	184383AE7
2030	2,955,000	5.000	2.610	184383AF4
2031	3,110,000	5.000	2.650	184383AG2
2032	3,270,000	5.000	2.660	184383AH0
2033	3,435,000	5.000	2.720 ^C	184383AJ6
2034	3,610,000	5.000	2.870 ^C	184383AK3
2035	3,795,000	5.000	3.070 ^C	184383AL1
2036	3,990,000	5.000	3.230 ^C	184383AM9
2037	4,195,000	5.000	3.350 ^C	184383AN7
2038	4,410,000	5.000	3.470 ^C	184383AP2
2039	4,640,000	5.000	3.560 ^C	184383AQ0
2040	4,875,000	5.000	3.630 ^C	184383AR8
2041	5,100,000	4.000	4.080	184383AS6
2042	5,305,000	4.000	4.100	184383AT4
2043	5,525,000	4.000	4.120	184383AU1

\$11,855,000 5.000% Term Bonds due August 1, 2045, Yield 3.790%^C, CUSIP 184383AV9

\$12,970,000 4.000% Term Bonds due August 1, 2047, Yield 4.200%, CUSIP 184383AW7

^C Yield to call date of August 1, 2032.

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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 2022 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2022 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 2022 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have 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 Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2022 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

None of the 2022 Bonds, the Bond Order, nor the Series Resolution (each as defined herein) have been registered with the U.S. 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 2022 Bonds, the Bond Order or the Series Resolution in accordance with applicable provisions of securities laws of the states in which the 2022 Bonds, the Bond Order or the Series Resolution 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).

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.

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**State of North Carolina
Department of State Treasurer**

DALE R. FOLWELL
Treasurer

*State and Local Government Finance Division
and the Local Government Commission*

Sharon Edmundson
Deputy Treasurer

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

**\$95,800,000
TOWN OF CLAYTON, NORTH CAROLINA
Water and Sewer System Revenue Bonds
Series 2022**

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 Clayton, North Carolina (the “Town”) of \$95,800,000 Water and Sewer System Revenue Bonds, Series 2022 (the “2022 Bonds”).

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 Bond Order and the Series Resolution (as each term is defined below), see Appendix C hereto. Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Bond Order and the Series Resolution unless otherwise indicated.

Authorization. The 2022 Bonds are being issued pursuant to (i) The State and Local Government Revenue Bond Act, Article 5 of Chapter 159, as amended, of the General Statutes of North Carolina (the “Act”), (ii) an Amended and Restated Bond Order adopted on November 7, 2022 (the “Bond Order”) by the Town Council of the Town of Clayton (the “Town Council”), the governing body of the Town, which amended and restated a Bond Order adopted by the Town Council on February 20, 2012 (the “Original Bond Order”), as amended by a First Supplemental Bond Order adopted by the Town Council on April 20, 2020, all of which authorizes and secures the Bonds (as defined herein), and (iii) a series resolution adopted by the Town Council on November 7, 2022 (the “Series Resolution”).

The Town previously issued its \$15,000,000 Water and Sewer System Revenue Bond, Series 2020 (the “Existing Bonds”) of which \$14,194,000 is currently outstanding. Upon delivery of the 2022 Bonds, the 2022 Bonds and the Existing Bonds will be outstanding under the Bond Order and secured on a parity basis according to the provisions thereof. The Existing Bonds, the 2022 Bonds and any Additional Bonds (as defined herein) issued under the Bond Order are collectively referred to as the “Bonds.”

Pursuant to the Original Bond Order, the holders of not less than a majority of the aggregate principal amount of the Bonds then outstanding may consent to the amendments and modifications made to the Original Bond Order by the terms of the Bond Order. Upon their issuance, the 2022 Bonds will constitute a majority of the aggregate principal amount of the Bonds outstanding. By their purchase of the

2022 Bonds, the purchasers thereof shall be deemed to have consented to the Bond Order, and the Bond Order shall be effective on the date of issuance of the 2022 Bonds.

Security. The 2022 Bonds (and any other Bonds issued under the Bond Order) will be special obligations of the Town, secured by and payable from the Net Revenues (as defined herein) of the Town's water system (the "Water System") and sewer system (the "Sewer System" and collectively with the Water System, the "System") and, under certain circumstances, the proceeds of the 2022 Bonds, investment earnings and certain net insurance and other proceeds. The 2022 Bonds will be additionally secured by certain funds and accounts created under the Bond Order and the Series Resolution and held by the Town or by U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), which has accepted the duties of the Trustee under the Bond Order. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS" herein and in Appendix C hereto.

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 2022 BONDS, AND NO OWNER OF THE 2022 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 REVENUES FOR THE PAYMENT OF THE 2022 BONDS.

Purpose. The 2022 Bonds are being issued for the purpose of providing funds, together with any other available funds, to (a) finance a portion of the 2022 Project (as defined herein) and (b) pay certain costs incurred in connection with the issuance of the 2022 Bonds. See "THE PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Details of Bonds. The 2022 Bonds will be dated the date of delivery thereof. Interest on the 2022 Bonds will be payable on February 1 and August 1, beginning August 1, 2023, at the rates shown on the inside front cover. Principal of the 2022 Bonds will be payable, subject to prior redemption of the 2022 Bonds as described herein, on August 1 in the years and amounts shown on the inside front cover.

The 2022 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 2022 Bonds. The Bond Registrar will make payments of principal of and interest on the 2022 Bonds to The Depository Trust Company, New York, New York ("DTC"), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the 2022 Bonds. Individual purchases of the 2022 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 System.

Tax Status. See "TAX MATTERS" herein.

Professionals. Robert W. Baird & Co. Incorporated, Winston-Salem, North Carolina, and PNC Capital Markets LLC, Charlotte, North Carolina (the "Underwriters"), are underwriting the 2022 Bonds. McGuireWoods LLP, Raleigh, North Carolina, is serving as Bond Counsel. Pope Flynn, LLC, Charlotte, North Carolina, is serving as counsel to the Underwriters. Cauley Pridgen, P.A., Raleigh, North Carolina, is the Town Attorney. U.S. Bank Trust Company, National Association is serving as the Trustee, Registrar and Paying Agent. Davenport & Company LLC, Charlotte, North Carolina, is acting as financial advisor to the Town in connection with the sale and issuance of the 2022 Bonds. Stantec

Consulting Services, Inc., Washington, DC, has prepared the financial feasibility report (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, 2022. 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, 2022, are included as Appendix A hereto.

Additional Information; Copies of Documents. During the initial offering period, the Underwriters will provide to potential investors copies in reasonable quantity of the Bond Order and the Series Resolution. Requests or inquiries should be made to Robert W. Baird & Co. Incorporated at 380 Knollwood Street, Suite 400, Winston-Salem, North Carolina 27103. After the initial offering period, copies in reasonable quantity of the applicable documents can be obtained at the designated corporate trust office of the Trustee at U.S. Bank Trust Company, National Association, 5540 Centerview Drive, Suite 200, Raleigh, North Carolina 27606.

THE 2022 BONDS

Authorization

The 2022 Bonds will be issued pursuant to the Act, the Bond Order and the Series Resolution.

The issuance of the 2022 Bonds is expected to receive the required approval of the North Carolina Local Government Commission (the “LGC”) on December 6, 2022. The LGC is a division of the State Treasurer’s office charged with general oversight of local government finance in the State of North Carolina (the “State”). Its approval is required for all local government bond issues and substantially all other local government financing arrangements in the State. 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 2022 Bonds will be dated their initial date of delivery, will bear interest from such date payable on each February 1 and August 1, beginning August 1, 2023, at the rates shown on the inside cover and will mature, subject to prior redemption as described herein, on August 1 in the years and amounts shown on the inside cover. The principal of the 2022 Bonds is payable at the designated corporate trust office of the Trustee as Registrar for the 2022 Bonds. Interest on the 2022 Bonds is payable by check or draft mailed to the Owners thereof on each Interest Payment Date at their addresses as they appear on the registration books maintained by the Registrar, at the close of business on the 15th day of the month preceding each Interest Payment Date (the “Record Date”). At the written request of any Bondowner of at least \$1,000,000 in aggregate principal amount of the 2022 Bonds, interest may be payable by wire transfer at the address specified in writing by the Bondowner by the Record Date preceding the Interest Payment Date.

Book-Entry Only System

The 2022 Bonds will be delivered initially only in book-entry form and, when delivered will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of The Depository Trust Company (“DTC”) as nominee of DTC. DTC will act as the initial securities depository for the 2022 Bonds. See Appendix F hereto. Except as described in Appendix F hereto, Beneficial Owners (as defined in Appendix F hereto) of the 2022 Bonds will not receive or have the right to receive physical delivery of certificates representing their ownership interest in the 2022 Bonds. For so long as any purchaser is the Beneficial Owner of a 2022 Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in Appendix F hereto) to receive payment of the principal of, premium, if any, or interest on such 2022 Bonds.

Redemption Provisions

Optional Redemption. The 2022 Bonds maturing on or before August 1, 2032 are not subject to redemption prior to maturity. The 2022 Bonds maturing on or after August 1, 2033 will be subject to redemption, at the option of the Town, from any funds that may be available for such purpose, either in whole or in part on any date on or after August 1, 2032, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, in the manner provided in the Series Resolution.

Mandatory Sinking Fund Redemption. The 2022 Bonds maturing on August 1, 2045 (the “2045 Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in part at the Redemption Price of 100% of the principal amount thereof, without premium, in the amounts and on August 1 as follows:

<u>Year</u>	<u>Amount</u>
2044	\$5,780,000
2045*	6,075,000

*Maturity.

The 2022 Bonds maturing on August 1, 2047 (the “2047 Term Bonds” and together with the 2045 Term Bonds, the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in part at the Redemption Price of 100% of the principal amount thereof, without premium, in the amounts and on August 1 as follows:

<u>Year</u>	<u>Amount</u>
2046	\$6,355,000
2047*	6,615,000

*Maturity.

At its option, to be exercised on or before the 45th day next preceding any mandatory redemption date, the Town may (a) deliver to the Trustee for cancellation, Term Bonds or portions thereof in Authorized Denominations, or (b) receive a credit in respect of its mandatory redemption obligation for such Term Bonds, respectively, in Authorized Denominations which before such date have been purchased or redeemed (otherwise than through mandatory redemption pursuant to this paragraph) and canceled by the Trustee and not theretofore applied as a credit against any mandatory redemption obligation. Such Term Bonds or the portion thereof so delivered or previously purchased or redeemed and canceled by the Trustee will be credited by the Trustee at 100% of the principal amount thereof against the mandatory redemption obligation on the Term Bonds. To the extent that the aggregate

principal amount of the Term Bonds or portions thereof exceeds the principal amount due on the Term Bonds on such mandatory redemption date, any excess over such amount shall be credited against future mandatory redemption obligations in the order of their respective due dates, and the principal amount of such Term Bonds so to be redeemed will be accordingly reduced.

The Town will on or before the 45th day next preceding each such mandatory redemption date furnish the Trustee with its certificate indicating whether or not and to what extent the provisions of (a) and (b) of the preceding paragraph are to be availed of with respect to such mandatory redemption payment.

General Redemption Provisions. Notice of redemption will be given by the Trustee not less than 30 days nor more than 60 days prior to the date fixed for redemption (1) to the LGC by mail or facsimile transmission, (2) (a) to DTC or its nominee in accordance with DTC's rules and procedures at the address provided to the Trustee by DTC or (b) if DTC or its nominee is no longer the Owner of the 2022 Bonds, by mail to the then-registered Owners of the 2022 Bonds or portions thereof to be redeemed by at the last address shown on the registration books kept by the Trustee and (3) to the Municipal Securities Rulemaking Board (the "MSRB"), in an electronic format as prescribed by the MSRB. Neither the failure to provide the notice nor any defect in any notice mailed will affect the sufficiency of the proceedings for such redemption as to which no defect or failure occurred.

Such notice must (1) specify the 2022 Bonds to be redeemed, the Redemption Date, the Redemption Price and the place or places where amounts due on such redemption must be payable (which must be the principal office of the Paying Agent) and if less than all of the 2022 Bonds are to be redeemed, the numbers of the 2022 Bonds and the portions of the 2022 Bonds to be redeemed, (2) if sufficient moneys are not then on deposit in the Debt Service Fund to pay the full Redemption Price of the 2022 Bonds, state that the proposed optional redemption is conditioned on there being sufficient moneys on deposit in the Debt Service Fund to pay the Redemption Price of the 2022 Bonds called for redemption and (3) state that on the redemption date, the 2022 Bonds to be redeemed will cease to bear interest. The Town may revoke any optional redemption for which notice has been given on written instruction to the Trustee delivered in sufficient time for the Trustee to give notice thereof at least five days before the redemption date (or if DTC or its nominee is the registered Owner of the 2022 Bonds, such shorter time as permitted by DTC's rules and procedures) to the persons to whom and in the manner in which the notice of redemption was given.

The actual receipt by any Owner of a 2022 Bond of notice of redemption is not a condition precedent to redemption, and failure to receive notice will not affect the validity of the proceedings for the redemption of the 2022 Bonds or the cessation of interest on the Redemption Date. Notice of redemption of the 2022 Bonds will be given by the Trustee at the expense of the Town.

If less than all of the 2022 Bonds are called for redemption, the Town will determine the maturities and amounts thereof to be redeemed. If a book-entry system through DTC is used for determining beneficial ownership of the 2022 Bonds and less than all the 2022 Bonds of any maturity are called for redemption, DTC shall select the 2022 Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system through DTC or any other securities depository for determining beneficial ownership of the 2022 Bonds has been discontinued, the Trustee shall select the 2022 Bonds to be redeemed by lot in such manner as the Trustee in its discretion may deem proper, but in any event, the portion of any 2022 Bond to be redeemed must be in an Authorized Denomination.

If moneys are on deposit in the Debt Service Fund to pay the Redemption Price of the 2022 Bonds called for redemption and premium, if any, thereon on a redemption date, 2022 Bonds or portions thereof so called for redemption as provided above will not bear interest after such redemption date and will not

be considered Outstanding or as having any other rights under the Bond Order other than the right to receive payment. If a portion of a 2022 Bond is called for redemption, a new 2022 Bond in principal amount equal to the unredeemed portion thereof will be issued to the Owner thereof upon surrender thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE 2022 BONDS

General

The 2022 Bonds (and any other Bonds issued under the Bond Order) will be special obligations of the Town, secured by and payable from the Net Revenues of the System, amounts in certain funds and accounts created under the Bond Order and the Series Resolution, and, under certain circumstances, the proceeds of the 2022 Bonds, investment earnings and certain net insurance and other proceeds. **The 2022 Bonds are not payable from the Town's general funds and do not constitute a legal or equitable pledge, charge, lien or encumbrance on any of the Town's property or on any of its income, receipts or revenues, except for the Net Revenues and other funds pledged to their payment. Neither the credit nor the taxing power of the Town is pledged for the payment of principal of, premium, if any, or interest on the 2022 Bonds, and no Owner of the 2022 Bonds has the right to compel the exercise of the taxing power by the Town or the forfeiture of any of its property other than Net Revenues in connection with any default on the 2022 Bonds.**

The Town may sell, mortgage, lease or otherwise dispose of certain assets that are part of the System upon compliance with certain provisions set forth in the Bond Order. See "PARTICULAR COVENANTS OF THE TOWN—*Sale or Encumbrance of the System*" in Appendix C hereto.

Pledge of Net Revenues

The Net Revenues of the System are pledged to the payment of, and as security for the 2022 Bonds and any other Bonds issued under the Bond Order. Net Revenues for any particular period means the excess of Revenues over Operating Expenses.

"Revenues" means all income received by the Town from, in connection with, or as a result of, its ownership or operation of the System, including all moneys received in payment of rates, fees and other charges for the use of and for the services furnished by the System, including (i) system development fees and (ii) investment income, including amounts received from the investment of money in any Fund or Account (but not including amounts received from interest or other investment income earned in the Construction Fund and the Rebate Fund and, during the construction period, the Debt Service Reserve Fund), all as calculated in accordance with generally accepted accounting principles, but will NOT include (1) net proceeds of insurance or condemnation awards or other extraordinary items, (2) the proceeds of any borrowing for payment of the costs of, or grants or donations intended for, specific System improvements, (3) refundable deposits made by customers of the System, (4) any income received in payment of fees or charges, including system development fees, that are intended to be set aside specifically for a particular capital project and that are not available for payment of Operating Expenses or debt service on the Bonds, or (5) any amounts otherwise included under this definition as Revenues but not permitted by law to be pledged under the Bond Order. "Operating Expenses" means the Town's reasonable and necessary current expenses maintaining, repairing and operating the System as calculated in accordance with generally accepted accounting principles, as further detailed in the Bond Order, except that Operating Expenses do not include (a) any allowance for depreciation or replacements of capital assets of the System, (b) moneys payable as Interest on the Bonds or on Subordinate Indebtedness, General Obligation Indebtedness or Other Indebtedness, (c) moneys deposited or transferred to the Debt Service Reserve Fund pursuant to the applicable Series Resolution, (d) any loss from extinguishment of

debt or the sale, exchange or other disposition of capital assets, (e) any accrued expenses for other post-retirement benefits not resulting in (i) payments of such benefits to current or future retired employees or (ii) deposits of funds into an irrevocable trust for the purpose of making future payments of such benefits to current or future retired employees, (f) payments of up front capacity fees to other government entities to purchase additional water or wastewater capacity (separate and apart from the per unit commodity charges for such services), and (g) any expense paid from a source other than Revenues. When generally accepted accounting principles provide that amounts be treated as Operating Expenses but (i) the timing of the required payment of the expense or a portion thereof, while known, is more than one year in the future or (ii) the actual timing of the required payment of the expense is not readily determinable (such as post-employment benefits calculated actuarially), the Town may include as an Operating Expense the amount required to be paid for in the current period rather than the entirety of amounts required to be expensed. See Appendix C hereto for complete definitions of “Revenues” and “Operating Expenses.”

Rate Covenant

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 that from time to time and as often as it shall appear necessary, it shall revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that:

(a) the Net Revenues (calculated in accordance with generally accepted accounting principles) for each Fiscal Year will be not less than (i) 125% of the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (ii) 100% of the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iii) 100% of the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (iv) 100% of the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing under the Bond Order of the Principal and Interest Requirements on the Bonds to become due during such Fiscal Year; and

(b) Revenues for each Fiscal Year shall be sufficient (i) to pay Operating Expenses, (ii) to pay the Principal and Interest Requirements on the Bonds to become due during such Fiscal Year, and (iii) to make such other deposits or payments as may be required under the provisions of the Bond Order or any Series Resolution ((a) and (b), collectively, the “Rate Covenant”).

In addition, the Town has covenanted 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.

If the Town fails to comply with the Rate Covenant, it shall, within 30 days of the receipt by the Town of the audit report to be delivered to the Town within 180 days after the close of each Fiscal Year (as required by the Bond Order), request a Financial Consultant to make recommendations, if any, as to a revision of the Town’s rates, fees, rentals and charges for the System, its Operating Expenses or the method of operation of the System in order to satisfy the Rate Covenant. Copies of such request and of the recommendations of the Financial Consultant, if any, shall be filed by the Town with the LGC. Promptly upon its receipt of the recommendations of the Financial Consultant, the Town shall, after giving due consideration to the recommendations, revise its rates, fees, rentals and charges for the System or its Operating Expenses or alter its methods of operation, which revisions or alterations need not comply with the Financial Consultant’s recommendations, but which are projected by the Town to result in compliance with the Rate Covenant. If the Town shall comply with all of the recommendations of the

Financial Consultant, failure to comply with the Rate Covenant shall not constitute an Event of Default under the Bond Order as a result of a failure to observe and perform any covenant, condition, agreement or provision contained in the Bonds or the Bond Order. In the event of any failure to comply with the Rate Covenant and the failure of the Town to comply with all of the recommendations of the Financial Consultant, and in addition to the remedies elsewhere provided in the Bond Order, the Trustee may, and at the direction of the Holders of not less than 50% in aggregate principal amount of the Bonds then outstanding shall, (i) demand that the Town comply with the requirements of the Rate Covenant or all of the recommendations of the Financial Consultant, or (ii) institute and prosecute in a court of competent jurisdiction an appropriate action to compel the Town to comply with the requirements of the Rate Covenant or all of the recommendations of the Financial Consultant. The Town covenants that it will adopt and charge rates, fees, rentals and charges for the System and revise its Operating Expenses or the method of operation of the System in compliance with any final order, decree or judgment entered in any such proceeding or modification thereof. See "RATE COVENANT" in Appendix C hereto.

Funds and Accounts

Pursuant to the Bond Order, the Town has established the following funds:

- (1) Revenue Fund,
- (2) Debt Service Fund,
- (3) Construction Fund,
- (4) Debt Service Reserve Fund, and
- (5) Rebate Fund.

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

The moneys and securities held in the above funds (other than the Rebate Fund) are pledged under the Bond Order to secure payment of the Bonds.

Revenue Fund. The Town is required to deposit all Revenues in the Revenue Fund. Subject to certain exceptions set forth in the Bond Order, the Town will cause disbursements to be made from the Revenue Fund in the following order of priority:

- (1) Payment of Operating Expenses as the same become due and payable in conformity with the applicable budgetary and payment procedures of the Town;

- (2) On or before the 5th day before each Interest Payment Date, commencing on July 25, 2023 with respect to the 2022 Bonds, to the Trustee for deposit in the Debt Service Fund, an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Interest), there will be in the Debt Service Fund an amount equal to the Interest due on such Interest Payment Date;

- (3) On or before the 5th day before each Principal Payment Date (commencing on July 25, 2025 with respect to the 2022 Bonds), to the Trustee for deposit in the Debt Service Fund, an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Principal due with respect to the Bonds), there will be in the Debt Service Fund an amount equal to the Principal Installment due on such Principal Payment Date;

(4) On any date, to the Debt Service Fund the amount necessary to make up any deficiency therein in accordance with the priorities established by the Bond Order;

(5) On the date set for payment thereof, to the provider of any Qualified Reserve Fund Substitute, if any, an amount sufficient to satisfy the then current obligations of the Town incurred in connection therewith;

(6) At any time as may be required, for deposit in any account in the Debt Service Reserve Fund (to the extent a Debt Service Reserve Fund has been established with respect to a Series of Bonds) (a) the amount necessary for the balance therein to equal the Reserve Requirement with respect to such account, but if the Revenues are insufficient therefor, to each account of the Debt Service Reserve Fund *pro rata* or (b) if any account in the Debt Service Reserve Fund is less than 90% of the Reserve Requirement with respect to such account as a result of a valuation of investments therein, the amount necessary for the balance therein to equal the applicable Reserve Requirement; provided, however, that in either the event of (a) or (b) above the Town is not required to transfer in any month more than an amount such that if the same amount were deposited in equal monthly installments over the subsequent 11 months, the applicable account would equal the applicable Reserve Requirement;

(7) At any time as may be required, to the paying agent or directly to the registered owners of any General Obligation Indebtedness, an amount equal to the principal, premium or interest then due and owing on such General Obligation Indebtedness;

(8) On the date set for the payment thereof, to the Persons entitled to payment on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing on such Subordinate Indebtedness; and

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

At the end of each month, after making all deposits or payments required above (including transferring to the Debt Service Fund sufficient funds to pay Principal and Interest on all Bonds on the next Interest Payment Date), the Town may transfer any balance remaining in the Revenue Fund to any other fund or account designated by the Town to be used for any lawful purpose, including, without limitation, to any capital project fund or capital revenue fund established for the System, but only if the following conditions are met: (i) no Event of Default shall exist and be continuing; (ii) in the opinion of the Finance Officer of the Town, such transfer will not have a material adverse effect on the Town's ability over the next 12 calendar months to pay the Operating Expenses, to make all deposits and payments required above and to meet all other financial obligations imposed by the Bond Order or any Series Resolution; and (iii) the cumulative amount so transferred in any Fiscal Year shall 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, as amended. Any funds transferred from the Revenue Fund in accordance with this paragraph, other than transfers made to any Fund or Account established under the Bond Order, shall no longer be subject to the pledge, charge and lien upon the Net Revenues created by the Bond Order.

Upon the occurrence and continuance of an Event of Default under the Bond Order, the Trustee in its discretion may, and upon the written direction of the registered Owners of not less than a majority in

aggregate principal amount of the Bonds Outstanding, the Trustee must, take custody and administer the Revenue Fund.

Debt Service Fund. Amounts held in the Debt Service Fund will be used first to pay the Interest on and then the Principal of and then the Redemption Price of all Bonds Outstanding under the Bond Order, all on a pro rata basis. If on any Interest Payment Date or Principal Payment Date, there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following funds in the following order or priority: (1) the Revenue Fund, (2) the account of the Debt Service Reserve Fund securing a particular Series of Bonds to the extent such deficiency is attributable to such Series of Bonds, and (3) the Construction Fund.

Rebate Fund. Pursuant to computations of Rebate Deposits made by an Accountant or other qualified entity, the Town will direct the Trustee to transfer funds from the Revenue Fund to the Rebate Fund in the amount necessary for the Town to satisfy the requirements of the Code with respect to each Series of Bonds.

Construction Fund. There will be deposited from time to time in the Construction Fund all amounts required to be deposited therein pursuant to, and expended in accordance with, any Series Resolution and any other amounts available therefor and determined by the Town to be deposited therein. Under the Series Resolution, there are created within the Construction Fund a 2022 Project Account and a 2022 Costs of Issuance Account. The net proceeds of the sale of the 2022 Bonds will be deposited in such accounts, and will be disbursed based on requisitions submitted by the Town to the Trustee for payment of Costs of Construction of the Project and Costs of Issuance of the 2022 Bonds, as applicable, in accordance with the terms of the Series Resolution. See “FUNDS AND ACCOUNTS—*Construction Fund*” in Appendix C.

Debt Service Reserve Fund. The Bond Order establishes the Debt Service Reserve Fund and provides that the related Series Resolution for each series of Bonds will establish the provisions for use of the Debt Service Reserve Fund. **The Series Resolution does not provide for the funding of the Debt Service Reserve Fund for the 2022 Bonds and states that the 2022 Bonds are not secured by the Debt Service Reserve Fund.** As of the date of issuance of the 2022 Bonds, no Bonds are secured by the Debt Service Reserve Fund.

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

Upon delivery of the 2022 Bonds, the Existing Bonds and the 2022 Bonds will be secured on a parity basis by a pledge of the Net Revenues. Without the approval or consent of the Owners of any Outstanding Bonds, the Town may issue additional Bonds secured by a pledge of the Net Revenues on a parity with the 2022 Bonds and the Existing Bonds (“Additional Bonds”) under the conditions set forth in the Act and the Bond Order and described below.

(a) The Town may issue Additional Bonds for the purpose of refunding all or any portion of the Bonds previously issued under the Bond Order for the purpose of achieving aggregate debt savings; provided, however, that bond anticipation notes issued pursuant to the Bond Order may be refunded without evidence of aggregate debt savings.

(b) The Town may issue Additional Bonds for the purpose of financing System Improvements so long as there has been delivered to the Trustee, among other things, a certificate signed by a Town Representative stating that the conditions set forth in (i), (ii) or (iii) below have been met and setting forth the calculation thereof:

- (i) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, were at least equal to (a) 125% of the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of the Principal and Interest Requirements for Subordinate Indebtedness, if any, in that Fiscal Year, (c) 100% the Principal and Interest Requirements for General Obligation Indebtedness, if any, in that Fiscal Year and (d) 100% the Principal and Interest Requirements for Other Indebtedness, if any, in that Fiscal Year, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds;

OR

- (ii) (A) the Town was in compliance with the Rate Covenant; AND

(B) the Net Revenues, as projected by a report of a Financial Consultant filed with the Trustee, for the first two Fiscal Years following (1) the date capitalized interest, if any, provided from the proceeds of the proposed Series of Bonds is expended in the case of the acquisition of assets for or construction of improvements to the System or (2) the date the proposed Series of Bonds is issued in any other case, are at least equal to (a) 125% of the Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, for such Fiscal Years, (b) 100% of the Principal and Interest Requirements for Subordinate Indebtedness to become due in such Fiscal Years, (c) 100% of the Principal and Interest Requirements for General Obligation Indebtedness to become due in such Fiscal Years and (d) 100% of the Principal and Interest Requirements for Other Indebtedness to become due in such Fiscal Years, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds;

OR

- (iii) for the most recent Fiscal Year for which audited financial statements are available, the amount of Additional Bonds proposed to be issued, together with any other Additional Bonds issued pursuant to this subsection (iii) and then Outstanding, does not exceed 10% of Revenues for such Fiscal Year.

For purposes of calculating Net Revenues in (b)(i) or (b)(ii)(B) above, (1) if the rates, fees, rentals and charges for the use of the System have been revised and such revised rates, fees, rentals and charges are or will be in effect prior to or concurrently with the incurrence of such Additional Bonds, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenue, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Net Revenue, in the judgment of such Town Representative, if such rates, fees, rentals and charges had been in effect at the beginning of such Fiscal Year, (2) if users of the System have been added as a result of an acquisition of assets from another provider of services or as a result of a contract with another governmental unit prior to or concurrently with the incurrence of such Additional Bonds, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the System as of the beginning of such Fiscal Year, (3) if one or more "industrial users" (as described in the Town's fee structure for the System) have been added to the System (or if an existing industrial user has expanded its use of the System) prior to or concurrently with the incurrence of such Additional Bonds, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such new or expanded industrial user had been a part of the System as of the beginning of such Fiscal Year, and (4) 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 Additional Bonds, the Town Representative may add to such Net Revenues an estimate of the additional Net Revenues, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of Net Revenues, in the judgment of such Town Representative, if the Enterprise had been part of the System at the beginning of such Fiscal Year.

(c) The Town may issue Additional Bonds for the purpose of financing the completion of the 2022 Project or any Additional Project for which Bonds or Additional Bonds have theretofore been issued so long as there has been delivered to the Trustee, among other things, (i) a certificate signed by a Town Representative stating that the conditions set forth in paragraph (b) above have been met and setting forth the calculation thereof, and (ii)(A) a certificate of a licensed architect or engineer estimating the costs of completing the facilities constituting the 2022 Project or Additional Project for which such Additional Bonds are to be incurred, and (B) a certificate of a Town Representative certifying that the amount of such Additional Bonds will be sufficient, together with other funds, if applicable, to complete construction of such facilities as estimated by the architect or engineer in respect of which such Additional Bonds are to be issued.

See “ADDITIONAL BONDS” in Appendix C hereto.

Also, under the conditions and limitations set forth in the Act and the Bond Order and without the approval or consent of the Owners of any Outstanding Bonds, the Town may issue Subordinate Indebtedness and Other Indebtedness. See “ADDITIONAL BONDS—*Issuance of Subordinate Indebtedness*” and “ADDITIONAL BONDS—*Other Indebtedness*” in Appendix C hereto. There are no restrictions contained in the Bond Order or the Series Resolution on the issuance or incurrence of General Obligation Indebtedness of the Town for projects relating to the System, and such General Obligation Indebtedness may be paid from Revenues of the System as provided in the Bond Order. See “ANNUAL DEBT SERVICE REQUIREMENTS” herein.

THE PLAN OF FINANCE

The proceeds of the 2022 Bonds will be used (a) to finance a portion of the 2022 Project, and (b) to pay certain costs incurred in connection with the sale and issuance of the 2022 Bonds.

The 2022 Project consists of certain improvements to the System, including the design, acquisition, construction and equipping of the Sam’s Branch Water Reclamation Facility (the “Sam’s Branch WRF”) and associated conveyance infrastructure program, and other capital improvements to the System that are part of the Town’s capital improvement program. The Sam’s Branch WRF will be constructed on an existing Town-owned site, which is already home to other wastewater infrastructure and greenways. The Sam’s Branch WRF will be capable of treating 6 MGD before final discharge to the Neuse River with expansion capacity of up to 10 MGD. The Town has purchased additional nutrient credits to comply with regulations. The Sam’s Branch WRF will replace the treatment provided at the Little Creek Water Reclamation Facility. The 2022 Project also includes replacing the Little Creek Water Reclamation Facility with a pump station that will eliminate the Town’s need to contract for treatment services from Johnston County, North Carolina (the “County”) and the City of Raleigh. The Little Creek pump station is expected to be constructed with a capacity of 13 MGD and include a force main and gravity sewer system that will convey wastewater to the Sam’s Branch WRF. Plans for the 2022 Project also include the expansion of the East Clayton Industrial Area (“ECIA”) pump station to 5 MGD, construction of the ECIA force main and construction of a water tower storage tank (the “Lumen Water Tank Project”). Construction of the 2022 Project has begun and is expected to be substantially complete by the end of the Fiscal Year ending June 30, 2025.

The Series 2022 Bonds will be used to finance approximately \$103.2 million of the cost of the 2022 Project. The total cost of the 2022 Project is expected to be approximately \$292.5 million, which is comprised of approximately \$240.0 million for the Sam's Branch WRF, \$22.1 million for the Little Creek project (pump station, gravity and force main), \$23.9 million for the ECIA pump station and force main, and \$6.5 million for the Lumen Water Tank Project. In addition to the Series 2022 Bonds, the Town expects to fund the 2022 Project from several additional sources including \$110.0 million from loans under the State Revolving Loan Program, \$5.2 million from U.S. Economic Development Administration grants, \$19.1 million in American Rescue Plan Act ("ARPA") funds, \$25.0 million in appropriations from the State, \$30 million from the sale of a pretreatment facility to Novo Nordisk Pharmaceutical Industries, Inc.

For more information on the Town's debt outlook and capital improvement plans and the forecasted operating results of the System, see the Financial Feasibility Report in Appendix B 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 2022 Bonds	\$ 95,800,000
Net Original Issue Premium	<u>8,287,682</u>
Total	\$104,087,682

Uses:

2022 Project Costs	\$103,220,608
Costs of Issuance ¹	<u>867,074</u>
Total	\$104,087,682

¹ Includes underwriters' discount, legal fees, financial advisor fees, printing costs, rating agency fees, fees and expenses of the Trustee, and miscellaneous fees and expenses.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each Fiscal Year ending June 30 the amounts of principal and interest to be paid with respect to the 2022 Bonds, other Outstanding Bonds, Other Indebtedness and obligations on loans from the State Revolving Loan Program, which constitute Subordinate Indebtedness under the Bond Order. There is currently no General Obligation Indebtedness (as defined in the Bond Order).

Fiscal Year Ending June 30	Debt Service on Other Outstanding Bonds	Debt Service on				
		2022 Bonds	2022 Bonds	2022 Bonds	Subordinate Indebtedness and Other Indebtedness	Total
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Indebtedness</u>	<u>Total</u>
2023	\$ 647,394	\$ 0	\$ 0	\$ 0	\$ 488,794	\$ 647,394
2024	852,029	0	5,013,614	5,013,614	767,482	5,865,643
2025	851,896	0	4,501,000	4,501,000	763,793	5,352,896
2026	852,389	2,305,000	4,443,375	6,748,375	978,164	7,600,764
2027	852,478	2,420,000	4,325,250	6,745,250	628,044	7,597,728
2028	852,165	2,545,000	4,201,125	6,746,125	624,600	7,598,290
2029	852,448	2,675,000	4,070,625	6,745,625	560,336	7,598,073
2030	852,299	2,815,000	3,933,375	6,748,375	270,876	7,600,674
2031	852,718	2,955,000	3,789,125	6,744,125	270,758	7,596,843
2032	852,677	3,110,000	3,637,500	6,747,500	271,148	7,600,177
2033	852,174	3,270,000	3,478,000	6,748,000	271,363	7,600,174
2034	852,211	3,435,000	3,310,375	6,745,375	270,739	7,597,586
2035	852,758	3,610,000	3,134,250	6,744,250	271,287	7,597,008
2036	852,787	3,795,000	2,949,125	6,744,125	0	7,596,912
2037	852,298	3,990,000	2,754,500	6,744,500	0	7,596,798
2038	852,290	4,195,000	2,549,875	6,744,875	0	7,597,165
2039	852,734	4,410,000	2,334,750	6,744,750	0	7,597,484
2040	852,603	4,640,000	2,108,500	6,748,500	0	7,601,103
2041	852,896	4,875,000	1,870,625	6,745,625	0	7,598,521
2042	851,584	5,100,000	1,646,750	6,746,750	0	7,598,334
2043	854,696	5,305,000	1,438,650	6,743,650	0	7,598,346
2044	852,088	5,525,000	1,222,050	6,747,050	0	7,599,138
2045	853,904	5,780,000	967,050	6,747,050	0	7,600,954
2046	0	6,075,000	670,675	6,745,675	0	6,745,675
2047	0	6,355,000	391,700	6,746,700	0	6,746,700
2048	0	6,615,000	132,300	6,747,300	0	6,747,300
Total	\$19,403,517	\$95,800,000	\$68,874,164	\$164,674,164	\$6,437,384	\$184,077,681

Note: Totals may not foot due to rounding.

FINANCIAL FEASIBILITY REPORT

The Financial Feasibility Report, which has been prepared by Stantec Consulting Services, Inc. (“Stantec”), is included in Appendix B hereto and should be read in its entirety, including all material assumptions and rationales set forth therein. The following information is included in the Financial Feasibility Report. Please refer to the Financial Feasibility Report for important notes relating to the following information, including principal amount and interest rate assumptions related to the 2022 Bonds.

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

		<u>Fiscal Year Ending June 30</u>					
		<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
1	Operating Revenue						
2	Water Sales	\$11,825,715	\$13,040,671	\$14,357,542	\$15,760,976	\$17,510,630	\$19,443,362
3	Sewer Charges	16,745,050	21,947,150	28,526,994	31,145,428	34,205,241	37,530,873
4	Water and Sewer Taps	55,000	55,000	55,000	55,000	55,000	55,000
5	Other Revenue	<u>1,417,544</u>	<u>1,417,544</u>	<u>1,417,544</u>	<u>1,417,544</u>	<u>1,417,544</u>	<u>1,417,544</u>
6	Total Operating Revenue	\$30,043,309	\$36,460,365	\$44,357,080	\$48,378,948	\$53,188,414	\$58,446,779
7	% Change	28.8%	21.4%	21.7%	9.1%	9.9%	9.9%
8	Operating Expenses						
9	Water Distribution and Maintenance	\$(7,697,859)	\$(8,330,850)	\$(9,020,301)	\$(9,771,516)	\$(10,590,312)	\$(11,483,059)
10	Preventative Maintenance	(1,820,640)	(1,911,669)	(2,007,250)	(2,107,610)	(2,212,988)	(2,323,634)
11	Wastewater Treatment	(7,415,692)	(8,963,160)	(8,111,599)	(8,490,296)	(7,883,001)	(7,544,689)
12	Support Services – General Fund	(3,151,877)	(3,246,433)	(3,343,826)	(3,444,141)	(3,547,465)	(3,653,889)
13	Total Operating Expenses	\$(20,086,068)	\$(22,452,113)	\$(22,482,977)	\$(23,813,564)	\$(24,233,766)	\$(25,005,271)
14	% Change	-1.4%	11.8%	0.1%	5.91%	1.8%	3.2%
15	Non-Operating Revenue (Expenses)						
16	Water System Development Fees	\$887,097	\$887,097	\$887,097	\$887,097	\$887,097	\$887,097
17	Sewer System Development Fees	1,612,903	1,612,903	1,612,903	1,612,903	1,612,903	1,612,903
18	Transfers In – ARP Funds	7,931,423	-	-	-	-	-
19	Debt Pay-Off	(6,121,840)	-	-	-	-	-
20	Miscellaneous	11,300	11,300	11,300	11,300	11,300	11,300
21	Total Non-Operating Revenue (Expenses)	\$4,320,883	\$2,511,300	\$2,511,300	\$2,511,300	\$2,511,300	\$2,511,300
22	Adjustments						
23	Non-Operating Revenues	\$(10,442,723)	\$(552,185)	\$(587,783)	\$(443,606)	\$(443,621)	\$(443,708)
24	Non-Operating Expenses	6,121,840	-	-	-	-	-
25	Total Adjustments	\$(4,320,883)	\$(552,185)	\$(587,783)	\$(443,606)	\$(443,621)	\$(443,708)
26	Net Income Available for Debt Service	\$9,957,241	\$15,967,367	\$23,797,820	\$26,633,079	\$31,022,327	\$35,509,100
27	Senior Lien Debt Service Coverage Test						
28	Existing Senior Lien Debt Service	\$851,787	\$852,029	\$851,896	\$852,389	\$852,478	\$852,165
29	Series 2022 Bonds	-	5,497,877	4,935,750	7,222,125	7,221,875	7,220,500
30	Future Bonds	-	-	-	160,485	1,789,410	2,310,987
31	Total Annual Senior Lien Debt Service	\$851,787	\$6,349,906	\$5,787,646	\$8,234,999	\$9,863,763	\$10,383,651
32	Senior Lien Debt Service Coverage (Line 26 / Line 31): with use of SDFs Required 1.25	11.69	2.51	4.11	3.23	3.15	3.42
33	Senior Lien Debt Service Coverage (Line 26 / Line 16 – Line 17 / Line 31): without use of SDFs Required 1.25	11.69	2.21	3.78	2.98	2.94	3.22

34	Subordinate Debt Service Coverage Test						
35	Existing Subordinate Debt Service	\$601,530	\$597,982	\$594,293	\$808,664	\$458,544	\$455,100
36	Other Obligations	169,500	169,500	169,500	169,500	169,500	169,500
37	Future State Revolving Fund Loans	-	-	-	7,159,384	6,607,700	6,549,400
38	Total Annual Subordinate Debt Service	\$771,030	\$767,482	\$763,793	\$8,137,548	\$7,235,744	\$7,174,000
39	Subordinate Debt Service Coverage (Line 26 – Line 31) / Line 38: with use of SDFs Required 1.0	11.81	12.53	23.58	2.26	2.92	3.50
40	Subordinate Debt Service Coverage (Line 26 – Line 16 – Line 17 – Line 31) / Line 38: without use of SDFs Required 1.0	11.81	9.99	21.08	2.01	2.64	3.22
41	Total All-In Debt Service Coverage Test						
42	Total Senior Lien Debt Service	\$851,787	\$6,349,906	\$5,787,646	\$8,234,999	\$9,863,763	\$10,383,651
43	Total Subordinate Debt Service	771,030	767,482	763,793	8,137,548	7,235,744	7,174,000
44	Total Annual Debt Service	\$1,622,817	\$7,117,387	\$6,551,439	\$16,372,547	\$17,099,507	\$17,557,652
45	All-In Debt Service Coverage (Line 26 / Line 44): with use of SDFs Required 1.0	6.14	2.24	3.63	1.63	1.81	2.02
46	All-In Debt Service Coverage (Line 26 / Line 31*1.25+Line 38): with use of SDFs Required 1.0	5.42	1.83	2.98	1.44	1.59	1.76
47	All-In Debt Service Coverage (Line 26 – Line 16 – Line 17 / Line 44): with use of SDFs Required 1.0	6.14	1.97	3.34	1.50	1.69	1.91
48	All-In Debt Service Coverage (Line 26 – Line 16 – Line 17 / Line 31*1.25+Line 38): Without use of SDFs Required 1.0	5.42	1.61	2.74	1.33	1.48	1.66
49	Net Revenues After Debt Service	\$ 8,334,423	\$8,849,979	\$17,246,381	\$10,260,531	\$13,922,820	\$17,951,448
50	Other Expenditures						
51	Water Capacity Purchases	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
52	Reserve and Rate Funded Paygo	(1,050,600)	(5,200,000)	(7,715,000)	(4,950,000)	(10,225,000)	(8,725,000)
53	SDF Funded Paygo	(4,975,000)	(5,275,000)	(1,460,000)	(1,500,000)	(500,000)	-
54	Total Other Expenditures	(8,025,600)	(12,475,000)	(11,175,000)	(8,540,000)	(12,725,000)	(10,725,000)
55	Non-Operating Revenues (Expenses)	4,320,883	552,185	587,583	443,606	443,621	443,708
56	Surplus / Deficit	4,629,706	(3,072,836)	6,658,964	2,254,137	1,641,441	7,670,156
57	Ending Surplus Cash Balance	\$25,164,487	\$22,091,651	\$28,750,615	\$31,004,752	\$32,646,194	\$40,316,350

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THE SYSTEM

The System is composed of the Town's Water System and Sewer System facilities, as may be now or hereafter existing, and includes the existing Water System and Sewer System facilities and improvements owned and operated by the Town as of the date of the Original Bond Order, and System Improvements, which include any construction, reconstruction, improvement, enlargement, betterment or extension of the System, including all plants, works, instrumentalities and properties relating thereto.

Organization and Management

The System is owned by the Town and operated through its Water Resources Department. The Water Resources Department's primary function is to maintain the Town's water and sewer infrastructure in accordance with applicable guidelines and regulations. The Water Resources Department consists of 32 full-time authorized positions to operate (1) a 2.5 million gallons per day ("MGD") water reclamation facility (and ultimately the 6 MGD Sam's Branch WRF currently under construction and part of the 2022 Project), (2) an Operations and Maintenance Division for water distribution and sewer collection, and (3) a Compliance Division with responsibility for record keeping, customer compliance, reporting, and enforcement. The Water Resources Department works closely with the Town's Engineering and Planning Departments for all System development and capital improvement project coordination, and with the utilities and billing divisions, which are components of the Town's Customer Service Department. Meter Services is part of the Customer Service Department and is responsible for the reading of all Town water meters. The Water Resources Department is under the administrative control of the Town Manager, with the Water Resources Director reporting directly to one of the Deputy Town Managers.

Richard D. Cappola, Jr. is the Town Manager. Mr. Cappola served as the Interim Town Manager beginning in May 2021, and was named the Town Manager in September 2022. Mr. Cappola came to the Town in 2017 as the Town's first Director of Engineering & Inspections. He since has served as Director of Public Services, and most recently, as Deputy Town Manager. In his role as Deputy Town Manager, Mr. Cappola's focus was on integrating the master planning, design, permitting, construction, and operations and management of the Town's facilities and infrastructure. Mr. Cappola has nearly 20 years of civil engineering, design and land-use planning experience, working in both municipal government and the private sector. He holds a Master of Public Administration and a master's degree in Biological and Agricultural Engineering from North Carolina State University, as well as a Bachelor of Science in Civil Engineering from Clemson University. A Connecticut native, Mr. Cappola is a past president of the Stormwater Association of North Carolina and has served on the North Carolina League of Municipalities Regulatory Action Committee. He is a member of both the Southeast Storm Water Association and the American Public Works Association.

The Town Finance Director is Robert W. McKie, Jr. Before joining the Town as Finance Director, Mr. McKie was employed as Financial Services Supervisor for the North Carolina General Assembly from 2008-2009. He worked for the North Carolina Division of Public Health from 2004-2008, first as Finance Officer, and later as Business Officer. Mr. McKie was employed from 1999-2002, with El Paso-Coastal Petroleum N.V., beginning as Controller and then served as the Interim Managing Director. Mr. McKie is a member of the North Carolina Society of Certified Public Managers, the American Academy of Certified Public Managers, the American Society for Public Administration, and the Government Finance Officers Association ("GFOA"). A graduate of Wayne State University with a Bachelor of Science degree in Business Administration, Mr. McKie is also a Certified Public Manager and has been a recipient of the GFOA's Certificate of Achievement for Excellence in Financial Reporting for 12 consecutive years.

The Water Resources Director is Byron Poelman. Mr. Poelman has been with the Town since November 1997. He was hired as the first Public Works Superintendent over all Public Works functions to include Water Distribution, Sewer Collection, Street & Stormwater Maintenance and Facilities and Grounds Operations. Prior to his employment by the Town, Mr. Poelman was the Assistant Public Works Director for the Town of Wendell, North Carolina where he served for 11 years as the Wastewater Treatment Facility operator in responsible charge, Water and Sewer Systems operator in responsible charge, as well as the Assistant Director over the Streets, Facility, and Grounds Maintenance Divisions. Mr. Poelman is a Certified Grade 3 Biological Wastewater Treatment Operator, Grade 4 Collection System Operator, Grade A Distribution System Operator, Cross Connection Control Operator, and a Grade 3 Maintenance Technologist. Mr. Poelman has served as the Public Works Chairman for the Disaster Preparedness Readiness Region #6 as well as serving on the Cross Connection Control Subcommittee for the American Water Works Association (“AWWA”) and is a current member of the AWWA.

The Water System

General. The Town’s water distribution system currently consists of approximately 146 miles of water lines and three water storage tanks. In addition to the 2022 Project, the Town currently has plans to complete construction of a new \$4.0 million, 1.0 million gallon elevated water storage tank to satisfy storage capacity and pressure requirements set forth in the North Carolina Administrative Code, which will be funded through an allocation of ARPA funds from the State.

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 not had any sampling violations. Monthly operating reports for water quality are submitted to the State to help ensure that all quality standards are met through both of the Town’s distribution systems.

Water Source Availability. The Town purchases its potable water from the County for resale to its customers. The County water treatment facility’s source water is a combination of surface water from the Neuse River and bulk water purchase from the Town of Smithfield and Harnett County. The Town’s average daily water consumption for calendar year 2021 was approximately 3.81 MGD. The Town has purchased capacity from the County of 5.25 MGD, which provides available capacity of approximately 1.44 MGD. The Town maintains the ability to purchase additional capacity from the County if capacity is required.

Water Rates. The Town provides water services to customers inside and outside the limits of the Town. The Town’s rate structure includes monthly service charges and one-time customer connection fees, including system development fees and tap fees.

Monthly service rates for all customers include base rates based on meter size and commodity rates based on all metered water usage. See also “—Rates and Rate Increases” below.

Adopted monthly water rates for Fiscal Year 2023 are set forth below:

Water (Non-Irrigation)

<u>Base Rates</u>			<u>Commodity Rates</u>		
<u>Meter Size</u>	<u>In Town</u>	<u>Out of Town</u>		<u>Number of Gallons</u>	<u>In Town</u> <u>Out of Town</u>
5/8	\$20.46	\$25.07	<i>Residential</i>		
3/4	29.69	36.60	Block 1	0-2,000	\$4.81 \$6.02
1	48.15	59.68	Block 2	2,001-4,000	5.06 6.32
1 ½	94.29	117.37	Block 3	4,001-6,000	5.30 6.63
2	149.67	186.59	Block 4	> 6,000	5.79 7.23
3	278.88	348.10			
4	463.45	578.81	<i>Commercial</i>		
6	924.91	1,155.64	Block 1	0-100,000	5.38 6.73
8	1,478.65	1,847.82	Block 2	> 100,000	6.19 7.73
10	2,124.69	2,655.36			
			<i>Industrial</i>		
			Block 1	0-100,000	5.47 6.82
			Block 2	> 100,000	6.28 7.85

Water (Irrigation)

<u>Base Rates</u>			<u>Commodity Rates</u>		
<u>Meter Size</u>	<u>In Town</u>	<u>Out of Town</u>		<u>Number of Gallons</u>	<u>In Town</u> <u>Out of Town</u>
5/8	\$20.46	\$25.07	<i>Residential</i>		
3/4	29.69	36.60	Block 1	0-8,000	\$7.47 \$7.47
1	48.15	59.68	Block 2	8,001-16,000	9.32 9.32
1 ½	94.29	117.37	Block 3	> 16,000	11.47 11.47
2	149.67	186.59			
3	278.88	348.10			
4	463.45	578.81	<i>Non-Residential</i>		
6	924.91	1,155.64	Block 1	0-50,000	6.07 6.07
8	1,478.65	1,847.82	Block 2	50,001-100,000	8.36 8.36
10	2,124.69	2,655.36	Block 3	> 100,000	9.85 9.85

The Town charges a one-time system development fee for new development. System development fees are intended to recover the proportional capital cost of the Water System's transmission facilities and are imposed on all new customers in relation to the potential demand each new customer places on the Water System. With respect to non-residential users, the Town charges a system development fee based on water service tap size. System development fees are currently imposed in accordance with the following schedule. Meters larger than two inches require a negotiated Development Agreement.

<u>Meter Size</u>	<u>System Development Fee</u>
5/8"	\$ 1,793
3/4"	2,690
1"	4,483
1 1/2"	8,965
2"	14,344

The Town also charges tap fees when the Town makes the physical connection to the water distribution lines to recover the cost of connecting the new customer to the Water System.

Other Fees and Charges. The Town charges other fees for various purposes, including, but not limited to, deposits for customers, late payment fees, delinquent fees and reconnection fees.

Number of Active Customer Accounts. The following table shows the number of active water customer accounts and billed volumes for each year shown.

<u>Fiscal Year</u>	<u>Number of Inside Town Accounts</u>	<u>Number of Outside Town Accounts</u>	<u>Total Number of Accounts</u>	<u>Billed Water Flow Inside Town¹</u>	<u>Billed Water Flow Outside Town¹</u>	<u>Total Billed Water Flow¹</u>
2018	9,480	128	9,608	677,722	414,424	1,092,146
2019	9,926	128	10,054	646,158	406,628	1,052,786
2020	10,299	122	10,421	622,264	490,735	1,112,999
2021	11,005	126	11,131	693,252	585,730	1,278,982
2022	11,428	126	11,554	719,512	572,511	1,292,023

¹ In thousands of gallons.

As of June 30, 2022, the Water System's customer account mix was approximately 92.9% residential (including multi-family accounts) and 7.1% commercial and industrial.

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, 2022, 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>Annual Water Revenues</u>	<u>Percentage of Total Water System Revenues</u>
Grifols Therapeutics, Inc.	\$2,636,864	27.1%
Novo Nordisk Dapi-US	749,472	7.7
Novo Nordisk Pharmaceutical Industries, Inc.	404,051	4.2
Amelia Village LLC	79,058	0.8
Zips Car Wash LLC	69,224	0.7
Stallings Mill Apartments LLC	56,470	0.6
Amelia Station LLC	54,925	0.6
Parkside Village	53,237	0.6
LWB Properties, LLC	52,468	0.5
The Arbors at East Village	<u>49,403</u>	<u>0.5</u>
Total	\$4,205,171	43.3%

Note: Totals may not foot due to rounding.

The Sewer System

General. The Sewer System provides wastewater collection, treatment and disposal. The Town currently operates a 2.5 MGD wastewater reclamation facility (the “Little Creek WRF”), 174 miles of wastewater lines and 28 wastewater pump stations. The Little Creek WRF discharges to the Neuse River. Purchase agreements are also in place with the County (1.44 MGD) and the City of Raleigh (1.75 MGD) for wastewater treatment capacity. The Town’s average daily wastewater flow in 2021 was 2.67 MGD compared to the current available capacity of 5.69 MGD between the Little Creek WRF and the purchase capacity agreements. The Town utilizes an adopted Utility Allocation Policy for reviewing and approving allocation requests for wastewater treatment capacities.

A portion of the proceeds of the 2022 Bonds will be used to finance the improvements to the Sewer System that make up the 2022 Project, as described in “THE PLAN OF FINANCE” herein.

Wastewater effluent quality reports are submitted to the State on a monthly basis to help ensure that all quality standards are met. Monitoring tests are performed at the Town’s laboratory, as well as at a State certified independent lab.

The Town has a preventive maintenance program that cleans and inspects sewer lines and outfalls on a regular and ongoing schedule, and minor repairs are made when they are found. Major repairs and replacements are contracted out as funds are available. The Town also has an annual manhole rehabilitation program that addresses deficiencies throughout the System.

Over the past five years, the Town has not been cited for any regulatory violations from State regulators with respect to operations at the Sewer System, except for Sanitary Sewer Overflows (“SSOs”). A total of eight reportable SSOs have occurred to date in 2022, five being caused by contractor negligence, and an average of four SSOs per year during each of the four prior years for a variety of reasons, including heavy rain events.

Sewer Rates. The Town provides Sewer services to customers inside and outside the limits of the Town. The Town's rate structure includes monthly service charges and one-time customer connection fees, including system development fees and tap fees.

Adopted monthly service rates for Fiscal Year 2023 for all customers include base rates based on meter size and commodity rates based on all metered water usage, except for customers without meters who pay a flat rate as noted below. See also "—Rates and Rate Increases" below.

Sewer Base Rates

<u>Meter Size</u>	<u>In Town</u>	<u>Out of Town</u>
5/8	\$27.21	\$34.04
¾	40.85	51.06
1	68.07	85.10
1 ½	136.16	170.19
2	217.85	272.33
3	408.48	510.59
4	680.78	850.99
6	1,361.59	1,701.99
8	2,178.53	2,723.17
10	3,131.64	3,914.54
12	7,215.15	9,019.59

Commodity Rates

	<u>In Town</u>	<u>Out of Town</u>
All usage (per 1,000 gallons)	\$8.76	\$10.96

Flat Rate Sewer (No Meter)

<u>In Town</u>	<u>Out of Town</u>
\$53.59	\$67.00

The Town charges a one-time system development fee for new development. System development fees are intended to recover the proportional capital cost of the Sewer System's treatment facilities and are imposed on all new customers in relation to the potential demand each new customer places on the Sewer System. With respect to non-residential users, the Town charges a system development fee based on Sewer service tap or meter size. System development fees for the Sewer System are currently imposed in accordance with the following schedule. Meters larger than two inches require a negotiated Development Agreement.

<u>Meter Size</u>	<u>System Development Fee</u>
5/8"	\$ 3,260
3/4"	4,890
1"	8,150
1 1/2"	16,300
2"	26,080

The Town also charges tap fees when the Town makes the physical connection to the Sewer distribution lines to recover the cost of connecting the new customer to the Sewer System.

Other Fees and Charges. The Town charges other fees for various purposes, including, but not limited to, deposits for customers, late payment fees, delinquent fees, and reconnection fees.

Number of Active Customer Accounts. The following table shows the number of active water customer accounts and billed volumes for each year shown.

Fiscal Year	Number of Inside Town Accounts	Number of Outside Town Accounts	Total Number of Accounts	Billed Water Flow Inside Town ¹	Billed Water Flow Outside Town ¹	Total Billed Water Flow ¹
2018	7,980	98	8,078	481,611	633,012	1,114,623
2019	8,456	101	8,558	541,484	581,305	1,122,789
2020	8,902	102	9,004	518,464	394,747	913,211
2021	9,630	105	9,735	604,596	368,447	973,043
2022	10,120	101	10,221	633,798	351,539	985,337

¹ In thousands of gallons.

As of June 30, 2022, the Sewer System's customer account mix was approximately 93.4% residential (including multi-family accounts) and 6.6% commercial and industrial.

Major Sewer Customer Accounts. The following table provides information on the top ten customer accounts of the Sewer System (by annual revenues from sewer charges) for the Fiscal Year ended June 30, 2022, and the percentage of total annual Sewer revenues generated by each such customer account. Sewer usage is not metered. Water usage is applied to the sewer rates to calculate sewer charges.

<u>Customer Account</u>	<u>Annual Sewer Revenues</u>	<u>Percentage of Total Annual Sewer Revenues</u>
Grifols Therapeutics, Inc.	\$2,848,399	24.6%
Novo Nordisk Dadi-US	855,065	7.4
Novo Nordisk Pharmaceutical Industries, Inc.	318,416	2.7
Amelia Village LLC	108,279	0.9
Zips Car Wash LLC	87,017	0.8
Stallings Mill Apartments LLC	77,700	0.7
Amelia Station LLC	75,471	0.7
LWB Properties, LLC	72,534	0.6
Parkside Village	71,474	0.6
The Arbors at East Village	<u>67,943</u>	<u>0.6</u>
Total	\$4,582,297	39.5%

Note: Totals may not foot due to rounding.

The Town and Grifols Therapeutics, Inc. ("Grifols"), the Town's largest Sewer System customer, entered into a Wastewater Usage Contract dated November 1, 2021 for a term ending on June 30, 2032, pursuant to which Grifols agrees to provide and pay for a minimum annual wastewater discharge, subject to annual usage fees and true-up or make whole payments (if the minimum annual discharge is not met) and, in the event of a cessation of operations by Grifols during the term of the agreement, an exit fee.

Billing and Collection Procedures

The Town uses automated meter infrastructure technology to obtain usage data. Bills are prepared by Town staff and sent out by a third-party vendor. All customers are billed monthly.

Monthly accounts are due 20 days after the billing date. If the bill goes unpaid, a 5% penalty is added on the 21st day. After the 28th day of a bill being unpaid, a \$50 penalty is added to the customer's account and service may be disconnected.

Before establishing service, utility customers must apply for service with the Town. Security deposits are based on the services the Town provides to the property and they are applied to final bills when a customer ends services with the Town.

Operating and Capital Budget Procedures

Operating and capital budgets for the Water System and the Sewer System 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 Council 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 System and the Sewer System. The CIP represents the best judgment of the Town Council 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 current CIP (Fiscal Years 2023 through 2027) include the 2022 Project, various other upgrades to the System, sewer and water line rehabilitation and other improvements to the Water System and the Sewer System. For more information on the CIP, see the Financial Feasibility Report included as Appendix B hereto.

Rates and Rate Increases

The Town Council sets rates for all utilities, including the Water System and the Sewer System, and no State or other authority has any regulatory control over the Town's utility rates. The Town conducts an ongoing review of rate structures for the System, and adjustments are made as necessary. The Town Council enacted an ordinance establishing rates and fees for the Water System and the Sewer System for Fiscal Year 2022-23 on June 21, 2022 (the "Rate Ordinance"). The Town's financial plans provide for water rate increases through Fiscal Year 2028. New rates are adopted each Fiscal Year.

The following table provides information on water rate increases imposed by the Town for the last five Fiscal Years and the current Fiscal Year:

<u>Fiscal Year</u>	<u>Water Rate Increase</u>
2018	10.0% ⁽¹⁾
2019	10.0 ⁽²⁾
2020	2.0
2021	5.0
2022	5.0
2023	7.4

⁽¹⁾ Commodity charge only; base charge increased \$5 up to 100,000 gallons and remained unchanged over 100,000 gallons.

⁽²⁾ Commodity charge only; base charge remained unchanged.

The following table provides information on sewer rate increases imposed by the Town for the last five Fiscal Years and the current Fiscal Year:

<u>Fiscal Year</u>	<u>Sewer Rate Increase</u>
2018	0.0%
2019	10.0 ⁽¹⁾
2020	16.0
2021	9.5
2022	9.5
2023	22.3

⁽¹⁾ Commodity charge only; base charge remained unchanged.

The Town's financial plans provide for water and sewer rate increases through Fiscal Year 2028. New rates are adopted by ordinance enacted by Town Council each Fiscal Year.

Recent Operating Results

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

Unrestricted net position of the Water and Sewer Fund at the end of the Fiscal Year ended June 30, 2022 was \$3,869,556, and the total growth in net position was \$6,541,439.

THE TOWN

General Description

The Town of Clayton was incorporated on April 12, 1869, and is located in the northwest portion of Johnston County, which is located in the western portion of the Coastal Plains. The Town, which is bisected by U.S. Highway 70 and located approximately 15 miles southeast of the capital city of Raleigh, covers a 14.89 square mile area and has a population of 26,307 based on the 2020 U.S. census. The Town

is the fastest growing municipality in the County with a ten-year average annual growth rate of approximately 5.0%.

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

<u>2000</u>	<u>2010</u>	<u>2020</u>
8,126	16,116	26,307

The North Carolina Office of State Budget and Management has estimated the population of the Town to be as follows:

<u>2019</u>	<u>2020</u>	<u>2021</u>
23,775	26,624	28,188

Per capita income figures for the County and the State are presented in the following table:

<u>Year</u>	<u>County⁽¹⁾</u>	<u>State</u>
2017	\$38,636	\$44,591
2018	39,960	46,352
2019	42,117	48,741
2020	45,109	51,900
2021	48,950	56,173

⁽¹⁾ Separate data for the Town is not available.

Source: United States Department of Commerce, Bureau of Economic Analysis.

Commercial, Industry and Agriculture

The Town continued to experience strong economic growth even during the COVID-19 pandemic. Sales tax revenues for the Fiscal Year ended June 30, 2022 were a record high \$7.55 million, which was 19.65% higher than the prior year. Ongoing expansions in the biopharmaceutical industry and previous expansions in the medical services industry located on N.C. Highway 42 west have helped make the Town one of the fastest growing areas in the region.

The continued growth trend is supporting tax base growth, which has provided financial flexibility for capital spending and staff additions; a strong financial position highlighted by the maintenance of a favorable unassigned fund balance; and a manageable debt burden with rapid amortization.

The housing sector continues to grow as the supply of upscale multi-family housing has grown to meet the demand for apartments and townhomes, along with continued demand for large tracts of land to support new single-family housing. The Town has not experienced a decline in housing activity during the COVID-19 pandemic.

The Town continues to benefit from its proximity to Research Triangle Park, which is the largest research park in the country, and to regional employers in and around the City of Raleigh, which include private sector opportunities with Fortune 500 companies, Federal and State government positions, and expanding medical service careers. The Town also benefits from its proximity to numerous institutions of higher education, which include North Carolina State University, the University of North Carolina at Chapel Hill, Duke University, North Carolina Central University and East Carolina University. Many of

the graduates of the above universities have the necessary training to staff technically demanding positions requiring engineers, research and development personnel, and other professional disciplines.

The local economy includes manufacturing and non-manufacturing industries with two large international pharmaceutical companies as well as a special purpose Research and Training Zone (“RTZ”), an economic development and training district created through special legislation that supports the special needs of the local pharmaceutical industries. These pharmaceutical industry employers comprise approximately 10% of all biopharmaceutical jobs in the State.

The RTZ includes a 30,000 square-foot Workforce Development Center (“WDC”), which operates a partnership between Johnston Community College and North Carolina State University. The WDC is an educational and technical skills training center that concentrates on life sciences programming, business training and workforce development in biotechnology and other sciences. The WDC offers associate degree curriculum programs for Bioprocess Technology and Biology & Biology Education, in addition to a BioWork curriculum and continuing education courses that include several customized training programs.

Grifols is an international manufacturer of blood plasma related products for a variety of applications and has had a blood plasma facility in the Town since 1981. Grifols employs approximately 2,500 throughout the State and is the largest private employer in the County, with approximately 1,650 employees located at its Town campus. In 2020, Grifols announced an investment of \$351.6 million to build a specialized blood plasma facility in the Town, and Grifols is also in the process of constructing a \$120 million purification and filling facility that will mainly be used for the production of immunoglobulin and Factor VIII products, and a \$90 million fractionation facility in the Town. In Spring 2022, Grifols completed the conditional zoning and master plan for its 360 acre campus in the Town, which could be used for future expansion and development.

Novo Nordisk Pharmaceutical Industries (“Novo Nordisk”), the world’s largest supplier of insulin products, opened its Town facility in the RTZ in 1996 and has expanded several times since. The Town plant manufactures diabetes care products marketed in North America, Europe, New Zealand and Australia. The diabetes finished products manufacturing facility currently employs over 1,200 people, and total employment is expected to reach 1,500 at the Town facility.

In August 2015, Novo Nordisk announced a \$2 billion expansion plan to build an 825,000 square-foot facility for diabetes active pharmaceutical ingredients that broke ground in March 2016 and completed construction in September 2020. The new facility is currently producing product for the European market and continues to move through the U.S. FDA certification process. The expansion created approximately 700 new jobs with an average annual salary of approximately \$68,420. The new positions span manufacturing, administrative, technical services and support personnel. The manufacturing facilities in the Town are Novo Nordisk’s first insulin-producing facility in the U.S. during the company’s 95-year history and will help meet the growing demand for its diabetes treatment. Previously, Novo Nordisk had manufactured its active ingredients only in Denmark. Novo Nordisk expects this facility will allow it to double production of its diabetes drugs over the next decade and once these plans are realized, approximately 25% of the world’s insulin manufacturing will take place in the Town. In September 2022, the County’s Board of Commissioners voted to approve certain performance-based economic incentives for Novo Nordisk related to Novo Nordisk’s new \$25 million manufacturing facility in the Town of Four Oaks, approximately 20 miles south of the Town. In addition, Novo Nordisk has committed to contribute millions of dollars to the community over the next 12 years through a series of planned expansions, all supported by the performance-based economic incentives from the County.

Novo Nordisk was recently recognized as one of the State's top exporters and in February 2021 was a recipient of the 2020 Governor's Export Award from the Economic Development Partnership of North Carolina.

The Town is a hub for the medical services industry and related employment. The Town is currently home to facilities operated by WakeMed, Johnston UNC Health Care and Duke University Medical Center. Johnston UNC Health Clayton, which opened in 2009, includes a full-service emergency room, plus outpatient services and medical offices. The 95,000 square-foot three-story 50-bed inpatient facility opened in January 2015 and provides expanded services such as labor and delivery. Total investment in the facilities is valued at \$89.5 million and employment has increased to 260.

The developer of Copper District, one of the largest mixed-use developments in the County, located adjacent to Johnston UNC Health in the Town, announced in September 2022 an expansion from its originally proposed 70-acres to approximately 270 acres, with potential for further growth. Upon completion, Copper District is expected to total approximately 4 million square feet or more of space made up of housing, commercial, retail, office and other related uses.

The Town continues to attract significant new retail, office and high-density residential development on its south side, primarily due to the completion of the U.S. Highway 70 Bypass and related interchange on N.C. Highway 42 west. Proximity to Johnston UNC Health Clayton enhances the opportunities created by this major interchange. In August 2020, plans were filed for the Lumen Planned Development, which is a 64-acre mixed use development with up to 600 residential units (apartments, townhomes and single-family), 800,000 square feet of commercial space and 121 hotel rooms. The goal is to provide a live-work community with housing, neighborhood shopping, employment and entertainment to serve the western area of the Town.

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The following table lists the development activity within the County for the period of July 1, 2021 through June 30, 2022:

<u>Approved Project Name</u>	<u>Project Type</u>	<u>Intensity/Density</u>	<u>Status for Completion</u>
Ramblewood Village Conditional Zoning	Conditional Zoning/Master Plan	New SF Residential	Approved
Grifols D-520 Building Expansion	Site Plan	Commercial Expansion	Approved
Zaxby's Double Drive Thru	Site Plan	Exterior Restaurant Renovations	Approved
Clayton Medical Office	Site Plan	New Commercial Office	Approved
Taco Bell Restaurant	Site Plan	Demo & New Restaurant	Approved
Grifols E430 & E447 Building Expansion	Site Plan	Commercial Expansion	Approved
Grifols B560 Warehouse Site Plan	Site Plan	New Commercial Building	Approved
Medspring Drive Shell	Site Plan	New Medical Office/Dermatology	Approved
East Clayton Community Park Improvements	Site Plan	TOC Park Expansion/Renovations	Approved
Caterpillar Field #9 Site Improvements	Site Plan	Industrial Site Improvements	Approved
Caterpillar CMDC Engineering Tower	Site Plan	Industrial Site Improvements	Approved
Neuse Water Reclamation Facility	Site Plan	New TOC Wastewater Facility	Approved
Bayer CropScience Bee Care Support Expansion	Site Plan	Commercial Expansion	Approved
Clayton Industrial	Site Plan	New Commercial Warehouses	Approved
Clayton Municipal Park	Site Plan	TOC Park Expansion/Renovations	Approved
Grifols B200 Building Expansion	Site Plan	Commercial Expansion	Approved
Horne Memorial UMC Playground	Site Plan	Institutional/Church Expansion	Approved
Flex Warehouse S Tech	Site Plan	New Commercial Warehouses	Approved
Novo Nordisk Wastewater Neutralization Building	Site Plan	Commercial Expansion	Approved
The Amelia	Subdivision	New SF Residential	Approved
Champion West	Subdivision	New SF Residential	Approved

The following table lists the largest employers (manufacturing and non-manufacturing) in the Town and its surrounding area as of calendar year 2021:

<u>Company or Institution</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
Johnston County School System	Education	1,000+
Johnston Health - Clayton	Medical Care	1,000+
Novo Nordisk Pharmaceutical	Manufacturing	1,000+
Grifols Therapeutics Inc.	Manufacturing/Pharmaceuticals	1,000+
Food Lion (4 stores)	Retail Trade	500-999
Wal-Mart Associates Inc.	Retail Trade	500-999
Caterpillar, Inc.	Manufacturing/Wheeled Loaders	500-999
Coca-Cola Bottling Company	Transportation and Warehousing	250-499
Town of Clayton	Public Administration	250-499
3C Packaging, Inc.	Manufacturing	250-499

Source: North Carolina Department of Commerce, Quarterly Census of Employment and Wages (QCEW) Largest Employers as of 2021.

The following table reflects the total taxable sales for the County during the five Fiscal Years ended June 30, 2018 through 2022:

<u>Fiscal Year Ended June 30</u>	<u>Total Taxable Sales</u>	<u>Increase (Decrease) Over Previous Year</u>
2018	\$1,833,795,388	5.6%
2019	2,064,034,841	12.6
2020	2,189,243,040	1.2
2021	2,491,458,161	19.3
2022	2,930,654,428	17.6

Note: Separate data for the Town is not available.
Source: North Carolina Department of Revenue.

Construction activity in the Town for the five Fiscal Years ended June 30, 2018 through June 30, 2022 is shown in the following table which summarizes residential and commercial growth in the Town:

<u>Fiscal Year Ended June 30</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	200	\$133,255,855 ⁽¹⁾	603	\$82,956,205	\$216,212,060
2019	58	76,329,474	572	86,339,865	162,669,339
2020	71	70,826,445	585	83,301,934	154,128,379
2021	66	39,309,448	528	86,324,339	125,633,787
2022	74	94,993,729	446	75,590,255	170,583,984

⁽¹⁾ Increase due to expansion project by Grifols, S.A. and Novo Nordisk.
Source: Town Planning Department.

Employment

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>		<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
January	3.7%	3.6%	3.1%	4.9%	3.3%	July	3.7%	3.4%	7.1%	3.7%	3.1%
February	3.7	3.3	3.0	5.0	3.2	August	3.5	3.5	4.6	3.4	3.1
March	3.4	3.3	3.7	4.2	3.2	September	3.1	2.9	4.2	3.1	--
April	3.1	2.9	10.0	3.7	3.1	October	3.3	3.1	3.4	3.0	--
May	3.2	3.1	8.8	3.8	3.3	November	3.4	3.1	4.0	2.8	--
June	3.7	3.4	7.5	3.9	3.6	December	3.3	2.9	4.2	2.4	--

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

The following is a comparison of average annual unemployment rates for the County, State and United States:

<u>Year</u>	<u>County</u>	<u>State</u>	<u>United States</u>
2017	4.2%	4.5%	4.4%
2018	3.7	4.0	3.9
2019	3.6	3.8	3.7
2020	6.1	7.1	8.1
2021	4.2	4.8	5.3

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

Government Structure

The Town has a Council-Manager form of government. Legislative and policymaking authority rest with a Mayor and a five-member Town Council. The Mayor serves a four-year term and Town Council members serve four-year staggered terms. The Town Manager is employed by the Town to carry out the Town Council's policies and its daily operations.

The Town operates under an annual balanced budget ordinance adopted and administered in accordance with G.S. 159-8. The Town Manager is the designated budget officer for the Town in accordance with G.S. 159-9.

Pension Plans

North Carolina Local Governmental Employees' Retirement System. The Town participates in the North Carolina Local Governmental Employees' Retirement System (the "Retirement System"). The Retirement System is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of Retirement System funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the Retirement System.

The Retirement System provides, on a uniform Retirement 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. The contribution rate for Fiscal Year 2021 is (i) for general employees and firefighters, 10.2% for the pension portion, and (ii) for law enforcement officers, 10.84% for the pension portion of eligible payroll. The accrued liability contribution is

determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the Retirement System. Contributions to the pension plan from the Town were \$1,687,098 for the Fiscal Year ended June 30, 2022.

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

Contributions to the Retirement System are determined on an actuarial basis.

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

Law Enforcement Officers' Special Separation Allowance. The Town administers a public employee retirement system called the Law Enforcement Officers' Special 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 0.85% 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. All full-time law enforcement officers of the Town are covered by the Separation Allowance. As of the December 31, 2019 valuation date, the membership consisted of four retirees receiving benefits and 47 active plan members.

Supplemental Retirement Income Plan for Law Enforcement Officers. The Town contributes to the Supplemental Retirement Income 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. The state's ACFR includes the pension trust fund financial statements for the Internal Revenue Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. All permanent, full-time employees are included in this plan. The Town is required to contribute each month an amount equal to 5.0% of each participating general employee's salary and 5.0% of each law enforcement officer's salary. The Town contributed \$162,453 and \$469,068 for law enforcement officers and general employees, respectively, for the year ending June 30, 2022.

For information concerning the Town's participation in the Retirement System and the other pension plans see Note 2 to the Town's basic financial statements included in Appendix A hereto.

Other Post-Employment Benefits

The Town provides certain post-employment health care benefits (“OPEB”). The Town administers a single employer defined benefit Healthcare Plan (“HC Plan”) that provides post-retirement healthcare benefits for certain retirees until they become eligible for Medicare. As of July 1, 1998, the HC Plan provides post-employment healthcare benefits to retirees of the Town, provided they participate in the Retirement System and have at least twenty years of creditable service with the Town and have not reached age 65 or are eligible to receive Medicare benefits. Prior to July 1, 1998, employees did not receive this benefit. The Town pays for one-half of the cost of coverage for these benefits through private insurers.

The Town’s total OPEB liability of \$1,378,008 was measured as of June 30, 2021 and was determined by an actuarial valuation as of that date. The Town has historically funded health benefits for retirees on a pay-as-you-go basis.

For information concerning the Town’s OPEB obligations see Note 2 to the Town’s basic financial statements included in Appendix A hereto.

Recent Developments – COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, which had and continues to have negative impacts on most, if not all, areas of the world, including the United States, the State and the County. Within the United States, the Federal government and various state and local governments, as well as private entities and institutions, implemented a variety of different efforts aimed at preventing the spread of COVID-19 including, but not limited to, travel restrictions, voluntary and mandatory quarantines, event postponement and cancellations, voluntary and mandatory work from home arrangements, and facility closures.

The State took a multi-phased approach, based on testing, tracing and trends, to lift restrictions in place to slow the spread of COVID-19. On May 5, 2020, Governor Cooper issued Executive Order 138, which established a three-phase reopening plan (the “Reopening Plan”) for the State. On August 15, 2022, Governor Cooper issued Executive Order 267, rescinding the original executive order that established a State of Emergency in the State, and all other Executive Order conditioned upon the State of Emergency. Given the unpredictability of trends in the spread of COVID-19, the Town is unable to predict whether the State might reinstate restrictions moving forward, or whether a future surge in cases of COVID-19 might result in a new State of Emergency.

The Town is unable to predict (1) whether there could be another outbreak of COVID-19, or its duration or extent, (2) future actions governmental authorities or other institutions may take to contain or mitigate COVID-19’s impact, or (3) whether any of the foregoing will have a material adverse effect on the finances or operations of the Town or the System.

For information about the System’s financial operations, see “THE SYSTEM—Recent Operating Results” above.

Cybersecurity

The Town, like other public and private entities, faces multiple cybersecurity threats including, but not limited to hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems. These threats could result in adverse consequences to the Town, including but not limited to, operational disruption and misappropriation of assets or information, including disruption of the operation of the System. The Town has implemented multiple operational safeguards and cybersecurity procedures and plans on implementing multi-factor authentication across various applications. However, no assurance can be given that such measures will protect against, or mitigate the impact of, the financial or operational damages that could result from a cybersecurity attack.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), in the Series Resolution, the Town will undertake, for the benefit of the beneficial owners of the 2022 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 Fiscal Year of the Town, beginning with the Fiscal Year ending June 30, 2023, the audited financial statements of the Town for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the Town are not then available, unaudited financial statements of the Town for such Fiscal Year to be replaced subsequently by audited financial statements of the Town 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 Fiscal Year of the Town, beginning with the Fiscal Year ending June 30, 2023, the financial and statistical data as of the date not earlier than the end of the preceding Fiscal Year for the type of information included under the following headings in this Official Statement, to the extent such items are not included in the audited financial statements referred to in (a) above:

- (1) “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 Sewer System – General” (capacity and usage figures contained therein), “- Sewer Rates” (tables contained therein), “- Number of Active Customer Accounts” (table contained therein) and “- Major Sewer Customer Accounts” (table contained therein);

(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 2022 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 credit enhancements reflecting financial difficulties;
- (5) substitution of any 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 2022 Bonds or other material events affecting the tax status of the 2022 Bonds;
- (7) modifications to rights of the beneficial owners of the 2022 Bonds, if material;
- (8) bond calls, other than calls for mandatory sinking fund redemption, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the 2022 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar proceedings related to the Town or any other person or entity that may at any time become legally obligated to make payments on the 2022 Bonds (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 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 action, other than pursuant to its terms, if material;
- (14) appointment of a successor Trustee or additional Trustee or the change of name of the Trustee, if material;
- (15) incurrence of a financial obligation of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Town, any of which affect security holders, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Town, any of which reflect financial difficulties; and

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

For purposes of (15) and (16) above, the term “financial obligation” means (i) a debt obligation; (ii) 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 (iii) a guarantee of (i) or (ii). 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.

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.

All information provided to the MSRB as described in this Section shall be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The Town may discharge the undertaking described above by complying with any other procedures that may be authorized or required by the U.S. Securities and Exchange Commission.

The Series Resolution also provides that if the Town fails to comply with the undertaking described above, the Trustee may take action to protect and enforce the rights of all owners and beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an Event of Default under the Bond Order and shall not result in any acceleration of the 2022 Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all owners and beneficial owners of the 2022 Bonds.

Pursuant to the Series Resolution, the Town will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Town, 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 this 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 of the 2022 Bonds, as determined either by the Trustee or Bond Counsel or by the approving vote of the owners of a majority in principal amount of the 2022 Bonds.

Any annual financial information containing modified operating data or financial information is required to 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 the principal of and interest on all of the 2022 Bonds.

The Town is not aware of any instance in which it has failed, during the previous five Fiscal Years, to comply, in any material respect, with an undertaking made pursuant to Rule 15c2-12.

LEGAL MATTERS

Legal matters related to the authorization, sale, execution and delivery of the 2022 Bonds are subject to the approval of McGuireWoods LLP, Bond Counsel. Certain legal matters will be passed upon for the Town by Cauley Pridgen, P.A., Raleigh, North Carolina, Town Attorney, and for the Underwriters by Pope Flynn, LLC, Charlotte, North Carolina, counsel to the Underwriters. 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 2022 Bonds. The proposed form of Bond Counsel's opinion is attached as Appendix E hereto.

Bond Counsel's approving legal opinion expresses Bond Counsel's professional judgment as to the legal issues explicitly addressed in that 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 2022 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 2022 Bonds. Bond Counsel will express no opinion (1) as to the Town's ability to provide for payments on the 2022 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 2022 Bonds, including this Official Statement. In this transaction, Bond Counsel will serve only as bond counsel to the Town, and does not represent the Underwriters or any bondholder.

LITIGATION

The Town opened bids for construction of the Sam's Branch WRF on October 11, 2022. The Town's engineer of record for the Sam's Branch WRF certified to the Town on October 31, 2022 that the bid of Thalle Construction Company, Inc. ("Thalle") was responsive and recommended that the contract be awarded to Thalle as the lowest responsive, responsible bidder, and the Town Council voted to award the contract to Thalle on November 7, 2022. On November 15, 2022, Ulliman Schutte Construction, LLC ("USC"), the second lowest bidder on the Sam's Branch WRF, filed suit against the Town alleging that Thalle's bid was non-responsive and seeking to restrain and enjoin the Town from awarding the construction project to Thalle. The Superior Court for Johnston County heard USC's motion for a Temporary Restraining Order and, on November 16, 2022, issued an Order denying the motion and finding that "Plaintiff has failed to demonstrate a likelihood of success on the merits of its claims in this action." The Town believes that it followed public bidding laws and properly reviewed the bids submitted, and the Town expects to formally award the contract to Thalle. The Town does not believe that USC will be successful with its claim, and the Town does not expect that its ability to make payments of principal and interest on the 2022 Bonds will be impacted regardless of the outcome of the claim.

Other than as described above, 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 2022 Bonds, the Bond Order, the Series Resolution or contesting the validity or the authority or proceedings for the authorization, execution or delivery of the 2022 Bonds, the Bond Order, the Series Resolution 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 MATTERS

Opinion of Bond Counsel – Federal Income Tax Status of Interest

Bond Counsel's opinion regarding the 2022 Bonds will state that, under current law and assuming the compliance with the Covenants, as hereinafter defined, by the Town and certain other persons and entities, interest on the 2022 Bonds (including any accrued "original issue discount" properly allocable to

the owners of the 2022 Bonds) (i) is excludable from the gross income of the owners of the 2022 Bonds for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, for taxable years beginning after December 31, 2022, such interest is included in the “adjusted financial statement income” (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. See Appendix E for the form of the Bond Counsel opinion letter for the 2022 Bonds.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2022 Bonds.

Bond Counsel’s opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel’s judgment as to the proper treatment of interest on the 2022 Bonds for federal income tax purposes. Bond Counsel’s opinion letter does not contain or provide any opinion or assurance regarding the future activities of the Town or about the effect of future changes in the Town, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service. The Town has covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

As to questions of fact materials to its opinion, Bond Counsel is relying upon and assuming the accuracy of certifications and representations of the Town, public officials and certain other third parties, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (hereinafter defined) by the Town and certain other persons and entities. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2022 Bonds in order for interest on the 2022 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2022 Bonds and the use of the property financed or refinanced by the 2022 Bonds, limitations on the source of the payment of and the security for the 2022 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2022 Bonds to the Treasury. Prior to the issuance of the 2022 Bonds, the tax certificate and related documents for the 2022 Bonds (the “Tax Certificate”) that contains covenants, regarding such requirements (the “Covenants”) under which the Town has agreed to comply with such requirements. A failure to comply with the Covenants could cause interest on the 2022 Bonds to become includible in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2022 Bonds from becoming includible in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the 2022 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the 2022 Bonds from gross

income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2022 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such 2022 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the 2022 Bonds.

Prospective purchasers of the 2022 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, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the “branch profits tax,” individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the 2022 Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made to any 2022 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2022 Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount

The “original issue discount” (“OID”) on any 2022 Bond is the excess of such bond’s stated redemption price at maturity (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of such 2022 Bond. The “issue price” of a 2022 Bond is the initial offering price to the public at which price a substantial amount of such 2022 Bonds of the same maturity was sold. The issue price for each maturity of the 2022 Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement (or, in the case of the 2022 Bonds sold on a yield basis, the initial offering price derived from such yield), but is subject to change based on actual sales. OID on the 2022 Bonds with OID (the “OID Bonds”) represents interest that is excludable from gross income for purposes of federal and North Carolina income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal and North Carolina income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which

would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bond should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of such Premium Bond.

Effects of Future Enforcement, Regulatory and Legislative Actions

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the 2022 Bonds, the IRS will, under its current procedures, treat the Town as the taxpayer. As such, the beneficial owners of the 2022 Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the 2022 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the 2022 Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the U.S. Congress and various state legislatures. Such legislation may effect changes in federal or state income tax rates and the application of federal or state income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or state income tax purposes. The Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the

outcome of which could modify the federal or state tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the 2022 Bonds, regulatory interpretation of the Code or actions by a court involving either the 2022 Bonds or other tax-exempt obligations will not have an adverse effect on the 2022 Bonds' federal or state tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the 2022 Bonds.

Prospective purchasers of the 2022 Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Opinion of Bond Counsel – North Carolina Income Tax Consequences

Bond Counsel's opinion letter also will state that, under current law, the interest on the 2022 Bonds is exempt from State of North Carolina income taxation. Bond Counsel will express no opinion regarding (i) other tax consequences arising with respect to the 2022 Bonds under the laws of the State or (ii) any consequences arising with respect to the 2022 Bonds under the tax laws of any state or local jurisdiction other than the State. Prospective purchasers of the 2022 Bonds should consult their own tax advisors regarding the tax status of interest on the 2022 Bonds in a particular state or local jurisdiction other than the State.

LEGALITY FOR INVESTMENT

Section 159-140 of the General Statutes of North Carolina provides that the 2022 Bonds are securities in which all public officers and public bodies of the State 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, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the 2022 Bonds are securities which may properly and legally be deposited with and received by any State 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, Inc. ("Moody's") and S&P Global Ratings Inc. ("S&P") have assigned the 2022 Bonds the 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 2022 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 2022 Bonds. Neither the Town nor the Underwriters have undertaken any responsibility after the issuance of the 2022 Bonds to assure maintenance of the rating or to oppose any such revision or withdrawal.

UNDERWRITING

The Underwriters have entered into a Bond Purchase Agreement to purchase all of the 2022 Bonds, if any of the 2022 Bonds are to be purchased, at a purchase price equal to 100% of the principal amount thereof, plus net original issue premium of \$8,287,681.85 and less an underwriters' discount of \$388,809.13. The obligation of the Underwriters to pay for the 2022 Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriters may offer and sell the 2022 Bonds to certain dealers (including dealers depositing the 2022 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 Underwriters.

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

MISCELLANEOUS

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the 2022 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 execution and delivery of this Official Statement.

NORTH CAROLINA
LOCAL GOVERNMENT COMMISSION

By: /s/ Sharon G. Edmundson
Secretary

TOWN OF CLAYTON, NORTH CAROLINA

By: /s/ Richard D. Cappola, Jr.
Town Manager

APPENDIX A
FINANCIAL INFORMATION OF THE TOWN

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Management Discussion and Analysis

The following is Management's Discussion and Analysis of the financial activities of the Town, lifted from the Town's audited financial statements for the Fiscal Year ended June 30, 2022. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the Town's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The independent auditors of the Town have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, they did not audit this information and did not express an opinion on it.

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Management's Discussion and Analysis

As management of the Town of Clayton, we offer readers of the Town of Clayton's financial statements this narrative overview and analysis of the financial activities of the Town of Clayton for the fiscal year ended June 30, 2022. We encourage readers to review the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

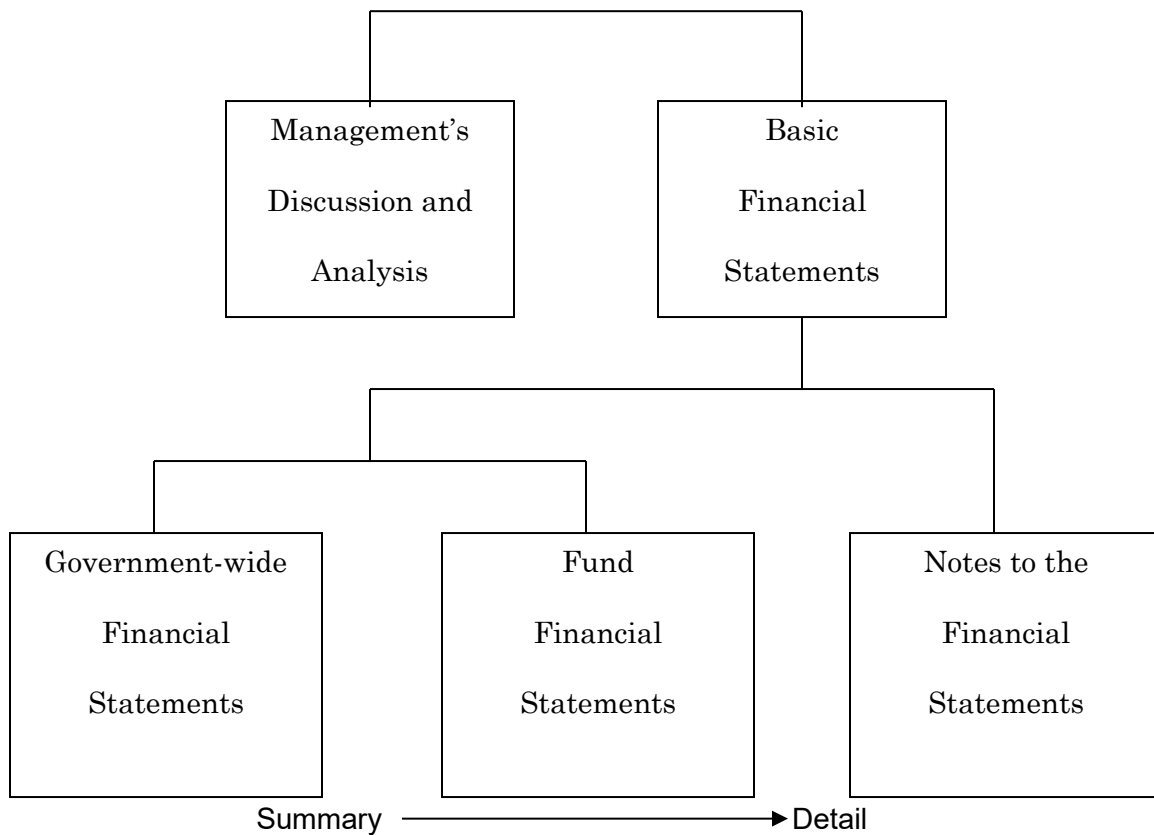
Financial Highlights

- The assets and deferred outflows of resources of the Town of Clayton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$197,059,849 (*net position*). Of this amount \$14,680,287 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$18,953,572, primarily due to lower-than-expected operating expenses in conjunction with strong revenue growth and an increase in capital assets in both governmental and business-type activities.
- As of the close of the current fiscal year, the Town of Clayton's governmental funds reported combined ending fund balances of \$37,894,057, an increase of \$14,374,881 in comparison with the prior year. Approximately 40.46% of the ending fund balance, or \$15,331,729 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11,110,765, or 30.75% of total general fund expenditures for the fiscal year.
- The Town of Clayton's total debt increased by \$15,243,621 (27.46%) during the current fiscal year. The key factors attributable to this increase were the issuance of general obligation bonds of \$13,500,000 by the General Fund for parks and recreation improvements and \$10,644,786 for the State Revolving Fund Program (SRF) related to the construction of the Sam's Branch Water Reclamation Facility (SBWRF). Decreases in the net pension liability for the LGERS plan and LEOSA pension plan were \$3,843,327 and \$211,174, respectively, along with a \$179,130 increase in the total OPEB liability. This was partially offset by the rapid amortization of previously issued debt of \$5,086,407.
- The Town received \$3,965,612 of ARPA funds as a non-entitlement unit. These revenue replacement funds will be transferred to the appropriate funds when the intended use is determined.
- The Town of Clayton received an upgraded rating from AA to AA+ from Standard and Poor's and maintained its Aa1 bond rating with Moody's.

Overview of the Financial Statement

This discussion and analysis are intended to serve as an introduction to the Town of Clayton's basic financial statements. The Town of Clayton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. This report also contains other supplemental information in addition to the basic financial statements, which will enhance the reader's understanding of the financial condition of the Town of Clayton.

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 11) are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government and provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be located 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 of Clayton's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities and 2) business type activities. The governmental activities of the Town of Clayton include general government, public safety, public works, and culture and recreation, which are principally supported by taxes and intergovernmental revenues. The business-type activities of the Town of Clayton include a water distribution, wastewater treatment, and an electric distribution operation that the Town charges customers to provide.

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund Financial Statements – 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 Clayton, like other governmental entities in North Carolina, uses fund accounting to ensure and demonstrate compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Clayton can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. However, unlike the government-wide financial statements, governmental funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements provide a detailed short-term view that facilitates the reader in determining if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Town of Clayton maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, five capital project funds, and one special revenue fund, which are all considered being major funds.

The Town of Clayton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council (Council) about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities.

The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented in the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and actual resources and charges.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Proprietary Funds - The Town of Clayton maintains one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Clayton uses enterprise funds to account for its water and sewer operations and for its electric distribution operation. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and Statement of Activities.

The basic proprietary fund financial statements can be found on Exhibits 7 through 9 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Clayton has one fiduciary fund which is a custodial fund.

The basic fiduciary fund financial statements can be found on Exhibits 10-11 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 to the financial statements are on pages 30-60 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 Clayton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 61 of this report.

Government-Wide Financial Analysis

Town of Clayton's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$46,679,646	\$26,589,448	\$ 32,157,809	\$ 30,731,708	\$ 78,837,455	\$ 57,321,156
Capital assets	69,417,700	62,053,759	138,975,256	117,423,645	208,392,956	179,477,404
Total assets	116,097,346	88,643,207	171,133,065	148,155,353	287,230,411	236,798,560
Deferred outflows of resources	4,698,542	4,361,073	700,939	589,354	5,399,481	4,950,427
Long-term liabilities	27,136,398	20,634,157	39,930,749	31,342,059	67,067,147	51,976,216
Other liabilities	10,117,769	4,181,155	13,200,031	6,663,574	23,317,800	10,844,729
Total liabilities	37,254,167	24,815,312	53,130,780	38,005,633	90,384,947	62,820,945
Deferred inflows of resources	4,375,013	664,253	810,083	157,512	5,185,096	821,765
Net position:						
Net investment in capital assets	59,099,384	50,416,138	98,228,885	86,331,588	157,328,269	136,747,726
Restricted	14,815,825	2,000,914	10,235,468	6,377,501	25,051,293	8,378,415
Unrestricted	5,251,499	15,107,663	9,428,788	17,872,473	14,680,287	32,980,136
Total net position	\$79,166,708	\$67,524,715	\$ 117,893,141	\$ 110,581,562	\$ 197,059,849	\$ 178,106,277

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town of Clayton exceeded liabilities and deferred inflows by \$197,059,849 as of June 30, 2022. The Town's net position increased by \$18,953,572 for the fiscal year ended June 30, 2022, primarily due to increases in both governmental and business-type activities.

By far the largest portion of the Town of Clayton's net position (79.83%) reflects its net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Clayton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Clayton's net investment in capital assets is reported net of 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 Clayton's net position, \$25,051,293, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$14,680,287 is unrestricted, which can be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Clayton is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

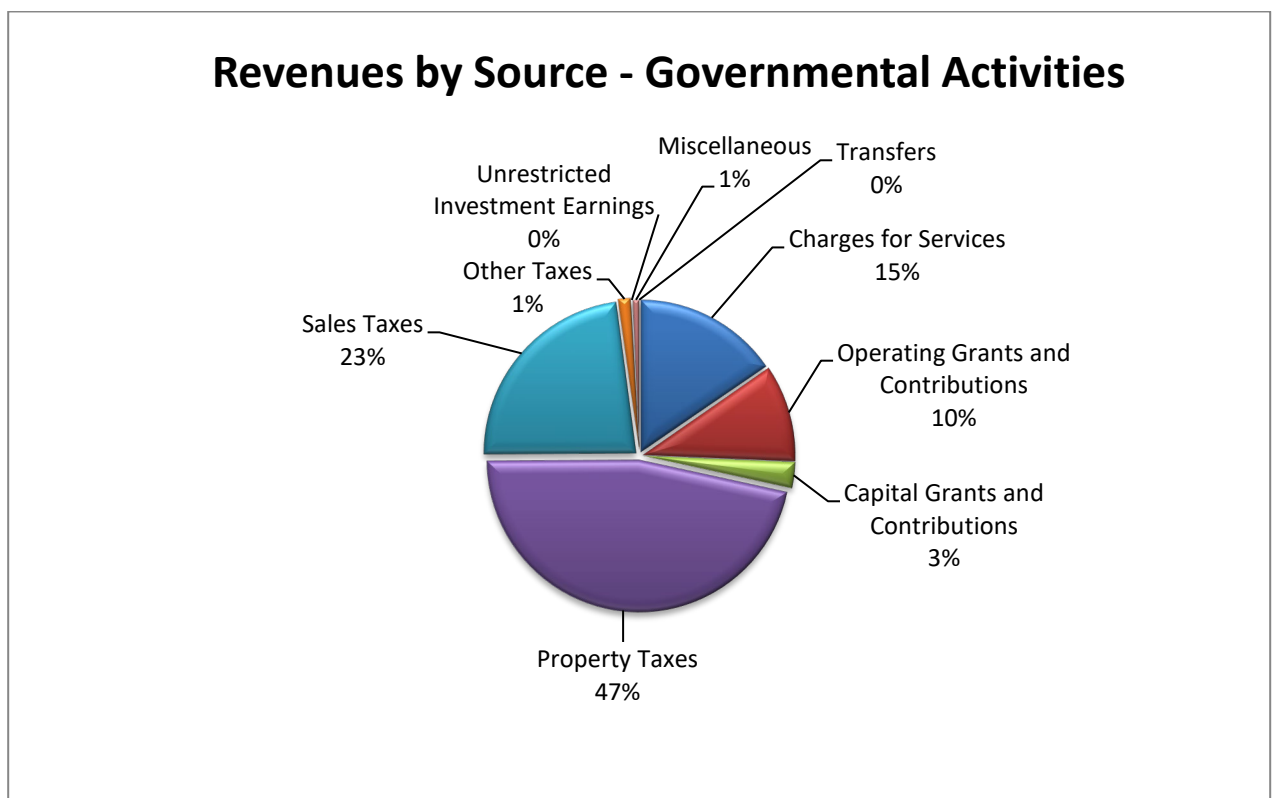
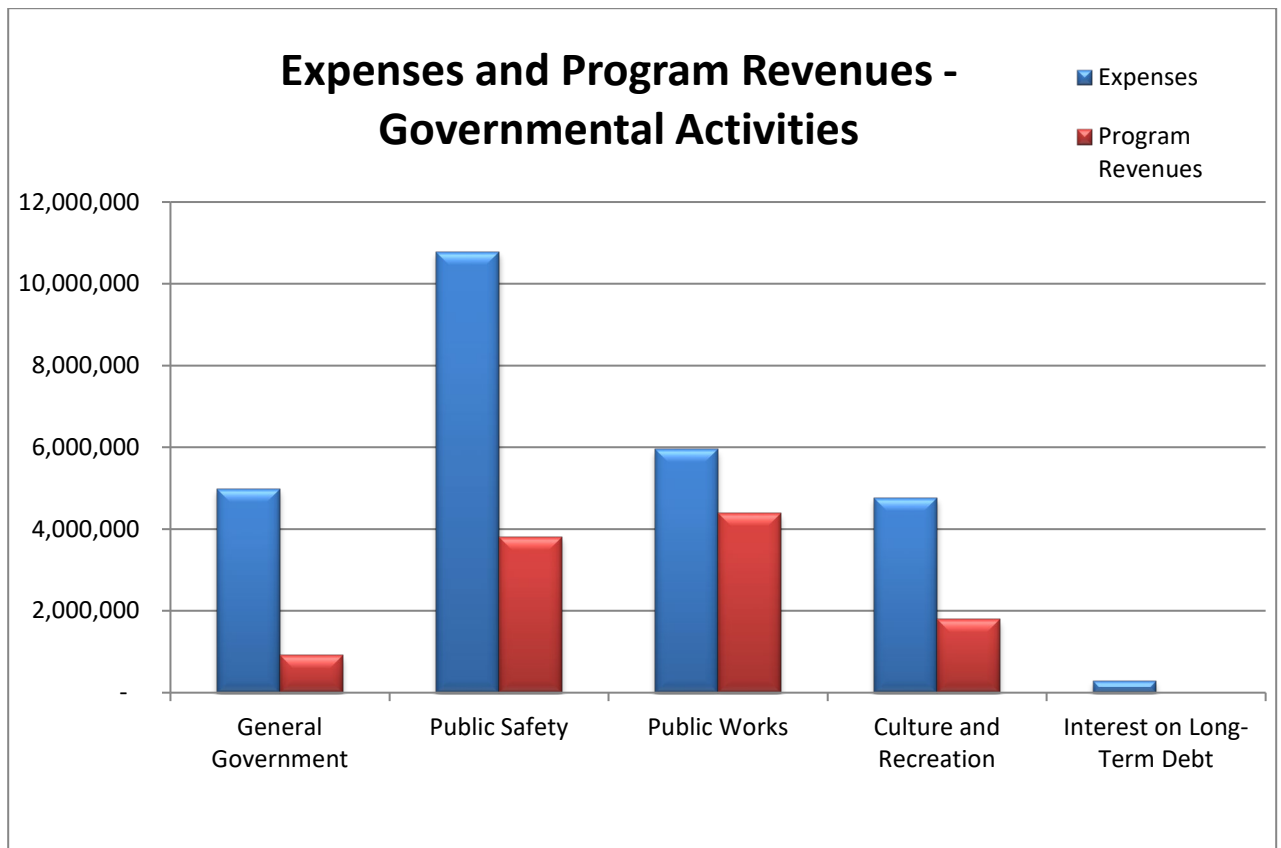
Restricted net position increased by \$12,814,911 for the Town's governmental activities, primarily due to an increase in the stabilization by State statute requirement in conjunction with an overall increase in public improvements associated with the Greenway System project, Loop Road project, and 2021 GO Bonds Parks projects, which are governmental capital project funds. There was an increase of \$3,857,967 in restricted net position reported for business-type activities due to a State statute governing system development fees in the Water and Sewer Fund and a higher USDA reserve requirement for debt service.

Town of Clayton Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues						
Charges for services	\$ 5,924,277	\$ 4,861,580	\$ 37,284,937	\$ 34,998,697	\$ 43,209,214	\$ 39,860,277
Operating grants and contributions	3,923,294	4,113,936	1,546,737	1,309,629	5,470,031	5,423,565
Capital grants and contributions	1,054,584	3,634,970	-	-	1,054,584	3,634,970
General revenues:						
Property taxes	17,855,250	16,904,303	-	-	17,855,250	16,904,303
Sales taxes	8,819,889	7,524,950	-	-	8,819,889	7,524,950
Other taxes	488,947	418,523	-	-	488,947	418,523
Unrestricted investment earnings	76,714	7,992	11,052	9,601	87,766	17,593
Miscellaneous	251,742	140,223	4,506,993	3,200,845	4,758,735	3,341,068
Total revenue	<u>38,394,697</u>	<u>37,606,477</u>	<u>43,349,719</u>	<u>39,518,772</u>	<u>81,744,416</u>	<u>77,125,249</u>
Expenses:						
General government	4,984,221	5,976,154	-	-	4,984,221	5,976,154
Public safety	10,777,094	9,635,098	-	-	10,777,094	9,635,098
Public works	5,955,153	6,796,621	-	-	5,955,153	6,796,621
Culture and recreation	4,755,756	3,814,011	-	-	4,755,756	3,814,011
Interest on long-term debt	280,480	300,165	-	-	280,480	300,165
Water and Sewer	-	-	21,137,725	20,457,981	21,137,725	20,457,981
Electric	-	-	14,900,415	13,469,021	14,900,415	13,469,021
Total expenses	<u>26,752,704</u>	<u>26,522,049</u>	<u>36,038,140</u>	<u>33,927,002</u>	<u>62,790,844</u>	<u>60,449,051</u>
Increase in net position before transfers	11,641,993	11,084,428	7,311,579	5,591,770	18,953,572	16,676,198
Transfers	-	-	-	-	-	-
Increase in net position	<u>11,641,993</u>	<u>11,084,428</u>	<u>7,311,579</u>	<u>5,591,770</u>	<u>18,953,572</u>	<u>16,676,198</u>
Net position, beginning	<u>67,524,715</u>	<u>56,440,287</u>	<u>110,581,562</u>	<u>104,989,792</u>	<u>178,106,277</u>	<u>161,430,079</u>
Net position, June 30	<u>\$79,166,708</u>	<u>\$67,524,715</u>	<u>\$ 117,893,141</u>	<u>\$ 110,581,562</u>	<u>\$ 197,059,849</u>	<u>\$ 178,106,277</u>

Governmental activities. Governmental activities increased the Town's net position by \$11,641,993, thereby accounting for 61.42% of the total growth in the net position of the Town of Clayton. Key elements of this increase are as follows:

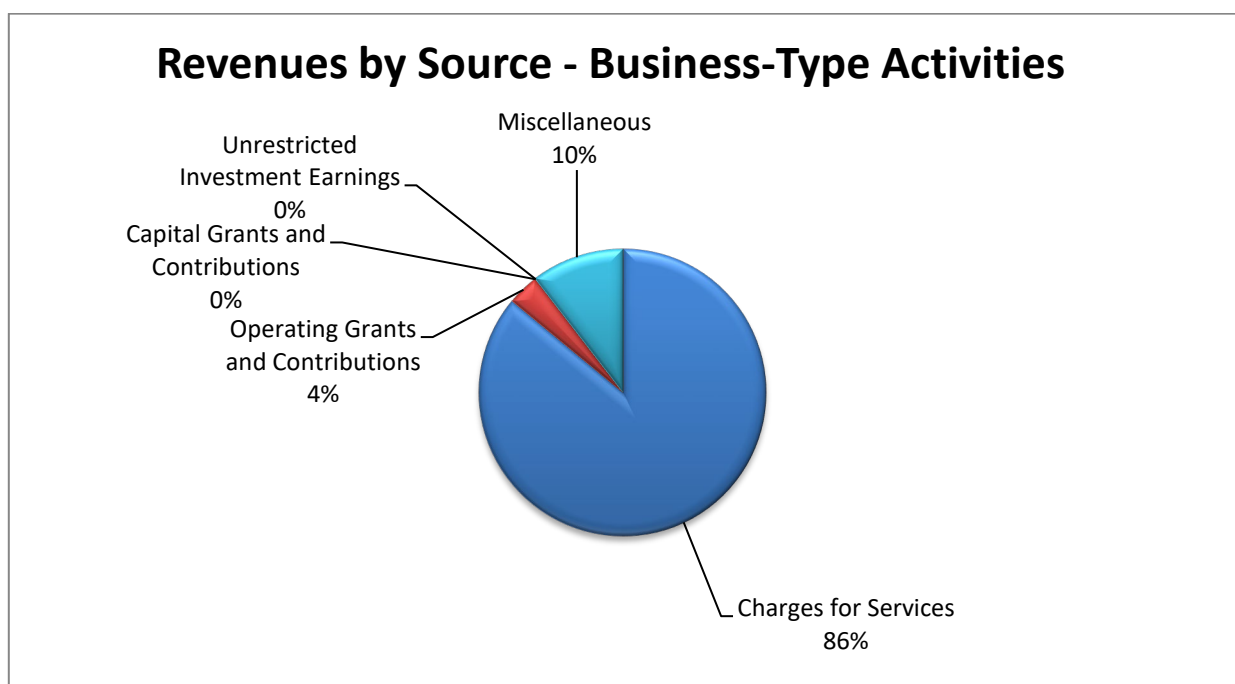
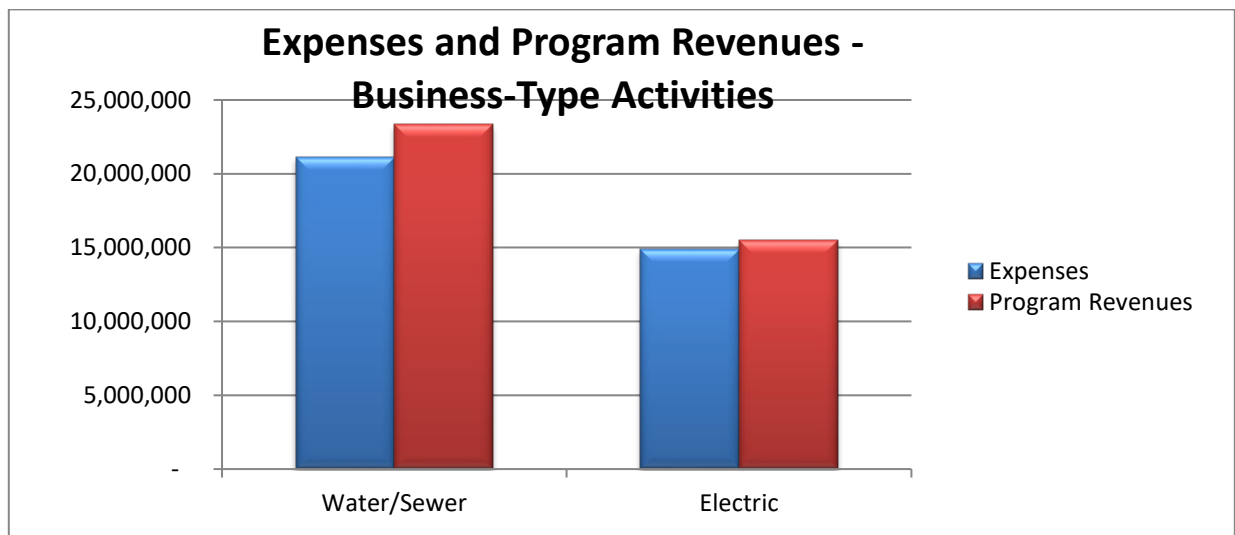
- Property taxes increased 5.62%, or \$950,947, primarily due to ongoing growth in the tax base while maintaining a 100% tax collection percentage for registered motor vehicles, which is attributable to a change in State law.
- Sales tax revenues increased 17.21%, or \$1,294,939, due to ongoing economic growth in conjunction with strong consumer spending.
- Expenses net of program revenues increased by \$1,938,986, or 13.94%, which is attributable to the following factors:
 - Expenses increased by \$230,655, or 0.87%, compared to prior year primarily due to higher personnel costs related to staffing additions in public safety and the return of normal operations in culture and recreation, which resulted in higher costs for contract services.
 - Grants and contributions decreased by \$2,771,028, or 35.76%, primarily due to the completion of the Sam's Branch Greenway-Phase II project reported in the CAMPO LAPP capital project fund, a lower reimbursement percentage for the SAFER grant, and nonrecurring monies from the COVID-19 Coronavirus Relief Fund.
 - Charges for services increased \$1,062,697, or 21.86%, compared to prior year primarily due to higher building permit revenues and refuse collection fees.



Business-type activities. Business-type activities increased the Town of Clayton's net position by \$7,311,579, accounting for an 38.58% increase in the government's net position. Key elements of this increase are as follows:

Expenses net of program revenues decreased by \$2,793,534, which is attributable to the following factors:

- Charges for services for business-type activities increased 6.5%, or \$2,286,240, primarily due to higher revenues generated by the water distribution and wastewater treatment operations, which are primarily attributable to the 7.42% average rate increase.
- Fees from development activity increased 50.74%, or \$1,436,163, primarily due to non-recurring industrial development and ongoing new residential development projects.
- Grants and contributions increased by \$237,108, primarily due to higher user surcharges related to industrial discharge.
- Operating expenses increased \$2,111,138, or 6.22%, primary due to higher wholesale costs for water and electric power purchases.



Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Clayton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Clayton's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Clayton's governmental funds reported combined ending fund balances of \$37,894,057 with a net increase in fund balance of \$14,374,881. The fund balance increases are attributable to the following new capital project funds: Greenway System, Loop Road, and 2021 GO Bonds Parks, of \$1,398,969, 819,331, and \$9,974,684, respectively. Two major park renovation projects are under construction while preliminary work is underway to replace three greenway bridges and build soccer fields on the Loop Road property.

The General Fund is the chief operating fund of the Town of Clayton. At the end of the current fiscal year, unassigned fund balance was \$11,110,765, while total fund balance reached \$25,437,923. The Town of Clayton's governing body has determined the Town should maintain an unassigned fund balance of 20% of actual net expenditures and an operating standard of 30%. The Town currently has unassigned fund balance of 30.75% of actual net expenditures. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 64.74% of total general fund expenditures. Fund balance of the Town of Clayton's General Fund increased by \$1,960,882 during the current fiscal year. Key components of this change are as follows:

- Revenues from ad valorem taxes increased \$849,362, primarily due to ongoing growth in the tax base, and were \$255,612 higher than budget.
- Intergovernmental revenues increased \$535,322, primarily due to higher sales tax revenues of \$1,240,612 from growth in the local economy and a \$162,938 higher Powell Bill allocation partially offset by a \$807,913 reduction related to non-recurring funds from the COVID-19 Coronavirus Relief Fund. Revenues exceeded budget by \$1,205,749.
- Permits and fees revenues increased \$759,831, primarily due to higher revenues from inspection fees in conjunction with stormwater fees.
- Total expenditures increased \$3,989,806 due to a \$2,055,709 increase in debt service related to the retirement of the Series 2009A general obligation bond debt, personnel costs increased by \$1,319,960 in public safety due to additional staffing, and facility maintenance costs increased \$580,568 in recreation due to higher costs for contract services. Actual expenditures were \$7,542,620 lower than budget, primarily due to lapsed salaries and capital outlay.

General Fund Budgetary Highlights

During the year, the Town revised the budget on several occasions. Generally, budget amendments are made to adjust estimates that were utilized to prepare the original budget ordinance when more accurate data is available; amendments made to recognize new funding amounts from external sources, such as grants or other unexpected contributions; and increases in appropriations that become necessary to maintain services. Several factors contributed to the Town revising its budget throughout the year. The most common was realignment of the expenditure budget for budgetary compliance and a \$7,536,594 increase in fund balance appropriations between the original and final amended budget, primarily to redeem debt, fund new capital project funds, and to provide startup

funds for an inhouse information technology function.

Proprietary Funds. The Town of Clayton's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,869,556, and \$5,559,232 for the Electric Fund. The total change in net position for the Water and Sewer and the Electric Funds was \$6,541,439 and \$770,140, respectively. The Walnut Creek Sanitary Sewer Extension Project was closed in the Water and Sewer Fund and no new capital project funds were added. The Northside Substation Project was closed in the Electric Fund and no new capital project funds were added. Other factors concerning the finances of these two funds was covered in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Clayton's investment in capital assets for its governmental and business-type activities as of June 30, 2022 amounts to \$208,392,956 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the Town of Clayton's investment in capital assets for the current fiscal year was 16.1% (a 25.5% increase for governmental activities and a 74.5% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- In governmental activities, construction in progress of \$5,111,094 for Municipal Park and a \$750,000 down payment on a new pumper truck. Infrastructure additions of \$1,128,062 for street projects, and \$1,621,047 for the acquisition of rolling stock, equipment, and furniture.
- In business-type activities, construction in progress of \$28,141,143 for the SBWRF and Little Creek projects, \$825,702 for equipment and \$1,922,332 for infrastructure improvements in the enterprise funds.
- No major demolitions were recorded this year.

	Town of Clayton's Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 7,942,497	\$ 7,766,938	\$ 1,129,143	\$ 1,129,143	\$ 9,071,640	\$ 8,896,081
Nitrogen credits	-	-	16,291,695	16,291,695	16,291,695	16,291,695
Construction in progress	11,696,371	5,170,082	29,081,739	5,609,355	40,778,110	10,779,437
Total non-depreciable assets	19,638,868	12,937,020	46,502,577	23,030,193	66,141,445	35,967,213
Water capacity allocation rights	-	-	3,600,000	3,600,000	3,600,000	3,600,000
Building and improvements	35,800,836	35,800,836	3,862,804	3,862,804	39,663,640	39,663,640
Plant, machinery, and equipment	5,039,051	4,671,928	115,857,000	113,705,764	120,896,051	118,377,692
Vehicles	11,282,649	10,028,725	4,821,944	4,225,146	16,104,593	14,253,871
Infrastructure	23,834,125	22,706,063	-	-	23,834,125	22,706,063
Total depreciable assets	75,956,661	73,207,552	128,141,748	125,393,714	204,098,409	198,601,266
Accumulated depreciation	(26,177,829)	(24,090,813)	(35,669,069)	(31,000,262)	(61,846,898)	(55,091,075)
Total depreciable assets, net	49,778,832	49,116,739	92,472,679	94,393,452	142,251,511	143,510,191
Total	\$ 69,417,700	\$ 62,053,759	\$ 138,975,256	\$ 117,423,645	\$ 208,392,956	\$ 179,477,404

Additional information on the Town's capital assets can be found in Note 2.A of the Basic Financial Statements.

Long-term Debt. At the end of the current fiscal year, the Town of Clayton had total bonded debt outstanding of \$37,899,413. Of this amount, \$14,100,000 comprises debt backed by the full faith and credit of the Town of Clayton. The revenues of the associated enterprise fund back \$23,799,413. The direct placement installment debt is backed by security interest in the property for which it was issued.

Town of Clayton's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 14,100,000	\$ 2,990,000	\$ -	\$ -	\$ 14,100,000	\$ 2,990,000
Revenue bonds	-	-	23,799,413	24,685,079	23,799,413	24,685,079
BANs	-	-	-	-	-	-
Direct placement installment debt	7,658,227	8,647,621	16,946,958	7,123,520	24,605,185	15,771,141
Compensated Absences	805,929	749,616	143,243	138,942	949,172	888,558
OPEB	1,232,484	1,064,366	145,524	134,512	1,378,008	1,198,878
Pension related debt (LGERS)	2,349,727	5,599,362	442,798	1,036,490	2,792,525	6,635,852
Pension related debt (LEO)	3,126,220	3,337,394	-	-	3,126,220	3,337,394
Total	<u>\$ 29,272,587</u>	<u>\$ 22,388,359</u>	<u>\$ 41,477,936</u>	<u>\$ 33,118,543</u>	<u>\$ 70,750,523</u>	<u>\$ 55,506,902</u>

The Town's total debt increased \$15,243,612, or 27.46%, during the current fiscal year primarily due to the issuance of general obligation bonds in the amount of \$13,500,000 in conjunction with \$10,644,786 for the SRF Program in the Water and Sewer System. The liability for the LGERS and LEOSA pension plans decreased by \$4,054,501 while the total OPEB increased by \$179,130. The increases were partially offset by the rapid amortization of previously issued debt of \$5,086,407.

The Town of Clayton received an upgraded rating from AA to AA+ from Standard and Poor's Corporation and maintained its Aa1 rating with Moody's Investor Service.

North Carolina general statutes limit the amount of general obligation debt that a unit of government may issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The current debt limitation for the Town of Clayton is \$216,733,325, which is significantly more than the Town of Clayton's outstanding general obligation debt.

Additional information regarding the Town of Clayton's long-term debt can be found in Note 2.B.6 of this report.

Budget Highlights for the Fiscal Year Ending June 30, 2023

- Fiscal Year 2022 was a dynamic year with a focus on the completion of projects, increased uniformity and efficiency in functions and processes while maintaining flexibility to adjust as market conditions changed and/or new opportunities arose. This resulted in a more efficient and effective utilization of budgeted funds. All employees are recognized for their commitment and service while Council and Department Heads are recognized for providing steadfast leadership.

The following key economic indicators reflect the growth and prosperity of the Town.

- The unemployment rate for Johnston County is 3.7% compared to 4.4% last year. The State average is 4.1% compared to 4.9% a year ago. The unemployment rate information is not seasonally adjusted.
- A tax rate of \$0.60 per \$100 in valuation is proposed, which is a \$0.02 increase. One penny (\$0.01) of tax levy for real and personal property will generate \$283,406 of tax revenue per year, excluding registered motor vehicles, which will add an additional \$27,445 of tax revenue per year. Sales tax revenues are conservatively budgeted to increase 5% based upon the projection for fiscal year 2022, which is slightly higher than the 3.75% revenue projection published by the North Carolina League of Municipalities. Ad valorem tax revenues are budgeted to increase 9% compared to the budget for fiscal year 2022. The budget includes a 5% pool for salary adjustments plus the related benefit cost; the monthly employer contribution to participate in the State's health plan is projected to increase 11.9%, or from \$647.86 to \$725.00; and the retirement contribution will increase 1.0%. Water and sewer rates are budgeted to increase 7.4% and 22.3%, respectively, which results in a 15.80% average increase for 4,000 gallons of usage for an intown customer. The combined total monthly rate is \$102.45 compared to the current rate of \$88.47 for 4,000 gallons of usage. Electric rates are budgeted to increase 7% or \$9.13 per month for 966 kWh.
- The budget recommendation includes the addition of 5 new positions in the General Fund – 4 in public safety and 1 in public works, at a total cost of \$0.4 million.
- Budget expenditures in the General Fund are forecasted to be \$43,634,696, an increase of 22.6% compared to the prior year adopted budget and includes 4 new positions in public safety and 1 new position in public works. The budget includes a 5% pool for salary adjustments plus the related benefit cost. The Town has a comprehensive capital improvement plan that will maximize debt capacity while maintaining compliance with the financial policy.
- The Town has chosen to appropriate \$4,679,779 for spending in the 2023 fiscal year budget, primarily to fund the capital improvement program.

The Town engaged the community to participate in the first-ever budget survey. The survey drew the largest response for a Town solicited survey. The community's priorities align well with priorities established by Council at the retreat in February 2022.

All these factors were considered in preparing the Town of Clayton's budget for the 2023 fiscal year. The budget incorporates the goals and policies adopted by Council. Additional budget information is available on the Town's website: <https://www.townofclaytonnc.org/mayor-and-council/annual-reports-budgets.aspx>.

Requests for Information

This financial report is designed to provide a general overview of the Town of Clayton's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Finance Director, Town of Clayton, PO Box 879, Clayton, North Carolina 27528.

Financial Statements

The financial statements of the Town have been audited by certified public accountants for the Fiscal Year ended June 30, 2022. 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 Clayton, 111 East Second Street, Clayton, NC 27528.

The following financial statements are the Basic Financial Statements of the Town and the notes thereto for the Fiscal Year ended June 30, 2022.

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BASIC FINANCIAL STATEMENTS

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 25,091,469	\$ 15,139,628	40,231,097
Taxes receivables (net)	21,689	-	21,689
Accounts receivable (net)	654,584	4,862,506	5,517,090
Due from/to other governments	2,134,177	-	2,134,177
Inventories	36,200	1,920,207	1,956,407
Restricted cash and cash equivalents	18,741,527	10,235,468	28,976,995
Total current assets	<u>46,679,646</u>	<u>32,157,809</u>	<u>78,837,455</u>
Non-current assets			
Capital assets (Note 3)			
Land, non-depreciable improvements and construction in progress	19,638,869	46,502,576	66,141,445
Other capital assets, net of depreciation	49,778,831	92,472,680	142,251,511
Total capital assets	<u>69,417,700</u>	<u>138,975,256</u>	<u>208,392,956</u>
Total assets	<u>\$ 116,097,346</u>	<u>\$ 171,133,065</u>	<u>\$ 287,230,411</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	4,380,346	697,429	5,077,775
OPEB deferrals	318,196	3,510	321,706
Total deferred outflows of resources	<u>4,698,542</u>	<u>700,939</u>	<u>5,399,481</u>
Total assets and deferred outflows of resources	<u>\$ 120,795,888</u>	<u>\$ 171,834,004</u>	<u>\$ 292,629,892</u>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 4,015,868	\$ 10,110,847	\$ 14,126,715
Customer deposits	-	1,541,997	1,541,997
Current portion of long-term liabilities	2,136,189	1,547,187	3,683,376
Liabilities to be paid from restricted assets	3,965,712	-	3,965,712
Total current liabilities	10,117,769	13,200,031	23,317,800
Long-term liabilities			
Net pension liability	2,349,727	442,798	2,792,525
Total pension liability	3,126,220	-	3,126,220
Total OPEB liability	1,232,484	145,524	1,378,008
Due in more than one year	20,427,967	39,342,427	59,770,394
Total noncurrent liabilities	27,136,398	39,930,749	67,067,147
Total liabilities	37,254,167	53,130,780	90,384,947
DEFERRED INFLOWS OF RESOURCES			
Assessments	782,250	157,318	939,568
Prepaid taxes	70	-	70
Pension deferrals	3,486,034	640,172	4,126,206
OPEB deferrals	106,659	12,593	119,252
Total deferred inflows of resources	4,375,013	810,083	5,185,096
NET POSITION			
Net investment of capital assets	59,099,384	98,228,885	157,328,269
Restricted - Expendable:			
Other functions-Powell Bill	296,450	-	296,450
Public Improvements	12,452,886	10,053,100	22,505,986
USDA debt service reserve	-	182,368	182,368
Public Safety	56,730	-	56,730
Stabilization by State Statute	2,006,511	-	2,006,511
Restricted - Nonexpendable	3,248	-	3,248
Unrestricted	5,251,499	9,428,788	14,680,287
Total net position	79,166,708	117,893,141	197,059,849
Total liabilities, deferred inflows of resources and net position	\$ 120,795,888	\$ 171,834,004	\$ 292,629,892

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF ACTIVITIES - UNAUDITED
For the Year Ended June 30, 2022

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating Grants and	Capital Grants and	Governmental	Business-type	Total
		Services	Contributions	Contributions	Activities	Activities	
Primary government							
Governmental activities							
General government operations	\$ 4,984,221	\$ 824,813	\$ 90,525	\$ -	\$ (4,068,883)	\$ -	\$ (4,068,883)
Public safety	10,777,094	17,746	3,788,645	-	(6,970,703)	-	(6,970,703)
Public works	5,955,153	3,657,065	-	734,111	(1,563,977)	-	(1,563,977)
Cultural and recreational	4,755,756	1,424,653	44,124	320,473	(2,966,506)	-	(2,966,506)
Interest on long-term debt	280,480	-	-	-	(280,480)	-	(280,480)
Total governmental activities	<u>26,752,704</u>	<u>5,924,277</u>	<u>3,923,294</u>	<u>1,054,584</u>	<u>(15,850,549)</u>	<u>-</u>	<u>(15,850,549)</u>
Business-type activities							
Water and sewer	21,137,725	21,969,262	1,352,959	-	-	2,184,496	2,184,496
Electric	14,900,415	15,315,675	193,778	-	-	609,038	609,038
Total business-type activities	<u>36,038,140</u>	<u>37,284,937</u>	<u>1,546,737</u>	<u>-</u>	<u>-</u>	<u>2,793,534</u>	<u>2,793,534</u>
Total primary government	<u>\$ 62,790,844</u>	<u>\$ 43,209,214</u>	<u>\$ 5,470,031</u>	<u>\$ 1,054,584</u>	<u>\$ (15,850,549)</u>	<u>\$ 2,793,534</u>	<u>\$ (13,057,015)</u>
General revenues							
Property taxes, levied for general purposes					17,855,250	-	17,855,250
Sales taxes					8,819,889	-	8,819,889
Franchise taxes					346,206	-	346,206
Alcoholic beverage taxes					105,241	-	105,241
Other taxes					37,500	-	37,500
Unrestricted investment earnings					76,714	11,052	87,766
Miscellaneous					251,742	4,506,993	4,758,735
Total general revenues not including transfers					<u>27,492,542</u>	<u>4,518,045</u>	<u>32,010,587</u>
Transfers					-	-	-
Total general revenues and transfers					<u>27,492,542</u>	<u>4,518,045</u>	<u>32,010,587</u>
Change in net position					11,641,993	7,311,579	18,953,572
Net position, beginning					67,524,715	110,581,562	178,106,277
Net position, ending					<u>\$ 79,166,708</u>	<u>\$ 117,893,141</u>	<u>\$ 197,059,849</u>

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

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TOWN OF CLAYTON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

Exhibit 3
Page 1 of 2

	Major Funds								
	General	Parks & Rec. Capital Project	CAMPO LAPP Capital Project	Greenway System Capital Project	Loop Road Capital Project	2021 GO Bonds Park Projects Capital Project	American Rescue Plan Fund	Total Non-Major Fund	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 25,088,221	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,248	\$ 25,091,469
Restricted cash	832,884	87,019	173,202	1,398,969	843,831	11,439,910	3,965,712	-	18,741,527
Receivables, net									
Taxes	21,689	-	-	-	-	-	-	-	21,689
Accounts	654,584	-	-	-	-	-	-	-	654,584
Due from other governments	2,134,177	-	-	-	-	-	-	-	2,134,177
Inventories	36,200	-	-	-	-	-	-	-	36,200
Total assets	\$ 28,767,755	\$ 87,019	\$ 173,202	\$ 1,398,969	\$ 843,831	\$ 11,439,910	\$ 3,965,712	\$ 3,248	\$ 46,679,646
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable and accrued liabilities	\$ 2,525,823	\$ -	\$ 319	\$ -	\$ 24,500	\$ 1,465,226	\$ -	\$ -	\$ 4,015,868
Unearned revenues	-	-	-	-	-	-	3,965,712	-	3,965,712
Total liabilities	2,525,823	-	319	-	24,500	1,465,226	3,965,712	-	\$ 7,981,580
Deferred Inflows of Resources									
Assessments	782,250	-	-	-	-	-	-	-	782,250
Property tax receivable	21,689	-	-	-	-	-	-	-	21,689
Prepaid taxes	70	-	-	-	-	-	-	-	70
Total Deferred Inflows of Resources	804,009	-	-	-	-	-	-	-	804,009
Fund balances									
Non Spendable									
Inventories	36,200	-	-	-	-	-	-	-	36,200
Perpetual maintenance	-	-	-	-	-	-	-	3,248	3,248
Restricted									
Stabilization by State Statute	2,006,511	-	-	-	-	-	-	-	2,006,511
Streets - Powell Bill	296,450	-	-	-	-	-	-	-	296,450
Public Improvements	-	87,019	172,883	1,398,969	819,331	9,974,684	-	-	12,452,886
USDA debt service reserve	-	-	-	-	-	-	-	-	-
Public Safety-Police	56,730	-	-	-	-	-	-	-	56,730
Public Safety-Fire	479,704	-	-	-	-	-	-	-	479,704
Committed									
Public Improvements	2,080,522	-	-	-	-	-	-	-	2,080,522
Assigned									
Public Safety-Fire	2,355	-	-	-	-	-	-	-	2,355
Public Improvements	1,406,224	-	-	-	-	-	-	-	1,406,224
Subsequent year's expenditures	7,962,462	-	-	-	-	-	-	-	7,962,462
Unassigned	11,110,765	-	-	-	-	-	-	-	11,110,765
Total fund balances	25,437,923	87,019	172,883	1,398,969	819,331	9,974,684	-	3,248	37,894,057
Total liabilities, deferred inflows of of resources and fund balances	\$ 28,767,755	\$ 87,019	\$ 173,202	\$ 1,398,969	\$ 843,831	\$ 11,439,910	\$ 3,965,712	\$ 3,248	\$ 46,679,646

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:	
Fund balance as reported in the balance sheet - governmental funds	\$ 37,894,057
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	69,417,700
Deferred outflows of resources related to pensions are not reported in the funds	4,380,346
Deferred outflows of resources related to OPEB are not reported in the funds	318,196
Earned revenues considered deferred inflows of resources in fund statements	21,689
Compensated absences not expected to be materially liquidated with expendable available resources	(805,929)
Long-term liabilities, principally installment purchases and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds	(21,758,227)
Net pension liability	(2,349,727)
Total pension liability	(3,126,220)
OPEB liability	(1,232,484)
Deferred inflows of resources related to pensions are not reported in the funds	(3,486,034)
Deferred inflows of resources related to OPEB are not reported in the funds	<u>(106,659)</u>
Net position of governmental activities	<u>\$ 79,166,708</u>

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

Exhibit 4

	Major Funds								
		Parks & Rec.	CAMPO LAPP	Greenway	Loop Road	2021 GO Bonds	American	Total	Total
	General Fund	Capital Project	Capital Project	System Capital Project	Capital Project	Park Projects Capital Project	Rescue Plan Fund	Non-Major Fund	Governmental Funds
REVENUES									
Ad valorem taxes	\$17,277,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$17,277,659
Other taxes and licenses	596,288	-	-	-	-	-	-	-	596,288
Unrestricted intergovernmental	12,560,225	-	-	-	-	-	-	-	12,560,225
Restricted intergovernmental	1,357,179	86,810	233,663	-	-	-	-	-	1,677,652
Permits and fees	3,015,674	-	-	-	-	-	-	-	3,015,674
Sales and services	2,946,467	-	-	-	-	-	-	-	2,946,467
Investment earnings	53,321	-	-	-	-	23,392	-	1	76,714
Miscellaneous	251,742	-	-	-	-	-	-	-	251,742
Total revenues	38,058,555	86,810	233,663	-	-	23,392	-	1	38,402,421
EXPENDITURES									
Current									
General government operations	6,786,868	-	-	-	-	-	-	-	6,786,868
Public safety	11,844,908	-	-	-	-	-	-	-	11,844,908
Public works	6,890,430	-	-	-	-	-	-	-	6,890,430
Cultural and recreational	4,453,471	-	-	-	-	-	-	-	4,453,471
Debt service									
Principal retirement	3,379,394	-	-	-	-	-	-	-	3,379,394
Interest and other charges	280,480	-	-	-	-	-	-	-	280,480
Capital outlay	-	-	61,580	101,031	180,669	5,228,864	-	-	5,572,144
Total expenditures	33,635,551	-	61,580	101,031	180,669	5,228,864	-	-	39,207,695
Excess (deficiency) of revenues over expenditures	4,423,004	86,810	172,083	(101,031)	(180,669)	(5,205,472)	-	1	(805,274)
OTHER FINANCING SOURCES (USES)									
Transfers from (to) other funds	(2,500,000)	-	-	1,500,000	1,000,000	-	-	-	-
Bonds issued	-	-	-	-	-	13,500,000	-	-	13,500,000
Premium on bonds issued	-	-	-	-	-	1,680,156	-	-	1,680,156
Total other financing sources (uses)	(2,500,000)	-	-	1,500,000	1,000,000	15,180,156	-	-	15,180,156
Net change in fund balances	1,923,004	86,810	172,083	1,398,969	819,331	9,974,684	-	1	14,374,882
Fund balance, beginning	23,514,919	209	800	-	-	-	-	3,247	23,519,175
Fund balances, ending	\$25,437,923	\$ 87,019	\$ 172,883	\$1,398,969	\$ 819,331	\$ 9,974,684	\$ -	\$ 3,248	\$37,894,057

TOWN OF CLAYTON, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

Exhibit 5

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

Net changes in fund balances - total governmental funds	\$ 14,374,882
---------------------------------------------------------	---------------

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.

Capital outlay	9,796,884
Depreciation	(2,432,943)

Contributions to the LGERS pension plan in the current fiscal year are not included on the Statement of Activities	1,450,108
--------------------------------------------------------------------------------------------------------------------	-----------

Benefit payments paid and administrative expense for LEOSA are not included on the Statement of Activities	77,872
------------------------------------------------------------------------------------------------------------	--------

OPEB benefit payments paid and administrative expense are not included on the Statement of Activities	197,331
-------------------------------------------------------------------------------------------------------	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	
Taxes including interest and penalties	(7,724)

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	(56,313)
Pension expense	210,776
OPEB plan expense	(168,118)

The issuance of long-term debt 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 issuance costs, 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 the net effect of these differences in the treatment of long-term debt and related items.

Debt proceeds	(15,180,156)	
Debt principal paid	<u>3,379,394</u>	<u>(11,800,762)</u>

Total changes in net position of governmental activities	<u>\$ 11,641,993</u>
----------------------------------------------------------	----------------------

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2022

Exhibit 6

	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 16,854,747	\$ 17,022,047	\$ 17,277,659	\$ 255,612
Other taxes and licenses	549,000	549,000	596,288	47,288
Unrestricted intergovernmental	10,217,058	10,592,058	12,560,225	1,968,167
Restricted intergovernmental	2,119,597	2,119,597	1,357,179	(762,418)
Permits and fees	1,437,730	1,437,730	3,015,674	1,577,944
Sales and services	3,232,657	3,232,657	2,946,467	(286,190)
Investment earnings	8,000	8,000	53,321	45,321
Miscellaneous	30,064	30,064	251,742	221,678
Total revenues	34,448,853	34,991,153	38,058,555	3,067,402
EXPENDITURES				
Current				
General government operations	9,354,907	10,822,524	6,786,868	4,035,656
Public safety	11,425,434	12,205,030	11,844,908	360,122
Public works	8,430,360	8,647,263	6,890,430	1,756,833
Cultural and recreational	4,402,384	5,524,696	4,453,471	1,071,225
Debt service				
Principal retirement	1,698,178	3,698,178	3,379,394	318,784
Interest and other charges	288,014	280,480	280,480	-
Total expenditures	35,599,277	41,178,171	33,635,551	7,542,620
Revenues over (under) expenditures	(1,150,424)	(6,187,018)	4,423,004	10,610,022
OTHER FINANCING SOURCES (USES)				
Transfer from (to) other funds	-	(2,500,000)	(2,500,000)	-
Installment purchase obligations issued	-	-	-	-
Total other financing sources (uses)	-	(2,500,000)	(2,500,000)	-
Fund balance appropriated	1,150,424	8,687,018	-	(8,687,018)
Net change in fund balance	\$ -	\$ -	1,923,004	\$ 1,923,004
Fund balances, beginning			23,514,919	
Fund balances, ending			\$ 25,437,923	

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2022

Exhibit 7

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 10,299,313	\$ 4,840,315	\$ 15,139,628
Accounts receivable (net) - billed	1,360,471	835,350	2,195,821
Accounts receivable (net) - unbilled	1,552,994	1,113,691	2,666,685
Due from/to other governments	-	-	-
Inventories	259,614	1,660,593	1,920,207
Restricted cash and cash equivalents	10,235,468	-	10,235,468
Total current assets	23,707,860	8,449,949	32,157,809
Non-current assets			
Capital assets			
Land, improvements and construction in progress	45,541,980	960,596	46,502,576
Other capital assets, net of depreciation	76,462,227	16,010,453	92,472,680
Capital assets, net	122,004,207	16,971,049	138,975,256
Total non-current assets	122,004,207	16,971,049	138,975,256
Total assets	\$ 145,712,067	\$ 25,420,998	\$ 171,133,065
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	271,333	426,096	697,429
OPEB deferrals	3,510	-	3,510
Total deferred outflows of resources	274,843	426,096	700,939
Total assets and deferred outflows of resources	\$ 145,986,910	\$ 25,847,094	\$ 171,834,004
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 8,608,479	\$ 1,502,368	\$ 10,110,847
Customer deposits	533,327	1,008,670	1,541,997
Compensated absences - current	42,598	29,024	71,622
Revenue bond note payable - current	544,000	356,667	900,667
Direct placement installment purchases payable - current	477,169	97,729	574,898
Total current liabilities	10,205,573	2,994,458	13,200,031
Noncurrent liabilities			
Other noncurrent liabilities			
Compensated absences	42,598	29,023	71,621
Net pension liability	172,269	270,529	442,798
OPEB liability	66,296	79,228	145,524
Revenue bond note payable - noncurrent	19,688,746	3,210,000	22,898,746
Direct placement installment purchases payable - current	14,976,988	1,395,072	16,372,060
Total noncurrent liabilities	34,946,897	4,983,852	39,930,749
Total liabilities	45,152,470	7,978,310	53,130,780
DEFERRED INFLOWS OF RESOURCES			
Assessments	157,318	-	157,318
Pension deferrals	249,057	391,115	640,172
OPEB deferrals	5,737	6,856	12,593
Total deferred inflows of resources	412,112	397,971	810,083
NET POSITION			
Net investments in capital assets	86,317,304	11,911,581	98,228,885
Restricted for USDA debt service reserve	182,368	-	182,368
Restricted for capital improvement program	10,053,100	-	10,053,100
Unrestricted	3,869,556	5,559,232	9,428,788
Total net position	100,422,328	17,470,813	117,893,141
Total liabilities, deferred inflows of resources and net position	\$ 145,986,910	\$ 25,847,094	\$ 171,834,004

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

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TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2022

Exhibit 8

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
OPERATING REVENUES			
Charges for services	\$ 21,908,375	\$ 15,315,675	\$ 37,224,050
Water and sewer taps	60,887	-	60,887
Other operating revenues	1,352,959	193,778	1,546,737
Total operating revenues	23,322,221	15,509,453	38,831,674
OPERATING EXPENSES			
Electric operations	-	12,634,260	12,634,260
Water distribution	7,145,703	-	7,145,703
Water preventive maintenance	1,346,278	-	1,346,278
Waste collection and treatment	5,126,499	-	5,126,499
Tax reimbursements - General Fund	-	77,553	77,553
Support services - General Fund	2,807,957	1,237,333	4,045,290
Depreciation and amortization	3,944,938	831,239	4,776,177
Total operating expenses	20,371,375	14,780,385	35,151,760
Operating income (loss)	2,950,846	729,068	3,679,914
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	3,661	7,391	11,052
Interest and other charges	(766,350)	(120,030)	(886,380)
Nutrient offset fees	439,047	-	439,047
System Development Fees	3,827,504	-	3,827,504
Miscellaneous	86,731	153,711	240,442
Total nonoperating revenue (expenses)	3,590,593	41,072	3,631,665
Income (loss) before contributions	6,541,439	770,140	7,311,579
Change in net position	6,541,439	770,140	7,311,579
Total net position, beginning	93,880,889	16,700,673	110,581,562
Total net position, ending	\$ 100,422,328	\$ 17,470,813	117,893,141

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2022

Exhibit 9
Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 21,713,992	\$ 15,148,019	\$ 36,862,011
Cash paid for goods and services	(9,133,710)	(13,641,751)	(22,775,461)
Cash paid to or on behalf of employees for services	(890,125)	(518,542)	(1,408,667)
Other operating revenues	1,352,959	193,778	1,546,737
System development fees	3,827,504	-	3,827,504
Nutrient offset fees	439,047	-	439,047
Miscellaneous revenue	86,731	153,711	240,442
Net cash provided (used) by operating activities	17,396,398	1,335,215	18,731,613
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Revenue bonds issued	10,644,786	-	10,644,786
Installment debt issued	-	-	-
Acquisition and construction of capital assets	(24,963,899)	(1,363,889)	(26,327,788)
Principal paid on bond maturities and equipment contracts	(1,254,968)	(452,045)	(1,707,013)
Interest paid on bond maturities and equipment contracts	(766,350)	(120,030)	(886,380)
Net cash provided (used) by capital and related financing activities	(16,340,431)	(1,935,964)	(18,276,395)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from asset disposition	-	-	-
Interest and dividends	3,661	7,391	11,052
Net cash provided (used) by investing activities	3,661	7,391	11,052
Net increase (decrease) in cash and cash equivalents	1,059,628	(593,358)	466,270
Balances, beginning	19,475,153	5,433,673	24,908,826
Balances, ending	\$ 20,534,781	\$ 4,840,315	\$ 25,375,096

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

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TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2022

Exhibit 9
Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ 2,950,846	\$ 729,068	\$ 3,679,914
Adjustments to reconcile operating income to net cash provided by operating activities			
Other fees - capacity, system development, nutrient offset	4,266,551	-	4,266,551
Miscellaneous revenue	86,731	153,711	240,442
Depreciation & amortization	3,944,938	831,239	4,776,177
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	\$ (255,271)	\$ (167,656)	(422,927)
(Increase) decrease in inventory	103,346	(640,251)	(536,905)
Increase (decrease) in accounts payable and accrued liabilities	6,316,278	242,551	6,558,829
Increase (decrease) in customer deposits	87,643	119,282	206,925
Increase (decrease) in OPEB liability	(270)	11,282	11,012
Increase (decrease) in accrued vacation pay	10,642	(6,341)	4,301
(Increase) decrease in deferred outflows of resources-pensions	80,783	(189,119)	(108,336)
(Increase) decrease in deferred outflows of resources-OPEB	(3,249)	-	(3,249)
Increase (decrease) in net pension liability	(447,268)	(146,424)	(593,692)
(Increase) decrease in deferred inflows of resources-pensions	249,057	391,115	640,172
Increase (decrease) in deferred inflows of resources-OPEB	5,641	6,758	12,399
Total adjustments	14,445,552	606,147	15,051,699
Net cash provided by operating activities	\$ 17,396,398	\$ 1,335,215	\$ 18,731,613

TOWN OF CLAYTON, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2022

Exhibit 10

	Custodial Fund
ASSETS	
Cash and cash equivalents	\$ 2,897
Taxes receivable from other governments, net	<u>-</u>
Total assets	<u>2,897</u>
LIABILITIES	
Intergovernmental payable	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION	
Restricted for:	
Other governments	<u>2,897</u>
Total fiduciary net position	<u><u>\$ 2,897</u></u>

TOWN OF CLAYTON, NORTH CAROLINA
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2022

Exhibit 11

	<u>Custodial Fund</u>
ADDITIONS	
Property taxes collected for other governments	<u>\$ 2,370,265</u>
Total additions	<u>2,370,265</u>
DEDUCTIONS	
Property taxes distributed to other governments	<u>3,302,351</u>
Net increase (decrease) in fiduciary net position	<u>(932,086)</u>
Net position, beginning	<u>\$ 934,983</u>
Net position, ending	<u>\$ 2,897</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statement themselves. The notes supplement the financial statements, and are an integral part thereof, and are intended to be read in conjunction with the financial statements.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Clayton, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Clayton, North Carolina, is a municipal corporation that is governed by an elected mayor and a five-member council. The accompanying financial statements present all funds over which the Town has accountability.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government except for fiduciary activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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, 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, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds 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 result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental funds:

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

Clayton Parks & Recreation Capital Project – This fund is used to account for the public improvement to the parks and recreation area.

CAMPO LAPP Project Fund – This fund is used to account for Town projects included in the Capital Area Metropolitan Planning Organization's Locally Administered Projects Program, which utilizes federal funding for local highway, transit, bicycle and pedestrian projects.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Greenway System Capital Project – This fund is used to account for construction and improvements to the greenway system, including major bridge repairs and replacements.

Loop Road Capital Project – This fund is used to account for the construction of new soccer fields.

2021 GO Bonds Capital Project – This fund is used to account for major improvements to Municipal Park, East Clayton Community Park, and Community Park.

American Rescue Plan Fund – This fund is used to account for transactions related to the American Rescue Plan Funds.

The Town reports the following non-major governmental funds:

Horne Cemetery Fund. This fund is used to account for permanent funds where the principal may not be expended and the income is used to maintain the Horne Cemetery.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations. Four capital project funds have been consolidated with the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for each capital project fund is included with the Combining and Individual Funds Statements and Schedules.

Electric Fund. This fund is used to account for the Town's electric fund operations. An Electric Rate Stabilization Fund and two capital project funds have been consolidated with the Electric Fund for financial reporting purposes. The budgetary comparison for each capital project fund is included with the Combining and Individual Funds Statements and Schedules.

The Town reports the following fund types:

Custodial Fund. Custodial funds are used to report fiduciary activities that are not required to be reported in pension and other employee benefit trust funds, investment trust funds, or private-purpose trust funds. Custodial funds are used to account for assets the Town holds on behalf of others that meet certain criteria. The Town maintains one custodial fund for the Claytex Fire District, which accounts for ad valorem and vehicle property taxes that are billed and collected by Johnston County (County) on behalf of the fire district but are not revenues to the Town.

C. Measurement Focus and Basis of Accounting

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

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

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (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 water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 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. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as 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 of Clayton because the tax is levied by Johnston County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

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 and Enterprise Funds. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the Capital Projects Fund, ARPA Special Revenue Fund, and certain Enterprise Fund capital project funds, which are consolidated with the Enterprise operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the object level for the multi-year funds. The Town manager is authorized to effect interdepartmental transfers, in the same fund, provided that no departmental budget shall be reduced by more than ten percent without the prior approval of the governing board. Any such transfers must be reported to the governing board at its next regular meeting and be entered into the minutes of the meeting. 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 Fund Equity

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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a7) money market mutual fund, invests in treasuries and government agencies, and maintains an AAAM rating from S&P and AAAmf by Moody's Investor Service. It is reported 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.

Cash and Cash Equivalents

The Town pools money 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.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purpose of maintaining, repairing, constructing, reconstructing, or widening of local streets per state law (G.S. 136-41.1 through G.S. 136-41.4). Monies in the following major funds: Parks and Recreation Capital Project; CAMPO LAPP Capital Project; Greenway System Capital Project; Loop Road Capital Project; and 2021 GO Bonds Parks Projects are classified as restricted cash because the use is restricted to each fund per state law (G.S. 159-13.2). Money for public safety is classified as restricted cash which can only be expended for purposes to enhance the Town's law enforcement activities per state and federal law (G.S. 105-113.113; Controlled Substances Act, Title 21-Section 881(e)(3)). The unexpended debt proceeds of the Water and Sewer Fund and Electric Fund are classified as restricted assets for the enterprise funds because their use is completely restricted to the purpose for which the bonds were originally issued. Cash in the Water and Sewer Fund is also restricted to comply with state law governing revenues from system development fees (G.S. 162A-211) and a \$182,368 sinking fund requirement by the USDA.

Town of Clayton Restricted Cash

Governmental Activities		
General Fund		
	Public Safety	536,434
	Powell Bill - Streets	296,450
Capital Project Funds		
	Parks and Recreation	13,769,729
	Public Transportation	173,202
ARPA Fund	Unassigned proceeds	3,965,712
Total governmental activities		<u>\$ 18,741,527</u>
Business-type Activities		
Water and Sewer Fund	Capital improvements - State Statute	10,053,100
Water and Sewer Fund	USDA future debt service	182,368
Total Business-type Activities		<u>\$ 10,235,468</u>
Total Restricted Cash		<u><u>\$ 28,976,995</u></u>

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, 2020.

Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Due To/From Other Funds

Amounts reported at June 30, 2022 as internal balances generally represent short-term advances between funds. The amounts reported at year-end are not available for appropriation and are not an expendable available financial resource.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's Enterprise Funds consist of materials and supplies held for subsequent use or sale. The cost of these inventories is expensed when consumed or sold rather than when purchased.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: Buildings, improvements, substations, lines, and other plant and distribution systems, \$100,000; infrastructure, \$100,000; and furniture and equipment, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2002, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980. The road network is reported at historical costs as reported to the North Carolina Department of Transportation under the Powell Bill program and the water and sewer system assets are reported at their historical costs. 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 using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	70
Other Improvements	20
Equipment	6
Vehicles and motorized equipment	6
Infrastructure	50

Wastewater capacity allocation rights are recorded at historical cost and amortized over 20 years using the straight-line method. For information, describing capital assets, see Note 2.A.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion, pension deferrals and OPEB deferrals for the 2022 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, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – assessments, prepaid taxes, property taxes receivable, and OPEB and pension deferrals.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, except for prepaid issuance costs, are expensed in the reporting period in which they are incurred. Prepaid issuance costs are expensed over the life of the debt.

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

Compensated Absences

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

The Town's sick leave policy provides for 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. The Town has no obligation for the accumulated sick leave until it is actually taken. No accrual for sick leave has been made.

Net Position

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of 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:

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

Inventories – portion of fund balance that is not and available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Perpetual maintenance – Cemetery resources that are required to be retained in perpetuity for maintenance of the Town of Clayton Cemetery.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or by laws and regulations.

Restricted for Stabilization by State statute – North Carolina G.S 159-8 prohibits units of government from budgeting or spending a portion of 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 a "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 Streets – 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 Improvements – portion of fund balance that is restricted by revenue source for recreational facilities and street improvements.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for public safety (fire and police) expenditures.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Clayton's governing body (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 Public Improvements – portion of fund balance that is limited to capital expenditures for recreation and public works.

Assigned fund balance – portion of fund balance that the Town of Clayton intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. Only the General Fund can report a positive amount of unassigned fund balance.

The Town of Clayton has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Director has the authority to deviate from this policy if it is in the best interest of the Town.

The Town of Clayton has 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 unassigned fund balance is at least equal to or greater

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

than 20% of actual net expenditures. Any portion in excess of 20% is available for appropriation as deemed necessary and approved by Council. The Town's operating standard for unassigned fund balance is a minimum of 30% of net expenditures. Net expenditures are defined as actual expenditures plus transfers out minus debt proceeds.

Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension asset, 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 of Clayton's employer contributions are recognized when due and the Town of Clayton has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERs. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Other

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these unit's names. 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 agents in their names. 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 amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2022, the Town's deposits had a carrying amount of \$23,093,881 and a bank balance of \$23,188,297. Of the bank balance, \$1,250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2022, the Town's petty cash fund totaled \$9,141.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

Investments

At June 30, 2022, the Town of Clayton had \$46,107,967 with the North Carolina Capital Management Trust's Government Portfolio. The Government Portfolio carried a credit rating of AAAm by Standard and Poor's and AAAmf by Moody's Investor Service. The Town has no policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2022 are net of the following allowances for doubtful accounts:

General fund:

Taxes receivable	\$	8,300
Accounts receivable		<u>1,755</u>
		10,055

Receivables - Allowances for Doubtful Accounts (Continued)

Enterprise funds	<u>33,338</u>
Total	<u>\$ 43,393</u>

Due from Other Governmental Agencies

At June 30, 2022, funds due from other governmental agencies consisted of the following:

	Governmental Activities			Business-type Activities
	General	Non-Major Governmental	Total	
Local Option Sales Tax	\$ 1,370,367	\$ -	\$ 1,370,367	\$ -
Franchise Sales Tax	279,972	-	279,972	-
Telecommunication Sales Tax	7,412	-	7,412	-
Video Programming Fees	55,007	-	55,007	-
Solid Waste Disposal Fees	4,626	-	4,626	-
Vehicle & Property taxes	383,692	-	383,692	-
PEG Channel	12,739	-	12,739	-
ABC Distribution	<u>20,362</u>	-	<u>20,362</u>	-
	<u>\$ 2,134,177</u>	<u>\$ -</u>	<u>\$ 2,134,177</u>	<u>\$ -</u>

Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2022, was as follows:

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 7,766,938	\$ 175,559	\$ -	\$ 7,942,497
Construction in progress	<u>5,170,082</u>	<u>6,526,289</u>	<u>-</u>	<u>11,696,371</u>
Total capital assets not being depreciated	<u>12,937,020</u>	<u>6,701,848</u>	<u>-</u>	<u>19,638,868</u>
Capital assets being depreciated				
Buildings and improvements	35,800,836	-	-	35,800,836
Equipment	4,671,928	367,123	-	5,039,051
Vehicles and motorized equipment	10,028,725	1,599,851	345,927	11,282,649
Infrastructure	<u>22,706,063</u>	<u>1,128,062</u>	<u>-</u>	<u>23,834,125</u>
Total capital assets being depreciated	<u>73,207,552</u>	<u>3,095,036</u>	<u>345,927</u>	<u>75,956,661</u>
Less accumulated depreciation				
Buildings	8,165,542	859,822	-	9,025,364
Equipment	3,938,938	220,438	-	4,159,376
Vehicles and motorized equipment	7,166,015	889,397	345,927	7,709,485
Infrastructure	<u>4,820,318</u>	<u>463,286</u>	<u>-</u>	<u>5,283,604</u>
Total accumulated depreciation	<u>24,090,813</u>	<u>2,432,943</u>	<u>345,927</u>	<u>26,177,829</u>
Total capital assets being depreciated, net	<u>49,116,739</u>	<u>662,093</u>	<u>-</u>	<u>49,778,832</u>
Governmental activity capital assets, net	<u>\$ 62,053,759</u>	<u>\$ 7,363,941</u>	<u>\$ -</u>	<u>\$ 69,417,700</u>

At June 30, 2022, construction in progress was comprised primarily of the public improvement construction projects.

General government	\$ 274,238
Public safety	875,810
Public works	730,788
Cultural and recreational	<u>552,107</u>
Total depreciation expense	<u>\$ 2,432,943</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities				
Water and Sewer Fund				
Capital assets not being depreciated				
Land	\$ 1,109,143	\$ -	\$ -	\$ 1,109,143
Nitrogen credits	16,291,695	-	-	16,291,695
Construction in progress	<u>4,668,759</u>	<u>23,472,384</u>	<u>-</u>	<u>28,141,143</u>
Total capital assets not being depreciated	<u>22,069,597</u>	<u>23,472,384</u>	<u>-</u>	<u>45,541,981</u>
Capital assets being depreciated				
Wastewater capacity allocation rights	3,600,000	-	-	3,600,000
Buildings	2,478,745	-	-	2,478,745
Plant and distribution system	87,960,071	714,043	-	88,674,114
Furniture and maintenance equipment	5,249,877	228,904	-	5,478,781
Vehicles	<u>2,497,592</u>	<u>548,569</u>	<u>19,043</u>	<u>3,027,118</u>
Total capital assets being depreciated	<u>107,786,285</u>	<u>1,491,516</u>	<u>19,043</u>	<u>103,258,758</u>
Less accumulated depreciation for				
Wastewater capacity allocation rights	2,835,000	180,000	-	3,015,000
Buildings	735,546	53,782	-	789,328
Plant and distribution system	16,511,920	2,720,392	-	19,232,312
Furniture and maintenance equipment	1,454,397	653,635	-	2,108,032
Vehicles	<u>1,333,773</u>	<u>337,130</u>	<u>19,043</u>	<u>1,651,860</u>
Total accumulated depreciation	<u>22,870,636</u>	<u>3,944,939</u>	<u>19,043</u>	<u>26,796,532</u>
Total Capital assets being depreciated, net	<u>78,915,649</u>	<u>(2,453,423)</u>	<u>-</u>	<u>76,462,226</u>
Water and Sewer Fund				
Capital Assets – net	<u>\$100,985,246</u>	<u>\$ 21,018,961</u>	<u>\$ -</u>	<u>\$122,004,207</u>
Electric Fund				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	<u>940,596</u>	<u>-</u>	<u>-</u>	<u>940,596</u>
Total capital assets not being depreciated	<u>960,596</u>	<u>-</u>	<u>-</u>	<u>960,596</u>
Capital assets being depreciated				
Buildings	1,384,059	-	-	1,384,059
Plant and distribution system	18,656,403	1,208,289	-	19,864,692
Furniture and maintenance equipment	1,839,413	-	-	1,839,413
Vehicles	<u>1,727,554</u>	<u>155,600</u>	<u>88,328</u>	<u>1,794,826</u>
Total capital assets being depreciated	<u>23,607,429</u>	<u>1,363,889</u>	<u>88,328</u>	<u>24,882,990</u>
Less accumulated depreciation for				
Buildings	436,728	31,102	-	467,830
Plant and distribution system	6,100,465	396,802	-	6,497,267
Furniture and maintenance equipment	241,520	267,283	-	508,803
Vehicles	<u>1,350,913</u>	<u>136,052</u>	<u>88,328</u>	<u>1,398,637</u>
Total accumulated depreciation	<u>8,129,626</u>	<u>831,239</u>	<u>-</u>	<u>8,872,537</u>
Total capital assets being depreciation, net	<u>15,477,803</u>	<u>532,650</u>	<u>-</u>	<u>16,010,453</u>
Electric Fund				
Capital Assets – net	<u>\$ 16,438,399</u>	<u>\$ 532,650</u>	<u>\$ -</u>	<u>\$ 16,971,049</u>
Business-type activities capital assets, net	<u>\$117,423,645</u>			<u>\$138,975,256</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Clayton is a participating employer in the statewide Local Governmental Employees' 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 (LEOs) 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, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. 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 or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Clayton 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 of Clayton's contractually required contribution rate for the year ended June 30, 2022 was 12.14% of compensation for general employees and firefighters and 13.04% for law enforcement officers, 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 of Clayton were \$1,687,098 for the year ended June 30, 2022.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Refunds of Contributions. Town of Clayton 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, 2022, the Town reported a liability of \$2,792,525 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions. The Town of Clayton'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, 2021, the Town's proportion was 0.18209%, which was a decrease of 0.00361% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Town recognized pension expense of \$1,254,192. At June 30, 2022, the Town of Clayton reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 888,403	\$ -
Changes of assumptions	1,754,419	-
Net difference between projected and actual earnings on pension plan investments	-	3,989,679
Changes in proportion and differences between Town contributions and proportionate share of contributions	68,438	47,591
Town contributions subsequent to the measurement date	<u>1,687,098</u>	<u>-</u>
Total	<u>\$ 4,398,358</u>	<u>\$ 4,037,270</u>

\$1,687,098 reported as deferred outflows of resources related to pensions resulting from Town of Clayton contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2023	\$ 281,914
2024	(68,570)
2025	(318,489)
2026	(1,220,866)
2027	-
Thereafter	<u>-</u>
	\$ (1,326,011)

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, 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, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2020 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 3.00%. All rates of return and inflation are annualized.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

Discount rate. The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the Town of Clayton's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, 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 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	<u>(5.50%)</u>	<u>(6.50%)</u>	<u>(7.50%)</u>
Town of Clayton's proportionate share of the net pension liability (asset)	\$ 10,840,349	\$ 2,792,525	\$ (3,830,367)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report (ACFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

Plan Description

The Town of Clayton, NC 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 0.85 percent 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, 2020, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>42</u>
Total	<u>47</u>

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2020 valuation. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	2.25 percent

The discount rate is based on the yield of the S&P Municipal Bond 20-year High Grade Rate Index as of December 31, 2020.

Mortality rates are based on the Pub-2010 Mortality Tables and the Mortality Improvement 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 amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid as they come due. The Town paid \$144,384 as benefits came due for the reporting period.

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

At June 30, 2022 the Town reported total pension liability of \$3,126,220. The total pension liability was measured as of December 31, 2021 based on a December 31, 2020 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2021 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2022, the Town recognized pension expense of \$357,071.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,476	\$ -
Changes of assumptions	599,069	88,936
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>77,872</u>	<u>-</u>
Total	<u>\$ 679,417</u>	<u>\$ 88,936</u>

\$77,872 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources related to pensions and will be recognized as a decrease of the total pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2023	\$ 170,724
2024	143,831
2025	139,005
2026	91,163
2027	(32,114)
Thereafter	<u>-</u>
	\$ 512,609

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town of Clayton's total pension liability calculated using the discount rate of 2.25 percent, 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 (1.25 percent) or one percentage point higher (3.25 percent) than the current rate:

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total pension liability	\$ 3,359,958	\$3,126,220	\$ 2,911,042

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

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

	<u>2022</u>
Beginning balance	\$3,337,394
Service Cost	127,158
Interest on total pension liability	63,126
Changes in benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	(195,501)
Changes of assumptions and other inputs	(72,723)
Benefit payments	(133,234)
Other changes	-
Ending balance of the total pension liability	<u>\$3,126,220</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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actual experience study for the period January 1, 2015 through December 31, 2019.

Total Expense, Liabilities, and Deferred Outflows of Resources and Deferred 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	\$ 1,254,192	\$ 357,071	\$ 1,611,263
Pension Liability	2,792,525	3,126,220	5,918,745
Proportionate share of the net pension liability	18.20900%	N/A	
Deferred Outflows of Resources			
Differences between expected and actual experience	888,403	2,476	890,879
Changes of assumptions	1,754,419	599,069	2,353,488
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	68,438	-	68,438
Benefit payments paid subsequent to the measurement date	1,687,098	77,872	1,764,970
Deferred Inflows of Resources			
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	88,936	88,936
Net difference between projected and actual earnings on pension plan investments	3,989,679	-	3,989,679
Changes in proportion and differences between contributions and proportionate share of contributions	47,591	-	47,591

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations *(Continued)*

c. Supplemental Retirement Income Plan for Regular and Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers and general employees may make voluntary contributions to the plan. For the reporting year, the Town made contributions of \$162,453 and \$469,068 for law enforcement officers and general employees, respectively.

d. Firefighters' and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Clayton, NC to the Firefighter's Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible firefighters that have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighters' and Rescue Squad Workers' Pension Fund 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 the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2022, the State contributed \$19,002,000 to the plan. The Town of Clayton's proportionate share of the State's contribution is \$6,007.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities *(Continued)*

1. Pension Plan and Postemployment Obligations *(Continued)*

d. Firefighter's and Rescue Squad Workers' Pension Fund *(Continued)*

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

At June 30, 2022, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension **asset** that was associated with the Town and supported by the State was (\$8,830). The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 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 contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2022 and at June 30, 2021 was 0%.

For the year ended June 30, 2022, the Town elected not to recognize pension expense of (\$973) and revenue of (\$973) for support provided by the State. *The amounts are not material to the financial statements.* At June 30, 2022, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report (ACFR) for the State of North Carolina.

e. Other Postemployment Benefit

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of July 1, 1998, this plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of creditable service with the Town, and have not reached age 65 or eligible to receive Medicare benefits. Prior to July 1, 1998, employees did not receive this benefit. The Town pays

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Postemployment Benefit (Continued)

for one-half (50%) of the cost of coverage for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

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

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	6	5
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	164	42
Total	170	47

Total OPEB Liability

The Town's total OPEB liability of \$1,378,008 was measured as of June 30, 2021 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.25 - 8.41 percent, including inflation
Discount rate	2.16 percent
Healthcare cost trends rates	Medical and prescription drug – 7.00 percent decreasing to 4.50%

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date.

Changes in the Total OPEB Liability

Balance at July 1, 2021	\$1,198,878
Changes for the year:	
Service cost	85,639
Interest	28,182
Changes in benefit terms	-
Differences expected and actual experience	(131,618)
Changes of assumptions and other inputs	215,618
Benefit payments	(18,691)
Net changes	179,130
Balance at June 30, 2022	<u>\$1,378,008</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.21% to 2.16%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and Mortality Improvement Scale MP-2015.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 2015 through December 2019.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Postemployment Benefit (Continued)

Sensitivity of the Town's total OPEB liability to changes in the discount rate. The following presents the Town of Clayton's total OPEB liability calculated using the discount rate of 2.16 percent, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.16 percent) or one percentage point higher (3.16 percent) than the current rate:

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	\$ 1,550,854	\$ 1,378,008	\$ 1,226,342

Sensitivity of the Town's total OPEB liability to changes in the healthcare cost trend rate. The following presents the Town of Clayton's total OPEB liability calculated using the healthcare cost trend rates, as well as what the Town's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Total OPEB liability	\$ 1,189,722	\$ 1,378,008	\$ 1,607,423

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the Town recognized OPEB expense of \$131,176. At June 30, 2022, 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	\$ -	\$ 119,252
Changes of assumptions	286,611	-
Town benefit payments and plan administrative expense made subsequent to the measurement date	35,095	-
Total	<u>\$ 321,706</u>	<u>\$ 119,252</u>

\$35,095 paid as benefits paid subsequent to the measurement date have been reported as deferred outflows of resources related to pensions and will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to OPEB liability will be recognized in OPEB expense as follows:

2023	\$ 17,355
2024	\$ 17,355
2025	\$ 17,355
2026	\$ 17,355
2027	\$ 17,355
Thereafter	<u>80,584</u>
	\$ 167,359

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS *Continued*

B. Liabilities (Continued)

2. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest 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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the 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. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 1,687,098
Benefit payments made and administrative expenses for LEOSSA	77,872
Benefit payments made and administrative expenses for OPEB	35,095
Differences between expected and actual experience	890,879
Changes of assumptions	2,353,488
Net difference between projected and actual	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	68,438

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

Prepaid taxes (General Fund)	\$ 70
Taxes Receivable, less penalties (General Fund)	21,689
Deferred revenue	-
Community Development Assessments (General Fund)	782,250
Special Assessments (Water Fund)	157,318
Changes in assumptions	88,936
Differences between expected and actuarial experience	3,989,679
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,591

4. 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 two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$5 million per occurrence, property coverage of \$127.4 million, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of reinsurance and excess policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance as none of their buildings are located in flood prone areas.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$250,000 and \$25,000 each, respectively. The remaining employees that have access to funds are bonded under a blanket bond for \$75,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2022, the Town was a defendant to Granite Land and Timber, LLC, et al., Case No. 20 CVS 2903 filed in Johnston County. The Town maintains it has complied with all the North Carolina laws governing certain recreation fees charged to developers in connection with properly development. In the opinion of the Town's management, the ultimate effect of these legal matters and any other will not have a material adverse effect on the Town's financial position.

6. Long-Term Debt

Long-term debt obligations of the Town at June 30, 2022 consist of the following with **no lines of credit**:

	<u>Serviced by</u>	
	<u>Governmental</u>	<u>Business-type</u>
	<u>Activities</u>	<u>Activities</u>
General Obligation Bonds		
\$13,500,000 General Obligation Bonds, Series 2021 dated November 30, 2021 and maturing in annual installments of \$675,000 through August 2041, interest ranging from 2.00% to 5.00%. <i>Bonds were issued for parks and recreation improvements.</i>	\$13,500,000	\$ -
\$2,000,000 General Obligation Bonds, Series 2012 dated April 13, 2012 and maturing in annual installments of \$140,000 to \$120,000 through February 2027, interest ranging from .35% to 2.7%. <i>Bonds were issued for parks and recreation improvements.</i>	<u>600,000</u>	<u>-</u>
Total general obligation bonds	<u>\$14,100,000</u>	<u>\$ -</u>
Revenue Bonds		
Water and Sewer System Revenue Bond, Series 2013 dated September 11, 2013 and maturing in annual installments ranging from \$18,000 to \$68,000 through June 2052; interest at 3.50%.	\$ -	\$ 1,281,746
Water and Sewer System Revenue Bond, Series 2020 dated April 23, 2020 and maturing in annual installments of \$375,000 to \$830,000 through June 2045; interest at 2.88%.	-	14,194,000
Water and Sewer System Revenue Bond, Series 2017A dated September 27, 2017 and maturing in annual installments ranging From \$60,000 to \$210,000 through June 2057; interest at 3.25%.	-	4,504,000

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

	Serviced by	
	Governmental Activities	Business-type Activities
Revenue Bonds (Continued)		
Water and Sewer System Revenue Bond, Series 2017B dated September 27, 2017 and maturing in annual installments ranging From \$3,000 to \$13,000 through June 2057; interest at 3.25%.	-	253,000
Electric System Revenue Bond, Series 2016 dated September 22, 2016 and maturing in 2031; interest at 2.09%.	-	3,566,667
Total revenue bonds	\$ -	\$ 23,799,413
<u>Direct Placement Installment Purchase</u>		
Community Center Refunding; contract of \$5,402,000 due in Annual installment maturing in July 2029; interest at 2.1%. Property is pledged as collateral.	\$ 2,943,000	\$ -
2016 Park Land Refunding; contract for \$852,000; due in annual installments of variable principal starting in 2016; interest at 2.15%. Property is pledged as collateral.	34,000	-
2016 Clayton Law Enforcement Center Refunding; contract of \$5,626,000 annual installments of variable principal starting in 2016; interest at 2.2% Property is pledged as collateral.	3,888,000	-
2021 Ladder Truck; contract of \$871,621; due in annual installments of \$98,738 including interest at 2.33%. Truck is pledged as collateral.	793,227	-
2020 Vactor trucks; contract of \$865,382; due in annual installments of \$127,954 including interest of 3.59%. Trucks pledged as collateral.	-	657,173
2008 Sanitary Sewer Loan; contract of \$3,600,000; due in annual installments of \$180,000; interest at 2.10%	-	1,080,000
2021 Sanitary Sewer Loan; contract for \$10,644,786; due in annual installments of \$532,239 plus interest at 1.06%.	-	10,644,786
2019 AMI Project; contract of \$5,000,000; due in annual installments of varying principal of \$271,000 to \$398,000 through August 2034, interest at 2.63%. AMI meter fee is supporting the debt service.	-	4,445,000
1996 Water and Sewer extensions; contract of \$120,000; without interest, repayment from yearly acreage fees collected by the Town for connection to water and sewer lines installed to service Colonial Carton Company	-	120,000

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

Total direct placement installment purchases	<u>7,658,227</u>	<u>16,946,958</u>
Total outstanding	21,758,227	40,746,371
Less current portion	<u>1,733,224</u>	<u>1,475,565</u>
	<u>\$ 20,025,003</u>	<u>\$ 39,270,806</u>

At June 30, 2022, the Town of Clayton had a legal debt margin of \$216,733,325.

Changes in long-term liabilities

Compensated absences and net pension/OPEB liability for governmental funds are liquidated from the General Fund.

	Restated Balances July 1, 2021	Increases	Decreases	Balances June 30, 2022	Current Portion of Balance
Governmental activities:					
General obligation bonds	\$ 2,990,000	\$13,500,000	\$ 2,390,000	\$ 14,100,000	\$ 795,000
Direct placement installment purchase	8,647,621	-	989,394	7,658,227	938,224
Compensated absences	749,616	816,508	760,195	805,929	402,965
Total OPEB liability	1,064,366	168,118	-	1,232,484	-
Net pension liability (LGERS)	5,599,362	-	3,249,635	2,349,727	-
Total pension liability (LEO)	<u>3,337,394</u>	<u>-</u>	<u>211,174</u>	<u>3,126,220</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 22,388,359</u>	<u>\$14,484,626</u>	<u>\$ 7,600,398</u>	<u>\$29,272,587</u>	<u>\$2,136,189</u>
Business-type activities:					
Revenue bonds	\$ 24,685,079	\$ -	\$ 885,667	\$ 23,799,412	\$ 900,667
Direct placement installment purchase	7,123,520	10,644,786	821,347	16,946,959	574,898
Total OPEB liability	134,512	11,012	-	145,524	-
Net pension liability (LGERS)	1,036,490	-	593,692	442,798	-
Compensated absences	<u>138,942</u>	<u>147,469</u>	<u>143,168</u>	<u>143,243</u>	<u>71,622</u>
Business-type activity long-term liabilities	<u>\$ 33,118,543</u>	<u>\$10,803,267</u>	<u>\$ 2,443,874</u>	<u>\$41,477,936</u>	<u>\$1,547,187</u>

The Town's outstanding debt from direct placement installment purchases related to governmental activities of \$7,658,227 contain a provision that in an event of default, outstanding amounts may become immediately due if the Town is unable to make payment. The debt is secured with collateral of two buildings and park land (**See schedule on Pages 54-56**).

The Town's outstanding debt from direct placement installment purchases related to business-type activities of \$16,946,958 contain a provision that in an event of default, outstanding amounts may become immediately due if the Town is unable to make payment. Debt of \$657,173 is secured with collateral of two Vector trucks. (**See schedule on Page 34 and Pages 54-56**).

Maturities of long-term debt

The annual requirements to retire all debt outstanding, other than compensated absences and net pension obligation, at June 30, 2022, including interest, are as follows:

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

	<u>Bond obligation</u>		<u>Installment purchases</u>		<u>Total debt due</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Governmental activities						
2023	\$ 795,000	\$ 544,275	\$ 938,224	\$ 162,195	\$ 1,733,224	\$ 706,470
2024	795,000	447,255	898,097	142,175	1,693,097	589,430
2025	795,000	410,745	867,013	123,254	1,662,013	533,999
2026	795,000	374,115	870,973	104,320	1,665,973	478,435
2027	795,000	337,365	868,980	85,315	1,663,980	422,680
2028-2032	3,375,000	1,164,375	3,214,940	155,370	6,589,940	1,319,745
Thereafter	6,750,000	681,750	-	-	6,750,000	681,750
Total	<u>14,100,000</u>	<u>3,959,880</u>	<u>7,658,227</u>	<u>772,629</u>	<u>21,758,227</u>	<u>4,732,509</u>
Business-type activities						
2023	\$ 900,667	\$ 679,067	\$ 574,898	\$ 163,613	\$ 1,475,565	\$ 842,680
2024	916,666	655,507	586,701	148,378	1,503,367	803,885
2025	933,667	631,472	598,644	132,793	1,532,311	764,265
2026	950,667	606,930	1,361,169	277,451	2,311,836	884,381
2027	969,667	581,886	1,035,239	199,761	2,004,906	781,647
2028-2032	5,126,333	2,514,529	4,588,196	748,192	9,714,529	3,262,721
Thereafter	<u>14,001,746</u>	<u>4,178,776</u>	<u>8,202,111</u>	<u>575,084</u>	<u>22,203,857</u>	<u>4,753,860</u>
	<u>23,799,413</u>	<u>9,848,167</u>	<u>16,946,958</u>	<u>2,245,272</u>	<u>40,746,371</u>	<u>12,093,439</u>
Total	<u>\$37,899,413</u>	<u>\$13,808,047</u>	<u>\$24,605,185</u>	<u>\$ 3,017,901</u>	<u>\$62,504,598</u>	<u>\$16,825,948</u>

Revenue Bonds

The Town has been in compliance with the covenant as to rates, fees, rentals and charges in Section 5.02 of the Bond Order, authorizing the issuance of the Water and Sewer System Revenue Bonds, Series 2013, since its adoption in 2012. Section 5.02(a) of the Bond Order requires the debt service coverage ratio to be no less than 110% for the Bonds and 100% for all indebtedness. The Town has been in compliance with the covenants as to rates, fees, rentals, and charges in Section 5.02 of the First Supplemental Bond Order, authorizing the issuance of Electric System Revenue Bonds, Series 2014, Series 2015, and Series 2016 since adoption in 2015. Section 5.02(a) requires Net Revenues plus 20% of the Unrestricted Net Position of the System as of the last day of the preceding fiscal year will not be less than 120% of the debt service requirement for the Bonds. The debt service coverage ratio calculations for the year ended June 30, 2022 are as follows:

	<u>Water & Sewer</u>	<u>Electric</u>
Operating revenues	\$23,322,221	\$15,509,453
Operating expenses	<u>16,426,437</u>	<u>13,949,146</u>
Net Revenues	\$ 6,895,784 ¹	\$ 1,560,307 ¹
20% Unrestricted Net Position	<u>N/A ²</u>	<u>1,128,064 ²</u>
Income Available for Debt Service	<u>\$ 6,895,784</u>	<u>\$ 2,688,371</u>
Debt service, principal and interest paid (Revenue bond only)	\$ 1,152,911	\$ 434,937
Debt service coverage ratio	5.98	6.18
Debt service, principal and interest paid (All indebtedness)	\$ 2,021,318	\$ 572,075
Debt service coverage ratio	3.41	4.70

¹ Per rate covenants, this does not include depreciation expense of \$3,944,938 and \$831,239, respectively.

² Per rate covenants, this does not apply to the Water and Sewer System Revenue Bond.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

6. Long-Term Debt (Continued)

The Town has pledged future water and sewer customer revenues, net of specified operating expenses to repay \$21.701 million in water and sewer system revenue bonds issued in September 2013, September 2017, and April 2020. Proceeds from the bonds provided financing for the construction of an elevated water storage tank, sewer force main, and nutrient credit purchases. The bonds are payable solely from water and sewer system customer net revenues and are payable through 2057. Annual principal and interest payments on the bond are expected to require less than 2 percent of operating revenues. The total principal and interest remaining to be paid on the bonds is \$29,708,197. Principal and interest paid for the current year and total customer net revenues were \$1,152,911 and \$6,895,784, respectively.

The Town has pledged future electric customer revenues, net of specified operating expenses to repay \$6.65 million in electric system revenue bonds issued in May 2014, June 2015, and September 2016. Proceeds from the bonds provided financing for system improvements and the construction of a second substation. The bonds are payable solely from electric system customer net revenues and are payable through 2019, 2020, and 2031, respectively. Annual principal and interest payments on the bond are expected to require less than 2 percent of operating revenues. The total principal and interest remaining to be paid on the bonds is \$3,939,383. Principal and interest paid for the current year and total customer net revenues were \$434,937 and \$1,560,307, respectively.

C. Interfund Balances and Activity

Transfers to/from Other Funds at June 30, 2022, consist of the following:

From the General Fund to the Greenway Systems Capital Project for bridge replacements	\$1,500,000
From the General Fund to the Loop Road Capital Project to construct new soccer fields	\$1,000,000

D. Revenues, Expenditures and Expenses

On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2022, the Town of Clayton elected not to recognize on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$6,007 for the 13 employed Firefighter who perform firefighting duties for the Town's fire department. *The amount is not deemed material to the financial statements.* The employees elected to be members of the Firefighter and Rescue Worker's Pension Fund, a cost-sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a state appropriation.

Also, the Town elected not to recognize as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$38,535 for the salary supplement and stipend benefits paid to eligible Firefighter by the local board of trustees of the Firefighter's Relief Fund during the fiscal year ended June 30, 2022. *The amount is not deemed material to the financial statements.* Under state law the local board of trustees for the Fund receives an amount each year which the board may use at its own discretion for eligible Firefighter or their departments.

NOTE 3 - 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 Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the state. The State passes these monies to the local board of the Firefighter's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for supplemental retirement benefits made to retired Firefighter and for dues paid to the Firefighter's Pension Plan on-behalf of the employee members of the Town's fire department by the board of trustees.

TOWN OF CLAYTON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

NOTE 3 – JOINT VENTURES (Continued)

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, 2022. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

NOTE 4 - 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 agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

NOTE 5 - JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with thirty-two other local governments, is a member of the North Carolina Eastern Municipal Power Agency (NCEMPA). Each participating government appoints one commissioner to the NCEMPA governing board. On July 31, 2015, the NCEMPA completed the sale of most of its electricity generating assets to Duke Energy. These proceeds were used to defease the NCEMPA's outstanding revenue bonds. The NCEMPA entered into contractual arrangements with its member cities and Duke Energy. Under these arrangements, the NCEMPA will supply wholesale power to its members and will purchase this power from Duke Energy. In addition to payments for electric power, NCEMPA members will make payments for their share of debt service on the NCEMPA's new revenue bonds. The Town's purchases of power for the fiscal year ended June 30, 2022 were \$10,422,288.

NOTE 6 – FUND BALANCE

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	\$25,437,923
Less:	
Inventories	36,200
Stabilization by State Statute	2,006,511
Powell Bill	296,450
Public Improvements	2,080,522
Public Safety	536,434
Appropriate Fund Balance in 2022 Budget	7,962,462
Working Capital / Fund Balance Policy	7,227,110
Remaining Fund Balance	5,292,234

The Town of Clayton has 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 unassigned fund balance is at least equal to or greater than 20% of actual net expenditures.

NOTE 7 – SUBSEQUENT EVENT

The Town entered into an agreement with Novo Nordisk ("Novo") to sell the pretreatment facility that Novo donated to the Town in November 2019 for \$34,250,000. Closing is expected to occur by December 31, 2022. The Town intends to utilize the proceeds to fund construction of the Sam's Branch Water Reclamation Facility in conjunction with other high priority projects. Also, the Town plans to retire its USDA revenue bond debt in the amount of \$6,121,810, including interest, on October 31, 2022.

NOTE 8 – REIMBURSEMENT FOR PANDEMIC-RELATED EXPENDITURES

The American Rescue Plan Act of 2021 (“ARPA”) was signed into law on March 11, 2021. The law appropriates federal funding for COVID-19 relief and economic recovery, including provisions that directly benefit state and local governments. The Town is a non-entitlement unit (“NEU”) and received ARPA funds from the State of North Carolina. State and local governments must obligate ARPA funds by December 31, 2024 and spend them by December 31, 2026. The Town received its first tranche of ARPA funding in the amount of \$3,965,712 in August 2021. The second tranche in the amount of \$3,965,712 was received in August 2022. These revenue replacement funds will be transferred to the appropriate funds once the intended use is determined.

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APPENDIX B
FINANCIAL FEASIBILITY REPORT

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Financial Feasibility Report
Town of Clayton, NC

November 22, 2022

Honorable Mayor and Members of the Town Council
Town of Clayton, North Carolina

RE: Town of Clayton, NC
Financial Feasibility Study, Series 2022 Bonds

Dear Mayor and Members of the Town Council:

The accompanying financial projections for the Combined Water and Sewer Fund (the "System", or "Enterprise Funds") of the Town of Clayton, NC (the "Town") consists of a forecast of the financial results of operations for each of the Fiscal Years ("FY") from July 1, 2023, through June 30, 2028. 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 projection 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 2028.

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 Town staff's projection. 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 Clayton, NC

Financial Feasibility Report: Utility System Revenue Bonds, Series 2022

November 22, 2022

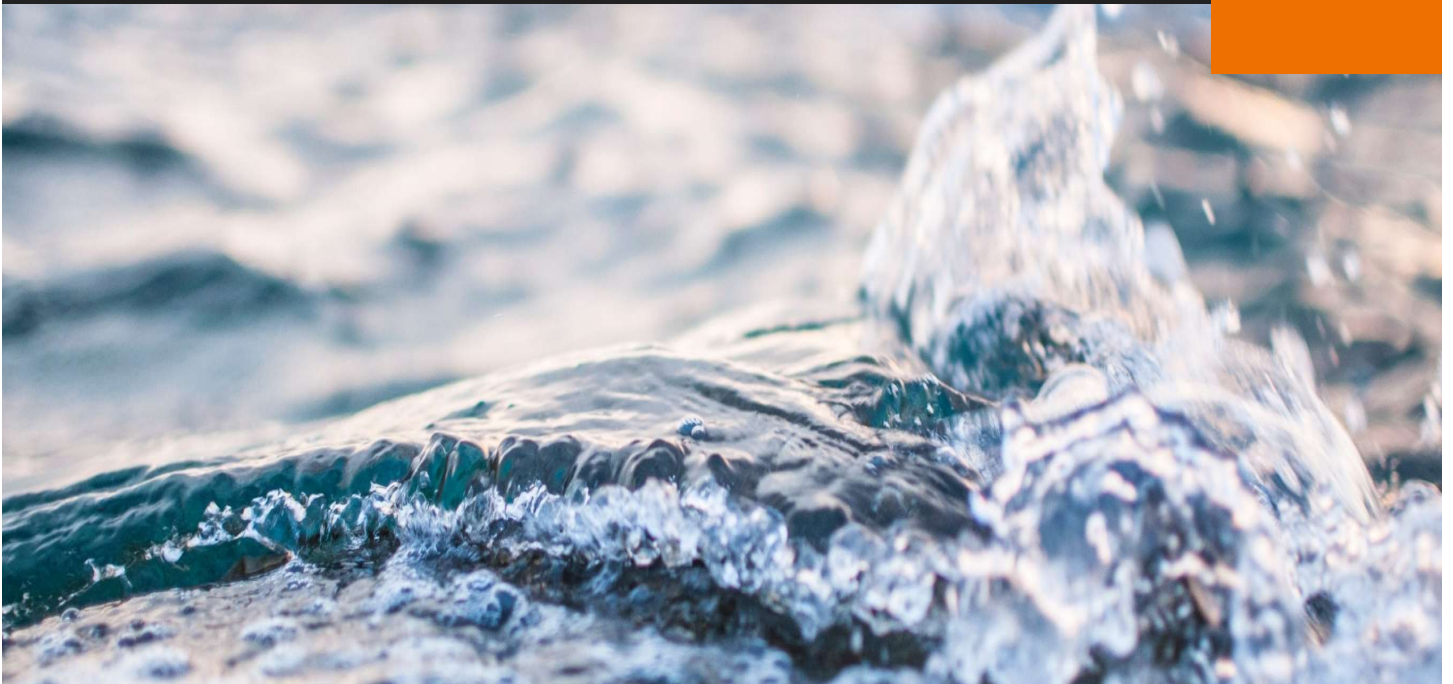


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1. INTRODUCTION

Presented herein is the Financial Feasibility Report (the “Report”) we have prepared on behalf of the Town of Clayton, 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 Utility System Revenue Bonds, Series 2022 (the “2022 Bonds”). The 2022 Bonds are being issued for the purposes of (1) financing the Town’s Sam’s Branch Water Reclamation Facility and associated conveyance infrastructure program (2) financing the contribution for the Lumen storage tank and (3) paying the costs of issuance of the 2022 Bonds.

Stantec Consulting Services, Inc. (“Stantec”) was retained as the Financial Feasibility Consultant to develop a projection of the financial operations of the System. In preparation of 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 it is believed 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 Revenue 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”) 2017 through 2022 are summarized in Table 1. The historical results are based upon audited information from the Town’s Annual Comprehensive Financial Reports (“ACFR”) for Fiscal Years 2017 through 2021. FY 2022 results are based on unaudited estimated actuals as of June 30, 2022. In summary, Gross Revenues less Operating Expenses results in Net Revenues available for existing debt service. The calculation of historical debt service coverage is reflected in Table 2.

Table 1
Historical Operating Results
Last Six Fiscal Years

	<i>Fiscal Year Ending June 30 (1)</i>					
	2017	2018	2019	2020	2021	2022 (2)
1 Operating Revenue						
2 Water Sales (3)	\$ 5,036,652	\$ 5,613,091	\$ 6,396,312	\$ 8,531,337	\$ 10,393,984	\$ 10,574,861
3 Sewer Charges (3)	4,461,852	5,025,696	5,678,926	7,984,032	9,727,186	11,333,514
4 Water and Sewer Taps	56,567	59,700	80,375	68,587	62,537	60,887
5 Other Operating Revenue (4)	626,607	827,564	945,309	1,211,816	1,143,597	1,352,959
6 Total Operating Revenue	\$ 10,181,678	\$ 11,526,051	\$ 13,100,922	\$ 17,795,772	\$ 21,327,304	\$ 23,322,221
7 % change		13.2%	13.7%	35.8%	19.8%	9.4%
8 Operating Expenses						
9 Water Distribution	\$ (4,279,274)	\$ (4,899,811)	\$ (9,269,765)	\$ (8,079,283)	\$ (6,827,995)	\$ (7,145,703)
10 Preventative Maintenance	(738,719)	(765,244)	(934,716)	(1,014,912)	(1,221,358)	(1,346,278)
11 Wastewater Treatment	(2,427,688)	(6,253,579)	(3,452,791)	(4,405,335)	(6,164,711)	(5,126,499)
12 Support services - General Fund	(1,646,835)	(1,736,894)	(1,724,925)	(1,680,653)	(2,092,911)	(2,807,957)
13 Depreciation and Amortization	(1,262,455)	(1,325,766)	(1,374,663)	(1,558,357)	(3,310,364)	(3,944,938)
14 Total Operating Expenses	\$ (10,354,971)	\$ (14,981,294)	\$ (16,756,860)	\$ (16,738,540)	\$ (19,617,339)	\$ (20,371,375)
15 % change		44.7%	11.9%	-0.1%	17.2%	3.8%
16 Non-Operating Revenue (Expenses)						
17 Interest Earnings	\$ 7,752	\$ 14,627	\$ 22,696	\$ 56,515	\$ 2,256	\$ 3,653
18 Interest and Other Charges	(143,518)	(364,908)	(280,843)	(265,788)	(840,642)	(766,350)
19 Nutrient offset fees	138,896	657,876	273,225	557,572	151,784	439,047
20 System Development Fees	1,378,977	8,082,614	3,960,722	6,643,779	2,678,604	3,827,504
21 Miscellaneous	196,522	255,534	453,099	104,840	253,891	86,731
22 Capital Grants and (Transfers to Other Funds)	-	-	-	407,708	-	-
23 Total Non-Operating Revenue (Expenses)	\$ 1,578,629	\$ 8,645,743	\$ 4,428,899	\$ 7,504,626	\$ 2,245,893	\$ 3,590,585
24 Adjustments						
25 Depreciation	\$ 1,262,455	\$ 1,325,766	\$ 1,374,663	\$ 1,558,357	\$ 3,310,364	\$ 3,944,938
26 Non-Operating Revenues	(1,578,629)	(8,645,743)	(4,428,899)	(7,504,626)	(2,245,893)	(3,590,585)
27 Other (Contributions to Reserves)	-	4,360,445	5,517,900	-	-	-
28 Total Adjustments	\$ (316,174)	\$ (2,959,532)	\$ 2,463,664	\$ (5,946,269)	\$ 1,064,471	\$ 354,353
29 Net Income Available for Debt Service	\$ 1,089,162	\$ 2,230,968	\$ 3,236,625	\$ 2,615,589	\$ 5,020,329	\$ 6,895,784

Table 2
Historical Debt Service Requirements and Coverage
Last Six Fiscal Years

		<i>Fiscal Year Ending June 30 (1)</i>					
		2017	2018	2019	2020	2021	2022 (2)
1	Net Income Available for Debt Service	\$ 1,089,162	\$ 2,230,968	\$ 3,236,625	\$ 2,615,589	\$ 5,020,329	\$ 6,895,784
2	Senior Lien Debt Service Coverage Test						
3	Existing Senior-Lien Debt Service (5)	\$ 70,691	\$ 368,755	\$ 299,791	\$ 299,874	\$ 1,153,459	\$ 1,152,911
4	Total Annual Senior-Lien Debt Service	\$ 70,691	\$ 368,755	\$ 299,791	\$ 299,874	\$ 1,153,459	\$ 1,152,911
5	Senior-Lien Debt Service Coverage (line 1/ line 4) Required 1.25 (6)	15.41	6.05	10.80	8.72	4.35	5.98
6	Subordinate Debt Service Coverage Test						
7	Existing Subordinate Debt Service (7)	\$ 635,667	\$ 606,396	\$ 595,433	\$ 532,452	\$ 1,030,593	\$ 868,407
8	Total Annual Subordinate Debt Service	\$ 635,667	\$ 606,396	\$ 595,433	\$ 532,452	\$ 1,030,593	\$ 868,407
9	Subordinate Debt Service Coverage (line 1 - line 4) / line 8 Required 1.0 (6)	1.60	3.07	4.93	4.35	3.75	6.61
10	Total All-In Debt Service Coverage Test						
11	Total Senior-Lien Debt Service	\$ 70,691	\$ 368,755	\$ 299,791	\$ 299,874	\$ 1,153,459	\$ 1,152,911
12	Total Subordinate Debt Service	635,667	606,396	595,433	532,452	1,030,593	868,407
13	Total Annual Debt Service	\$ 706,358	\$ 975,151	\$ 895,224	\$ 832,326	\$ 2,184,052	\$ 2,021,318
14	All-In Debt Service Coverage (line 1 / line 4*1.25 + line 8) Required 1.0 (6)	1.50	2.09	3.34	2.88	2.03	2.99
15	Net Revenues After Debt Service	\$ 382,804	\$ 1,255,817	\$ 2,341,401	\$ 1,783,263	\$ 2,836,277	\$ 4,874,466

Notes to Historical Operating Results Tables 1 and 2:

- (1) Historical operating results through June 30, 2021, are as reported in each of the Town's audited Annual Comprehensive Financial Reports for each respect Fiscal Year.
- (2) FY 2022 results are based on unaudited estimated actuals as of June 30, 2022.
- (3) Annual fixed and volume charges for all water and sewer sales.
- (4) Other operating revenues include meter fees, tower rental, penalties, and user surcharges.
- (5) The Town maintains four separate bonds including Revenue Bond Series 2013, 2017A, 2017B and 2020, outlined in Table 13.
- (6) Debt coverage calculated consistent with the Rate Covenant as outlined in the Town's existing Bond Order.
- (7) The Town maintains four subordinate loans, identified in Table 13.

3. PROJECTED OPERATING RESULTS

The projected annual revenues and expenses of the System for the Fiscal Years beginning on July 1, 2023 and ending June 30, 2028 are based upon the Town's Fiscal Year 2023 Adopted Budget, 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. While it is believed 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:

- 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 the current fiscal year (FY 2023) have not yet been adopted by the Town Council but the Council 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, customer growth, and anticipated changes to existing and future System facilities. 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 Budget for Fiscal Year 2023, as such, escalation factors are applied in FY 2024 and over the remainder of the forecast period.
- The analysis presented herein includes the preliminary annual debt service requirements for the proposed 2022 Bonds as prepared by Davenport & Company, LLC, on October 12, 2022. Anticipated borrowing proceeds are assumed to be utilized for funding identified capital project requirements for the cost of the construction of the Sam's Branch Water Reclamation Facility and

associated conveyance infrastructure including the Little Creek pump station, Little Creek force main & gravity sewer pipes, East Clayton Industrial Area (ECIA) pump station improvements to 5 MGD and the ECIA force main and the Lumen Infrastructure Contribution storage tank.

- Future borrowing requirements were calculated based on projected future capital requirements and available resources. It is projected that the Town will require additional borrowings in Fiscal Year 2025 and periodically during the remainder of the projection 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 2028 are summarized in Table 3 and reflect the considerations and assumptions discussed herein. Current expenses and revenues have been calculated consistent with the definitions contained within the Town's Amended and Restated Bond Order adopted November 7, 2022. The debt service coverage has been calculated consistent with the requirements outlined in Section 5.02 Rate Covenant (the "Rate Covenant") within the Amended and Restated Bond Order. 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 that from time to time and as often as it shall appear necessary, it shall revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year the Net Revenues (calculated in accordance with generally accepted accounting principles) will be not less than (i) one hundred and twenty-five percent (125%) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (ii) one hundred percent (100%) of the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iii) one hundred percent (100%) of the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (iv) one hundred percent (100%) of the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing hereunder of the Debt Service Requirement for such Fiscal Year."

The Bond Order also states "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 that from time to time and as often as it shall appear necessary, it shall revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Revenues will be sufficient in each Fiscal Year (i) to pay Operating Expenses, (ii) to pay the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year and (iii) to make such other deposits or payments as may be required under the provisions of this Bond Order or any Series Resolution." (See the Amended and Restated Bond Order for the complete rate covenant).

The debt service coverage shown in Table 3 has been calculated with the application of sewer system development fees, given the Town plans to use the annual revenue generated from the fees to fund a portion of future sewer debt service. The debt service coverage is also calculated excluding the sewer system development fees to demonstrate the ability to meet coverage without the fees.

Table 3
Projected Operating Results, Debt Service Requirements and Coverage

Fiscal Year Ending June 30							
	2023 (1)	2024	2025	2026	2027	2028	
1 Operating Revenue							
2 Water Sales (2)	\$ 11,825,715	\$ 13,040,671	\$ 14,357,542	\$ 15,760,976	\$ 17,510,630	\$ 19,443,362	
3 Sewer Charges (3)	16,745,050	21,947,150	28,526,994	31,145,428	34,205,241	37,530,873	
4 Water and Sewer Taps	55,000	55,000	55,000	55,000	55,000	55,000	
5 Other Revenue (4)	1,417,544	1,417,544	1,417,544	1,417,544	1,417,544	1,417,544	
6 Total Operating Revenue	\$ 30,043,309	\$ 36,460,365	\$ 44,357,080	\$ 48,378,948	\$ 53,188,414	\$ 58,446,779	
7 % change	28.8%	21.4%	21.7%	9.1%	9.9%	9.9%	
8 Operating Expenses (5)							
9 Water Distribution and Maintenance	\$ (7,697,859)	\$ (8,330,850)	\$ (9,020,301)	\$ (9,771,516)	\$ (10,590,312)	\$ (11,483,059)	
10 Preventative Maintenance	(1,820,640)	(1,911,669)	(2,007,250)	(2,107,610)	(2,212,988)	(2,323,634)	
11 Wastewater Treatment	(7,415,692)	(8,963,160)	(8,111,599)	(8,490,296)	(7,883,001)	(7,544,689)	
12 Support Services - General Fund	(3,151,877)	(3,246,433)	(3,343,826)	(3,444,141)	(3,547,465)	(3,653,889)	
13 Total Operating Expenses	\$ (20,086,068)	\$ (22,452,113)	\$ (22,482,977)	\$ (23,813,564)	\$ (24,233,766)	\$ (25,005,271)	
14 % change	-1.4%	11.8%	0.1%	5.9%	1.8%	3.2%	
15 Non-Operating Revenue (Expenses)							
16 Water System Development Fees (6)	\$ 887,097	\$ 887,097	\$ 887,097	\$ 887,097	\$ 887,097	\$ 887,097	
17 Sewer System Development Fees (6)	1,612,903	1,612,903	1,612,903	1,612,903	1,612,903	1,612,903	
18 Transfers In - ARP Funds (7)	7,931,423	-	-	-	-	-	
19 Debt Pay-Off (8)	(6,121,840)	-	-	-	-	-	
20 Miscellaneous	11,300	11,300	11,300	11,300	11,300	11,300	
21 Total Non-Operating Revenue (Expenses)	\$ 4,320,883	\$ 2,511,300	\$ 2,511,300	\$ 2,511,300	\$ 2,511,300	\$ 2,511,300	
22 Adjustments							
23 Non-Operating Revenues (9)	\$ (10,442,723)	\$ (552,185)	\$ (587,583)	\$ (443,606)	\$ (443,621)	\$ (443,708)	
24 Non-Operating Expenses	6,121,840	-	-	-	-	-	
25 Total Adjustments	\$ (4,320,883)	\$ (552,185)	\$ (587,583)	\$ (443,606)	\$ (443,621)	\$ (443,708)	
26 Net Income Available for Debt Service	\$ 9,957,241	\$ 15,967,367	\$ 23,797,820	\$ 26,633,079	\$ 31,022,327	\$ 35,509,100	
27 Senior Lien Debt Service Coverage Test							
28 Existing Senior-Lien Debt Service (10)	\$ 851,787	\$ 852,029	\$ 851,896	\$ 852,389	\$ 852,478	\$ 852,165	
29 Series 2022 Bonds (11)	-	5,497,877	4,935,750	7,222,125	7,221,875	7,220,500	
30 Future Bonds (12)	-	-	-	160,485	1,789,410	2,310,987	
31 Total Annual Senior-Lien Debt Service	\$ 851,787	\$ 6,349,906	\$ 5,787,646	\$ 8,234,999	\$ 9,863,763	\$ 10,383,651	
32 Senior-Lien Debt Service Coverage (line 26 / line 31) : with use of SDFs Required 1.25	11.69	2.51	4.11	3.23	3.15	3.42	
33 Senior-Lien Debt Service Coverage (line 26 - line 16 - line 17 / line 31) : without use of SDFs Required 1.25	11.69	2.21	3.78	2.98	2.94	3.22	
34 Subordinate Debt Service Coverage Test							
35 Existing Subordinate Debt Service (13)	\$ 601,530	\$ 597,982	\$ 594,293	\$ 808,664	\$ 458,544	\$ 455,100	
36 Other Obligations (14)	169,500	169,500	169,500	169,500	169,500	169,500	
37 Future State Revolving Fund Loans (15)	-	-	-	7,159,384	6,607,700	6,549,400	
38 Total Annual Subordinate Debt Service	\$ 771,030	\$ 767,482	\$ 763,793	\$ 8,137,548	\$ 7,235,744	\$ 7,174,000	
39 Subordinate Debt Service Coverage (line 26 - line 31) / line 38 : with use of SDFs Required 1.0	11.81	12.53	23.58	2.26	2.92	3.50	
40 Subordinate Debt Service Coverage (line 26 - line 16 - line 17 - line 31) / line 38 : without use of SDFs Required 1.0	11.81	9.99	21.08	2.01	2.64	3.22	
41 Total All-In Debt Service Coverage Test							
42 Total Senior-Lien Debt Service	\$ 851,787	\$ 6,349,906	\$ 5,787,646	\$ 8,234,999	\$ 9,863,763	\$ 10,383,651	
43 Total Subordinate Debt Service	771,030	767,482	763,793	8,137,548	7,235,744	7,174,000	
44 Total Annual Debt Service	\$ 1,622,817	\$ 7,117,387	\$ 6,551,439	\$ 16,372,547	\$ 17,099,507	\$ 17,557,652	
45 All-In Debt Service Coverage (line 26 / line 44) : with use of SDFs Required 1.0	6.14	2.24	3.63	1.63	1.81	2.02	
46 All-In Debt Service Coverage (line 26 / line 31*1.25+line 38) : with use of SDFs Required 1.0	5.42	1.83	2.98	1.44	1.59	1.76	
47 All-In Debt Service Coverage (line 26 -line 16 - line 17 / line 44) : without use of SDFs Required 1.0	6.14	1.97	3.34	1.50	1.69	1.91	
48 All-In Debt Service Coverage (line 26 - line 16 - line 17 / line 31*1.25+line 38) : without use of SDFs Required 1.0	5.42	1.61	2.74	1.33	1.48	1.66	
49 Net Revenues After Debt Service	\$ 8,334,423	\$ 8,849,979	\$ 17,246,381	\$ 10,260,531	\$ 13,922,820	\$ 17,951,448	
50 Other Expenditures							
51 Water Capacity Purchases	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	
52 Reserve and Rate Funded Paygo (16)	(1,050,600)	(5,200,000)	(7,715,000)	(4,950,000)	(10,225,000)	(8,725,000)	
53 SDF Funded Paygo	(4,975,000)	(5,275,000)	(1,460,000)	(1,500,000)	(500,000)	-	
54 Total Other Expenditures	\$ (8,025,600)	\$ (12,475,000)	\$ (11,175,000)	\$ (8,450,000)	\$ (12,725,000)	\$ (10,725,000)	
55 Non-Operating Revenues (Expenses)	\$ 4,320,883	\$ 552,185	\$ 587,583	\$ 443,606	\$ 443,621	\$ 443,708	
56 Surplus / Deficit	\$ 4,629,706	\$ (3,072,836)	\$ 6,658,964	\$ 2,254,137	\$ 1,641,441	\$ 7,670,156	
57 Ending Surplus Cash Balance (17)	\$ 25,164,487	\$ 22,091,651	\$ 28,750,615	\$ 31,004,752	\$ 32,646,194	\$ 40,316,350	

Notes to Projected Operating Results:

- (1) FY 2023 results are based on the Town's adopted budget for FY 2023 unless otherwise noted.
- (2) FY 2023 water sales reflect estimated revenues based on adopted rate increases applied to FY 2022 results. Future years are based on forecasted increases in rates and increases in billed volumes. Table 18 presents the rate increases and changes in volumes.
- (3) FY 2023 sewer charges reflect estimated revenues based on adopted rate increases applied to FY 2022 results. Future years are based on forecasted increases in rates and increases in billed volumes. Table 18 presents the rate increases and changes in volumes.
- (4) Other operating revenues include meter fees, tower rental, penalties, and user surcharges based on FY 2023 budget. Other revenues are held constant over the forecast period.
- (5) Operating expenses based on FY 2023 budget, unless otherwise noted. Future years are based on estimates of cost changes provided by the Town. Assumptions are shown in Section 7 of this Report.
- (6) System development fees are not included in the Town's budget for FY 2023. Estimates provided by the Town's staff. The analysis assumes sewer SDFs are available for debt service unless otherwise noted and a portion of water SDFs are assumed to be available for debt service.
- (7) The Town plans to transfer American Rescue Plan (ARP) funds into the Water and Sewer Fund during FY 2023. These ARP funds are in addition to those identified for future capital projects discussed in Section 5 of this Report.
- (8) The Town plans to pay off its existing USDA bonds by October 31, 2022.
- (9) In FY 2023 Non-operating revenue adjustment includes removal of water and sewer system development fees, transfers in, and miscellaneous revenues. In FY 2024 and forward all annual sewer system SDF revenues are used for debt service and a portion of water SDF are used for debt service (2022 borrowing for storage tank), therefore adjustments are miscellaneous revenues and a portion of annual water SDF revenues.
- (10) The Town maintains four separate bonds including USDA 2013, 2017A, 2017B and Capital One Series 2020, outlined in Table 13.
- (11) Series 2022 Bonds financing of Sam's Branch Water Reclamation Facility and associated conveyance infrastructure projects and the Lumen storage tank. Assumes project amount of \$103 million, 25-year term, and 4.57% interest rate with interest-only payments in FY 2023 and FY 2024.
- (12) Estimated future borrowing required to fund the Town's capital improvement plan. The forecast assumes bond issues in FY 2025, 2026, 2027, and 2028 totaling \$132.8 million. Financing assumes a 25-year term and a 5% interest rate.
- (13) The Town maintains four subordinate loans, which are identified in Table 13.
- (14) Includes obligations for purchases of sewer capacity from Johnston County beginning in 2010 and with final payment in 2030.
- (15) The Town has secured a loan from the North Carolina Department of Environmental Quality totaling \$95 million for the Sam's Branch Water Reclamation Facility and associated conveyance infrastructure. Supplemental loan funds from the state are anticipated for the project totaling \$15 million. The terms of the loan include a 20-year maturity at a 1.06% interest rate.
- (16) Includes estimated cash-funded capital projects. Section 5 of this Report presents the sources and uses. The Fiscal Year 2023 differs from the Town's adopted budget but reflects the provided capital improvement plan.
- (17) Includes unrestricted and restricted cash and cash equivalents, including USDA debt service reserve.

4. BACKGROUND AND DEMAND FOR SERVICES

4.1 BACKGROUND AND SCOPE OF OPERATIONS

The Town of Clayton was incorporated on April 12, 1869 and is located in the northwest portion of Johnston County. The Town covers approximately 15 square miles and has a population of approximately 26,000 residents. The Town of Clayton maintains a council/manager form of government and is made up of a Mayor and a five-member Council on a nonpartisan, at-large basis.

The Town provides water and sewer service to residents and businesses located within the Town's boundaries as well as customers located outside the Town. While the vast majority of the Town's customers are located inside the Town, the two largest customers served by the Town are located outside the Town limits and include Grifols Therapeutics Inc. and Novo Nordisk. As a result, a significant amount of water and sewer volumes are sold outside the Town while providing utility service to the two customers.

The Town's water system is owned by the Town and operated through its Water Resources Department. The water system consists of 146 miles of water lines and 3 water storage tanks. The Town currently purchases all water from Johnston County Public Utilities. The Johnston County water treatment facility's source water is a combination of surface water from the Neuse River and bulk water purchased from the Town of Smithfield and Harnett County. The Town's average daily water consumption for calendar year 2021 was approximately 3.81 million gallons per day (MGD). The Town has purchased capacity from Johnston County of 5.25 MGD, which provides an available capacity of approximately 1.44 MGD. The Town maintains the ability to purchase additional capacity from Johnston County if capacity is required.

The Town's sewer system currently consists of the Little Creek Water Reclamation Facility which has a capacity of 2.5 MGD, 138 miles of gravity sewer lines, 36 miles of sewer force mains, and 28 separate wastewater pump stations. The Town also maintains purchase agreements with Johnston County (1.44 MGD) and the City of Raleigh (1.75 MGD) for wastewater treatment. The Town's average daily wastewater flow in 2021 was 2.67 MGD compared to the current available capacity of 5.69 MGD between the Little Creek WRF and the purchase capacity agreements. Over the past several years the Town has developed plans to update the Town's sewer system including the development of a new wastewater treatment plant, the to be constructed Sam's Branch Water Reclamation Facility with a capacity of 6 MGD and expandable to 10 MGD. The construction of the plant will replace the treatment provided at the Little Creek WRF, replacing the plant with a pump station, and will eliminate the Town's need for treatment services from Johnston County and the City of Raleigh. The Little Creek Pump station will be constructed with a capacity of 13 MGD and include a force main and gravity sewer system that would convey wastewater to the Sam's Branch WRF. The plans also include the expansion of the East Clayton Industrial Area (ECIA) pump station to 5 MGD and the construction of the ECIA force main. For purposes of this Report, the combination of these projects is designated as the "Sam's Branch Project" and is referred to as such in the remainder of the Report. The costs associated with the Sam's Branch Project 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 residential and commercial customers within the Town limits as well as customers located outside the Town. Town staff provided historical water and sewer customer account and consumption data dating back to Fiscal Year 2017. Tables 4 and 5 present the totals for the past six years for each system. The tables demonstrate that while the vast majority of the Town's customers are located within the Town limits, the customers located outside the Town are large users (industrial accounts) which results in significant volumes being sold outside the Town. 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 5% per year and sewer customer counts increasing by 6%. The change in annual billed water and sewer volumes have been variable given changes in industrial demands and flows and seasonable variability in water irrigation demands. Residential demands have consistently grown with increases in additional residential customers served by the water and sewer systems.

Table 4
Historical Water Customer Billed Volumes and Customer Accounts

	<i>Fiscal Year Ending June 30</i>					
	2017	2018	2019	2020	2021	2022
	Actual	Actual	Actual	Actual	Actual	Actual
Water Customer Accounts - In Town						
Residential	7,261	7,806	8,217	8,634	9,333	9,761
Commercial	605	607	611	629	640	648
Industrial	0	0	0	0	0	0
Irrigation - Residential	918	945	972	928	920	910
Irrigation - Non-Residential	120	122	126	108	112	109
Total Customer Accounts - In Town	8,904	9,480	9,926	10,299	11,005	11,428
		6.5%	4.7%	3.8%	6.9%	3.8%
Water Customer Accounts - Out of Town						
Residential	57	58	58	58	61	62
Commercial	40	38	39	41	42	41
Industrial	17	18	19	15	15	15
Irrigation - Residential	2	2	2	2	2	2
Irrigation - Non-Residential	12	12	10	6	6	6
Total Customer Accounts - Out of Town	128	128	128	122	126	126
		0.0%	0.0%	-4.7%	3.3%	0.0%
Total Water Customer Accounts	9,032	9,608	10,054	10,421	11,131	11,554
		6.4%	4.6%	3.7%	6.8%	3.8%
Billed Water Flow - In Town (1,000 gallons)						
Residential	352,693	445,634	440,062	438,562	511,896	516,964
Commercial	126,351	163,809	134,743	118,504	125,915	141,720
Industrial	0	0	0	0	0	0
Irrigation - Residential	49,759	42,193	53,227	43,453	37,994	42,121
Irrigation - Non-Residential	18,813	26,086	18,126	21,745	17,447	18,707
Total Customer Billed Volumes - In Town	547,616	677,722	646,158	622,264	693,252	719,512
		23.8%	-4.7%	-3.7%	11.4%	3.8%
Billed Water Flow - Out of Town (1,000 gallons)						
Residential	2,746	3,542	3,577	4,210	4,951	4,366
Commercial	3,938	5,310	4,097	4,391	4,489	5,081
Industrial	349,048	405,324	398,103	480,994	575,700	562,428
Irrigation - Residential	125	28	116	63	97	40
Irrigation - Non-Residential	545	220	735	1,077	493	596
Total Customer Billed Volumes - Out of Town	356,402	414,424	406,628	490,735	585,730	572,511
		16.3%	-1.9%	20.7%	19.4%	-2.3%
Total Water Customer Billed Volumes	904,018	1,092,146	1,052,786	1,112,999	1,278,982	1,292,023
		20.8%	-3.6%	5.7%	14.9%	1.0%

Table 5
Historical Sewer Customer Billed Volumes and Customer Counts

	<i>Fiscal Year Ending June 30</i>					
	2017	2018	2019	2020	2021	2022
	Actual	Actual	Actual	Actual	Actual	Actual
Sewer Customer Accounts - In Town						
Residential	6,880	7,336	7,805	8,243	8,959	9,499
Commercial	645	643	651	659	671	621
Industrial	1	1	0	0	0	0
Total Customer Accounts - In Town	7,526	7,980	8,456	8,902	9,630	10,120
		6.0%	6.0%	5.3%	8.2%	5.1%
Sewer Customer Accounts - Out of Town						
Residential	43	44	44	44	47	49
Commercial	40	39	40	42	42	37
Industrial	15	15	17	16	16	15
Total Customer Accounts - Out of Town	98	98	101	102	105	101
		0.0%	3.1%	1.0%	2.9%	-3.8%
Total Sewer Customer Accounts	7,624	8,078	8,557	9,004	9,735	10,221
		6.0%	5.9%	5.2%	8.1%	5.0%
Billed Sewage - In Town (1,000 gallons)						
Residential	337,461	366,386	420,085	418,407	490,504	499,376
Commercial	106,918	112,482	121,399	100,057	114,092	134,422
Industrial	1,235	2,743	0	0	0	0
Total Customer Billed Volumes - In Town	445,614	481,611	541,484	518,464	604,596	633,798
		8.1%	12.4%	-4.3%	16.6%	4.8%
Billed Sewage - Out of Town (1,000 gallons)						
Residential	1,792	2,169	2,595	3,343	381	3,439
Commercial	3,592	4,779	3,835	3,804	4,135	4,641
Industrial	491,895	626,064	574,875	387,600	363,931	343,459
Total Customer Billed Volumes - Out of Town	497,279	633,012	581,305	394,747	368,447	351,539
		27.3%	-8.2%	-32.1%	-6.7%	-4.6%
Total Sewer Customer Billed Volumes	942,893	1,114,623	1,122,789	913,211	973,043	985,337
		18.2%	0.7%	-18.7%	6.6%	1.3%

Tables 6 and 7 present a forecast of the estimated flows and customer accounts for each system over the projection period. The forecasts were based on the FY 2023 budget and discussions with Town staff regarding anticipated increases in demands. The forecast demonstrates the assumed continued growth in customers but at a conservative level of approximately 2.5% per year which drives the growth in billed water and sewer volumes for residential and commercial customers. The volumes sold to industrial customers are anticipated to grow at a higher-level averaging around 4.0% per year over the projection period.

Table 6
Projected Water Customer Billed Volumes and Customer Accounts

	<i>Fiscal Year Ending June 30</i>					
	2023	2024	2025	2026	2027	2028
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Water Customer Accounts - In Town						
Residential	10,151	10,455	10,717	10,985	11,260	11,541
Commercial	661	674	688	701	716	730
Industrial	0	0	0	0	0	0
Irrigation - Residential	928	942	954	965	978	990
Irrigation - Non-Residential	111	113	114	115	117	119
Total Customer Accounts - In Town	11,850	12,184	12,472	12,767	13,070	13,380
	3.7%	2.8%	2.4%	2.4%	2.4%	2.4%
Water Customer Accounts - Out of Town						
Residential	66	67	68	71	72	74
Commercial	42	43	44	44	45	46
Industrial	15	15	15	15	15	15
Irrigation - Residential	2	2	2	2	2	2
Irrigation - Non-Residential	6	6	6	6	6	6
Total Customer Accounts - Out of Town	131	133	135	138	140	143
	3.6%	1.6%	1.6%	2.4%	1.5%	2.3%
Total Water Customer Accounts	11,981	12,317	12,607	12,905	13,210	13,523
	3.7%	2.8%	2.4%	2.4%	2.4%	2.4%
Billed Water Flow - In Town (1,000 gallons)						
Residential	537,642	553,771	567,615	581,806	596,351	611,260
Commercial	144,554	147,445	150,394	153,402	156,470	159,600
Industrial	0	0	0	0	0	0
Irrigation - Residential	42,964	43,608	44,153	44,706	45,265	45,830
Irrigation - Non-Residential	19,081	19,367	19,610	19,854	20,103	20,354
Total Customer Billed Volumes - In Town	744,242	764,192	781,772	799,767	818,188	837,043
	3.4%	2.7%	2.3%	2.3%	2.3%	2.3%
Billed Water Flow - Out of Town (1,000 gallons)						
Residential	4,539	4,676	4,793	4,913	5,035	5,162
Commercial	5,183	5,286	5,392	5,500	5,610	5,722
Industrial	595,715	616,831	639,315	658,219	695,864	734,320
Irrigation - Residential	41	41	42	42	43	44
Irrigation - Non-Residential	608	616	624	632	640	648
Total Customer Billed Volumes - Out of Town	606,086	627,451	650,166	669,306	707,193	745,896
	3.0%	4.0%	4.0%	3.0%	5.7%	5.5%
Total Water Customer Billed Volumes	1,350,328	1,391,643	1,431,938	1,469,074	1,525,381	1,582,939
	4.5%	3.1%	2.9%	2.6%	3.8%	3.8%

Table 7
Projected Sewer Customer Billed Volumes and Customer Accounts

	<i>Fiscal Year Ending June 30</i>					
	2023	2024	2025	2026	2027	2028
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Sewer Customer Accounts - In Town						
Residential	9,879	10,175	10,429	10,691	10,958	11,231
Commercial	634	646	660	672	686	699
Industrial	0	0	0	0	0	0
Total Customer Accounts - In Town	10,512	10,821	11,089	11,363	11,643	11,931
	3.9%	2.9%	2.5%	2.5%	2.5%	2.5%
Sewer Customer Accounts - Out of Town						
Residential	50	52	53	55	56	58
Commercial	37	38	38	39	41	41
Industrial	15	15	15	15	15	15
Total Customer Accounts - Out of Town	102	105	107	109	112	113
	1.4%	2.6%	1.4%	2.5%	2.4%	1.3%
Total Sewer Customer Accounts	10,615	10,926	11,196	11,472	11,755	12,044
	3.9%	2.9%	2.5%	2.5%	2.5%	2.5%
Billed Sewage - In Town (1,000 gallons)						
Residential	519,402	534,984	548,359	562,067	576,119	590,522
Commercial	137,110	139,853	142,650	145,503	148,413	151,381
Industrial	0	0	0	0	0	0
Total Customer Billed Volumes - In Town	656,512	674,837	691,008	707,570	724,532	741,903
	3.6%	2.8%	2.4%	2.4%	2.4%	2.4%
Billed Sewage - Out of Town (1,000 gallons)						
Residential	3,576	3,684	3,776	3,871	3,967	4,066
Commercial	4,734	4,828	4,925	5,024	5,124	5,227
Industrial	525,543	545,131	562,570	577,565	607,092	636,604
Total Customer Billed Volumes - Out of Town	533,853	553,643	571,271	586,460	616,184	645,897
	51.9%	3.7%	3.2%	2.7%	5.1%	4.8%
Total Sewer Customer Billed Volumes	1,190,365	1,228,480	1,262,279	1,294,030	1,340,716	1,387,800
	20.8%	3.2%	2.8%	2.5%	3.6%	3.5%

Table 8 lists the Town's ten largest retail water and sewer customers served by the Town and the associated revenues as of June 30, 2021.

Table 8
Town's Ten Largest Water and Sewer Customers

Customer Account	Water System		Sewer System	
	Annual Revenues	Percentage of Total System	Annual Revenues	Percentage of Total System
Grifols Therapeutics Inc.	\$2,636,864	27.1%	\$2,848,399	24.6%
Novo Nordisk Dapi-US	749,472	7.7%	855,065	7.4%
Novo Nordisk Pharmaceutical Industries, Inc.	404,051	4.2%	318,416	2.7%
Amelia Village LLC	79,058	0.8%	108,279	0.9%
Zips Car Wash LLC	69,224	0.7%	87,017	0.8%
Stallings Mill Apartments LLC	56,470	0.6%	77,700	0.7%
Amelia Station LLC	54,925	0.6%	75,471	0.7%
Parkside Village	53,237	0.6%	72,534	0.6%
LWB Properties, LLC	52,468	0.5%	71,474	0.6%
The Arbors at East Village	49,403	0.5%	67,943	0.6%
Total	\$4,205,172	43.3%	\$4,582,298	39.5%

5. CAPITAL IMPROVEMENTS PLAN

5.1 CAPITAL IMPROVEMENTS PLAN

The Town has provided capital improvement plans through FY 2028 that outlines 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. Table 9 presents the FY 2022 budgeted capital plan and the projected six-year capital plan for FY 2023 to FY 2028 for the water system. The table also presents the anticipated funding sources for each of the capital projects.

Table 9
Water System Capital Improvements Plan

	Source	Fiscal Year Ending June 30							Total
		2022	2023	2024	2025	2026	2027	2028	
1 W&S Vehicle Replacement Plan	Paygo - Rates	\$ 260,000	\$ 75,300	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 1,585,300
2 W&S Heavy Equipment Replacement Plan	Paygo - Rates	-	100,000	50,000	50,000	50,000	50,000	50,000	350,000
3 Water System Capacity Purchases	Paygo - Rates	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	14,000,000
4 Waterline replacement (partial funds coordinated with street projects)	Paygo - Rates	-	-	750,000	750,000	750,000	750,000	750,000	3,750,000
5 W&S Project (South O'Neil - Blanche to Home, Fayetteville to Ellington)	Paygo - Rates	560,000	-	-	-	-	-	-	560,000
6 Water Project (70 Bus W - Olde Town to Rose)	Paygo - Rates	-	-	-	-	-	100,000	100,000	200,000
7 Operations Facility (30% W/S Fund)	Paygo - Rates	-	-	-	-	-	-	1,500,000	1,500,000
8 Lombard: Second St to Little Creek Outfall	Paygo - Rates	-	-	-	-	40,000	300,000	-	340,000
9 W. Main and Liberty W&S Improvements	Paygo - SDF	-	-	262,500	-	-	-	-	262,500
10 Interconnect Water Meter Relocation	Paygo - SDF	-	-	500,000	500,000	500,000	-	-	2,000,000
11 Bulk Water Filling Station	Paygo - Rates	125,000	-	100,000	-	-	-	-	225,000
12 FS #2 Elevated Tank Riser Floor	Paygo - Rates	-	-	-	-	-	-	200,000	200,000
13 Elevated Storage Improvements Project	ARPA	-	4,000,000	-	-	-	-	-	4,000,000
14 SMGD Surface Water Treatment Plant	Bond	-	-	-	-	-	-	100,000,000	100,000,000
15 Main St Repair and Redirection Phase 1	Paygo - SDF	-	-	-	60,000	1,000,000	-	-	1,060,000
16 Main St Repair and Redirection Phase 2	Paygo - Rates	-	-	-	-	80,000	1,000,000	-	1,080,000
17 Main St Repair and Redirection Phase 3	Paygo - Rates	-	-	-	-	-	80,000	200,000	280,000
18 Main St Repair and Redirection Phase 4	Paygo - Rates	-	-	-	-	-	-	220,000	220,000
19 City Rd PS Abandonment & Waterline	Paygo - Rates	300,000	-	-	-	-	-	-	300,000
20 NC42/Ranch Rd Waterline Extension	Paygo - Rates	-	500,000	-	-	-	-	-	500,000
21 CAT Tank Conversion	Paygo - Rates	750,000	-	-	-	-	-	-	750,000
22 Lumen Infrastructure Contribution (Storage Tank)	Bond Series 2022	-	6,500,000	-	-	-	-	-	6,500,000
23 Page/Hamby	Paygo - SDF	-	-	375,000	-	-	-	-	375,000
24 Summerlyn Redirect	Paygo - SDF	-	-	375,000	-	-	-	-	375,000
25 Waterline Extension/Loop A	Paygo - SDF	-	-	-	500,000	-	-	-	500,000
26 Waterline Extension/Loop B	Paygo - Rates	-	-	-	-	-	500,000	-	500,000
27 Waterline Extension Loop C	Paygo - Rates	-	-	-	-	-	-	100,000	100,000
28 Operations Facility Improvements (30% W/S Fund)	Paygo - SDF	10,000	187,500	562,500	-	-	-	-	760,000
29 Water System Master Plan	Paygo - SDF	-	-	400,000	-	-	-	-	400,000
30 Walnut Creek/Glen Haven PS Gravity and Abandonment	Paygo - Rates	-	-	-	-	-	3,500,000	-	3,500,000
31 Total Water Capital Improvement Plan		\$ 4,005,000	\$ 13,362,800	\$ 5,625,000	\$ 4,110,000	\$ 4,670,000	\$ 9,030,000	\$105,370,000	\$146,172,800
32 Anticipated Funding Sources									
33 Paygo Rates Funded CIP		3,995,000	2,675,300	3,150,000	3,050,000	3,170,000	8,530,000	5,370,000	29,940,300
34 Paygo SDF Funded CIP		10,000	187,500	2,475,000	1,060,000	1,500,000	500,000	-	5,732,500
35 Bond Funded CIP		-	-	-	-	-	-	100,000,000	100,000,000
36 ARPA Funded		-	4,000,000	-	-	-	-	-	4,000,000
37 Bond Funded Series 2022		-	6,500,000	-	-	-	-	-	6,500,000
38 Total Water Capital Improvement Plan		\$ 4,005,000	\$ 13,362,800	\$ 5,625,000	\$ 4,110,000	\$ 4,670,000	\$ 9,030,000	\$105,370,000	\$146,172,800

The Town plans to fund the water system capital improvement plan from a variety of different funding sources. It should be noted that the Town evaluates the use of various funding sources on an annual basis given the capital investment priorities of the water system. The planned funding sources reflected in this Report, represent estimates of planned funding at this time. A description of the anticipated funding sources for the capital improvement projects is provided below:

- **Water System Rate Revenues (Paygo Rates):** Represents the use of annual revenues generated from the annual water 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, and future water capacity purchases from Johnston County.
- **Water System Development Fees (Paygo 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 system. The Town anticipates using water SDF revenues to fund various capital projects as identified in Table 9.
- **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 13.
- **American Rescue Plan:** Funds provided by the US Federal Government to the Town of Clayton that can be used at the Town's discretion for various purposes. The Town anticipates using \$4M to complete the construction of a new 1-million-gallon elevated storage tank to satisfy storage capacity and pressure requirements within the system.
- **Series 2022 Bonds:** The Town anticipates funding the Lumen Infrastructure Contribution (Storage Tank) with proceeds from the Series 2022 Bonds in the amount of \$6.5 million.

Projects to be funded with future bonds for water system

Based on the six-year water system capital improvements plan, there is one project for which the Town anticipates issuing bonds. This project includes the following:

- **2028 Bonds:** The Town anticipates funding \$100 million in FY 2028 for the 5 MGD Surface Water Treatment Plant. It should be noted that the debt service associated with this bond issue falls outside the forecast period with debt payments anticipated to begin in FY 2029.

Table 10 presents the FY 2022 budgeted capital plan and the projected six-year capital plan for FY 2023 to FY 2028 for the sewer system, along with planning funding sources.

Table 10
Sewer System Capital Improvements Plan

	Source	Fiscal Year Ending June 30						Total
		2022	2023	2024	2025	2026	2027	
1 W&S Vehicle Replacement Plan	Paygo - Rates	260,000	75,300	250,000	250,000	250,000	250,000	\$ 1,585,300
2 W&S Heavy Equipment Replacement Plan	Paygo - Rates	-	100,000	50,000	50,000	50,000	50,000	350,000
3 Sewer Line and manhole rehab/replacement	Paygo - Rates	-	-	750,000	750,000	750,000	750,000	3,750,000
4 Manhole Rehab Project	Paygo - Rates	112,500	100,000	150,000	175,000	200,000	225,000	1,187,500
5 Sewer System Capacity Purchases	Contractual Payment	169,500	169,500	169,500	169,500	169,500	169,500	1,186,500
6 Future Lift Station	Paygo - Rates	-	100,000	350,000	350,000	350,000	350,000	1,850,000
7 Rehab/Upgrade/Generators/Bypass Pumps	Paygo - Rates	-	-	-	-	-	-	-
8 W&S Project (South O'Neil - Blanche to Horne, Fayetteville to Ellington)	Paygo - Rates	840,000	-	-	-	-	-	840,000
9 Sams Branch Water Reclamation Facility	Bonds/SRF/ARPA/State	23,521,921	31,764,382	91,061,378	93,673,580	-	-	240,021,261
10 East Clayton Industrial Area to NRWRF	Bonds/SRF/ARPA/State	640,000	570,000	17,600,000	5,060,000	-	-	23,870,000
11 Little Creek Project (Pump Station, Gravity and Force Main)	Bonds/SRF/ARPA/State	6,465,434	15,673,215	-	-	-	-	22,138,649
12 Operations Facility (30% W/S Fund)	Paygo - Rates	-	-	-	-	-	1,500,000	1,500,000
13 Lombard: Second St to Little Creek Outfall	Paygo - Rates	-	-	-	60,000	450,000	-	510,000
14 Abandonment	Paygo - Rates	-	-	500,000	-	-	-	500,000
15 Inflow and Infiltration Analysis	Paygo - Rates	-	-	-	500,000	-	-	500,000
16 W. Main and Liberty W&S Improvements	Paygo - SDF	-	-	1,487,500	-	-	-	1,487,500
17 Star Mount PS Abandonment & Sewer Line Rehab	Paygo - Rates	100,000	-	1,500,000	-	-	-	1,600,000
18 Arbors Lift Station Abandonment	Paygo - Rates	-	-	500,000	-	-	-	500,000
19 Walmart Lift Station Abandonment	Paygo - Rates	100,000	-	-	3,000,000	-	-	3,100,000
20 Main St Repair and Redirection Phase 1	Paygo - Rates	-	-	-	90,000	1,500,000	-	1,590,000
21 Main St Repair and Redirection Phase 2	Paygo - Rates	-	-	-	-	120,000	1,500,000	1,620,000
22 Main St Repair and Redirection Phase 3	Paygo - Rates	-	-	-	-	120,000	300,000	420,000
23 Main St Repair and Redirection Phase 4	Paygo - Rates	-	-	-	-	-	330,000	330,000
24 City Rd PS Abandonment & Waterline	Paygo - SDF	450,000	-	-	-	-	-	450,000
25 Forest Hills Pump Station	Paygo - Rates	-	-	-	-	-	800,000	800,000
26 NC-42W Wastewater Transmission	Paygo - SDF	-	3,100,000	-	-	-	-	3,100,000
27 Decommissioning Little Creek WRF	Paygo - Rates	-	-	-	2,000,000	-	-	2,000,000
28 Page/Hamby	Paygo - SDF	-	-	375,000	-	-	-	375,000
29 Summerlyn Redirect	Paygo - SDF	-	-	375,000	-	-	-	375,000
30 Neuse 3 Regional Pump Station (Vinson Rd)	Paygo - Rates	-	-	-	-	-	800,000	800,000
31 Sams Branch WRF Phase 2	Bond	-	-	-	-	20,000,000	-	20,000,000
32 Sams Branch WRF Phase 3	Bond	-	-	-	-	-	4,000,000	4,000,000
33 Little Creek Interceptor - NC42 to Shotwell	Bond	-	-	-	-	300,000	3,000,000	3,300,000
34 Operations Facility Improvements (30% W/S Fund)	Paygo - SDF	10,000	187,500	562,500	-	-	-	760,000
35 Sewer System Master Plan	Paygo - SDF	-	-	-	400,000	-	-	400,000
36 Walnut Creek/Glen Haven PS Gravity and Abandonment	Bond	-	-	-	-	3,500,000	-	3,500,000
37 Forcemain improvements to convey residential flow to County	Bond	-	-	-	2,000,000	-	-	2,000,000
38 Clayton to Raleigh Improvements	Paygo - SDF	-	1,500,000	-	-	-	-	1,500,000
38 Total Sewer Capital Improvement Plan		\$ 32,669,355	\$ 53,339,897	\$ 115,680,878	\$ 107,968,080	\$ 24,249,500	\$ 10,364,500	\$ 353,796,710
39 Anticipated Funding Sources								
40 Bond Funded Series 2022 (Sams Branch)		-	50,000,000	46,720,608	-	-	-	96,720,608
41 SRF Funded (Sams Branch)		30,627,355	52,504,767	26,867,878	-	-	-	110,000,000
42 EDA Grants (Sams Branch)		-	5,159,546	-	-	-	-	5,159,546
43 ARPA Funded (Sams Branch)		-	6,291,756	7,858,000	5,000,000	-	-	19,149,756
44 North Carolina Appropriations (Sams Branch)		-	25,000,000	-	-	-	-	25,000,000
45 Paygo Rates Funded CIP		1,412,500	375,300	4,050,000	6,665,000	3,780,000	5,355,000	25,332,800
46 Paygo SDF Funded CIP		460,000	4,787,500	2,800,000	400,000	-	-	8,447,500
47 Contractual Payments		169,500	169,500	169,500	169,500	169,500	169,500	1,186,500
48 Future Bonds		-	-	-	2,000,000	20,300,000	6,500,000	32,800,000
49 Proceeds from Sale of Asset		-	30,000,000	-	-	-	-	30,000,000
Total Sewer Capital Improvement Plan		\$ 32,669,355	\$ 174,288,369	\$ 88,465,986	\$ 14,234,500	\$ 24,249,500	\$ 10,364,500	\$ 353,796,710

The Town plans to fund the sewer system capital improvement plan from several different funding sources. A description of the anticipated funding sources for the capital improvement projects is provided below:

- **Sewer System Rate Revenues (Paygo Rates):** Represents the use of annual revenues generated from the annual sewer charges for service. The Town anticipates using rate revenue to fund routine capital maintenance projects, for the purchase of heavy equipment and vehicles, for repair and replacement projects.
- **Sewer System Development Fees (Paygo 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 sewer system. The Town anticipates using sewer SDF revenues to fund various capital projects as identified in Table 10.

- **Series 2022 Bonds:** Projects funded with the Series 2022 Bonds as described in detail in the following section.
- **State Revolving Fund (SRF) Loans:** Funds received from the North Carolina State Revolving Fund for capital improvement projects.
- **EDA Grants:** Funds secured through the Environmental Department of Agriculture.
- **American Rescue Plan:** Funds provided by the US Federal Government to the Town of Clayton that can be used at the Town's discretion for various purposes including capital improvement projects.
- **North Carolina Appropriations:** Funds provided by the State of North Carolina to fund approved capital projects.
- **Contractual Payments:** The town maintains an agreement with Johnston County related to the prior purchase of wastewater capacity. The agreement includes annual payments of \$169,500 until FY 2030. The Town reflects these annual required payments within the capital improvement plan and funds the payments from annual sewer user charges.
- **Future Bonds:** Future debt-funded projects that fall outside of the current Fiscal Year Series 2022 Bonds. Debt service associated with future bonds is presented in Table 13 and the projects are discussed below.
- **Proceeds from Sale of Asset:** The has entered an agreement to sell its pretreatment facility for a total of \$30 million. The sale of the facility is expected to be completed before the end of the calendar year 2022.

Projects to be funded with the Series 2022 Bond

The Series 2022 Bonds will be used to finance approximately \$96.7 million of the cost of Sam's Branch Project. The total cost of the Sam's Branch Project is anticipated to be \$286.0 million with the construction of the Sam's Branch Water Reclamation Facility at \$240.0 million, the Little Creek Project (pump station, gravity and force main) totaling \$22.1 million and the East Clayton Industrial Area (ECIA) pump station and force main at \$23.9 million. The total cost of the Sam's Branch Project incorporates a 10% contingency. In addition to the Series 2022 Bonds, the Town will be funding the Sam's Branch Project from several additional sources including \$110.0 million from SRF loans, \$5.2 million from EDA grants, \$19.1 million in ARPA funds, \$25.0 million in appropriations from the State of North Carolina and \$30.0 million from the sale of the pretreatment facility.

Projects to be funded with future bonds

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

2025 Bonds: The Town anticipates funding \$2.0 million in FY 2025 for force main improvements to convey residential flow to the County.

2026 Bonds: The Town anticipates funding \$20.3 million in FY 2026 to fund a project associated with the Little Creek Interceptor and Sam's Branch WRF Phase 2 projects.

2027 Bonds: The Town anticipates funding \$6.5 million in FY 2027 to fund the remainder of the Little Creek Interceptor project and the Walnut Creek/Glen Haven PS Gravity and Abandonment project.

2028 Bonds: The Town anticipates funding \$4.0 million in FY 2028 for Sam's Branch Phase 3 projects.

Table 11 presents a summary of the sources of funds for the water and sewer systems over the forecast period based on the capital improvement plan.

Table 11
Summary of Water and Sewer Capital Plan Funding

Total Project Amounts	Fiscal Year Ending June 30							Total
	2022	2023	2024	2025	2026	2027	2028	
1 Total Water Projects	\$ 4,005,000	\$ 13,362,800	\$ 5,625,000	\$ 4,110,000	\$ 4,670,000	\$ 9,030,000	\$ 105,370,000	\$ 146,172,800
2 Total Sewer Projects (1)	32,499,855	53,170,397	115,511,378	107,798,580	24,080,000	10,195,000	9,355,000	352,610,210
3 Total Capital Improvements Plan	\$ 36,504,855	\$ 66,533,197	\$ 121,136,378	\$ 111,908,580	\$ 28,750,000	\$ 19,225,000	\$ 114,725,000	\$ 498,783,010
Sources of Funds								
4 Series 2022 Bonds	\$ -	\$ 103,220,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,220,608
5 State Revolving Fund Loans	95,000,000	15,000,000	-	-	-	-	-	110,000,000
6 EDA Grants	-	5,159,546	-	-	-	-	-	5,159,546
7 American Rescue Plan Funds	-	10,291,756	7,858,000	5,000,000	-	-	-	23,149,756
8 State of North Carolina Appropriation	-	25,000,000	-	-	-	-	-	25,000,000
9 Additional Bonds	-	-	-	2,000,000	20,300,000	6,500,000	104,000,000	132,800,000
10 Cash Funded Capacity Water Purchases	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	14,000,000
11 Rates Funded CIP	3,407,500	1,050,600	5,200,000	7,715,000	4,950,000	10,225,000	8,725,000	41,273,100
12 SDF Funded CIP	470,000	4,975,000	5,275,000	1,460,000	1,500,000	500,000	-	14,180,000
13 Proceeds from Sale of Asset	-	30,000,000	-	-	-	-	-	30,000,000
14 Total Sources of Funds	\$ 100,877,500	\$ 196,697,510	\$ 20,333,000	\$ 18,175,000	\$ 28,750,000	\$ 19,225,000	\$ 114,725,000	\$ 498,783,010
15 Cumulative Sources and Uses	\$ 64,372,645	\$ 194,536,959	\$ 93,733,581	\$ -	\$ -	\$ -	\$ -	-

(1) Excludes sewer capacity obligations to Johnston County of \$169,500

6. FINANCING PLAN

Davenport & Company, LLC has provided the Town with various financing strategies for the applicable capital improvement projects funded through the Series 2022 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 Bond Order.

This Report assumes that the Series 2022 Bonds will be sold, and the proceeds will be available before the end of December 2022, resulting in approximately \$103.2 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 2022 Bonds, as assumed in this Financial Feasibility Report, and reflecting current market conditions, are presented in Table 12. The table also presents the estimated sources and uses for future bond issues.

Table 12
Sources and Uses of Funds

		Future Bonds				
		Series 2022	2025	2026	2027	2028
1	Sources of Funds:					
2	Bond Proceeds:					
3	Par Amount	\$98,715,000	\$2,000,000	\$20,300,000	\$6,500,000	\$104,000,000
4	Net Premium	5,305,819	5,000	50,750	16,250	260,000
5		\$104,020,819	\$2,005,000	\$20,350,750	\$6,516,250	\$104,260,000
6	Uses of Funds:					
7	Project Fund Deposits:					
8	Project Fund	\$103,220,608	\$2,000,000	\$20,300,000	\$6,500,000	\$104,000,000
9	Delivery Date Expenses:					
10	Cost of Issuance	\$400,000	\$5,000	\$50,750	\$16,250	\$260,000
11	Underwriter's Discount	395,578	-	-	-	-
		795,578	5,000	50,750	16,250	260,000
12	Other Uses of Funds:					
13	Additional Proceeds	4,633	-	-	-	-
14		\$104,020,819	\$2,005,000	\$20,350,750	\$6,516,250	\$104,260,000

Table 13 presents the existing and proposed long-term debt service for the Town incorporating the future borrowing represented in Table 12. The Town anticipates paying off its existing USDA debt by October 31, 2022. The payoff will retire the Series 2013, 2017A, and 2017B USDA debt which is reflected in Table 13.

Table 13
Existing and Proposed Long-Term Debt Service

		<i>Fiscal Year Ending June 30</i>						
		2022 Actuals	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
1	Existing Debt							
2	2007 Sanitary Sewer Loan							
3	Principal	\$ 257,117	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Interest	5,669	-	-	-	-	-	-
5	Subtotal	\$ 262,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	2008 Sanitary Sewer Loan							
7	Principal	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000
8	Interest	26,460	22,680	18,900	15,120	11,340	7,560	3,780
9	Subtotal	\$ 206,460	\$ 202,680	\$ 198,900	\$ 195,120	\$ 191,340	\$ 187,560	\$ 183,780
10	Water & Sewer System Revenue Bond, Series 2017A							
11	Principal	\$ 69,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Interest	148,623	-	-	-	-	-	-
13	Subtotal	\$ 217,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Water & Sewer System Revenue Bond, Series 2017B							
15	Principal	\$ 4,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Interest	8,353	-	-	-	-	-	-
17	Subtotal	\$ 12,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18	Water & Sewer System Revenue Bond, Series 2013							
19	Principal	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	Interest	45,736	-	-	-	-	-	-
21	Subtotal	\$ 70,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	2019 Installment Purchase Contract (BAPCC)							
23	Principal	\$ 188,622	\$ 193,271	\$ 198,584	\$ 203,898	\$ 209,211	\$ 214,524	\$ 220,502
24	Interest	82,585	77,625	72,543	67,322	61,960	56,459	50,819
25	Subtotal	\$ 271,207	\$ 270,896	\$ 271,128	\$ 271,219	\$ 271,171	\$ 270,984	\$ 271,320
26	2020 Revenue Bond (Capital One)							
27	Principal	\$ 431,000	\$ 443,000	\$ 456,000	\$ 469,000	\$ 483,000	\$ 497,000	\$ 511,000
28	Interest	421,200	408,787	396,029	382,896	369,389	355,478	341,165
29	Subtotal	\$ 852,200	\$ 851,787	\$ 852,029	\$ 851,896	\$ 852,389	\$ 852,478	\$ 852,165
30	2020 Vector Truck Capital Lease							
31	Principal	\$ 100,229	\$ 103,898	\$ 107,701	\$ 111,644	\$ 333,930	\$ -	\$ -
32	Interest	27,725	24,056	20,253	16,310	12,223	-	-
33	Subtotal	\$ 127,954	\$ 127,954	\$ 127,954	\$ 127,954	\$ 346,153	\$ -	\$ -
22	Total Existing Debt Service	\$ 2,021,318	\$ 1,453,317	\$ 1,450,010	\$ 1,446,189	\$ 1,661,053	\$ 1,311,022	\$ 1,307,265
34	Proposed Debt Service							
35	Series 2022 Bonds							
36	Principal	\$ -	\$ -	\$ -	\$ -	\$ 2,345,000	\$ 2,465,000	\$ 2,590,000
37	Interest	\$ -	\$ -	\$ 5,497,877	\$ 4,935,750	\$ 4,877,125	\$ 4,756,875	\$ 4,630,500
38	Subtotal: Series 2022 Bonds	\$ -	\$ -	\$ 5,497,877	\$ 4,935,750	\$ 7,222,125	\$ 7,221,875	\$ 7,220,500
39	Future Bonds							
40	Principal	\$ -	\$ -	\$ -	\$ -	\$ 60,485	\$ 677,434	\$ 907,882
41	Interest	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ 1,111,976	\$ 1,403,104
42	Subtotal: Future Bonds	\$ -	\$ -	\$ -	\$ -	\$ 160,485	\$ 1,789,410	\$ 2,310,987
43	State Revolving Fund Loans							
44	Principal	\$ -	\$ -	\$ -	\$ -	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000
45	Interest	\$ -	\$ -	\$ -	\$ -	\$ 1,659,384	\$ 1,107,700	\$ 1,049,400
46	Subtotal: State Revolving Fund Loans	\$ -	\$ -	\$ -	\$ -	\$ 7,159,384	\$ 6,607,700	\$ 6,549,400
47	Total Proposed Debt Service	\$ -	\$ -	\$ 5,497,877	\$ 4,935,750	\$ 14,541,994	\$ 15,618,985	\$ 16,080,887
48	Total: Annual Debt Service	\$ 2,021,318	\$ 1,453,317	\$ 6,947,887	\$ 6,381,939	\$ 16,203,047	\$ 16,930,007	\$ 17,388,152

7. OPERATING AND NON-OPERATING EXPENSES

Expenditures are categorized as operating expenses and non-operating expenses. Operating expenses represent normal recurring expenses incurred during the Town's annual accounting cycle based upon its fiscal year ending June 30th. Projected operating expenses are based on budget information from the FY 2023 adopted 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 in the forecast are shown in Table 14.

Table 14
Operating Expenses Escalation Factors

	<i>Fiscal Year Ending June 30</i>				
	2024	2025	2026	2027	2028
1 Water					
2 Programs (Purchase for Resale)	10.0%	10.0%	10.0%	10.0%	10.0%
3 Personnel Salaries and Benefits	5.0%	5.0%	5.0%	5.0%	5.0%
4 Operating Expenses	5.0%	5.0%	5.0%	5.0%	5.0%
5 Special Appropriations	5.0%	5.0%	5.0%	5.0%	5.0%
6 Contractual Services	5.0%	5.0%	5.0%	5.0%	5.0%
7 Sewer					
8 Personnel Salaries and Benefits	5.0%	5.0%	5.0%	5.0%	5.0%
9 Operating Expenses	40.3%	32.9%	5.2%	5.2%	5.2%
10 Special Appropriations	5.0%	5.0%	5.0%	5.0%	5.0%
11 Contractual Services	9.5%	-52.0%	3.0%	-45.0%	-60.0%
12 General Fund Support Services	3.0%	3.0%	3.0%	3.0%	3.0%

Table 14 demonstrates that the Town anticipates substantial changes in expenditures within the sewer system as a result of the completion of the Sam's Branch Project. The Sam's Branch WRF is estimated to be complete by the end of FY 2025. The Town estimates that the full operating expenses associated with the new plant will be realized during FY 2025. At the same time, the Town's contractual services associated with sewer treatment provided by Johnston County and the City of Raleigh will be reduced beginning in FY 2025 and eliminated by FY 2029.

Non-operating expenses include debt service costs for existing and proposed debt. Proposed debt obligations include the Series 2022 Bonds and the anticipated future debt issues (discussed in Section 6). Debt service on the Series 2022 Bonds is assumed to begin in FY 2024, as indicated in the amortization schedule and shown in Table 13.

Other budgeted expenditures include Pay-Go (i.e., cash-funded capital projects from current revenues and reserves). Tables 9 and 10 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 15 presents a combined forecast of operating and non-operating expenses over the projection period.

Table 15
Operating and Non-Operating Expenditure Projection

Fiscal Year Ending June 30							
	2023	2024	2025	2026	2027	2028	
	Adopted Budget	Forecast	Forecast	Forecast	Forecast	Forecast	
1 Operating Expenses							
2 Water							
3 Programs (Purchase for Resale)	\$ 4,950,000	\$ 5,445,000	\$ 5,989,500	\$ 6,588,450	\$ 7,247,295	\$ 7,972,025	
4 Personnel Salaries	598,266	628,179	659,588	692,567	727,196	763,556	
5 Personnel Benefits	269,575	283,053	297,205	312,065	327,668	344,050	
6 Operating Expenses	972,255	1,020,866	1,071,907	1,125,500	1,181,773	1,240,860	
7 Special Appropriations	49,893	52,388	55,007	57,757	60,645	63,677	
8 Contractual Services	845,870	888,162	932,568	979,195	1,028,153	1,079,558	
9 Bad Debt	12,000	13,203	14,526	15,981	17,583	19,333	
10 Total Water	\$ 7,697,859	\$ 8,330,850	\$ 9,020,301	\$ 9,771,516	\$ 10,590,312	\$ 11,483,059	
11 Preventative Maintenance							
12 Personnel Salaries	547,846	575,238	604,000	634,200	665,910	699,206	
13 Personnel Benefits	244,575	256,803	269,643	283,125	297,280	312,144	
14 Operating Expenses	867,859	911,250	956,811	1,004,650	1,054,880	1,107,622	
15 Contractual Services	160,360	168,378	176,796	185,636	194,917	204,663	
16 Total Preventative Maintenance	\$ 1,820,640	\$ 1,911,669	\$ 2,007,250	\$ 2,107,610	\$ 2,212,988	\$ 2,323,634	
17 Wastewater							
18 Personnel Salaries	465,937	489,234	513,696	539,381	566,350	594,668	
19 Personnel Benefits	175,202	183,962	193,160	202,818	212,959	223,607	
20 Operating Expenses	2,839,827	3,983,591	5,295,541	5,572,988	5,865,314	6,173,194	
21 Special Appropriations	49,893	52,388	55,007	57,757	60,645	63,678	
22 Contractual Services	3,866,833	4,234,182	2,032,407	2,093,380	1,151,359	460,544	
23 Bad Debt	18,000	19,804	21,788	23,972	26,374	28,999	
24 Total Wastewater Treatment	\$ 7,415,692	\$ 8,963,160	\$ 8,111,599	\$ 8,490,296	\$ 7,883,001	\$ 7,544,689	
25 General Fund							
26 Miscellaneous Support Services	3,151,877	3,246,433	3,343,826	3,444,141	3,547,465	3,653,889	
27 Total Operating Expenses	\$ 20,086,068	\$ 22,452,113	\$ 22,482,977	\$ 23,813,564	\$ 24,233,766	\$ 25,005,271	
28 % Change	14.0%	11.8%	0.1%	5.9%	1.8%	3.2%	
29 Non-Operating Expenses							
30 Vehicles and Capital Equipment	\$ 350,600	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	
30 Cash-Funded Water Capacity Purchases	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	
31 Cash-Funded Capital (User Pay-Go)	700,000	4,600,000	7,115,000	4,350,000	9,625,000	8,125,000	
31 Cash-Funded Capital (SDF Pay-Go)	4,975,000	5,275,000	1,460,000	1,500,000	500,000	-	
32 Current Outstanding Debt Service	1,453,317	1,450,010	1,446,189	1,661,053	1,311,022	1,307,265	
33 Other Obligations	169,500	169,500	169,500	169,500	169,500	169,500	
34 Debt Payoff (USDA 2013, 2017A and 2017B)	6,121,840	-	-	-	-	-	
35 Debt Service (2022 Bonds)	-	5,497,877	4,935,750	7,222,125	7,221,875	7,220,500	
36 Future Debt Service (Bonds)	-	-	-	160,485	1,789,410	2,310,987	
37 Future Outstanding Debt Service (SRF Loans)	-	-	-	7,159,384	6,607,700	6,549,400	
38 Total Capital and Debt Expenses	\$ 15,770,257	\$ 19,592,387	\$ 17,726,439	\$ 24,822,547	\$ 29,824,507	\$ 28,282,652	
39 Total Expenses	\$ 35,856,326	\$ 42,044,501	\$ 40,209,416	\$ 48,636,111	\$ 54,058,273	\$ 53,287,923	
40 % Change		17.3%	-4.4%	21.0%	11.1%	-1.4%	

8. RATES, FEES, AND CHARGES

The Clayton Town Council 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 Town maintains an inclining block water rate structure for all classes of customers. The number of rate blocks and the water rates vary based on the customer class. For non-irrigation customers, the Town maintains separate usage rates for residential, commercial, and industrial customers. Irrigation customers are billed within two classes, residential and non-residential.

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 basis and the rates are the same for all classes of customers. The Town serves a small number of customers with sewer service that do not have a water meter due to service being provided by other entities or groundwater well. These customers are billed a flat sewer charge.

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 1.25 times the in-Town rates. Table 16 presents the in-Town water user rates for FY 2022, the rates that are currently in place for FY 2023, and a forecast over the projection period. Table 17 presents the historical and projected in-Town sewer user rates. It should be noted that the forecasted charges have not been adopted by the Town Council. The rate forecasts have been shared with the Town Council 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 Tables 16 and 17.

Table 16
Historical and Projected Water User Rates

<i>Fiscal Year Ending June 30</i>							
	2022 Actual	2023 Adopted	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
1 Water Rate Adjustment		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
2 Water User Rates (Non-Irrigation)							
3 Fixed Charges							
4 5/8" Meter	\$19.12	\$20.46	\$21.89	\$23.42	\$25.06	\$26.82	\$28.70
5 3/4" Meter	\$27.75	\$29.69	\$31.77	\$33.99	\$36.37	\$38.92	\$41.64
6 1" Meter	\$45.00	\$48.15	\$51.52	\$55.13	\$58.99	\$63.11	\$67.53
7 1.5" Meter	\$88.12	\$94.29	\$100.89	\$107.95	\$115.51	\$123.59	\$132.25
8 2" Meter	\$139.88	\$149.67	\$160.15	\$171.36	\$183.35	\$196.19	\$209.92
9 3" Meter	\$260.64	\$278.88	\$298.40	\$319.29	\$341.64	\$365.55	\$391.14
10 4" Meter	\$433.13	\$463.45	\$495.89	\$530.60	\$567.75	\$607.49	\$650.01
11 6" Meter	\$864.40	\$924.91	\$989.65	\$1,058.93	\$1,133.05	\$1,212.37	\$1,297.23
12 8" Meter	\$1,381.92	\$1,478.65	\$1,582.16	\$1,692.91	\$1,811.41	\$1,938.21	\$2,073.88
13 10" Meter	\$1,985.69	\$2,124.69	\$2,273.42	\$2,432.56	\$2,602.84	\$2,785.04	\$2,979.99
14 Usage Rates							
15 Residential							
16 Block 1: 0 - 2,000 gallons	\$4.50	\$4.81	\$5.15	\$5.51	\$5.89	\$6.30	\$6.75
17 Block 2: 2,001 - 4,000 gallons	\$4.73	\$5.06	\$5.41	\$5.79	\$6.20	\$6.63	\$7.10
18 Block 3: 4,001 - 6,000 gallons	\$4.95	\$5.30	\$5.67	\$6.07	\$6.49	\$6.95	\$7.43
19 Block 4: All Gallons > 6,000	\$5.41	\$5.79	\$6.20	\$6.63	\$7.09	\$7.59	\$8.12
20 Commercial							
21 Block 1: 0 - 100,000 gallons	\$5.03	\$5.38	\$5.76	\$6.16	\$6.59	\$7.05	\$7.55
22 Block 2: All Gallons > 100,000	\$5.79	\$6.19	\$6.62	\$7.09	\$7.58	\$8.11	\$8.68
23 Industrial							
24 Block 1: 0 - 100,000 gallons	\$5.11	\$5.47	\$5.85	\$6.26	\$6.70	\$7.17	\$7.67
25 Block 2: All Gallons > 100,000	\$5.87	\$6.28	\$6.72	\$7.19	\$7.69	\$8.23	\$8.81
26 Irrigation Rates							
27 Fixed Charges							
28 5/8" Meter	\$19.12	\$20.46	\$21.89	\$23.42	\$25.06	\$26.82	\$28.70
29 3/4" Meter	\$27.75	\$29.69	\$31.77	\$33.99	\$36.37	\$38.92	\$41.64
30 1" Meter	\$45.00	\$48.15	\$51.52	\$55.13	\$58.99	\$63.11	\$67.53
31 1.5" Meter	\$88.12	\$94.29	\$100.89	\$107.95	\$115.51	\$123.59	\$132.25
32 2" Meter	\$139.88	\$149.67	\$160.15	\$171.36	\$183.35	\$196.19	\$209.92
33 3" Meter	\$260.64	\$278.88	\$298.40	\$319.29	\$341.64	\$365.55	\$391.14
34 4" Meter	\$433.13	\$463.45	\$495.89	\$530.60	\$567.75	\$607.49	\$650.01
35 6" Meter	\$864.40	\$924.91	\$989.65	\$1,058.93	\$1,133.05	\$1,212.37	\$1,297.23
36 8" Meter	\$1,381.92	\$1,478.65	\$1,582.16	\$1,692.91	\$1,811.41	\$1,938.21	\$2,073.88
37 10" Meter	\$1,985.69	\$2,124.69	\$2,273.42	\$2,432.56	\$2,602.84	\$2,785.04	\$2,979.99
38 Usage Rates							
39 Residential							
40 Block 1: 0 - 8,000 gallons	\$6.98	\$7.47	\$7.99	\$8.55	\$9.15	\$9.79	\$10.48
41 Block 2: 8,001 - 16,000 gallons	\$8.71	\$9.32	\$9.97	\$10.67	\$11.42	\$12.22	\$13.07
42 Block 3: All Gallons > 16,000	\$10.72	\$11.47	\$12.27	\$13.13	\$14.05	\$15.03	\$16.09
43 Non-Residential							
44 Block 1: 0 - 50,000 gallons	\$5.67	\$6.07	\$6.49	\$6.95	\$7.44	\$7.96	\$8.51
45 Block 2: 50,001 - 100,000 gallons	\$7.81	\$8.36	\$8.95	\$9.57	\$10.24	\$10.96	\$11.73
46 Block 3: All Gallons > 100,000	\$9.21	\$9.85	\$10.54	\$11.28	\$12.07	\$12.91	\$13.82

Table 17
Historical and Projected Sewer User Rates

<i>Fiscal Year Ending June 30</i>							
	2022 Actual	2023 Adopted	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
1 Sewer Rate Adjustment		22.3%	27.0%	26.5%	6.5%	6.0%	6.0%
2 Sewer Utility Rates							
3 Fixed Charges							
4 5/8" Meter	\$22.25	\$27.21	\$34.56	\$43.71	\$46.56	\$49.35	\$52.31
5 3/4" Meter	\$33.40	\$40.85	\$51.88	\$65.63	\$69.89	\$74.09	\$78.53
6 1" Meter	\$55.66	\$68.07	\$86.45	\$109.36	\$116.47	\$123.45	\$130.86
7 1.5" Meter	\$111.33	\$136.16	\$172.92	\$218.75	\$232.97	\$246.94	\$261.76
8 2" Meter	\$178.13	\$217.85	\$276.67	\$349.99	\$372.74	\$395.10	\$418.81
9 3" Meter	\$334.00	\$408.48	\$518.77	\$656.24	\$698.90	\$740.83	\$785.28
10 4" Meter	\$556.65	\$680.78	\$864.59	\$1,093.71	\$1,164.80	\$1,234.69	\$1,308.77
11 6" Meter	\$1,113.32	\$1,361.59	\$1,729.22	\$2,187.46	\$2,329.65	\$2,469.43	\$2,617.59
12 8" Meter	\$1,781.30	\$2,178.53	\$2,766.73	\$3,499.92	\$3,727.41	\$3,951.06	\$4,188.12
13 10" Meter	\$2,560.62	\$3,131.64	\$3,977.18	\$5,031.14	\$5,358.16	\$5,679.65	\$6,020.43
14 12" Meter	\$5,899.55	\$7,215.15	\$9,163.24	\$11,591.50	\$12,344.95	\$13,085.64	\$13,870.78
15 Usage Rates							
16 All Usage (per 1,000 gallons)	\$3.93	\$4.81	\$6.11	\$7.73	\$8.23	\$8.72	\$9.25
17 Flat Rate Sewer (No Meter)	\$43.82	\$53.59	\$68.06	\$86.10	\$91.69	\$97.19	\$103.02

Table 18 shows the actual and projected monthly water and sewer bills for a typical residential customer from FY 2022 through FY 2028 and the annual percentage increase in the monthly bill each year. A typical residential customer is defined as having a 5/8" meter that uses 5,000 gallons of water per month.

Table 18
Typical Monthly Customer Bills

<i>Fiscal Year Ending June 30</i>							
	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Water Bill	\$42.30	\$45.26	\$48.43	\$51.82	\$55.45	\$59.33	\$63.48
Sewer Bill	\$41.91	\$51.26	\$65.10	\$82.35	\$87.70	\$92.97	\$98.54
Combined Bill	\$84.21	\$96.52	\$113.53	\$134.17	\$143.15	\$152.29	\$162.02
Percent Change	-	14.6%	17.6%	18.2%	6.7%	6.4%	6.4%

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 FY 2018 in compliance with North Carolina State Statutes. The fees have not been adjusted since this time but will need to be reviewed this year given the 5-year review period required outlined in the Statutes. The fees are assessed based on meter size. For purposes of the forecast, the system development fees were held constant over the projection period as shown in Table 19.

Table 19
System Development Fees

<i>Fiscal Year Ending June 30</i>							
	2022 Actual	2023 Adopted	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
1 Water							
2 5/8" Meter	\$1,793	\$1,793	\$1,793	\$1,793	\$1,793	\$1,793	\$1,793
3 3/4" Meter	\$2,690	\$2,690	\$2,690	\$2,690	\$2,690	\$2,690	\$2,690
4 1" Meter	\$4,483	\$4,483	\$4,483	\$4,483	\$4,483	\$4,483	\$4,483
5 1.5" Meter	\$8,965	\$8,965	\$8,965	\$8,965	\$8,965	\$8,965	\$8,965
6 2" Meter	\$14,344	\$14,344	\$14,344	\$14,344	\$14,344	\$14,344	\$14,344
7 Sewer							
8 5/8" Meter	\$3,260	\$3,260	\$3,260	\$3,260	\$3,260	\$3,260	\$3,260
9 3/4" Meter	\$4,890	\$4,890	\$4,890	\$4,890	\$4,890	\$4,890	\$4,890
10 1" Meter	\$8,150	\$8,150	\$8,150	\$8,150	\$8,150	\$8,150	\$8,150
11 1.5" Meter	\$16,300	\$16,300	\$16,300	\$16,300	\$16,300	\$16,300	\$16,300
12 2" Meter	\$26,080	\$26,080	\$26,080	\$26,080	\$26,080	\$26,080	\$26,080

9. REVENUES

To meet the financial obligations of the Series 2022 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 20 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 Section 8 of this Report. Other revenues include meter fees, tower rental, penalties, and user surcharges and are based on the Town's FY 2023 budget. Other revenues have been held constant over the projection period.

Non-operating revenues include system development fees and miscellaneous other revenues. Table 20 shows all revenues through the planning period.

Table 20
Estimated Annual System Revenues

<i>Fiscal Year Ending June 30</i>							
	2022	2023	2024	2025	2026	2027	2028
	Actuals	Adopted Budget	Forecast	Forecast	Forecast	Forecast	Forecast
1 Annual Rate Adjustments							
2 Rate Increase - Water		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
3 Rate Increase - Sewer		22.3%	27.0%	26.5%	6.5%	6.0%	6.0%
4 Annual Growth In Volumes Sold							
5 Change in Water Volumes		4.5%	3.1%	2.9%	2.6%	3.8%	3.8%
6 Change in Sewer Volumes		20.8%	3.2%	2.8%	2.5%	3.6%	3.5%
7 Operating Revenue							
8 Water Revenues	\$ 10,574,861	\$ 11,825,715	\$ 13,040,671	\$ 14,357,542	\$ 15,760,976	\$ 17,510,630	\$ 19,443,362
9 Sewer Revenues	11,333,514	16,745,050	21,947,150	28,526,994	31,145,428	34,205,241	37,530,873
10 Water and Sewer Taps	60,887	55,000	55,000	55,000	55,000	55,000	55,000
11 Other Revenues	1,352,959	1,417,544	1,417,544	1,417,544	1,417,544	1,417,544	1,417,544
12 Total Operating Revenue	\$ 23,322,221	\$ 30,043,309	\$ 36,460,365	\$ 44,357,080	\$ 48,378,948	\$ 53,188,414	\$ 58,446,779
13 <i>Change</i>		28.8%	21.4%	21.7%	9.1%	9.9%	9.9%
14 Non-Operating Revenue							
15 Miscellaneous	\$ 90,384	\$ 11,300	\$ 11,300	\$ 11,300	\$ 11,300	\$ 11,300	\$ 11,300
16 System Development Fees	3,827,504	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
17 Transfers In (ARP Funds)	-	7,931,423	-	-	-	-	-
18 Other	439,047	-	-	-	-	-	-
19 Total Non-Operating Revenue	\$ 4,356,935	\$ 10,442,723	\$ 2,511,300	\$ 2,511,300	\$ 2,511,300	\$ 2,511,300	\$ 2,511,300
20 Total Revenue	\$ 27,679,156	\$ 40,486,032	\$ 38,971,665	\$ 46,868,380	\$ 50,890,248	\$ 55,699,714	\$ 60,958,079
21 <i>Change</i>		46.3%	-3.7%	20.3%	8.6%	9.5%	9.4%

10. FUND BALANCES

As shown in Table 21, as of the end of FY 2021, the Town had a Combined System cash balance of approximately \$14.6 million. This amount consists of unrestricted cash balances within the Water and Sewer Fund, cash balances held in a System Development Fee Fund, and a USDA debt service reserve balance. The ending cash balance for FY 2022 is based on the Town's estimated actual operating results. Future cash balances are based on the results of the forecast. As noted in the table, the USDA debt service reserve balance will be released in FY 2023 as the debt is paid off. The Town is anticipated to maintain strong cash balances throughout the projection period as demonstrated in the table.

Table 21
Projected Ending Fund Balances

	Fiscal Year Ending June 30						
	2022	2023	2024	2025	2026	2027	2028
	Actuals	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
1 Beginning Unrestricted Cash and Cash Equivalents	\$ 6,916,362	\$ 10,299,313	\$ 17,586,387	\$ 19,247,667	\$ 26,790,347	\$ 30,112,179	\$ 31,821,299
2 System Cash Flow Surplus / (Shortfall)	4,874,466	10,155,306	8,861,279	17,257,681	10,271,831	13,934,120	17,962,748
3 Projects Paid with Unrestricted Cash	(1,491,515)	(3,050,600)	(7,200,000)	(9,715,000)	(6,950,000)	(12,225,000)	(10,725,000)
4 Release of Debt Service Reserve	-	182,368	-	-	-	-	-
5 Ending Unrestricted Cash and Cash Equivalents	\$ 10,299,313	\$ 17,586,387	\$ 19,247,667	\$ 26,790,347	\$ 30,112,179	\$ 31,821,299	\$ 39,059,047
6 Minimum Operating Fund Balance							
7 Days Cash on Hand - Operating Fund Only	185	320	313	435	462	479	570
8 Beginning Water System Development Fee Fund Balance	2,089,688	3,437,835	4,137,432	2,203,317	1,719,600	651,905	584,227
9 Water System Development Fee Revenues	1,358,147	887,097	887,097	887,097	887,097	887,097	887,097
10 Use of Water SDF (Paygo Capital Projects)	(10,000)	(187,500)	(2,475,000)	(1,060,000)	(1,500,000)	(500,000)	-
11 Use of Water SDF (Debt Service)	-	-	(346,212)	(310,814)	(454,791)	(454,775)	(454,689)
12 Ending Water System Development Fee Fund Balance	\$ 3,437,835	\$ 4,137,432	\$ 2,203,317	\$ 1,719,600	\$ 651,905	\$ 584,227	\$ 1,016,635
13 Beginning Sewer System Development Fee Fund Balance	4,605,908	6,615,265	3,440,668	640,668	240,668	240,668	240,668
14 Sewer System Development Fee Revenues	2,469,357	1,612,903	1,612,903	1,612,903	1,612,903	1,612,903	1,612,903
15 Use of Sewer SDF (Paygo Capital Projects)	(460,000)	(4,787,500)	(2,800,000)	(400,000)	-	-	-
16 Use of Sewer SDF (Debt Service)	-	-	(1,612,903)	(1,612,903)	(1,612,903)	(1,612,903)	(1,612,903)
17 Ending Sewer System Development Fee Fund Balance	\$ 6,615,265	\$ 3,440,668	\$ 640,668	\$ 240,668	\$ 240,668	\$ 240,668	\$ 240,668
18 Beginning USDA Debt Service Reserve Fund Balance	182,368	182,368	-	-	-	-	-
19 Release of Debt Service Reserve	-	(182,368)	-	-	-	-	-
20 Ending USDA Debt Service Reserve Fund Balance	\$ 182,368	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21 Combined Beginning Cash Balance - Combined Fund	\$ 13,794,326	\$ 20,534,781	\$ 25,164,487	\$ 22,091,651	\$ 28,750,615	\$ 31,004,752	\$ 32,646,194
22 Combined Ending Cash Balance - Combined Fund	\$ 20,534,781	\$ 25,164,487	\$ 22,091,651	\$ 28,750,615	\$ 31,004,752	\$ 32,646,194	\$ 40,316,350
23 Total Days Cash on Hand - Combined Funds	368	457	359	467	475	492	588

Disclaimer

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER AND THE SERIES RESOLUTION, INCLUDING DEFINITIONS OF CERTAIN TERMS

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER AND THE SERIES RESOLUTION, INCLUDING DEFINITIONS OF CERTAIN TERMS

In addition to summaries of the provisions of the Bond Order and the Series Resolution contained elsewhere in this Official Statement, the following is a summary of certain other provisions of the Bond Order and the Series Resolution. This summary does not purport to be complete and is qualified in its entirety by express reference to the Bond Order and the Series Resolution.

DEFINITIONS OF CERTAIN TERMS

“Account” or “Fund” means one of the special funds or accounts created and established pursuant to the Bond Order.

“Accountant” means an individual or firm of independent certified public accountants as may be selected by the Town and not unacceptable to the Trustee.

“Act” means The State and Local Government Revenue Bond Act, constituting Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended.

“Additional Bonds” means any bonds, notes or other evidences of indebtedness secured by and payable from Net Revenues issued under the Bond Order.

“Additional Project” means any System Improvements other than the Project.

“Annual Budget” means, as to the System, any budget or amended budget adopted or in effect the annual budget described in the Bond Order adopted by the Town concerning the operation of the System for the succeeding Fiscal Year.

“Authenticating Agent” means any Authenticating Agent appointed by the Trustee pursuant to the Bond Order. Unless another Person is so appointed, the Trustee will be the Authenticating Agent.

“Bonds” means, collectively, the Existing Bonds, the 2022 Bonds and any Additional Bonds, and also includes any bond anticipation note or notes authorized and issued pursuant to the Bond Order.

“Bond Counsel” means an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Town and not unacceptable to the Trustee.

“Bondholder,” “Holder,” “Owner,” or any similar term, means any Person in whose name any Outstanding Bond is registered on the books of the Registrar.

“Business Day” means any day other than (a) a day on which banking institutions in New York, New York, or in the State or in the cities in which the Trustee has its principal offices are authorized to close or (b) a day on which the New York Stock Exchange is closed.

“Certificate” means (1) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the Bond Order or (2) the report of an accountant as to audit or other procedures called for by the Bond Order.

“Clerk” means the Clerk to the Town or his or her designated assistant.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein will be deemed to include the United States Treasury Regulations proposed or in effect with respect thereto.

“Construction Fund” means the Fund so designated and established under the Bond Order.

“Completion Indebtedness” means any Additional Bonds or Subordinate Indebtedness, as applicable, incurred for the purpose of financing the completion of the Project or any Additional Project for which Bonds or Subordinate Indebtedness have theretofore been issued in accordance with the provisions hereof, to the extent necessary to complete such Project or Additional Project, in the manner and scope contemplated at the time that such Bonds or Subordinate Indebtedness were originally issued, and, to the extent that the same will be applicable, in accordance with the general plans and specifications for such Project or Additional Project, as originally prepared, with only such changes as have been made in conformance with the documents pursuant to which such Bonds or Subordinate Indebtedness were originally issued or incurred.

“Costs of Construction” means the costs reasonably incurred in connection with the System or any portion thereof, including but not limited to the costs of (1) acquisition of all property, real or personal, tangible or intangible, and all interests in connection therewith including all rights-of-way and easements therefor, (2) physical construction, installation and testing, including the costs of labor, services, materials, supplies and utility services used in connection therewith, (3) architectural, engineering, legal, financial advisory and other professional services, (4) premiums for insurance policies taken out and maintained during construction, to the extent not paid for by a contractor for construction and installation, (5) any taxes, assessments or other charges which become due during construction, (6) expenses incurred by the Town or on its behalf with its approval in seeking to enforce any remedy against any contractor or sub-contractor in respect of any default under a contract relating to construction, (7) principal of and premium, if any, and interest on any indebtedness of the Town, other than the Bonds, incurred for Costs of Construction, (8) Costs of Issuance, (9) any capitalized interest, (10) miscellaneous expenses incidental thereto and (11) reimbursements of such Cost of Construction properly incurred prior to the issuance of the Bonds.

“Costs of Issuance” means all items of expense, directly or indirectly payable by or reimbursable to the Town, related to the authorization, sale and issuance of Bonds.

“Debt Service Fund” means the Fund so designated and established by the Bond Order.

“Debt Service Reserve Fund” means the Fund so designated and established pursuant to the Bond Order.

“Derivative Agreement” means an interest rate swap, cap, collar, floor, forward, option, put, call or other agreement however denominated, relating to any Series of Bonds.

“Enterprise” means any revenue-producing enterprise of the Town which qualifies as a “revenue bond project” under Section 159-81(3) of the General Statutes of North Carolina, as amended from time to time.

“Event of Default” means any of the events specified in the Bond Order together with any other events specified as such in the Series Resolution.

“Existing Bonds” means the Series 2020 Bonds.

“Existing Facilities” means the existing water and sewer system facilities and improvements owned and operated by the Town as of the date of the Original Bond Order.

“Federal Securities” means, to the extent otherwise permitted by law, (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged; (b) obligations the payment of the principal of and interest on which is fully guaranteed as full faith and credit obligations of the United States of America (including any securities described in (a) or (b) issued or held in the name of the Trustee in book entry form on the books of the Department of Treasury of the United States of America), which obligations, in either case, are held in the name of the Trustee and are not subject to redemption or purchase prior to maturity at the option of anyone other than the Owner; (c) any bonds or other obligations of the State or of any agency, instrumentality or local governmental unit of the State which are (i) not callable prior to maturity or (ii) as to which irrevocable instructions have been given to the trustee or escrow agent of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified, and which are rated by Moody’s, if the Bonds are rated by Moody’s, and S&P, if the Bonds are rated by S&P and Fitch, if the Bonds are rated by Fitch, within the highest rating category and which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) or (b) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; or (d) direct evidences of ownership of proportionate interests in future interest and principal payments on specified obligations described in (a) held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in (a), and which underlying obligations are not available to satisfy any claim of the custodian or any Person claiming through the custodian or to whom the custodian may be obligated.

“Finance Officer” means the Finance Director of the Town or any successor to his or her functions.

“Financial Consultant” means an independent Person with recognized expertise for advising entities with respect to financial forecasting and analysis of water and/or sewer or similar utility system facilities from time to time employed by the Town and not unacceptable to the Trustee.

“Fiscal Year” means a 12-month period commencing on the first day of July of any year, or such other 12-month period adopted as the Fiscal Year of the Town.

“Fitch Ratings” means Fitch, Inc., its successors and assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, “Fitch Ratings” will refer to

any other nationally recognized securities rating agency designated by the Finance Officer of the Town by notice to the Trustee, and acceptable to the LGC.

“General Obligation Indebtedness” means (1) general obligation indebtedness incurred by the Town which is payable from Net Revenues and the proceeds of which were or are to be used to provide for capital costs of the System and (2) general obligation indebtedness of another governmental unit, the payment on which is assumed by the Town in connection with acquisition of assets for the System.

“Governing Body” means the Town Council of the Town, which is the governing board in which the general legislative powers of the Town will now or hereafter be vested.

“Owner,” “Bondholder” or “Holder” or any similar term, means any Person in whose name any Outstanding Bond is registered on the books of the Registrar.

“Interest” means (1) the amount designated as interest on any Bonds and (2) payments due from the Town under a Derivative Agreement other than for the termination thereof.

“Interest Payment Date” means, with respect to the 2022 Bonds, each February 1 and August 1, beginning on August 1, 2023.

“LGC” means the North Carolina Local Government Commission or any successor to its functions under the laws of the State or its designated representative.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized rating agency designated by the Finance Officer of the Town by notice to the Trustee, and acceptable to the LGC.

“Net Revenues” means the Revenues received by the Town during any period less the Operating Expenses paid by the Town during such Fiscal Year.

“Other Indebtedness” means capital leases, installment financing agreements or other contracts used to provide capital improvements to the System, the payments under which are payable from Net Revenues after payment of the Principal of and Interest on the Bonds.

“Operating Expenses” means the Town’s reasonable and necessary current expenses of maintaining, repairing and operating the System as calculated in accordance with generally accepted accounting principles, and includes, without limiting the generality of the foregoing, all administrative, general and commercial expenses; insurance and surety bond premiums; any rebate required to be paid to the United States Government; fees and expenses of the Trustee and any Paying Agent; fees and expenses of any entity providing credit support or liquidity for any Bonds; payments for the billing and collection of Service Charges; fees and expenses of the Trustee, the Registrar and any Paying Agent; legal expenses, any taxes which may be lawfully imposed on the Town or its income or operations or the property under its control; administrative and engineering expenses of the Town relating solely to the System including payments from the Revenue Fund to any other fund of the Town to cover indirect administrative expenses relating to the operation of the System; labor; executive compensation; the cost of materials and supplies used for current operations; ordinary and current rentals of equipment or other property; usual expenses of maintenance and repair, and any other current expenses required to be paid by the Town under the

provisions of the Bond Order or by law; and charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred as determined by the Town in accordance with generally accepted accounting principles except as otherwise provided in the Bond Order. "Operating Expenses" will not include (1) any allowance for depreciation or replacements of capital assets of the System, (2) moneys payable as Interest and as interest on Subordinate Indebtedness, General Obligation Indebtedness or Other Indebtedness, (3) moneys deposited or transferred to the Debt Service Reserve Fund pursuant to the Series Resolution, (4) any loss from extinguishment of debt or the sale, exchange or other disposition of capital assets, (5) any accrued expenses for other post-retirement benefits not resulting in (i) payments of such benefits to current or future retired employees or (ii) deposits of funds into an irrevocable trust for the purpose of making future payments of such benefits to current or future retired employees, (6) payments of up front capacity fees to other governmental entities to purchase additional water or wastewater capacity (separate and apart from the per unit commodity charges for such services); and (7) any expense paid from a source other than Revenues. When generally accepted accounting principles provide that amounts be treated as Operating Expenses but (i) the timing of the required payment of the expense or a portion thereof, while known, is more than one year in the future or (ii) the actual timing of the required payment of the expense is not readily determinable (such as post-employment benefits calculated actuarially), the Town may include as an Operating Expense the amount required to be paid for in the current period rather than the entirety of amounts required to be expensed.

"Outstanding" means all Bonds which have been authenticated and delivered by the Trustee under the Bond Order, except:

- (a) Bonds canceled after purchase in the open market or because of payment (it being understood that a payment to an Owner of the purchase price of a Bond, as prescribed in the Series Resolution, is not payment of a Bond) at or redemption prior to maturity;
- (b) Bonds deemed paid under the Bond Order;
- (c) Bonds for the payment of the Principal of, redemption premium, if any, and Interest on which Federal Securities have been irrevocably set aside; and
- (d) Bonds in lieu of which other Bonds have been authenticated under the Bond Order.

"Owner," "Bondholder" or "Holder" or any similar term, means any Person in whose name any Outstanding Bond is registered on the books of the Registrar.

"Paying Agent" means the Trustee or any successor or successors thereto appointed pursuant to the Bond Order or the Series 2022 Resolution.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

"Principal" means the principal amount of an Outstanding Bond payable as a Sinking Fund Payment or at maturity.

"Principal and Interest Requirements on the Bonds" means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all Interest payable on the Outstanding Bonds during

such Fiscal Year, plus (2) any Principal Installments of the Outstanding Bonds during such Fiscal Year; provided, however, that computation of such amount will exclude Interest on any Series of Bonds which is funded from proceeds of such Series; and provided further that the computation of such amount will be based on the assumption that (i) the Bonds at the time outstanding will be retired according to their stated maturities or mandatory redemption requirements, and (ii) any bond anticipation notes issued pursuant to the Bond Order and maturing during such Fiscal Year will be refunded with Additional Bonds such that the principal amount of such bond anticipation notes is not due and payable by the Town in such Fiscal Year.

For purposes of computing “Principal and Interest Requirements on the Bonds,” the rate of interest used to determine (1) above will be a rate per annum equal to (A) with respect to Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, and (B) with respect to Bonds which bear interest at a variable or periodically determined rate of interest, the rate which is equal to the greater of (i) the average of all the interest rates in effect on the Bonds (or, as certified by a financial institution or investment banking firm acceptable to the Town, which would have been in effect on the Bonds had such Bonds been Outstanding) during the immediately preceding twelve-month period or (ii) the average of all the interest rates in effect on the Bonds (or, as certified by a financial institution or investment banking firm acceptable to the Town, which would have been in effect on the Bonds had such Bonds been Outstanding) during the immediately preceding one-month period. If the Town has entered into a Derivative Agreement under which it will receive payments calculated on a notional amount equal to all or a portion of the aggregate principal amount of a Series of the Bonds and will make payments calculated on the same notional amount, the interest used to calculate (1) above will be the amount to be paid by the Town under the Derivative Agreement; otherwise, payments calculated on a variable or periodically determined basis under such an agreement will be calculated in accordance with clause (B) above.

“Principal and Interest Requirements for General Obligation Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of all payment obligations with respect to General Obligation Indebtedness during such Fiscal Year excluding any capitalized interest payable from the proceeds of General Obligation Indebtedness. If the payment obligation under any General Obligation Indebtedness is stated in terms of principal and interest, such principal and interest will be computed for purposes of this definition in the manner in which the Principal of and Interest on the Bonds is calculated under the definition of “Principal and Interest Requirements on the Bonds.”

“Principal and Interest Requirements for Other Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all interest payable on Other Indebtedness during such Fiscal Year excluding any capitalized interest payable from the proceeds of Other Indebtedness, plus (2) any principal of Other Indebtedness during such Fiscal Year. Principal and interest for purposes of this definition will be computed in the manner in which the Principal of and Interest on the Bonds is calculated under the definition of “Principal and Interest Requirements on the Bonds.”

“Principal and Interest Requirements for Subordinate Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all interest payable on Subordinate Indebtedness during such Fiscal Year excluding any capitalized interest payable from the proceeds of Subordinate Indebtedness, plus (2) any principal of Subordinate Indebtedness during such Fiscal Year. Principal and interest for purposes of this definition will be computed in the manner in which the Principal of and Interest on the Bonds is calculated under the definition of “Principal and Interest Requirements on the Bonds.”

“Principal Installment” means, as of any date of calculation, (1) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Bond Order of Sinking Fund Payments payable before such future date, plus (2) any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such Sinking Fund Payments.

“Principal Payment Date” means, with respect to the 2022 Bonds, each August 1, beginning August 1, 2023.

“Project” means the design, acquisition, construction and equipping of the Sam’s Branch Water Reclamation Facility and other capital improvements to the System, all financed in part with the proceeds of the 2022 Bonds, as more particularly described in the Series 2022 Resolution, and has the same meaning as the “2022 Project.”

“Qualified Investments” means, to the extent from time to time permitted by law:

- (a) Federal Securities;
- (b) direct obligations of, or obligations the principal of and interest on which will be unconditionally guaranteed by any of the following agencies of the United States government: Federal Farm Credit System, Federal Home Loan Banks, Export-Import Bank of the United States of America, Government National Mortgage Association, Federal National Mortgage Association, Farmer’s Home Administration, Federal Home Loan Mortgage Corporation, Federal Housing Administration or Financing Corporation, and all other obligations issued or unconditionally guaranteed by any agency controlled or supervised by and acting as an instrumentality of the United States government under authority granted by the Congress;
- (c) bankers acceptances drawn on and accepted by banks (which may include the Paying Agent and the Trustee), or certificates of deposit or commercial paper of banks (which may include the Paying Agent and the Trustee), with a combined capital and surplus aggregating at least \$100,000,000 and the unsecured securities of which are currently rated within one of the two highest rating categories (without regard to any gradations by numerical qualifier or otherwise) assigned by S&P or Moody’s;
- (d) interest bearing demand or time deposits or certificates of deposit, fully insured by the Federal Deposit Insurance Corporation, of a bank (which may include the Paying Agent and the Trustee) or trust company or, to the extent not so insured, of a bank or trust company (which may include the Paying Agent and the Trustee), the unsecured securities of which are currently rated within one of the two highest rating categories (without regard to any gradations by numerical qualifier or otherwise) assigned by S&P or Moody’s;
- (e) interest-bearing notes, issued by a bank (which may include the Paying Agent and the Trustee) or bank holding company and rated within one of the two highest rating categories assigned by S&P or Moody’s (without regard to any gradations by numerical qualifier or otherwise) and which bank or bank holding company has a combined capital and surplus aggregating at least \$100,000,000;

(f) repurchase agreements, reverse repurchase agreements or investment agreements with a financial institution (which may include the Paying Agent and the Trustee) (a) with a combined capital and surplus aggregating at least \$100,000,000 and the unsecured long-term debt obligations of which are currently rated within one of the two highest rating categories (without regard to any gradations by numerical qualifier or otherwise) assigned by S&P or Moody's or (b)(i) continuously secured and collateralized by segregated obligations referred to in (1) through (5) above having a market value at least equal at all times to the principal balance collectively pursuant thereto and the accrued interest thereon and (ii) as to which the Town receives evidence that a custodian has possession of the collateral, evidence that the collateral is free and clear of any third-party liens or claims and an opinion that the custodian has a perfected security interest in the collateral, any substitutes therefor and all proceeds thereof;

(g) debt securities of any entity whose long-term debt obligations are rated within one of the two highest rating categories assigned by S&P or Moody's (without regard to any gradations by numerical qualifier or otherwise);

(h) bonds or other obligations, rated within one of the two highest rating categories assigned by S&P or Moody's (without regard to any gradations by numerical qualifier or otherwise);

(i) commercial paper rated "A-1+" by S&P and "P-1" by Moody's and maturing in not more than 365 days;

(j) money market funds rated in the highest rating category by S&P or Moody's; and

(k) the State Treasurer's Short-Term Investment Fund.

"Qualified Reserve Fund Substitute" means (1) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof or (2) a surety bond issued by a financial institution or (3) a policy of reserve fund insurance issued by an insurance company as defined in the Series Resolution.

"Rate Covenant" means the Town's covenant under the Bond Order. See "RATE COVENANT" in this Appendix C.

"Rebate Deposit" means the amount required to be deposited into the Rebate Fund as a result of the computation made pursuant to the Bond Order.

"Rebate Fund" means the Fund so designated and established pursuant to the Bond Order.

"Redemption Date" means, with respect to any Bond, the date it is to be called for redemption under the Series Resolution under which it is issued.

"Redemption Price" means, with respect to any Bond, the Principal amount thereof plus the applicable premium, if any, and accrued Interest payable on the redemption thereof.

"Registered Owner" means the registered owner shown on the face of the Bond, or such purchaser, assignee or transferee as listed on an assignment thereof.

“Registrar” means, with respect to the 2022 Bonds, the Trustee, or any successor or successors thereto appointed pursuant to the Bond Order or the Series 2022 Resolution.

“Reserve Requirement” means, as of any date of calculation, the Series Reserve Requirement, as applicable.

“Revenues” means all income received by the Town from, in connection with, or as a result of, its ownership or operation of the System, including all moneys received in payment of rates, fees and other charges for the use of and for the services furnished by the System, including (i) system development fees and (ii) investment income, including amounts received from the investment of money in any Fund or Account (but not including amounts received from interest or other investment income earned in the Construction Fund and the Rebate Fund and, during the construction period, the Debt Service Reserve Fund), all as calculated in accordance with generally accepted accounting principles. “Revenues” will not include (1) net proceeds of insurance or condemnation awards or other extraordinary items, (2) the proceeds of any borrowing for payment of the costs of, or grants or donations intended for, specific System improvements, (3) refundable deposits made by customers of the System, (4) any income received in payment of fees or charges, including system development fees, that are intended to be set aside specifically for a particular capital project and that are not available for payment of Operating Expenses or debt service on the Bonds, or (5) any amounts otherwise included under this definition as Revenues but not permitted by law to be pledged hereunder.

“Revenue Fund” means the fund created and so designated in the Bond Order.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Finance Officer of the Town by notice to the Trustee, and acceptable to the LGC.

“Series of Bonds” or “Series” means any series of Bonds issued under the Existing Bond Order or hereunder pursuant to the Series Resolution.

“Series Reserve Requirement” means, as of any date of calculation, the amount required to be on deposit in a Series Reserve Account as determined in the Series Resolution under which the Series of Bonds secured by that account in the Debt Service Reserve Fund is issued.

“Series Resolution” means (a) with respect to the 2022 Bonds, the Series 2022 Resolution, and (b) with respect to any other Series of Bonds, a resolution supplementing the Bond Order, adopted by the Town Council of the Town and effective in accordance with the Bond Order, providing for the issuance of a Series of Bonds.

“Series 2022 Resolution” means the Series Resolution adopted by the Town Council of the Town on November 7, 2022 authorizing the issuance of the 2022 Bonds.

“Sinking Fund Payment” means, as of any particular date of calculation, the amount required to be paid by the Town on a certain future date for the retirement of Outstanding Bonds which mature after such future date, but does not include any amount payable by the Town by reason of the maturity of a Bond or by call for redemption at the election of the Town.

“State” means the State of North Carolina.

“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.

“Subordinate Indebtedness” means indebtedness the terms of which will provide that it will be subordinate and junior in right of payment to the prior payment in full of the Bonds and to the lien on Revenues securing the payment of the Principal of and Interest on the Bonds. For purposes of the Bond Order, obligations or debt instruments issued to the State as part of the State Revolving Loan Program or State Bond Loan Program are deemed to be Subordinated Indebtedness. Such Subordinated Indebtedness will comply with the requirements of the Bond Order.

“Supplemental Resolution” means a resolution supplementing the Bond Order, adopted by the Town Council of the Town and effective in accordance with the Bond Order, amending or supplementing the Bond Order.

“Surplus” means the amount shown as the Unrestricted Net Assets for the Water and Sewer Fund as provided in the Town’s audited financial statements for any Fiscal Year.

“System” means the water and sewer system facilities of the Town, as may be now or hereafter existing, and includes the Existing Facilities and any System Improvements, and, after the date hereof, any Enterprise that may be added thereto in accordance with the Bond Order, but not including any portion of the System that is removed therefrom under the Bond Order.

“System Improvements” means any construction, reconstruction, improvement, enlargement, betterment or extension of the System, including all plants, works, instrumentalities and properties relating thereto.

“Town” means the Town of Clayton, North Carolina.

“Town Representative” means the Town Manager, the Finance Director and the Deputy Finance Director, including anyone serving as such in an interim capacity, or their respective designees and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of the Town then authorized to perform such act or discharge such duty.

“Trustee” means U.S. Bank Trust Company, National Association, who has been appointed as the Trustee with respect to the Bonds under the Bond Order and any other Person at any time substituted in its place as provided in the Bond Order.

“2020 Bonds” means the Town’s \$15,000,000 Water and Sewer System Revenue Bond, Series 2020 of which \$14,194,000 was outstanding as of July 1, 2022.

CHARACTER OF THE BONDS

The Bonds are special obligations of the Town payable solely from Net Revenues. The Principal of, premium, if any, and Interest on the Bonds are not payable from the general funds of the Town, nor do they constitute a legal or equitable pledge, charge, lien or encumbrance on any of its property or on any of its income, receipts or revenues, except the Net Revenues pledged hereunder. Neither the credit nor the taxing power of the Town is pledged for the payment of the Principal of the Bonds or Interest, and no Owner has the right to compel the exercise of the taxing power by the Town or the forfeiture of any of its property in connection with any default on the Bonds. The Bonds are payable solely from the Net Revenues, including the Revenues, and the Town is not obligated to pay the Principal of, premium, if any and Interest on the Bonds except from such Net Revenues.

ADDITIONAL BONDS

Refunding of Outstanding Bonds

The Town may, to the extent permitted by the Act and the provisions of the Bond Order, issue, from time to time, Additional Bonds for the purpose of refunding all or any portion of the Bonds previously issued under the Bond Order for the purpose of achieving aggregate debt savings provided, however, that bond anticipation notes issued pursuant to the Bond Order may be refunded without evidence of aggregate debt savings. Except as to any difference in the maturities thereof or in the rate or rates of interest or the provisions for redemption, such refunding obligations will be on a parity with and will be entitled to the same benefit and security of the Bond Order as other Bonds. The Authenticating Agent will not authenticate and the Trustee will not deliver any Additional Bonds for this purpose unless theretofore or simultaneously therewith there will have been filed with the Trustee the following, in addition to the other items required by the Bond Order:

- (a) an opinion of Bond Counsel to the effect that the issuance of the Additional Bonds has been duly authorized, executed and delivered, that all conditions precedent to the delivery of the Additional Bonds have been fulfilled and such other matters as may be requested by the initial purchaser of the Additional Bonds; and
- (b) such documents as will be required by the Trustee to evidence that provision has been satisfactorily made for the redemption of the Bonds to be refunded.

When the documents required by the Bond Order will have been filed with the Trustee and when the Additional Bonds will have been executed as required by the Bond Order, the Authenticating Agent will authenticate the Additional Bonds and the Trustee will deliver them to or upon the order of the purchasers thereof, but only upon payment of the purchase price of the Additional Bonds. No Additional Bonds will be valid or obligatory for any purpose unless authenticated by the Authenticating Agent.

Additional Bonds for System Improvements

The Town may, to the extent permitted by the Act and the provisions of the Bond Order, issue Additional Bonds for the purpose of financing System Improvements. Except as to any difference in the maturities thereof or in the rate or rates of interest or the provisions for redemption, such obligations will be on a parity with and will be entitled to the same benefit and security of the Bond Order as all other Bonds. The Authenticating Agent will not authenticate and the Trustee will not deliver any Additional Bonds for this purpose unless theretofore or simultaneously therewith

there will have been filed with the Trustee the following, in addition to the other items required by the Bond Order:

(a) a copy, certified by the Clerk to be a true and correct copy, of the Series Resolution authorizing the issuance of the Additional Bonds and prescribing the details thereof and providing that the System Improvements to be financed with the proceeds thereof are thereby made a part of the System and the Revenues of such System Improvements are thereby pledged to the Additional Bonds and as additional security for the Outstanding Bonds;

(b) an opinion of Bond Counsel to the effect that the issuance of the Additional Bonds has been duly authorized, executed and delivered, that all conditions precedent to the delivery of the Additional Bonds have been fulfilled and such other matters as may be requested by the initial purchaser of the Additional Bonds;

(c) a Certificate, signed by a Town Representative stating that (i) all transfers to the Debt Service Fund required by the Bond Order to pay Principal and Interest on the Bonds, and all transfers into the Debt Service Reserve Fund required by the Bond Order prior to the beginning of the month during which the Additional Bonds are issued have been made and (ii) to his or her knowledge, no Event of Default will have occurred and be continuing under the Bond Order;

(d) a Certificate, signed by a Town Representative, stating that the conditions set forth under either (d)(i), (d)(ii) or (d)(iii) below have been met, and setting forth the calculation thereof:

(i) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner provided in the Bond Order, were at least equal to (a) 125% of the maximum Principal and Interest Requirements on the Bonds, including the 2022 Bonds to be issued, (b) 100% of the Principal and Interest Requirements for Subordinate Indebtedness, if any, in that Fiscal Year, (c) 100% the Principal and Interest Requirements for General Obligation Indebtedness, if any, in that Fiscal Year and (d) 100% the Principal and Interest Requirements for Other Indebtedness, if any, in that Fiscal Year, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds;

OR

(ii) (A) the Town was in compliance with the Rate Covenant as described in the Bond Order; AND

(B) the Net Revenues, as projected by a report of a Financial Consultant filed with the Trustee, for the first two Fiscal Years following (1) the date capitalized interest, if any, provided from the proceeds of the proposed 2022 Bonds is expended in the case of the acquisition of assets for or construction of improvements to the System or (2) the date the proposed 2022 Bonds is issued in any other case, are at least equal to (a) 125% of the Principal and Interest Requirements on the Bonds, including the 2022 Bonds to be issued, for such Fiscal Years, (b) 100% of the Principal and

Interest Requirements for Subordinate Indebtedness to become due in such Fiscal Years, (c) 100% of the Principal and Interest Requirements for General Obligation Indebtedness to become due in such Fiscal Years and (d) 100% of the Principal and Interest Requirements for Other Indebtedness to become due in such Fiscal Years, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Additional Bonds;

OR

- (iii) for the most recent Fiscal Year for which audited financial statements are available, the amount of Additional Bonds proposed to be issued, together with any other Additional Bonds issued under the Bond Order and then Outstanding, does not exceed 10% of Revenues for such Fiscal Year.

For purposes of calculating Net Revenues in (i) or (ii)(A) above, (1) if the rates, fees, rentals and charges for the use of the System have been revised and such revised rates, fees, rentals and charges are or will be in effect prior to or concurrently with the incurrence of such Additional Bonds, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenue, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Net Revenue, in the judgment of such Town Representative, if such rates, fees, rentals and charges had been in effect at the beginning of such Fiscal Year, (2) if users of the System have been added as a result of an acquisition of assets from another provider of services or as a result of a contract with another governmental unit prior to or concurrently with the incurrence of such Additional Bonds, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the System as of the beginning of such Fiscal Year, (3) if one or more “industrial users” (as described in the Town’s fee structure for the System) have been added to the System (or if an existing industrial user has expanded its use of the System) prior to or concurrently with the incurrence of such Additional Bonds, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such new or expanded industrial user had been a part of the System as of the beginning of such Fiscal Year, and (4) 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 Additional Bonds, the Town Representative may add to such Net Revenues an estimate of the additional Net Revenues, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of Net Revenues, in the judgment of such Town Representative, if the Enterprise had been part of the System at the beginning of such Fiscal Year.

When the documents mentioned in clauses (a) through (d) above, and the other items required by Bond Order will have been filed with the Trustee and when the Additional Bonds will have been executed as required by the Bond Order, the Authenticating Agent will authenticate the Additional Bonds and the Trustee will deliver them to or upon the order of the purchasers thereof, but only upon payment of the purchase price of the Additional Bonds. No Additional Bonds will be valid or obligatory for any purpose unless authenticated by the Authenticating Agent.

Issuance of Subordinate Indebtedness

The Town may, to the extent permitted by the Act, issue Subordinate Indebtedness, which obligations shall be subordinate in all respects to the Bonds. Any Subordinate Indebtedness shall

include a provision prohibiting acceleration thereof while any Bonds are Outstanding. Such Subordinate Indebtedness shall not be issued unless the following requirements have been satisfied:

(a) a certificate, signed by a Town Representative stating that (i) all transfers to the Debt Service Fund required by the Bond Order to pay Principal and Interest on the Bonds, and all transfers into the Debt Service Reserve Fund required by the Bond Order prior to the beginning of the month during which the Additional Bonds are issued have been made and (ii) to his or her knowledge, no Event of Default shall have occurred and be continuing under the Bond Order; and

(b) a certificate, signed by a Town Representative, has been delivered to the Trustee stating that conditions set forth in either (b)(i), (b)(ii), or (b)(iii) below have been met, as applicable, and setting forth the calculation thereof:

(i) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, were at least equal to the maximum debt service in any succeeding Fiscal Year that would result from combining for that Fiscal Year (a) 100% of the maximum Principal and Interest Requirements on the Bonds, (b) 100% of the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year, including the Subordinate Indebtedness to be incurred, (c) 100% the Principal and Interest Requirements for General Obligation Indebtedness, if any, in that Fiscal Year and (d) 100% the Principal and Interest Requirements for Other Indebtedness, if any, in that Fiscal Year, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Subordinate Indebtedness;

OR

(ii) (A) the Town was in compliance with the Rate Covenant as described in the Bond Order;

AND

(B) the Net Revenues, as projected by the Town Representative filed with the Trustee, for the first two Fiscal Years following (1) the date capitalized interest, if any, provided from the proceeds of the proposed Subordinate Indebtedness is expended in the case of the acquisition of assets for or construction of improvements to the System or (2) the date the proposed Subordinate Indebtedness is incurred in any other case, are at least equal to (a) 100% of the Principal and Interest Requirements on the Bonds for such Fiscal Years, (b) 100% of the Principal and Interest Requirements for Subordinate Indebtedness, including the Subordinate Indebtedness to be incurred, to become due in such Fiscal Years, (c) 100% of the Principal and Interest Requirements for General Obligation Indebtedness to become due in such Fiscal Years and (d) 100% of the Principal and Interest Requirements for Other Indebtedness to become due in such Fiscal Years, in each case excluding any Bonds and other applicable indebtedness to be refunded by the proposed Subordinate Indebtedness.

OR

- (iii) for the most recent Fiscal Year for which audited financial statements are available, the amount of Subordinate Indebtedness proposed to be incurred, together with any other Subordinate Indebtedness incurred under this subsection (b)(iii) and then Outstanding, does not exceed 10% of Revenues for such Fiscal Year.

For purposes of calculating Net Revenues above, (1) if the rates, fees, rentals and charges for the use of the System have been revised and such revised rates, fees, rentals and charges are or will be in effect prior to or concurrently with the issuance of such Subordinate Indebtedness, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenue, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Net Revenue, in the judgment of such Town Representative, if such rates, fees, rentals and charges had been in effect at the beginning of such Fiscal Year, (2) if users of the System have been added as a result of an acquisition of assets from another provider of services or as a result of a contract with another governmental unit prior to or concurrently with the incurrence of such Subordinate Indebtedness, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the System as of the beginning of such Fiscal Year, (3) if one or more “industrial users” (as described in the Town’s fee structure for the System) have been added to the System (or if an existing industrial user has expanded its use of the System) prior to or concurrently with the incurrence of such Subordinate Indebtedness, the Town Representative may add to the Net Revenues an estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such new or expanded industrial user had been a part of the System as of the beginning of such Fiscal Year, and (4) 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 Subordinate Indebtedness, the Town Representative may add to such Net Revenues an estimate of the additional Net Revenues, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of Net Revenues, in the judgment of such Town Representative, if the Enterprise had been part of the System at the beginning of such Fiscal Year.

Issuance of Completion Indebtedness

The Town may, to the extent permitted by the Act and the provisions of this Section, issue Additional Bonds or incur Subordinate Indebtedness, as applicable, constituting Completion Indebtedness, which shall be on a parity with and shall be entitled to the same benefit and security of this Bond Order as all other Bonds or Subordinate Indebtedness, as applicable, under the conditions set forth in (a) or (b) below, as applicable.

(a) The Authenticating Agent shall not authenticate and the Trustee shall not deliver any Additional Bonds constituting Completion Indebtedness unless theretofore or simultaneously therewith there shall have been filed with the Trustee (a) the items required by subsections (a) through (d) under the heading ***Additional Bonds for System Improvements***, and (b)(i) a certificate of a licensed architect or engineer estimating the costs of completing the facilities constituting the Project or Additional Project for which such Completion Indebtedness is to be incurred and (ii) a certificate of a Town Representative certifying that the amount of such Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of such facilities as estimated by the architect or engineer in respect of which such Additional Bonds are to be issued.

(b) The Town may not incur Subordinate Indebtedness constituting Completion Indebtedness unless theretofore or simultaneously therewith there shall have been filed with the Trustee (a) the items required by subsection (a) under the heading ***Issuance of Subordinate Indebtedness***, and (b)(i) a certificate of a licensed architect or engineer estimating the costs of completing the facilities constituting the Project or Additional Project for which such Completion Indebtedness is to be incurred and (ii) a certificate of a Town Representative certifying that the amount of such Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of such facilities as estimated by the architect or engineer in respect of which such Subordinate Indebtedness is to be incurred.

Other Indebtedness

The Town may incur Other Indebtedness 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 20% of the net book value of the 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.

RATE COVENANT

The Town has covenanted 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 that from time to time and as often as it will appear necessary, it will revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year the Net Revenues (calculated in accordance with generally accepted accounting principles) will be not less than (i) one hundred and twenty-five percent (125%) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (ii) one hundred percent (100%) of the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iii) one hundred percent (100%) of the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (iv) one hundred percent (100%) of the amount required to reimburse the provider of a Qualified Reserve Fund Substitute, if any, for any amounts owing hereunder of the Debt Service Requirement for such Fiscal Year.

In addition to the covenant set forth above, the Town also has covenanted 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 that from time to time and as often as it will appear necessary, it will revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Revenues will be sufficient in each Fiscal Year (i) to pay Operating Expenses, (ii) to pay the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year and (iii) to make such other deposits or payments as may be required under the provisions of the Bond Order or the Series Resolution.

The Town has covenanted 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.

If the Town fails to comply with the covenants set forth above, it will, within thirty (30) days of the receipt by the Town of the audit report required by the Bond Order, request a Financial Consultant to make recommendations, if any, as to a revision of the Town's rates, fees, rentals and

charges for the System, its Operating Expenses or the method of operation of the System in order to satisfy the foregoing requirements. Copies of such request and of the recommendations of the Financial Consultant, if any, will be filed by the Town with the LGC. Promptly upon its receipt of the recommendations of the Financial Consultant, the Town will, after giving due consideration to the recommendations, revise its rates, fees, rentals and charges for the System or its Operating Expenses or alter its methods of operation, which revisions or alterations need not comply with the Financial Consultant's recommendations but which are projected by the Town to result in compliance with the covenants set forth above. If the Town will comply with all of the recommendations of the Financial Consultant, failure to comply with the covenants set forth above will not constitute an event of default. In the event of any failure to comply with the covenants set forth above and the failure of the Town to comply with all of the recommendations of the Financial Consultant, and in addition to the remedies elsewhere provided in the Bond Order, the Trustee may, and at the direction of the Holders of not less than 50% in aggregate principal amount of the Bonds then outstanding will, (i) demand that the Town comply with the covenants set forth above or all of the recommendations of the Financial Consultant or (ii) institute and prosecute in a court of competent jurisdiction an appropriate action to compel the Town to comply with the covenants set forth above or all of the recommendations of the Financial Consultant. The Town has covenanted that it will adopt and charge rates, fees, rentals and charges for the System and revise its Operating Expenses or the method of operation of the System in compliance with any final order, decree or judgment entered in any such proceeding or modification thereof.

The Town also has covenanted to fix and charge rates, fees, rentals and charges for the System which rates, fees, rentals and charges will be reasonable and non-discriminatory. Nothing contained above obligates the Town to take any action in violation of any applicable requirements imposed by law.

FUNDS AND ACCOUNTS

Pursuant to the Bond Order, the Town has established and created the following special Funds which for administrative convenience may be subdivided by the Town Representative or the Trustee into Accounts with appropriate identification:

- (a) Revenue Fund;
- (b) Debt Service Fund;
- (c) Construction Fund;
- (d) Debt Service Reserve Fund; and
- (e) Rebate Fund.

The Trustee or the Town may also create such other Funds or Accounts as it deems necessary or desirable in the administration of the Bond Order.

The Debt Service Fund, the Construction Fund and the Debt Service Reserve Fund are held by the Trustee. The Revenue Fund and the Rebate Fund will be held by a financial institution from time to time determined by the Town.

The Series Resolution does not provide for the funding of the Debt Service Reserve Fund for the 2022 Bonds and the 2022 Bonds are not secured by the Debt Service Reserve Fund.

Revenue Fund; Application of Revenues

The Town has designated the “Town of Clayton, North Carolina Water and Sewer Fund” (which is the existing enterprise fund of the Town relating to the System) as the “Revenue Fund.” All Revenues collected by or on behalf of the Town will be deposited by the Town in the Revenue Fund as soon as practicable following the receipt thereof. There will also be deposited in the Revenue Fund any other amounts required to be deposited therein pursuant to the Bond Order or any Supplemental Resolution and any other amounts available therefor and determined by the Town to be deposited therein. All amounts collected by the Town as refundable deposits made by customers of the System, which have been deposited in the Revenue Fund, may be paid out of the Revenue Fund to the Persons to whom such amounts are owned in the amounts and at the times determined by the Town Representative.

The Town will cause disbursements to be made from the Revenue Fund in the following order of priority:

FIRST: Payment of Operating Expenses as the same become due and payable in conformity with the applicable budgetary and payment procedures of the Town;

SECOND: On or before the 5th day before each Interest Payment Date (commencing on July 25, 2023 with respect to the 2022 Bonds), to the Trustee for deposit in the Debt Service Fund, an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Interest), there will be in the Debt Service Fund an amount equal to the Interest due on that Interest Payment Date;

THIRD: On or before the 5th day before each Principal Payment Date (commencing on July 25, 2025 with respect to the 2022 Bonds), to the Trustee for deposit in the Debt Service Fund, an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund allocated to pay Principal due with respect to the Bonds), there will be in the Debt Service Fund an amount equal to the Principal Installment due on that Principal Payment Date;

FOURTH: On any date, to the Debt Service Fund, the amount necessary to make up any deficiency therein in accordance with the priorities established in the Bond Order;

FIFTH: On the date set for payment thereof, to the provider of any Qualified Reserve Fund Substitute an amount sufficient to satisfy the then current obligations of the Town incurred in connection therewith;

SIXTH: At any time as may be required, for deposit in any account in the Debt Service Reserve Fund (1) the amount necessary for the balance therein to equal the Reserve Requirement with respect to such account, but if the Revenues are insufficient therefor, to each account of the Debt Service Reserve Fund *pro rata* or (2) if any account in the Debt Service Reserve Fund is less than 90% of the Reserve Requirement with respect to such account as a result of a valuation of investments therein, the amount necessary for the balance therein to equal the applicable Reserve Requirement; provided, however, that in either the event of (1) or (2) above the Town is not required to transfer in any month more

than an amount such that if the same amount were deposited in equal monthly installments over the subsequent 11 months, the applicable account would equal the applicable Reserve Requirement;

SEVENTH: At any time as may be required, to the paying agent or directly to the registered owners of any General Obligation Indebtedness, an amount equal to the principal, premium or interest then due and owing on such General Obligation;

EIGHTH: On the date set for the payment thereof, to the Persons entitled to payment on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing on such Subordinate Indebtedness; and

NINTH: At any time as may be required, to the Persons entitled to payment with respect to Other Indebtedness, an amount equal to the payment then due and owing on such Other Indebtedness.

In the amount so deposited in any month to the credit of any Fund mentioned in FIRST through NINTH above is less than the required amount, the requirement therefor will nevertheless be cumulative and the amount of any deficiency in any month will be added to the amount otherwise required to be deposited to the credit of such Fund in each month thereafter until such time as such deficiency will be made up.

At the end of each month, after making all deposits or payments required above (including transferring to the Debt Service Fund sufficient funds to pay Principal and Interest on all Bonds on the next Interest Payment Date), the Town may transfer any balance remaining in the Revenue Fund to any other fund or account designated by the Town to be used for any lawful purpose, including, without limitation, to any capital project fund or capital revenue fund established for the System, but only if the following conditions are met: (i) no Event of Default will exist and be continuing; (ii) in the opinion of the Finance Officer of the Town, such transfer will not have a material adverse effect on the Town's ability over the next 12 calendar months to pay the Operating Expenses, to make all deposits and payments required and to meet all other financial obligations imposed by the Bond Order or the Series Resolution; and (iii) 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, as amended. Any funds transferred from the Revenue Fund as described in the Bond Order, other than transfers made to any Fund or Account established hereunder, will no longer be subject to the pledge, charge and lien upon the Net Revenues created by the Bond Order.

Debt Service Fund

There will be deposited in the Debt Service Fund any amounts required to be deposited therein pursuant to the Bond Order and any other amount available therefor and determined by the Town to be deposited therein.

The Trustee will disburse amounts deposited in the Debt Service Fund as follows:

- (a) On each Interest Payment Date, to the Persons entitled thereto, Interest due on such date.

(b) Subject to the provisions hereof requiring the application thereof to the payment or redemption of any particular Bond, on each Principal Payment Date, to the Owners, the amounts required for the payment of the Principal due on such date.

(c) On each Redemption Date, to the Owners, the amount required for redemption of Bonds called for redemption.

If on an Interest Payment Date or a Principal Payment Date, the amounts in the Debt Service Fund are insufficient to pay in full the Interest or Principal, the amounts in the Debt Service Fund will be applied *pro rata* first to the Persons entitled to Interest and then to the Persons entitled to Principal.

If on any Interest Payment Date or Principal Payment Date, there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following Funds and in the order or priority set forth below:

(a) Revenue Fund;

(b) the account of the Debt Service Reserve Fund, if any, securing a Series of Bonds to pay the Principal of and Interest on such Bonds, to the extent such deficiency is attributable to the Series of Bonds secured by that account of such Debt Service Reserve Fund;

(c) Construction Fund.

To the extent money is required to be transferred from any Fund held by the Town to make up a deficiency in the Debt Service Fund as required above, the Trustee will notify the Town by telephone promptly confirmed in writing on the Business Day preceding the date on which money is required to be transferred by it pursuant to this subparagraph and thereafter the Town will cause the required transfer to be made on the date set therefor.

Rebate Fund

The Town will retain an Accountant or other qualified entity to make computations of Rebate Deposits at the times necessary for the Town to satisfy the requirements of the Code with respect to the 2022 Bonds. If a Rebate Deposit is required as a result of such computation, the Town will direct the Trustee to transfer funds to the Rebate Fund in the amount of such payment from the Revenue Fund. To the extent that amounts available therein are not sufficient to pay the Rebate Deposit, the Town will pay or cause to be paid into the Rebate Fund any amounts necessary to make up the deficiency. Records of the actions required to be taken by the Town must be retained by the Trustee until six years after the Series of the Bonds related thereto are no longer Outstanding. Except as provided above, the Trustee will have no responsibility to independently compute or pay any Rebate Deposit.

There will be deposited in the Rebate Fund any amount required to be deposited therein pursuant to the Bond Order and any other amounts available therefor and determined by the Town to be deposited therein. At the Town's written direction, the Trustee will, at the times and in the manner required by the Code, pay to the United States from the Rebate Fund amounts sufficient to satisfy the requirements of the Code. The Trustee will not be required to make any payment except from funds in the Rebate Fund.

Construction Fund

The Series 2022 Resolution establishes within the Construction Fund separate accounts to be designated the “2022 Project Account” and the “2022 Costs of Issuance Account.” On the delivery of the 2022 Bonds to the purchasers thereof, the Trustee will receive the proceeds from the sale of the 2022 Bonds and will deposit such funds in the 2022 Project Account and the 2022 Costs of Issuance Account in accordance with the Closing Memorandum executed by the Town at closing. Earnings on investments of funds held in the 2022 Project Account will remain within the 2022 Project Account, and earnings on investments of funds held in the 2022 Costs of Issuance Account will remain within the 2022 Costs of Issuance Account. Amounts in the 2022 Project Account of the Construction Fund will be applied for (1) payment of all Costs of Construction of the Project, and (2) transfer to the Debt Service Fund to make up any deficiency therein in accordance with the priorities established under ***Debt Service Fund***, above. Amounts in the 2022 Costs of Issuance Account will be used to pay Costs of Issuance. Any balance remaining in the 2022 Cost of Issuance Account on March 1, 2023 will be transferred to the 2022 Project Account.

Such disbursement shall be made upon the filing from time to time with the Trustee of a requisition in the form provided in the Series Resolution accompanied by a voucher or other appropriate documentation with respect to Costs of Construction and Costs of Issuance, and, as to disbursements other than for Costs of Issuance, stating by general classification the purpose for which each disbursement is to be made and that such work was actually performed, such service was actually rendered or such materials, supplies or equipment actually delivered, installed or fabricated. In addition, upon receipt of a requisition signed by an Authorized Officer, the Trustee will transfer from the 2022 Project Account into a separate account of the Construction Fund to be held by the Town an amount which in the aggregate may not exceed \$500,000, at one time or from time to time, to be used by the Town as a revolving fund for the payment of items of Costs of Construction which cannot conveniently be paid pursuant to individual requisition as set forth above. Such money will be deemed to be a part of the 2022 Project Account until paid out. The Trustee will apply money in the 2022 Project Account to reimburse the revolving fund from time to time for items of Costs of Construction paid with money in the revolving fund on receipt from the Town of a requisition signed by an Authorized Officer which specifies the payee, the amount and the purpose by general classification of each payment from the revolving fund for which such reimbursement is requested and state that each such item of Costs of Construction so paid was a necessary item of Costs of Construction. The Trustee is not responsible for funds held by the Town in the separate account described in this paragraph.

The Trustee has no responsibility to inspect or oversee the construction or completion of any portion of the System or to verify the truthfulness or accuracy of the Town’s certifications with respect to the Trustee’s disbursements for Costs of Construction or Costs of Issuance made in accordance with the Series Resolution.

Debt Service Reserve Fund

There will be deposited in the Debt Service Reserve Fund all amounts (if any) required to be deposited therein pursuant to the Bond Order and any Series Resolution and any other amount available therefor and determined by the Town to be deposited therein. **The 2022 Bonds are not secured by the Debt Service Reserve Fund.**

INVESTMENTS

The Trustee will invest money held in the Debt Service Fund, the Construction Fund, the Debt Service Reserve Fund (if any), and the Rebate Fund, at the written direction of the Town, in Qualified Investments. The Town will invest all Funds and Accounts held by it pursuant hereto in such Qualified Investments as it determines in its sole discretion. The proceeds of any remarketing of the 2022 Bonds will be held uninvested or will be invested at the written direction of the Town in Federal Securities maturing not later than the earlier of 30 days or the date needed for payment. The Town will invest, and as to the Debt Service Fund, the Debt Service Reserve Fund and the Construction Fund, will direct the Trustee in writing to invest, all money held hereunder pursuant to the investment instructions as provided in connection with the 2022 Bonds. The Trustee is not liable for any loss resulting from the purchase, sale or redemption of an Investment Security executed in accordance with the Bond Order.

The Trustee will deposit earnings from investment of money in the Rebate Fund immediately on receipt thereof into the Rebate Fund; and from investment of money in the Debt Service Fund immediately on receipt thereof into the Debt Service Fund. Earnings from investment of money in the Construction Fund will be deposited immediately on receipt thereof into the Construction Fund. All earnings from the investment of money held in any other fund and account hereunder will be credited to the Revenue Fund.

The Trustee may conclusively rely upon the Town's written instructions as to both the suitability and legality of all investments directed hereunder. Ratings of investments will be determined at the time of purchase of such investments and without regard to ratings subcategories. The Trustee has no responsibility to monitor the ratings of investments after the initial purchase of such investments. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries and may charge its ordinary and customary fees for such trades. In the absence of written investment instructions from the Town, the Trustee will not be responsible or liable for keeping the moneys held by it hereunder fully invested. Confirmations of investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered.

VALUATION AND SALE OF INVESTMENTS

In computing the amount in any Fund or Account, obligations purchased as an investment of money therein will be valued at the market value on the last day of each Fiscal Year unless an earlier date is required in the Bond Order or in the Series Resolution. The Trustee will value each Account of the Debt Service Reserve Fund separately for purposes of determining if the Account is in the amount required by the Series Resolution under which it was created.

Except as otherwise provided in the Bond Order, the Trustee will sell and reduce to cash, or present for redemption, any Investment Security whenever it will be required or directed in writing by a Town Representative to do so or whenever it will be necessary in order to provide money to meet any payment or transfer from any Fund or Account held by it, and the Town Representative will sell at the best price obtainable, or present for redemption, any Investment Security whenever it will be necessary in order to provide money to meet any payment or transfer from any Fund or Account held by the Town. An Investment Security may be credited on a pro-rata basis to more than one Fund or Account and need not be sold in order to provide for the transfer of amounts from one Fund or Account to another.

PARTICULAR COVENANTS OF THE TOWN

Operation and Maintenance of System

The Town has covenanted that it will at all times operate the System properly and in a sound and economical manner, and will maintain, preserve and keep the System or cause the System to be so maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and will from time to time make or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted in an efficient manner and at a reasonable cost as a revenue-producing enterprise. The Town will also maintain and amend in each Fiscal Year a capital improvement plan for the System extending over a period of not less than the three following Fiscal Years.

Insurance; Condemnation

The Town has covenanted that it will obtain and maintain insurance, with reasonable terms, conditions, provisions and costs, which the Town determines will afford adequate protection against such risks as are customarily insured against in connection with the operation of sewer systems of the type and size comparable to the System. All such insurance policies will be carried in an insurance company or companies authorized and qualified under the laws of the State to assume the risks thereof. The Town may provide for and maintain the required insurance partially or wholly by means of an adequate State approved self-insurance fund, or by participation in a group risk pool or similar program. Reserves for a self-insurance fund will be determined by using actuarially sound principles. Any self-insurance fund will be reviewed annually by the Town's risk manager.

The proceeds of such insurance covering damage to or destruction of the System, or the proceeds of any condemnation of any portion of the System, will be deposited with the Town and will be available for and will, to the extent necessary, be applied to the repair, replacement or reconstruction of the damaged, destroyed or condemned property, and will be paid out in the manner determined by the Town; provided that proceeds of any insurance or condemnation with respect to the System in excess of \$1,000,000 in any given Fiscal Year will be deposited (1) in the Construction Fund, to repair, replace, or reconstruct the System or portion thereof giving rise to such proceeds or (2) if permitted under the Series Resolution, in the Debt Service Fund to redeem or pay the Principal of some or all of the Bonds Outstanding.

If such proceeds will be insufficient for repair, replacement or reconstruction, the deficiency may be supplied out of any other available funds of the Town in its sole discretion. The proceeds of all insurance covering loss of Revenues will be deposited to the credit of the Revenue Fund.

Annual Budget

The Town has covenanted that it will develop an Annual Budget for each Fiscal Year consistent with the budget preparation schedule set forth in the State's applicable fiscal control statutes. If for any reason the Governing Body will not have adopted the Annual Budget before the first day of any Fiscal Year, the budget for the preceding Fiscal Year will, until the adoption of the Annual Budget, be deemed to be in force.

The Governing Body may at any time adopt an amended or supplemental Annual Budget for the remainder of the then current Fiscal Year, but no such amended or supplemental budget will be effective until it will be approved in the manner in the Bond Order prescribed for the Annual Budget.

The Town has covenanted that the Operating Expenses incurred in any Fiscal Year will not exceed the reasonable and necessary amount thereof, and that it will not expend any amount or incur any obligations for maintenance, repair and operation in excess of the amounts provided for Operating Expenses in the Annual Budget.

Sale or Encumbrance of the System

The Town will not sell, exchange or otherwise dispose of the System or any part thereof except as specifically permitted in the Bond Order.

The Town may from time to time sell, exchange, lease or otherwise dispose of any other property of the System, including machinery, fixtures, apparatus, tools, instruments or other property, as the Governing Body may determine is obsolete or no longer needed or useful for the proper maintenance and operation of such 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 by the Bond Order) any other property of the System, including one or more entire Enterprises added to the System pursuant to the Bond Order 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 will not adversely affect the tax treatment for federal income tax purposes of Interest on such Bonds and (ii) otherwise complying with the provisions hereof, 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 Revenues; 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 for the current and next succeeding Fiscal Year, provided that there is delivered to the Trustee evidence (including, but not limited to, a Certificate of a Town Representative) reasonably satisfactory to the Trustee that such sale, exchange or disposition would not result in the ratings of any Bonds being suspended or downgraded below "investment grade" by Fitch, Moody's or S&P, and provided further that such sale, exchange or disposition would be for a consideration of not less than fair market value; and

(c) the proceeds, if any, of any such sale, exchange or disposition, other than the proceeds with respect to any sale of one or more entire Enterprises added to the System pursuant to the Bond Order, will be applied to the replacement of the properties so sold, exchanged or disposed of or will be deposited to the credit of the subaccount or subaccounts of the Bond Fund or to pay interest on or principal of Bonds as the Town may determine.

If the fair market value of any item of real or personal property to be sold, exchanged or otherwise disposed of pursuant to the Bond Order in any Fiscal Year will be in excess of 1% of the property, plant and equipment of the System calculated in accordance with generally accepted

accounting principles, or if the fair market value of any such item together with the fair market value of all other such items so disposed of in such Fiscal Year aggregates in excess of 1% of the property, plant and equipment of the System calculated in accordance with generally accepted accounting principles, then no such disposal will be effected without first obtaining the written Certificate of a Financial Consultant as to the determinations to be made by the Town with respect to such disposition as described above.

The foregoing provisions will not apply to the sale by the Town of the R. Steven Biggs Regional Wastewater Pretreatment Facility, some or all of the proceeds of which are being used to finance a portion of the cost of the Project.

If the Town sells or otherwise disposes of one or more entire Enterprises added to the System pursuant to the Bond Order, the proceeds, if any, of such sale or other disposition may be applied, at the discretion of the Town, as follows:

(a) to the payment or satisfaction, in whole or in part, of, first, Bonds associated with or related to such Enterprise and, second, any other type of indebtedness of the Town associated with or related to such Enterprise, including Subordinated Indebtedness or Other Indebtedness; or

(b) to the payment or satisfaction, in whole or in part, of the amount due under any other type of contractual obligations of the Town associated with or related to such Enterprise.

In addition to the application of such proceeds for the purposes described above, the Town may, but only with the approval of the Local Government Commission, apply such proceeds as follows:

(c) to the payment or satisfaction, in whole or in part, of any other type of indebtedness of the Town;

(d) the payment or satisfaction, in whole or in part, of the amount due under any other type of contractual obligations of the Town; or

(e) any capital outlay purposes of the Town.

Any proceeds remaining after the payment or satisfaction in whole of all indebtedness and contractual obligations may be applied in any manner that the Town may determine consistent with applicable law.

The proceeds from any sale, lease or disposition of the System, in whole or in part, will be applied to the replacement of the properties so sold or otherwise disposed of or will be deposited in the Revenue Fund or otherwise used to pay or redeem Bonds.

Addition of Enterprises to the System

Additional Enterprises may be added to the System from time to time at the discretion of the Town by resolution of the Governing Body. If Additional Bonds or Subordinated Indebtedness is to be incurred by the Town under the Act and in accordance with the provisions of the Bond Order in connection with the addition of any Enterprise, the resolution of the Governing Body, together with evidence of compliance with the requirements of the Bond Order for the incurrence

of Additional Bonds or Subordinated Indebtedness and subparagraphs (c) and (d) below, will be sufficient for such purpose. If no indebtedness is to be incurred in connection with such addition, then the following must be filed with the Governing Body and the Trustee prior to the adoption of the resolution:

(a) an opinion of the Town Attorney or Bond Counsel to the effect that the Act then permits such addition to the System in the absence of the incurrence of indebtedness by the Town under the Act;

(b) a Certificate of a Town Representative showing that the Net Revenues for the Fiscal Year preceding the Fiscal Year in which the resolution of the Board of Commissioners is to be adopted, based upon the assumption that such addition was made as of the first day of such preceding Fiscal Year, would have met the Town's Rate Covenant for such Fiscal Year;

(c) a Certificate of a Town Representative showing that ratio of Net Revenues for the Fiscal Year preceding the Fiscal Year in which the resolution of the Governing Body is to be adopted, assuming that the addition of the Enterprise to the System occurred at the beginning of such preceding Fiscal Year, to the maximum debt service on all Bonds, Subordinate Indebtedness, General Obligation Indebtedness and Other Indebtedness in the current or any future Fiscal Year, would not decrease by more than 20%; and

(d) evidence (including, but not limited to, a Certificate of a Town Representative) reasonably satisfactory to the Trustee that the addition of such Enterprise to the System would not result in the ratings on any Bonds being suspended or downgraded below "investment grade" by Fitch, Moody's or S&P.

All resolutions and other documents, certificates or opinions required above will be delivered to the Trustee prior to adding any such Enterprise to the System.

Liens or Charges

The Town has covenanted that it will not create or permit to be created any charge or lien on the System or the Net Revenues ranking equally with or prior to the charge or lien on the Net Revenues of the Bonds issued and secured hereunder unless otherwise expressly permitted by the Bond Order or required by applicable law. The Town will discharge or cause to be discharged, or will make adequate provision to satisfy and discharge, within sixty (60) days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the properties constituting the System and the operation of the System and lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the System or the Net Revenues if unpaid. Nothing contained in the Bond Order requires the Town to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings. The Town may issue Subordinated Indebtedness secured by a charge or lien on the System or Net Revenues that is expressly subordinate to Bonds issued under the Bond Order.

DEFAULTS AND REMEDIES

Events of Default

Any of the following events are defined and deemed an “Event of Default” under the Bond Order:

(a) A failure to pay the Principal of or premium, if any, on any Bond when the same becomes due and payable, whether at the stated maturity thereof or on proceedings for redemption, including sinking fund redemptions;

(b) A failure to pay any installment of Interest when the same becomes due and payable;

(c) Entry of final judgment for the payment of money in excess of \$1,000,000 is rendered against the Town as a result of its ownership, control or operation of the System, and any such judgment is not discharged within one hundred twenty (120) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment will have been granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof;

(d) The Town (i) becomes insolvent or the subject of insolvency proceedings; or (ii) admits in writing its inability, to pay its debts as they mature; or (iii) makes a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) files a petition or other pleading seeking reorganization, composition, readjustment, or liquidation of assets, or requesting similar relief; or (v) applies to a court for the appointment of a receiver for it or for the whole or any part of the System; or (vi) has a receiver or liquidator appointed for it or for the whole or any part of the System (with or without the consent of the Town) and such receiver is not discharged within ninety (90) consecutive days after his appointment; or (vii) becomes the subject of an “order for relief” within the meaning of the United States Bankruptcy Code; or (viii) files an answer to a creditor’s petition admitting the material allegations thereof for liquidation, reorganization, readjustment or composition or to effect a plan or other arrangement with creditors or fail to have such petition dismissed within sixty (60) consecutive days after the same is filed against the Town;

(e) A failure by the Town to observe and perform any covenant, condition, agreement or provision (other than as described in under (a) and (b) of above) contained in the Bonds or in the Bond Order on the part of the Town to be observed or performed, which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Town by the Trustee, which may give such notice in its discretion and must give such notice at the written request of Owners of not less than 25% of principal amount of the Bonds, unless the Trustee, or the Trustee and Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which directed such notice, as the case may be, agrees in writing to an extension of such period prior to its expiration.

The Trustee is not deemed to have, or be required to take, notice of a default described in the Bond Order unless notified in writing by the Owners of not less than 25% of the principal amount of the Bonds or unless the Trustee has actual notice thereof.

Remedies on Default

On the occurrence and continuance of an Event of Default, the Trustee may, or if required by the Owners of not less than a majority of the aggregate Principal amount of the Bonds, must, declare the Bonds to be immediately due and payable, whereupon they will, without further action, become due and payable, anything in the Bond Order or in the Bonds to the contrary notwithstanding.

The provisions of the preceding paragraph are subject to the condition that if, after the Principal of any of the Bonds has been so declared to be due and payable, and before any judgment or decree for the payment of the money due has been obtained or entered as provided in the Bond Order, the Town causes to be deposited with the Trustee a sum sufficient to pay all matured installments of the Principal of and Interest on all Bonds which will have become due otherwise than by reason of such declaration (with interest on such overdue installments of Interest, at the rate per annum borne by the respective Bonds) and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default hereunder other than nonpayment of the Principal of the Bonds which have become due by such declaration have been remedied, then, in every such case, such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee will promptly give written notice of such waiver, rescission or annulment to the Town and will give notice thereof by Mail to all Owners; but no such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

On the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and on the written direction of the Owners of not less than a majority in principal amount of the Bonds and receipt of indemnity to its satisfaction, must, in its own name and as the trustee of an express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners, and require the Town to carry out any agreements with or for the benefit of the Owners and to perform its duties under the Bond Order; and

(b) take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the Town.

On the occurrence and continuance of any Event of Default, the Trustee may, or if required by Owners of not less than a majority in aggregate Principal amount of the Bonds or the provisions of the Bond Order, must, take possession of the Revenue Fund and any money therein and administer the application thereof. If the Trustee does so, it may disburse money in the Revenue Fund in such manner as it may determine, notwithstanding the provisions of the Bond Order:

No right or remedy is intended to be exclusive of any other rights or remedies, but each and every such right or remedy will be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute. If any Event of Default has occurred and if requested by the Owners of at least a majority in aggregate principal amount of Bonds and indemnified as provided in the Bond order, the Trustee will be obligated to exercise such one or more of the rights and powers described in the Bond Order as the Trustee, being advised by counsel, deems most expedient in the interests of the Owners.

When the Trustee incurs costs or expenses (including legal fees, costs and expenses) or renders services after the occurrence of an Event of Default, such costs and expenses and the

compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Owner's Right to Direct Proceedings

Anything in the Bond Order to the contrary notwithstanding, the Owners of a majority in aggregate Principal amount of the Bonds Outstanding will have the right, at any time, to the extent permitted by law, by instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Order, or for the appointment of a receiver, and any other proceedings hereunder; provided that such direction may not be otherwise than in accordance with the provisions of the Bond Order. The Trustee will not be required to act on any direction given to it until the indemnity described in the Bond Order is furnished to it by such Owners. The Holders of a majority of the aggregate Principal amount of the Bonds may waive any default which will have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Bond Order or before the completion of the enforcement of any other remedy under the Bond Order, but no such waiver will extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

Limitation on Rights of Owners

No Owner will have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, for the protection or enforcement of any right under the Bond Order unless such Owner has given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than 25% in principal amount of the Bonds have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted under the Bond Order or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there has been offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Bond Order or for any other remedy hereunder or by law. It is understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Order, or to enforce any right hereunder or under law with respect to the Bonds or the Bond Order, except in the manner provided in the Bond Order, and that all proceedings at law or in equity must be instituted, had and maintained in the manner provided in the Bond Order and for the benefit of all Owners. None of the foregoing will affect or impair the right of any Owner to enforce the payment of the Principal of and Interest on its Bonds at the time and place expressed in such Bond.

Each Owner by its acceptance of a Bond will be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Bond Order or the Series Resolution or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant.

The provisions of this paragraph will not apply to any suit instituted by the Trustee, to any suit instituted by Owners of at least 25% in principal amount of the Bonds, or to any suit instituted by any Owner for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Subordination of Claims for Interest

No claim for Interest appertaining to any of the Bonds which in any way at or after maturity has been transferred or pledged separate and apart from the Bond to which it appertains will, unless accompanied by such Bond, be entitled, in case of an Event of Default hereunder, to any benefit by or from the Bond Order, except after the prior payment in full of the Principal of all of the Bonds then due and of all claims for Interest then due not so transferred or pledged.

SUPPLEMENTAL RESOLUTIONS

Supplemental Bond Orders – Without Consent of Holders

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Town may be executed and delivered, which, on the filing with the Trustee of a copy thereof certified by a Town Representative, will be fully effective in accordance with its terms:

(a) to grant to or confer upon the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders, or

(b) to add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the Bond Order other conditions, limitations and restrictions thereafter to be observed, or

(c) to add to the covenants and agreements of the Town in the Bond Order other covenants and agreements thereafter to be observed by the Town or to surrender any right or power reserved in the Bond Order to or conferred upon the Town, or

(d) to surrender any right, power or privilege reserved to or conferred on the Town by the terms of the Bond Order, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Town contained in the Bond Order, or

(e) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Bond Order of the Net Revenues, or

(f) to modify any of the provisions of the Bond Order in any respect whatsoever, but only if (1) such modification will be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution cease to be Outstanding and (2) such Supplemental Resolution will be specifically referred to in the text of all Bonds delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof, or

(g) to provide for the delivery of a Qualified Reserve Fund Substitute, if any, or

(h) to add any Enterprise to the definition of the System, to the extent permitted by the Bond Order or to delete any Enterprise from the definition of the System to the extent permitted by the Bond Order, and

(i) in the form of a Series Resolution, to provide for the issuance of Bonds as permitted under the Bond Order.

provided that any changes do not, in the opinion of Bond Counsel, adversely affect the interests of the Owners of the Bonds.

Supplemental Resolutions Effective On Consent of Trustee

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be executed and delivered, which, on (1) the filing with the Trustee of a copy thereof certified by a Town Representative, and (2) the filing with the Trustee and the Town of an instrument in writing, made by the Trustee consenting thereto, will be fully effective in accordance with its terms:

(a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Bond Order, or

(b) to insert such provisions clarifying matters or questions arising under the Bond Order as are necessary or desirable and are not contrary to or inconsistent with the Bond Order as theretofore in effect, or

(c) to effectuate such changes in the Bond Order which do not adversely affect the interests of the Owners.

Any such Supplemental Resolution may also contain one or more of the purposes specified in under “**Supplemental Bond Orders – Without Consent of Holders**” above, and in that event, the consent of the Trustee required above will be applicable only to those provisions of such Supplemental Resolution that contain one or more of the purposes set forth under “**Supplemental Resolutions Effective On Consent of Trustee**” above.

For any Supplemental Resolution executed and so delivered, the Trustee must receive an opinion of Bond Counsel stating that changes contained therein do not adversely affect the interests of the Owners of the Bonds.

Supplemental Resolutions Effective On Consent of Owners

Exclusive of Supplemental Resolutions covered above, the written consent of the Owners of not less than a majority in aggregate Principal amount of the Bonds Outstanding will be required for the adoption by the Town and written acceptance by the Trustee of any resolution supplemental hereto; provided, however, that without the consent of the Owners of all the Bonds Outstanding nothing contained within the Bond Order will permit, or be construed as permitting:

(a) an extension of the maturity of the Principal of or the Interest on any Bond issued hereunder without the consent of the Holder of such Bond, or

(b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon without the consent of the Holder of such Bond, or

(c) the creation of a lien upon or a pledge of Revenues or Net Revenues other than the lien and pledge created by the Bond Order without the consent of the Holders of all Bonds outstanding, or

(d) a preference or priority of any Bond over any other Bond without the consent of the Holders of all Bonds outstanding, or

(e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental order without the consent of the Holders of all Bonds outstanding.

General Provisions

As a condition to the effectiveness of any Supplemental Resolution, an opinion of Bond Counsel must be delivered to the Trustee stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Bond Order, is authorized or permitted by the Bond Order, is valid and binding on the Town, and does not adversely affect the tax treatment of Interest on any Bonds issued as tax-exempt.

No Supplemental Resolution will change or modify any of the rights or obligations of the Trustee without its written consent thereto.

None of the foregoing will affect or limit the right of the Town to adopt Series Resolutions in connection with the issuance of additional Series of Bonds. Any Series Resolution may be amended or supplemented as provided therein.

No Supplemental Resolution may affect the provisions regarding the LGC under the Bond Order without the consent of the LGC or a person designated by the LGC to execute such a consent.

Notwithstanding anything in the Bond Order or any Series Resolution to the contrary, (1) any initial purchaser, underwriter or remarketing agent holding any Series of Bonds, including the 2022 Bonds, may, regardless of its intent to sell or distribute such Bonds in the future, consent as the Owner of such Bonds to any amendment or supplemental series resolution as required or permitted by the Bond Order, including any amendment or supplemental series resolution that adversely affects the interests of other Owners, and (2) any such initial purchaser, underwriter or remarketing agent providing its consent under this Section is not entitled to receive, nor is the Town required to provide, any prior notice or other documentation regarding such amendment or supplemental order or resolution.

SUPPLEMENTAL SERIES RESOLUTIONS

The Series Resolution and the rights and obligations of the Town and the Owners may be modified or amended at the same times, in the same manner and for the same purposes as the Bond Order, but if the modification or amendment affects only the 2022 Bonds, the percentage to be applied under the Bond Order will be applied only to Outstanding 2022 Bonds.

Notwithstanding anything in the Bond Order or the Series Resolution to the contrary, (1) any initial purchaser, underwriter or remarketing agent holding the 2022 Bonds or another Series of the Bonds issued after the issuance of the 2022 Bonds may, regardless of its intent to sell or distribute such Bonds in the future, consent as the Owner of such Bonds to any amendment or supplemental series resolution as required or permitted by the Bond Order, including any amendment or supplemental series resolution that adversely affects the interests of other Owners,

and (2) any Owner is not entitled to receive, nor is the Town required to provide, any prior notice or other documentation regarding such amendment or supplemental series resolution.

On the adoption of any supplemental series resolution, the Series Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Series Resolution, the Trustee and all Owners will thereafter be determined, exercised and enforced in all respects pursuant to the provisions of the Series Resolution as so modified and amended.

DISCHARGE AND DEFEASANCE

If the Town pays or causes to be paid or is deemed to have paid to the Owner of any Bond the Principal of and Interest due and payable, and thereafter to become due and payable on such Bond, or any portion of such Bond in any integral multiple of the Authorized Denomination thereof, such Bond or portion thereof will cease to be entitled to any lien, benefit or security under the Bond Order. If the Town pays or causes to be paid the Principal of, premium, if any, and Interest due and payable on all Outstanding Bonds, pays or causes to be paid all other sums payable by the Town, including all fees, expenses and other amounts payable to the Trustee and any Paying Agent and all amounts owing to the provider of a Qualified Reserve Fund Substitute, if any, then the right, title and interest of the Trustee in and to the Net Revenues will thereupon cease, terminate and become void.

Any Bond will be deemed to be paid for all purposes of the Bond Order when (a) payment of the Principal of such Bond plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Bond Order) either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment, (1) money, sufficient to make such payment or (2) non-callable Federal Securities maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient money to make such payment, (b) all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee, (c) an accountant provides verification that the money or Federal Securities deposited with the Trustee will be sufficient to pay when due the Principal, premium, if any, and Interest due and to become due on such Bonds on and before the Redemption Date or maturity date thereof, and (d) Bond Counsel delivers an opinion that such deposit of money or Federal Securities will not adversely affect the tax treatment for federal income tax purposes of Interest on any Bonds issued as tax-exempt. At such times as a Bond is deemed to be paid hereunder, as aforesaid, such Bond will no longer be secured by or entitled to the benefits of the Bond Order, except for the purposes of any such payment from such money or Federal Securities.

Notwithstanding the foregoing paragraph, no deposit under clause (a)(ii) of the immediately preceding paragraph will be deemed a payment of such Bonds as aforesaid until (a) proper notice of redemption of such Bonds has been previously given in accordance with the Series Resolution, or if such Bonds are not to be redeemed within the next 35 days, until the Town has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of such Bonds in accordance with the Series Resolution, that the deposit required by (a)(ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Bond Order and stating the maturity or Redemption Date on which money is to be available for the payment of the Principal of such Bonds plus Interest thereon to the due date thereof, or (b) the maturity of such Bonds.

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APPENDIX D

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

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APPENDIX D

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

The North Carolina 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

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

December 20, 2022

Town of Clayton, North Carolina
Clayton, North Carolina

\$95,800,000
Town of Clayton, North Carolina,
Water and Sewer System Revenue Bonds, Series 2022

Ladies and Gentlemen:

We have served as bond counsel in connection with the issuance by the Town of Clayton, North Carolina (the “Town”) of its \$95,800,000 Water and Sewer System Revenue Bonds, Series 2022 (the “Bonds”), dated the date hereof. The Bonds are being issued pursuant to an Amended and Restated Bond Order adopted November 7, 2022, which amends and restates a Bond Order adopted on February 20, 2012, as amended by the First Supplemental Bond Order adopted April 20, 2020 (as so amended and restated, the “Bond Order”), and a Series Resolution adopted on November 7, 2022 (the “Series Resolution”). Unless otherwise defined, each capitalized term used in this opinion letter has the meaning given it in the Bond Order.

In connection with this opinion, we have examined (i) the Constitution of the State of North Carolina (the “State”), (ii) applicable laws of (A) the State, including without limitation Article 5 of Chapter 159 of the North Carolina General Statutes (the “Act”), and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended (the “Code”), and (iii) copies of proceedings and other documents relating to the issuance and sale of the Bonds by the Town, including the Bond Order and the Series Resolution, as we have deemed necessary to render this opinion.

The Bonds will be dated the date of their delivery. We refer you to the Bonds, the Bond Order and the Series Resolution for a description of the purposes for which the Bonds are being issued, its terms and the security for the Bonds.

As to questions of fact material to our opinions, we have relied upon and are assuming the accuracy of certifications and representations of the Town, and other public officials and certain other third parties and others contained in certificates and other documents delivered at closing, including, without limitation, certifications as to the use of proceeds of the Bonds, without undertaking to verify them by independent investigation.

We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating

to this financing have been duly authorized, executed and delivered by all parties other than the Town, and we have further assumed the due organization, existence and powers of such other parties other than the Town.

Based on the foregoing, we are of the opinion that, under current law:

1. The Town has the requisite authority and power to issue and sell the Bonds, and to apply the proceeds from the issuance and sale of the Bonds as set forth in the Series Resolution. Neither the faith and credit of the State nor the faith and credit of the Town or any other political subdivision of the State are pledged to the payment of the principal of or premium, if any, or interest on the Bonds.

2. The Bonds have been duly authorized, executed, and delivered in accordance with the Act, the Bond Order and the Series Resolution, and constitute a valid and binding limited obligation of the Town. The Bonds are secured by a pledge, charge, and lien upon the Net Revenues, as defined in the Bond Order. The Bonds are being issued on a parity with the bonds currently outstanding under the Bond Order (the "Outstanding Bonds"), and any additional bonds to be issued in the future under the Bond Order ("Additional Bonds").

3. Interest on the Bonds (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, for taxable years beginning after December 31, 2022, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bond.

In delivering this opinion letter, we are assuming continuing compliance with the Covenants (as defined below) by the Town, so that interest on the Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The tax certificate and agreement for the Bonds (the "Tax Certificate") delivered at closing by the Town contain covenants (the "Covenants") with which the Town has agreed to comply. Failure by the Town to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to its date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issuance of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes under Section 103 of the Code of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

4. Interest on the Bonds is exempt from State of North Carolina income taxes. We express no opinion regarding (i) other tax consequences arising with respect to the Bonds under the laws of the State or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than the State.

The obligations of the Town under the Bonds, the Bond Order and the Series Resolution are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations are also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of the obligations.

Additional Bonds may be issued from time to time under the conditions, limitations, and restrictions set forth in the Bond Order, and any such Additional Bonds will be secured equally and ratably as to the pledge of Net Revenues with the Outstanding Bonds and the Bonds, as provided in the Bond Order.

Our services as bond counsel have been limited to rendering the foregoing opinions based on our review of such legal proceedings and other documents as we deem necessary to approve the validity of the Bonds and the income tax status of the interest on it. We express no opinion as to the accuracy, completeness or sufficiency of any information that may have been relied upon by any owner of the Bonds in making the decision to purchase the Bonds.

The opinions set forth herein are being furnished to the addressee hereof, and this opinion letter is not to be furnished to any other person or entity or used or relied upon for any other purpose without our prior written consent. A copy of this opinion letter may be included in the transcript of proceedings prepared with respect to the Bonds.

The opinions set forth herein are made as of the date hereof, and we assume no obligation to supplement this opinion letter if any applicable laws change after the date hereof or if we become aware after the date hereof of any facts that might change the opinions expressed herein.

Very truly yours,

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APPENDIX F

DTC'S BOOK-ENTRY-ONLY SYSTEM

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APPENDIX F

DTC'S BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2022 Bonds. The 2022 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 2022 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 2022 BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE 2022 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2022 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 2022 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2022 Bonds on DTC's records. The ownership interest of each actual purchaser of 2022 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 2022 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 2022 Bonds, except in the event that use of the book-entry system for the 2022 Bonds is discontinued.

To facilitate subsequent transfers, all 2022 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 2022 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 2022 Bonds; DTC's records reflect only the identities of the Direct Participants to whose accounts the 2022 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 2022 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 2022 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2022 Bonds, such as redemption, tenders, defaults and proposed amendments to the documents authorizing and securing the 2022 Bonds. For example, Beneficial Owners of the 2022 Bonds may wish to ascertain that the nominee holding the 2022 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 2022 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2022 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2022 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 2022 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2022 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 2022 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, 2022 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, 2022 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 2022 Bonds (a) payments of principal of or and interest on the 2022 Bonds, (b) confirmations of their ownership interests in the 2022 Bonds or (c) redemption or other notices sent to DTC or Cede & Co, its partnership nominee, as the registered owner of the 2022 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 2022 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 2022 BONDS UNDER THE TERMS OF THE BOND ORDER OR THE SERIES RESOLUTION; AND (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2022 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

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