

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Ratings:
Moody's: Aaa
S&P: AAA
(See "RATINGS" herein)

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 6, 2024

NEW ISSUE—Book-Entry Only

This Official Statement has been prepared by the Local Government Commission of North Carolina (the "Commission") and the Town of Fuquay-Varina, North Carolina (the "Town") to provide information in connection with the sale and issuance of the Bonds described herein. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety. Capitalized terms used on this cover page have the meanings given in this Official Statement.

Town of Fuquay-Varina, North Carolina

**\$10,000,000
General Obligation Transportation Bonds
Series 2024**

Dated date of delivery	Due: As shown on inside cover page
<i>Tax Treatment</i>	In the opinion of Bond Counsel and subject to the qualifications described in this Official Statement, interest on the Bonds is not includable in gross income for federal income tax purposes and is exempt from current State of North Carolina income taxes. See "TAX TREATMENT" herein for additional information regarding tax consequences arising from ownership or receipt of interest on the Bonds, including information regarding the application of federal alternative minimum tax provisions to the Bonds and certain other federal, State and local tax consequences. The Town has not designated any of the Bonds as "qualified tax-exempt obligations" for federal income tax purposes.
<i>Redemption</i>	The Bonds are subject to optional redemption prior to maturity at the times and price set forth herein.
<i>Security</i>	The Bonds constitute general obligations of the Town, secured by a pledge of the faith and credit and taxing power of the Town.
<i>Interest Payment Dates</i>	February 1 and August 1, commencing February 1, 2025.
<i>Denominations</i>	\$5,000 or any integral multiple thereof.
<i>Expected Closing/Settlement</i>	October 9, 2024
<i>Bond Counsel</i>	Sanford Holshouser LLP, Carrboro, North Carolina
<i>Financial Advisor</i>	Davenport & Company LLC, Charlotte, North Carolina
<i>Sale Date</i>	September 17, 2024
<i>Sale of Bonds</i>	Pursuant to sealed bids in accordance with the Notice of Sale.

The date of this Official Statement is September ____, 2024

MATURITY SCHEDULE

Town of Fuquay-Varina, North Carolina Due August 1 of the Year Indicated

\$10,000,000 General Obligation Transportation Bonds, Series 2024

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u> ¹	<u>CUSIP</u> ⁺
2025	\$500,000			
2026	500,000			
2027	500,000			
2028	500,000			
2029	500,000			
2030	500,000			
2031	500,000			
2032	500,000			
2033	500,000			
2034	500,000			
2035	500,000			
2036	500,000			
2037	500,000			
2038	500,000			
2039	500,000			
2040	500,000			
2041	500,000			
2042	500,000			
2043	500,000			
2044	500,000			

¹Information obtained from underwriters.

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

Board of Commissioners

J. Blake Massengill Mayor
Marilyn Gardner Mayor Pro-Tem

William Harris
Bryan Haynes
Charlie Adcock
Jason Wunsch

Town Staff

Adam Mitchell..... Town Manager
JoAnne Crabtree Finance Director
Teresa Wilder..... Town Clerk
James Adcock..... Town Attorney

BOND COUNSEL

Sanford Holshouser LLP
Carrboro, North Carolina

FINANCIAL ADVISOR

Davenport & Company LLC
Charlotte, North Carolina

TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA	1
THE BONDS	2
Description	2
Redemption Provisions	2
Authorization and Purpose.....	3
Security	3
THE TOWN	4
General Description	4
Demographic Characteristics	5
Commercial and Industrial Profile	5
Employment	9
Government and Major Services	9
Government Structure	9
Education.....	9
Transportation	10
Medical and Health Related Facilities.....	11
Parks, Recreation and Cultural Resources	11
Public Utility Enterprises.....	11
Other Services	12
Debt Information	13
Legal Debt Limit	13
Outstanding General Obligation Debt	13
General Obligation Debt Ratios	13
General Obligation Debt Service Requirements and Maturity Schedule.....	14
General Obligation Bonds Authorized and Unissued	15
General Obligation Debt Information for Overlapping Unit as of June 30, 2024.....	15
Revenue Debt of the Town.....	15
Other Long-Term Commitments	15
Debt Outlook	16
Tax Information	16
General Information	16
Tax Collections	16
Ten Largest Taxpayers for Fiscal Year Ended June 30, 2024	16
2024-2025 Budget Outlook	17
Pension Plans.....	18
Other Post-Employment Benefits	19
Contingent Liabilities.....	19
CONTINUING DISCLOSURE	20
APPROVAL OF LEGAL PROCEEDINGS	22
CYBERSECURITY.....	23
TAX TREATMENT.....	23
Opinion of Bond Counsel	23
Discount Bonds and Premium Bonds.....	23
Other Tax Consequences	24
RATINGS	24
FINANCIAL ADVISOR.....	24
UNDERWRITING	24
MISCELLANEOUS	25
APPENDICES	
A — The North Carolina Local Government Commission	A-1
B — Certain Constitutional, Statutory and Administrative Provisions Governing or Relevant to the Incurrence of General Obligation Bonded Indebtedness by Units of Local Government of the State of North Carolina.....	B-1
C — Management Discussion and Analysis.....	C-1
D — Financial Information	D-1
E — Proposed Form of Legal Opinion	E-1
F — Book-Entry Only System	F-1



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION

INTRODUCTION

This Official Statement, including the cover page and the appendices, is intended to furnish information in connection with the public invitation for bids for the purchase of \$10,000,000 General Obligation Transportation Bonds, Series 2024 (the “Bonds”), of the Town of Fuquay-Varina, North Carolina (the “Town”).

The information furnished herein includes a brief description of the Town and its economic condition, government, debt management, tax structure, financial operations, budget, pension plans and contingent liabilities. The Town has assisted the Local Government Commission of North Carolina (the “Commission”) in gathering and assembling the information contained herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 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 Bonds implies that the information herein is correct as of any date subsequent to the date thereof. 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.

This Official Statement is deemed to be a final official statement with respect to the Bonds within the meaning of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”), except, when it is in preliminary form, for the omission of certain pricing and other information to be made available by the successful bidder or bidders for the Bonds to the Commission. In accordance with the requirements of the Rule, the Town has agreed in a resolution adopted by the Board of Commissioners of the Town to certain continuing disclosure obligations. See the caption “CONTINUING DISCLOSURE” herein.

THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

The Commission, a division of the Department of State Treasurer, State of North Carolina (the “State”), is a State agency that supervises the issuance of the bonded indebtedness of all units of local government and assists these units in the area of fiscal management. Appendix A to this Official Statement contains additional information concerning the Commission and its functions.

THE BONDS

Description

The Bonds will be dated their date of delivery, will bear interest from their respective dates, payable on February 1, 2025 and semiannually thereafter on each August 1 and February 1, at the interest rates set forth on the inside cover page of this Official Statement. The Bonds will mature on August 1 in years and amounts as shown on the inside cover. The Town will make Bond payments to the person shown as owner on the Town's registration books as of the **Record Date** for the Bonds, which is the end of the calendar day on the 15th day of the month (whether or not a business day) preceding each interest payment date.

The Bonds will be issuable as fully registered bonds in a book-entry only system under which The Depository Trust Company, a New York Corporation ("DTC") will act as securities depository nominee for the Bonds. Purchases and transfers of the Bonds may be made only in authorized denominations of \$5,000 and in accordance with the practices and procedures of DTC. See Appendix F hereto for a description of the book-entry only system and DTC.

Redemption Provisions

The Bonds maturing on or prior to August 1, 2034 will not be subject to redemption prior to their respective maturities. The Bonds maturing on August 1, 2035 and thereafter will be subject to redemption, at the option of the Town, from any moneys that may be made available for such purpose, either in whole or in part on any date not earlier than August 1, 2034, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

If less than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of such Bonds to be redeemed shall be selected by lot in such manner as the Town in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or some whole multiple thereof and that, in selecting Bonds for redemption, each such Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bonds by \$5,000. So long as a book-entry system with DTC is used for determining beneficial ownership of the Bonds, if less than all of the Bonds within a maturity are to be redeemed, DTC and its participants shall determine which of the Bonds within a maturity are to be redeemed by lot. If less than all of the Bonds stated to mature on different dates shall be called for redemption, the particular Bonds or portions of such Bonds to be redeemed shall be called in such manner as the Town may determine.

Not more than sixty (60) nor less than thirty (30) days before the redemption date of any Bonds to be redeemed, whether such redemption be in whole or in part, the Town shall cause a notice of such redemption to be filed with the Bond Registrar and to be mailed, postage prepaid, to the registered owner of each Bond to be redeemed in whole or in part to his or her address appearing upon the registration books of the Town, provided that such notice to Cede & Co. shall be given by certified or registered mail or otherwise as prescribed by DTC. Failure to mail such notice or any defect therein shall not affect the validity of the redemption as regards registered owners to whom such notice was properly given.

Any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Town on or prior to the redemption date of moneys sufficient to pay the redemption price of and interest on the Bonds to be redeemed, and that if such moneys are not so received, such notice shall be of no force or effect and such Bond shall not be required to be redeemed. If a notice contains such a condition and moneys sufficient to pay the redemption price of and interest on such Bonds are not received by the Town on or prior to the redemption date, the redemption shall not be made and

the Town shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

On the date fixed for redemption, notice having been given as hereinabove described, the Bonds or portions thereof called for redemption shall be due and payable at the redemption price provided therefor, plus accrued interest to such date. If moneys sufficient to pay the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, are held by the Bond Registrar in trust for the registered owners of the Bonds or portions thereof to be redeemed, interest on the Bonds or portions thereof called for redemption shall cease to accrue, and the registered owners of such Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the redemption price thereof, plus accrued interest to such redemption date. If a portion of a Bond shall have been selected for redemption, a new Bond or Bonds of the same maturity, of any authorized denomination or denominations and bearing interest at the same rate shall be delivered for the unredeemed portion of the principal amount of such Bond.

Authorization and Purpose

The Bonds are being issued pursuant to the provisions of The Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, bond orders adopted by the Town Board of Commissioners on July 12, 2021, which bond orders were approved by the vote of a majority of qualified voters of the Town who voted thereon at referenda duly called and held on November 2, 2021 and a resolution adopted by said Town Commissioners on August 20, 2024. The Town is issuing the Bonds to finance the capital costs of new lanes, medians, and intersection improvements.

Security

The Bonds are general obligations of the Town. Unless other funds are lawfully available and appropriated for the payments, the Town is authorized by law to levy on all real and tangible personal property taxable by the Town such ad valorem taxes, without limitation as to rate or amount, as may be necessary to pay the Bonds and the interest thereon.

(Remainder of page left blank intentionally)

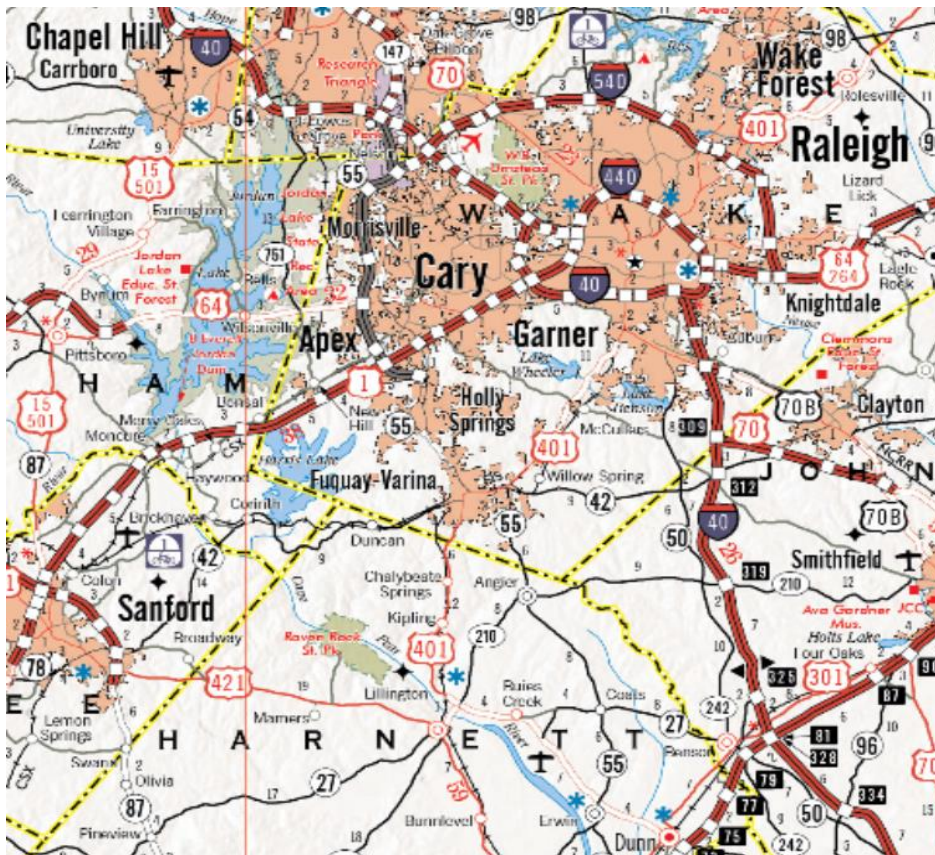
THE TOWN

General Description

The Town was formed in 1963 when the Town of Fuquay Springs, incorporated in 1909, joined the community of Varina as a single municipality. The Town is located in Wake County, North Carolina (the “County”) between the piedmont and coastal plain areas of North Carolina, approximately 14 miles south of Raleigh, the state capital of North Carolina. The Town covers an area of approximately 19.6 square miles. The population of the Town continues to increase, having grown from approximately 18,076 in 2010 to approximately 43,481 in 2024, according to the Town Planning Department. Because of its convenient location near the cities of Raleigh and Durham, Raleigh-Durham International Airport and Research Triangle Park, the Town has become a major employment center.

New York, New York 489 Miles

Washington, D.C. 256 Miles



Atlanta, Georgia 372 Miles

Demographic Characteristics

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

<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
4,447	7,898	17,937	34,152

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

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
31,473	33,006	34,392	36,017	38,516

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

<u>Year</u>	<u>County</u> ¹	<u>State</u>	<u>United States</u>
2018	\$59,788	\$46,040	\$53,309
2019	61,941	48,366	55,547
2020	65,717	51,781	59,153
2021	73,800	56,705	64,430
2022	76,357	58,109	65,470

¹Separate data for the Town are not available.

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

Commercial and Industrial Profile

Due to its location near the Raleigh-Durham International Airport and Research Triangle Park, the Town has enjoyed significant commercial and industrial growth in recent years. The Town's tax base has grown from approximately \$675 million in 2000 to approximately \$6.5 billion in 2023. The Town's tax base has a current ratio of approximately 20% commercial/industrial to 80% residential.

The Gold Leaf Crossing Project is an 800,000-square foot commercial and retail project. The development will be designed as an open, multi-modal type of development, focusing on connecting patrons to a carefully selected tenant mix, offering a wide range of high-end restaurants, retail, and entertainment services and amenities. This type of large-scale commercial/retail development is an essential component of the Town's overall economic development strategy that aims to foster a sense of community that closely links the residents and local industries to a contemporary style of community-focused amenities deserving of Fuquay-Varina's prosperous and rapidly growing community. The more than \$150 million project will be supported, in part, by infrastructure incentives provided by the Town. Construction of site infrastructure for the project is currently underway. National retailer Target will be the project's anchor tenant and will open in early 2026. This town center, open-air lifestyle center, will include various high-end retail and commercial amenities.

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

The Fuquay Family Fun Center will be the first of its kind in Fuquay-Varina. The project announced in 2021 plans to invest \$10 million in new capital investment in the community and create

100 new full-time and part-time jobs. The center will be equipped with a bowling alley, laser tag, and an arcade. The project will be supported, in part, by incentive funding provided by the Town. The project is expected to be a major attraction. The Town has approved the development plan for this project, however, a construction start date is undetermined at this time.

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

TJ Maxx and Popshef retail stores began retrofitting a vacant existing retail space in Fuquay-Varina. Popshef opened in January 2023, and TJ Maxx opened March 25, 2023. The presence of these stores brings much-needed retail options to the community.

Berk Tek, a Leviton Company, a leading manufacturer of high-performance fiber optic cables in the telecommunications industry, is completing a \$27 million manufacturing facility expansion project. The expansion will double the company's footprint, adding more than 95,000 square feet to its existing 55,000 square feet. It will result in the creation of 100 new full-time jobs. The project is expected to be complete in 2025. The expansion will be supported, in part, by incentive funding provided by the Town and Wake County.

Aviator Brewing Company, a craft brewing manufacturing and distribution industry leader, is completing a \$4.5 million manufacturing, commercial, and distribution facility expansion project. This expansion will result in 75 new full and part-time jobs. The project was delayed but is expected to be complete by mid-2025. The expansion will be supported, in part, by incentive funding provided by the Town.

In addition, the Town is working with a developer to build a downtown mixed-use project consisting of residential and retail space. This new, mixed-use project is expected to be a \$65 million private sector investment for the downtown community. The Fuquay-Varina Arts Center (the "Arts Center"), a 300-plus seat theater located in the downtown Fuquay District opened in March 2019. This state-of-the-art venue now provides creative arts programming fulfilling an increased demand by local businesses and citizens.

(Remainder of page left blank intentionally)

The following table lists the major employers in the Town as of June 2024:

<u>Company or Institution</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
Wake County Public Schools	Education	1,056
John Deere	Golf/Commercial Mowing Products	525
Town of Fuquay-Varina	Local Government	435
TE Connectivity	Manufacturing	375
Walmart	Retail	304
Harris Teeter	Grocery	270
Bob Barker Company	Institutional Supplies	220
Food Lion	Grocery	219
Home Depot	Retail	195
Fidelity Bank	Financial Institution	149

Source: Survey of individual companies and institutions as of June 2024.

John Deere has been manufacturing professional turf and golf course equipment in the Town for approximately 26 years and employs 525 people. TE Connectivity has been manufacturing electronic connectivity equipment in the Town for 42 years and employs 375 people. FUJIFILM Diosynth Biotechnologies is building a \$2 billion cell culture contact biopharmaceutical plant nearby in the Town of Holly Springs, which is expected to open in 2025. In 2024, the company announced an additional investment of \$1.2 billion. Spinoff growth is expected in the Town from FUJIFILM in Holly Springs. Additionally, Novo Nordisk plans a \$4.2 billion manufacturing facility in Clayton creating the potential for local businesses in Fuquay-Varina to become suppliers to service providers and attracting new residents to the Triangle Region.

In 2021, Apple announced plans for a new \$1 billion campus and engineering center to be in the Research Triangle Park, which could bring an estimated 3,000 jobs to the area over a decade. The company announced earlier in 2024 that work on the project would be delayed at least until 2030, instead of the original estimated start date in 2026.

The Research Triangle Park (the “RTP”), a nationally recognized center for research and light manufacturing, is partially located in the County. The RTP’s primary objective is to attract research-related institutions to the area and is currently home to over 300 organizations including International Business Machines Corporation, GlaxoSmithKline, Cisco Systems, Inc., Credit Suisse, RTI International, Fidelity Investments, Lenovo, the United States Environmental Protection Agency, Biogen, and NetApp. The organizations in the RTP employ approximately 60,000 employees with an annual payroll over \$2.7 billion. RTP companies and Universities perform \$6 billion in combined research expenditures annually.

In addition, many Town residents commute to jobs at N.C State University and governmental employers in the area and to nearby RTP companies.

Total taxable sales in the County¹ for the past five fiscal years ended June 30, 2019 through 2024, are shown in the following table:

<u>Fiscal Year</u> <u>June 30</u>	<u>Total</u> <u>Taxable Sales</u>	<u>Increase Over</u> <u>Previous Year</u>
2019	\$19,711,357,427	7.87%
2020	20,128,769,992	2.12
2021	22,643,614,457	12.49
2022	26,567,203,523	17.33
2023	29,468,896,469	10.92
2024	30,502,926,367 ²	3.51

¹Separate data for the Town are not available.

²Preliminary; subject to rounding.

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

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

<u>Calendar Year</u>	<u>Non-Residential</u>		<u>Residential</u>		<u>Total Value</u>
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	
2019	66	\$41,537,306	897	\$138,448,226	\$179,985,532
2020	89	34,342,327	887	192,836,350	227,178,677
2021	32	38,705,391	1440	333,638,170	372,343,561
2022	54	59,938,405	1891	403,018,696	462,957,101
2023	44	122,335,282	977	262,194,252	384,529,534
2024	36	51,827,493	422	121,775,112	173,602,605

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

(Remainder of page left blank intentionally)

Employment

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

<u>Year</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>July</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
2019	3.6%	3.4%	3.2%	2.9%	3.3%	3.6%	3.6%	3.5%	3.0%	3.0%	3.1%	3.0%
2020	3.2	2.9	4.0*	11.9*	9.9	8.1	7.2	5.3	5.2	4.5	4.6	4.9
2021	5.3	4.7	4.4	4.1	3.9	4.5	4.2	4.1	3.2	3.5	3.2	2.9
2022	3.5	3.2	3.3	2.9	3.3	3.4	3.3	3.7	3.1	3.2	3.3	2.9
2023	3.6	3.4	3.1	2.6	2.9	3.2	3.2	3.5	3.1	3.3	3.3	3.5
2024	3.6	3.6	3.6	3.4	3.4	3.8	4.2	N/A	N/A			

*Onset of the COVID-19 Pandemic.

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

For comparison, the average unemployment rate for 2023 was 3.2% for Fuquay-Varina, 3.1% for Wake County, 3.0% for North Carolina and 3.5% for the United States.

Government and Major Services

Government Structure. The Town operates under the Council-Manager form of government in which the citizens elect a Mayor and a Board of Commissioners (the “Board”) as the Town’s governing body. The Board appoints the Town Manager who serves as the town’s chief administrative officer.

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

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

Education. The Wake County Public School System (“WCPSS”) serves all residents of the County, including the Town. During the 2023-24 school year, 160,183 students were enrolled in 197 schools staffed by 11,261 permanent full-time teachers across the County. The Town is home to 7 elementary schools, 2 middle schools and 2 high schools. Two additional elementary schools are scheduled to open for the 2025-2026 school year. The WCPSS is the largest school system in State by student population and the 15th largest in the United States.

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

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

School Year	Elementary (K-5)			Middle (6-8)			High (9-12)		
	Schools ¹	Classrooms	ADM ²	Schools ¹	Classrooms	ADM ²	Schools ¹	Classrooms	ADM ²
2019-20	117	5,159	72,965	42	2,443	38,290	32	2,699	50,652
2020-21	118	5,081	69,022	43	2,475	37,772	32	2,692	50,879
2021-22	118	5,083	68,967	43	2,476	37,248	33	2,789	52,245
2022-23	120	N/A	68,458	43	N/A	36,456	34	N/A	52,735
2023-24	120	N/A	69,700	43	N/A	36,475	34	N/A	54,029

¹Schools include three academies; one K-8 school listed under elementary and two 6-12 schools listed under middle.

²ADM – Average Daily Membership (using the 40th day enrollment for school years 2020-2024), is computed by the North Carolina Department of Public Instruction on a uniform basis for all public school units in the State. The memberships are used as a basis for teacher allotments and for distribution of State funds.

Source: Wake County Public Schools.

Eleven colleges and universities, nationally and internationally recognized, are located within a thirty-mile radius of the Town. These include, but are not limited to: UNC-Chapel Hill, Duke University, North Carolina State University, North Carolina Central University, Campbell University, and Meredith College. The Wake Technical Community College (“Wake Tech”) main campus is located within 10 minutes of the Town center. Wake Tech offers vocational education and training for area jobs and associate degree programs in the fields of business, engineering technology, health, public service and general education. Many students transfer to four-year colleges and universities to earn further degrees. Wake Tech is the County’s provider of registered nurse education and job training for new and existing industry. Area residents also take advantage of its wide range of continuing education classes, including adult basic education.

Transportation. Major expansion, maintenance and improvement of primary and secondary highways in the Federal and State highway systems within the Town limits are chiefly the State’s responsibility. The Town is responsible for a portion of the acquisition of rights-of-way for such expansion or betterment, related sidewalk improvements, and street lighting. Major expansion, maintenance and betterment of the local street system are the sole responsibility of the Town. The Town currently maintains approximately 176 linear miles of streets. The Town also actively participates in planning and constructing roadway system improvements.

The Town is served by U.S. Highway 401 as well as NC Highway 55 and NC 42. The Town is also near U.S. 1 and Interstates 40 and 440. The Triangle Expressway, which is an extension of I-540 from NC 54 north of Morrisville to NC 55 in Holly Springs, has been completed. Future expansions to the Triangle Expressway are planned to extend to U.S. 401 and I-40, and these improvements are scheduled to be completed by 2025 by the North Carolina Department of Transportation. This thoroughfare will connect the northern Urban Service Area of the Town to the Research Triangle Park.

The Town has completed the “Judd Parkway Loop,” which serves as an alternative route from the Town to Research Triangle Park and provides necessary capacity for the Town’s growing traffic demands. The Town is also completing major upgrades to the intersection of Judd Parkway Loop with Hwy 55 and South Main Street Intersection. These projects are intended to reduce congestion in the central part of the Town. The Town has been authorized to issue \$20 million in Transportation Bonds to finance operational improvements to multiple intersections throughout the Town.

Raleigh-Durham International Airport (the “Airport”) is located within thirty-five minutes of the Town. The Airport is a major regional airport serviced by eleven major airlines and three foreign flag carriers. Approximately 14.5 million passengers enplaned or deplaned in calendar year 2023 as compared to 11.8 million passengers in 2022. The Airport has two parallel runways of 10,000 feet and 7,500 feet, and a cross-wind general aviation runway of 3,500 feet. An air cargo complex houses five cargo carriers. Two passenger terminals provide a total of 59 aircraft gates. The Town is not financially responsible for any airport capital improvements or operating expenses.

Medical and Health Related Facilities. Located throughout the Town are several physicians, specialty medical providers, dentists and orthodontists. The Town is served by WakeMed’s Western Wake Medical Center in Cary. UNC Rex Healthcare operates a medical office building in nearby Holly Springs and opened its 145,000 square-foot, 50-bed hospital there in 2020. Duke Raleigh Hospital has a 186-bed capacity located in Raleigh. South of the Town in Harnett County are the Central Harnett County and Betsy Johnson Hospitals located within a short drive of the Town for medical and emergency services. WakeMed Fuquay-Varina Medical Park on Highway 401 is complete and currently offers primary care, cardiology, orthopedics, lab and imaging services. With approximately 81,000 square-feet of new medical specialty offices, more services are being added such as OB-GYN and Urology.

Parks, Recreation & Cultural Resources. The Town began developing its parks and recreation system more than forty years ago with the acquisition of Falcon Park. Since that time, both the Town and the park system have grown and changed dramatically. With 30 various-sized soccer fields, 7 multi-purpose fields, 10 baseball fields, Council Gym and the Community Center, the Parks, Recreation & Cultural Resources Department is well-equipped to handle a first-rate youth sports program with approximately 10,000 participants per year. In addition, the Parks, Recreation & Cultural Resources Department offers a vast array of recreation programs for people of all ages in many disciplines including, but not limited to art, physical fitness, social outings, teen, active adult, games, and education.

Town parks contain approximately 500 acres of active sports fields, playgrounds, picnic facilities, environmental education components, paved walking tracks, greenways, open space, and the historic Fuquay Mineral Spring. Council Gymnasium, Fuquay-Varina Community Center, and the FV Arts Center contain around 60,000 square feet of indoor facilities that provide spaces for a variety of activities. The Town plans to open the new 77,000 square foot Hilltop Needmore Town Park Community Center in early 2025 which will leverage additional program space for all ages.

The Town also supports several special community events throughout the year such as Celebrate Fuquay-Varina Festival, an Independence Day Celebration, eight Follow Me 2 Fuquay-Varina Concert Series in Downtown; Halloween Trail Event; an Ice Cream Social, the annual Egg Hunt, and the annual Holiday Tree Lighting.

Public Utility Enterprises. The Town owns and operates a water distribution system, a sanitary sewer collection system and wastewater treatment facilities which provide service to the Town and limited surrounding areas.

Water System. The Town has existing water purchase capacities, in million gallons per day (“MGD”), as follows:

	<u>Maximum Purchase (MGD)</u>
City of Raleigh	1.75
Johnston County	1.50
Harnett County	<u>4.00</u>
Total	<u>7.25</u>

The Town’s current average daily demand is 3.40 MGD, making the water capacity available to serve future development equal to 3.85 MGD. The Town is under construction through an Interlocal Agreement with the City of Sanford, NC for 6 MGD of additional future capacity, expected to be in service in 2028.

Due to the consistent growth of the Town, management is planning for future capacity needs for the Town’s water and sewer system. The City of Sanford owns and operates the Sanford Water Filtration Facility (WFF), which is being engineered to expand capacity. The Town of Fuquay-Varina, City of Sanford, Town of Holly Springs, and the Town of Pittsboro have entered into an Interlocal Agreement (ILA) for the construction, operations and maintenance of the expansion. Of the 18 MGD expansion, the Town is expected to obtain 6 MGD. In addition, the Town and the Town of Holly Springs have entered a memorandum of understanding (MOU) for the design and water conveyance line to serve the two towns for the capacity received from Sanford. All jurisdictions have received low interest loans from the State of North Carolina for a portion of the expansion and conveyance projects to assist in the affordability of the projects. The Town issued \$65,205,000 in utility revenue bonds to fund the remaining amounts in July 2024. The Town also plans to issue another approximately \$70 million in utility revenue bonds early in calendar year 2024 to fund the Town’s portion of the conveyance line from Sanford.

Sanitary Sewer System. The Town currently operates and maintains two wastewater treatment facilities located in the Neuse River Basin, the Terrible Creek Wastewater Treatment Plant (“Terrible Creek”) and the Brighton Forest Wastewater Treatment Plant (“Brighton Forest”).

Terrible Creek has a current treatment capacity of 3.00 MGD. The current average daily treated discharge is 1.40 MGD. The existing available capacity for future development in the Neuse River Basin planning area of the Town is therefore 1.6 MGD. The Town has a current State permit to be able to expand Terrible Creek’s wastewater treatment capacity up to 6.00 MGD, and is under design for that expansion. The Town expects to issue approximately \$70 million in utility revenue bonds to fund the expansion in Fall 2024.

Brighton Forest has a current treatment capacity of 0.117 MGD. The plant was constructed to serve 572 homes in two residential subdivisions. The current average daily flow is 0.067 MGD.

The Town has also purchased treatment capacity of 2.6 MGD in the North Harnett County Regional Wastewater Treatment Plant (the “North Harnett Plant”). The current average daily usage for the Town in the North Harnett Plant is 1.493 MGD. The North Harnett Plant is under expansion construction and the Town has requested to obtain an additional 3.4 MGD of treatment capacity pursuant to an amendment the interlocal agreement with Harnett County.

Other Services. The Town provides police services to its residents and businesses. It also provides fire protection services through its municipal fire department.

The Town collects and disposes of residential solid waste and collects curbside recycling. The Town partners with the County in maintenance of a landfill, and the Town expects the current landfill will be sufficient for the Town’s purposes for more than the next 20 years.

Debt Information

Legal Debt Limit. In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, allowing for the issuance of all presently authorized bonds, including those being offered by this Official Statement, the Town has the statutory capacity to incur additional net debt in the approximate amount of \$437,400,745 as of June 30, 2024.

Outstanding General Obligation Debt.

	<u>Principal Outstanding as of</u>			
	<u>June 30,</u> <u>2021</u>	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2024</u>
<u>General Obligation Bonds</u>				
Enterprise Bonds	\$ 1,150,000	\$ --	\$ 5,000,000	\$5,000,000
Other Bonds	<u>20,325,000</u>	<u>18,995,000</u>	<u>41,465,000</u>	<u>40,130,000</u>
Total General Obligation Debt	<u>\$21,475,000</u>	<u>\$18,995,000</u>	<u>\$46,465,000</u>	<u>\$45,130,000</u>

Latest Bonds Issued:

2022-23 \$17,350,000 General Obligation Public Building Bonds, 3.17 years average maturity, 2.6189% true interest cost.
 \$27,150,000 General Obligation Public Improvement Bonds, 11.40 years average maturity, 3.1725% true interest cost.

General Obligation Debt Ratios.

<u>At June 30</u>	<u>Total</u> <u>GO Debt</u>	<u>Assessed</u> <u>Valuation</u>	<u>Total</u> <u>GO Debt</u> <u>To Assessed</u> <u>Valuation</u>	<u>Population</u> ¹	<u>Total</u> <u>GO Debt</u> <u>Per Capita</u>
2020	\$ 23,295,000	\$3,663,827,265	0.64%	33,006	\$705.78
2021	21,475,000	4,767,365,728	0.45	34,392	624.42
2022	18,995,000	5,158,353,380	0.37	38,516	493.17
2023	46,465,000	5,752,694,370	0.81	38,516 ²	1,206.38
2024	45,130,000	6,511,852,614 ³	0.70	38,516 ²	1,171.72
<u>After Bonds</u> <u>Now Offered</u> <u>are Issued</u>	<u>\$55,130,000</u>	<u>\$10,243,338,961⁴</u>	<u>0.54%</u>	<u>38,516²</u>	<u>\$1,431.35</u>

¹Estimate of North Carolina Office of State Budget and Management.

²Latest data available.

³Unaudited

⁴Based on 2024-2025 budget.

General Obligation Debt Service Requirements and Maturity Schedule.

Fiscal Year Ending June 30th	Utility Debt		Other Debt ¹		Total Debt		Now Offered ¹
	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest	G.O. Transportation, 2024
2024							
2025	\$ 186,924.43	\$ 423,696.91	\$ 2,498,075.57	\$ 4,284,040.59	\$ 2,685,000.00	\$ 4,707,737.50	\$ 500,000.00
2026	188,766.05	416,146.26	2,506,233.95	4,172,341.24	2,695,000.00	4,588,487.50	500,000.00
2027	189,686.86	407,605.75	2,515,313.14	4,061,131.75	2,705,000.00	4,468,737.50	500,000.00
2028	191,528.48	399,916.99	2,528,471.52	3,953,270.51	2,720,000.00	4,353,187.50	500,000.00
2029	193,370.10	392,136.15	2,536,629.90	3,839,701.35	2,730,000.00	4,231,837.50	500,000.00
2030	255,064.37	442,619.56	2,484,935.63	3,667,192.94	2,740,000.00	4,109,812.50	500,000.00
2031	256,905.99	431,661.92	2,288,094.01	3,358,075.58	2,545,000.00	3,789,737.50	500,000.00
2032	258,747.61	420,612.20	2,271,252.39	3,242,250.30	2,530,000.00	3,662,862.50	500,000.00
2033	261,510.04	410,368.19	2,033,489.96	2,905,369.31	2,295,000.00	3,315,737.50	500,000.00
2034	263,351.66	399,088.27	2,016,648.34	2,795,399.23	2,280,000.00	3,194,487.50	500,000.00
2035	264,272.47	386,818.47	2,020,727.53	2,713,419.03	2,285,000.00	3,100,237.50	500,000.00
2036	266,114.09	375,400.42	2,028,885.91	2,634,149.58	2,295,000.00	3,009,550.00	500,000.00
2037	268,876.52	364,788.09	2,041,123.48	2,557,386.91	2,310,000.00	2,922,175.00	500,000.00
2038	270,718.14	353,139.84	2,049,281.86	2,476,035.16	2,320,000.00	2,829,175.00	500,000.00
2039	273,480.57	342,297.30	2,061,519.43	2,397,190.20	2,335,000.00	2,739,487.50	500,000.00
2040	276,243.00	331,316.65	1,223,757.00	1,467,733.35	1,500,000.00	1,799,050.00	500,000.00
2041	279,005.43	320,197.87	1,235,994.57	1,418,477.13	1,515,000.00	1,738,675.00	500,000.00
2042	282,688.67	311,252.20	1,252,311.33	1,378,847.80	1,535,000.00	1,690,100.00	500,000.00
2043	285,451.10	302,651.83	1,264,548.90	1,340,748.17	1,550,000.00	1,643,400.00	500,000.00
2044	287,292.72	293,038.57	1,272,707.28	1,298,161.43	1,560,000.00	1,591,200.00	500,000.00
Totals	\$ 4,999,998.30	\$ 7,524,753.44	\$ 40,130,001.70	\$ 55,960,921.56	\$45,130,000.00	\$63,485,675.00	\$ 10,000,000.00

¹Principal only.

General Obligation Bonds Authorized and Unissued.

<u>Purpose</u>	<u>Date Approved</u>	<u>Authorized and Unissued</u>	<u>Bonds Now Offered</u>	<u>Balance Unauthorized</u>
Refunding	3-19-2019	\$ 555,000	\$ --	\$ 555,000 ¹
Transportation	11-2-2021	<u>20,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Totals		\$20,555,000	\$10,000,000	\$10,555,000

¹The Town does not plan to issue the remainder of these bonds.

General Obligation Debt Information for Overlapping Unit as of June 30, 2024.

<u>Unit</u>	<u>2022 Population¹</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$100</u>	<u>GO Debt Authorized and Unissued</u>	<u>Total GO Debt</u>	<u>Total GO Debt Per Capita</u>
Wake County	1,175,021	\$207,592,791,790	\$0.6195	\$1,136,940,000	\$1,732,037,329	\$1,482

¹United States Department of Commerce, Bureau of the Census.

Revenue Debt of the Town. As of June 30, 2024, the Town had \$94,152,000 of its Combined Utilities Revenue Bonds outstanding. These bonds are special obligations of the Town and are secured by and payable from the net receipts of the Town's water and sanitary sewer systems. Also, the Town has since issued another \$65 million in revenue debt, and has plans for approximately \$135 million in additional revenue debt over the remainder of the current fiscal year.

Other Long-Term Commitments. The Town has a variety of installment financing agreements for public buildings and a Fire Department ladder truck. As of June 30, 2024, the total principal amount outstanding of these financing arrangements was approximately \$10.7 million and \$8.325 million in limited obligation bonds. The debt service on these obligations is listed in the table below:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total¹</u>
2025	1,676,000	685,202	2,361,202
2026	1,675,000	629,718	2,304,718
2027	1,578,000	574,309	2,152,309
2028	1,316,000	523,200	1,839,200
2029	1,320,000	475,312	1,795,312
2030	1,325,000	427,190	1,752,190
2031	1,325,000	378,944	1,703,944
2032	920,000	330,822	1,250,822
2033	925,000	290,501	1,215,501
2034	925,000	250,054	1,175,054
2035 to 2040	<u>6,055,000</u>	<u>777,115</u>	<u>6,832,115</u>
Total ¹	<u>\$ 19,040,000</u>	<u>\$ 5,342,367</u>	<u>\$ 24,382,367</u>

¹Totals may not foot due to rounding.

Included above is an installment purchase agreement for \$6,9 million for the construction of Fire & EMS station #4. This is a joint venture between the Town and Wake County Fire and EMS. Wake County is sharing in approximately 20% of the debt service payments.

Debt Outlook. In November 2021, Town voters approved \$20,000,000 Transportation Bonds. The Transportation Bonds are offered herein for \$10,000,000 and the balance of \$10,000,000 is expected to be offered in 2025. The Town has been approved for a State Revolving Loan and expects to issue Town utility revenue bonds to finance the costs of its portion of the Sanford water treatment plant expansion and conveyance line projects (see page 15 above).

Tax Information

General Information

	<u>Fiscal Year Ended or Ending June 30.</u>			
	<u>2022</u>	<u>2023</u>	<u>2024³</u>	<u>2025⁴</u>
Assessed Valuation:				
Assessment Ratio ¹	100%	100%	100%	100%
Real Property	\$4,555,649,646	\$5,072,031,000	\$5,691,638,581	\$9,368,425,240
Personal Property	575,687,524	652,997,56	709,284,945	818,702,933
Public Service Cos. ²	<u>27,016,210</u>	<u>27,666,014</u>	<u>56,210,788</u>	<u>56,210,788</u>
Total Assessed Valuation	\$5,158,353,380	\$5,752,694,370	\$6,457,134,314	\$10,243,338,961
Rate Per \$100	0.3950	0.4250	0.4550	0.358
Levy	\$21,163,609	\$24,448,951	\$30,149,937	\$36,605,145

¹Percentage of assessed value has been established by statute.

²Valuation of railroads, telephone companies and other utilities as determined by North Carolina Property Tax Commission.

³Unaudited

⁴Based on 2024-25 budget.

Note: Revaluation of real property became effective with the FY 2024-25 tax levy, effective for the fiscal year ending June 30, 2025. The County now revalues property every four years.

Tax Collections

<u>Fiscal Year Ended June 30</u>	<u>Prior Years' Levies Collected</u>	<u>Current Year's Levy Collected</u>	<u>Percentage of Current Year's Levy Collected</u>
2020	\$83,842	\$16,496,275	99.44%
2021	72,356	19,569,692	99.58
2022	26,735	21,124,980	99.82
2023	25,618	25,329,290	99.82
2024	39,464	30,443,136	99.86

Ten Largest Taxpayers for Fiscal Year Ended June 30, 2024

<u>Name of Taxpayer</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of Total Assessed Valuation</u>
Retreat At Fuquay-Varina	Developer	\$77,296,807	\$351,700	1.197%
Glen Dora SPE LLC	Developer	54,275,535	246,954	0.841
Meridian at Broad St Market LLC	Developer	47,799,032	217,486	0.740
Marquee Station Acquisition LLC	Developer	44,489,896	202,429	0.689
Abode Geneva SRF Owner LLC	Developer	42,655,748	194,084	0.661
Stan Johnson & Associates LLC	Developer	38,665,122	175,926	0.599
Duke Energy Progress, Inc	Electric Provider	30,176,102	137,301	0.467
AMH Borrower	Developer	28,560,286	129,949	0.442
John Deere Turf Care, Inc.	Manufacturer	25,953,192	118,087	0.402
Progress Residential	Developer	<u>25,928,116</u>	<u>117,973</u>	<u>0.402</u>
		<u>\$415,799,836</u>	<u>\$1,891,889</u>	<u>6.44%</u>

2024-25 Budget Outlook

The theme of this budget is “**future full of promise**”. The last two budget messages focused on planning and investing for our future. This fiscal year promises to be one where all of our planning and investment brings concrete results. As the 2023 Economic Development report states “the seeds we sowed are already sprouting.” Over \$448 million was poured into commercial and residential projects in 2023 laying the foundation for bustling businesses, diverse housing options, and a thriving community hub.

The most significant event affecting FY 2025 budget development was the Wake County property revaluation. Wake County Tax administration performs a property revaluation every four years. This process evaluates property to ensure the assessed value reflects current market value. In Fuquay-Varina residential property value increased on average 54% and commercial properties 52%. By state statute the Town is required to make public the revenue neutral tax rate based on the Town’s new total assessed value, that rate is 31.8 cents per \$100 of assessed value. The revenue neutral tax has two parts; first is a rate that will collect the same amount of property tax as the prior fiscal year, second is natural growth, the average growth in assessed value the Town experienced since the last property revaluation. Fuquay-Varina’s average growth was 10.88%.

The FY 2024-2025 General Fund operating budget, net of transfers, is \$57,342,277, a \$6.4 million, or 12%, increase over the FY 2024 budget. All operating cost increases are covered by the revenue neutral tax rate. Most of this increase is salary and benefit related including the addition of nine new positions and market salary adjustments intended to help Fuquay-Varina remain competitive and provide excellent customer service through hiring and retaining the best employees. Positions funded in FY 2025 include:

- The position of fleet manager is proposed to ensure the cost-effectiveness and efficiency of the Town’s growing fleet.
- A custodian is also proposed to support good stewardship of Town facilities.
- A patrol officer and two detectives are funded in the Police Department to meet call response and investigation caseload needs.
- A training captain is also funded in the Fire Department to increase in-house training to maximize the availability of firefighters to respond to calls.
- Two new positions, a senior program support specialist and recreation center assistant are proposed in Parks, Recreation, and Cultural Resources to ensure the new Community Center North can support programming immediately upon opening.
- A street maintenance worker is proposed to assist with the increasing road maintenance workload.

(Remainder of page left blank intentionally)

The Wake County property revaluation resulted in a revenue neutral tax rate of 31.8 cents per \$100 of assessed value. The Town Board realized that a property tax rate of 31.8 cents per \$100 of assessed property value would meet Fuquay-Varina's immediate needs; however, it does not create the promising future residents envision for their hometown. Therefore, the Board adopted a property tax rate of 35.8 that includes an additional 4 cents to meet the Town's debt service obligation, ensure Fuquay-Varina's financial foundation, and to create or maintain the amenities Fuquay-Varina's residents expect:

- 2-cents – Debt Service for voter-approved transportation bonds was included in the Five Year Plan as necessary to meet Fuquay-Varina's obligation to support its debt service obligation.
- 1-cent – Debt Service for the Public Service Center Expansion project. Project costs make it more prudent to use limited obligation bonds instead of fund balance to support this project. One cent is necessary to cover debt service, the strategy of not using fund balance strengthens the Town's financial ratios vital to maintaining our AAA bond rating.
- 1-cent – Additional recreation field and facility space. The Town cannot accommodate the expected growth in youth and adult sports without additional space. This cent is requested to pay for debt service associated with acquiring land for recreation fields and facilities.

Requesting additional cents after past property revaluations is not unique to FY 2025, past management and Boards also took the opportunity to provide for the future not just the present. They had a vision of Fuquay-Varina and chose to fund it by setting a tax rate higher than revenue neutral.

The Town of Fuquay-Varina's Five Year Plan is balanced throughout FY 2025 to FY 2029. In February of 2021, the Town Board adopted the 2021-2025 Strategic Plan that identifies a vision, mission, core values, objectives, and initiatives that the Town should focus on over the next five years. This plan is reviewed and updated during the Board's annual retreat to make sure the goals, objectives, and initiatives still reflect the Board's priorities. In addition, departmental strategic business plans were developed to identify departmental objectives and initiatives for achieving operational excellence including staff and operating resources needed to achieve the Town's Strategic Plan goals. Departments review their plans annually during the budget process to ensure their budget requests prioritize resources to achieve their contribution toward the success of the Strategic Plan. Reasonable revenue assumptions are made to reflect anticipated growth in tax base and user fees. The FY 2025-2029 Five Year Plan balances the planned addition of personnel, increased operating costs, and capital investments against available revenues, and is able to continue the forward momentum on accomplishing the goals outlined by the Town Board in the Strategic Plan.

Pension Plans

The following information on the pension plans is presented on the calendar year basis, whereas the information in the independent auditor's footnote was presented on the fiscal year basis.

The Town participates in the North Carolina Local Governmental Employees' Retirement System.

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

The System provides, on a uniform System-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members

contribute 6% of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate (excluding death benefit) for FY 2024, uniform for all employers, was 12.85% of eligible payroll for general employees and 14.10% of eligible payroll for law enforcement officers. The normal contribution rate (excluding death benefit) for FY 2025, uniform for all employers, is 13.60% of eligible payroll for general employees and 15.10% of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employee's service rendered prior to the date the employer joins the System.

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

Contributions to the System are determined on an actuarial basis.

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

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

Other Post-Employment Benefits

The Town provides post-employment health care benefits (OPEB) to retirees of the Town, provided they participate in the North Carolina Local Government Retirement System and meet the Town's years of creditable service and age requirements. For those hired before January 1, 2006, and are at least 60 years of age with a minimum of 15 years of service with the Town, benefits are paid by the Town up to age 65. For those hired after January 1, 2006 and with 25 years of service with the Town, benefits are required. With 15 years to 25 years of service, employees pay 100% of the health care coverage cost. The Town pays for coverage on a "pay as you go basis". Retirees also can purchase coverage for their dependents at the Town's group rates. Currently, 12 retirees are eligible for OPEB.

The Town has submitted information to an actuarial firm for an actuarial study on the other post-employment benefits (OPEB) completed for the fiscal year ended June 30, 2023, and in accordance with GASB 75. The Town's financial statements for fiscal year ended June 30, 2024 report the actuarial study determined that the Town's total liability is about \$3,775,245, and the Town's estimated recognition of deferred outflows as OPEB expense is approximately \$104,278. The Town has historically funded health benefits for retirees on a pay as you go basis. For the fiscal year ended June 30, 2023, the Town paid \$48,958 and for 2024 the Town paid \$50,370 for retiree health benefits.

Contingent Liabilities

The Town has no litigation pending which would, if decided adversely to the Town, materially and adversely affect the Town's ability to meet its financial obligations. Furthermore, the Town has no other contingent liabilities which would materially and adversely affect the Town's ability to meet its financial obligations.

CONTINUING DISCLOSURE

In a resolution adopted by the Town, the Town has undertaken, for the benefit of the beneficial owners of the Bonds, to provide to the Municipal Securities Rulemaking Board (“MSRB”), the following:

- (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, 2026, 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 available by seven months from the end of such fiscal year, 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, 2026, (i) the financial and statistical data as of a date not earlier than the end of the preceding fiscal year for the type of information included under the headings “THE TOWN - DEBT INFORMATION” and “-TAX INFORMATION” in this Official Statement (excluding any information on overlapping or underlying units) and (ii) the combined budget of the Town for the current fiscal year, to the extent such items are not included in the audited financial statements referred to in (a) above;
- (c) in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - (7) modification to rights of the beneficial owners of the Bonds; if material;
 - (8) Bond calls other than mandatory sinking fund redemptions, if material, and tender offers;
 - (9) defeasance of any of the Bonds;
 - (10) release, substitution or sale of any property securing repayment of the Bonds;
 - (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 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 assets of an Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
 - (14) appointment of a successor or additional trustee or the change of name of a trustee, if material;
 - (15) incurrence of a financial obligation (as defined below) of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Town, any of which affect beneficial owners of the Bonds, if material;
 - (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the Town, any of which reflect financial difficulties; and
- (d) in a timely manner, to the MSRB, notice of a failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

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

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

The Town may discharge its undertaking described above in any manner that the U.S. Securities and Exchange Commission subsequently authorizes in lieu of the manner described above.

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.

The resolution to be adopted by the Town will also provide that if the Town fails to comply with the undertaking described above, any beneficial owner of the Bonds then outstanding may take action to protect and enforce the rights of all 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 and shall not result in any acceleration of payment of the Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Bonds.

Pursuant to such 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 issued under the Securities Exchange Act of 1934 ("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, as determined either by parties unaffiliated with the Town (such as bond counsel), or by the approving vote of the registered owners of a majority in principal amount of the Bonds then outstanding pursuant to the terms of such resolution, as it may be amended from time to time, at the time of the amendment.

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

In 2023, in connection with another bond sale, the Town discovered several instances where it may have failed to fully meet its continuing disclosure obligations. The Town then filed information that had been late or not filed, and also filed a notice of the late filings.

The Town has not otherwise failed to comply in all material respects with its continuing disclosure undertakings under Rule 15c2-12.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters related to the authorization and issuance of the Bonds are subject to the approving legal opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town. 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 Bonds.

The proposed form of Bond Counsel's approving opinion on the Bonds are attached as Appendix E.

Bond Counsel's approving legal opinion expresses Bond Counsel's professional judgment as to the legal issues explicitly addressed in the opinion. By rendering a legal opinion, an opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Additionally, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction, and a bond opinion is not a statement (either expressly or by implication) concerning the marketability, value or likelihood of payment of the 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 Bonds. Bond Counsel will express no opinion (1) as to the Town's ability to provide for payments on the 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 Bonds, including this Official Statement. In this transaction, Bond Counsel will serve only as bond counsel to the Town, and will not represent any bidder or the purchaser of the Bonds.

CYBERSECURITY

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

TAX TREATMENT

Opinion of Bond Counsel. In the opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town (“Bond Counsel”), under existing law, interest on the Bonds (1) will not be included in gross income for federal income tax purposes, and (2) will be exempt from existing State of North Carolina income taxation. Interest on the Bonds is not a separate tax preference item for purposes of the federal alternative minimum tax; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the “Code,” as defined below) for the purpose of computing the alternative minimum tax imposed on corporations.

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

The Town has not designated any of the Bonds as “qualified tax-exempt obligations” for federal income tax purposes.

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

Discount Bonds and Premium Bonds. _____, as lead underwriter of the Bonds, has advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on August 1, _____ to _____, inclusive (the “Discount Bonds”), are less than the respective amounts payable at maturity. An amount not less than the difference between the initial public offering prices of the Discount Bonds and the amounts payable at maturity constitutes original issue discount (“OID”). Owners of the Discount Bonds should consult their own tax advisors as to the determination for federal tax purposes of the amount of OID properly accruing each year with respect to the Discount Bonds and as to federal tax consequences and the treatment of OID for State of North Carolina and local tax purposes.

_____, as lead underwriter of the Bonds, has also advised the Local Government Commission of North Carolina that the initial public offering prices of the Bonds maturing on August 1, _____ to _____, inclusive, (the “Premium Bonds”), are greater than the amounts payable at maturity. The difference between the amount payable at maturity of the Premium Bonds and the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases the Premium Bonds at the initial offering price is “Bond Premium.” Bond Premium is amortized over the term of the Premium Bonds for federal income tax purposes. Owners of the Premium Bonds are required to decrease their adjusted basis in the Premium Bonds by the amount of amortizable Bond Premium attributable to each taxable year the Premium Bonds are held. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of

the Premium Bonds and with respect to State of North Carolina and local tax consequences of owning and disposing of the Premium Bonds.

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

Other Tax Consequences. In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, property and casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

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

RATINGS

Moody's Investors Service and S&P Global Ratings have given the Bonds ratings of Aaa and AAA, respectively. Those ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained only from the respective organization providing such rating. Certain information and materials not included in the Official Statement were furnished to such organizations. There is no assurance that such ratings will remain in effect for any given period of time or that any or all will not be revised downward or withdrawn entirely. Any downward revision or withdrawal of a rating may have an adverse effect on the market prices of the Bonds.

FINANCIAL ADVISOR

Davenport & Company LLC has acted as financial advisor to the Town in connection with the issuance of the Bonds.

UNDERWRITING

The underwriters for the Bonds are _____.¹

The underwriters for the Bonds have jointly and severally agreed, subject to certain conditions, to purchase all but not less than all of the Bonds. If all of the Bonds are sold at the public offering yields set forth on the inside cover page of this Official Statement, the underwriters anticipate total underwriters' discount of \$_____.¹ The public offering prices or yields of the Bonds may be changed from time to time by the underwriters.

¹Information provided by the underwriters.

(Remainder of page left blank intentionally)

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact.

References herein to the State Constitution and legislative enactments are only brief outlines of certain provisions thereof and do not purport to summarize or describe all provisions thereof.

The execution of this Official Statement has been duly authorized by the Local Government Commission of North Carolina and the Board of Commissioners of the Town.

**LOCAL GOVERNMENT COMMISSION
OF NORTH CAROLINA**

By
Jennifer Wimmer
Deputy Secretary of the Commission

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

By
J. Blake Massengill
Mayor

By
Adam Mitchell
Town Manager

By
JoAnne Crabtree
Finance Director

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

The Local Government Commission (the “Commission”) is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

A major function of the Commission is the approval, sale, and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes, upon request, on-site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit’s debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act, and its ability to service the proposed debt. All general obligation issues are customarily sold based on 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 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 or her approval before 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 to assist the unit in working out a refinancing plan, 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 a 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 of the Commission 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 regarding 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 with following such plan.

**CERTAIN CONSTITUTIONAL, STATUTORY AND ADMINISTRATIVE
PROVISIONS GOVERNING OR RELEVANT TO THE INCURRENCE OF
GENERAL OBLIGATION BONDED INDEBTEDNESS BY UNITS OF LOCAL
GOVERNMENT OF THE STATE OF NORTH CAROLINA**

Constitutional Provisions

The North Carolina Constitution (the “Constitution”) requires the General Assembly to enact general laws relating to the borrowing of money secured by a pledge of the faith and credit and the contracting of other debts by counties, cities and towns, special districts and other units, authorities and agencies of local government and prohibits enactment of special or local acts on this subject. These general laws may be enacted for classes defined by population or other criteria.

The General Assembly has no power under the Constitution to authorize any unit of local government to contract debts secured by a pledge of its faith and credit unless approved by a majority of the qualified voters of the unit who vote thereon, except for the following purposes:

- (a) to fund or refund a valid existing debt;
- (b) to supply an unforeseen deficiency in the revenue;
- (c) to borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50% of such taxes;
- (d) to suppress riots or insurrections;
- (e) to meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
- (f) for purposes authorized by general laws uniformly applicable throughout the State, to the extent of two-thirds of the amount by which the issuing unit’s outstanding indebtedness was reduced during the next preceding fiscal year.

The Constitution requires that the power of taxation be exercised in a just and equitable manner, for public purposes only, and never be surrendered, suspended or contracted away. Since general obligation bonded indebtedness pledges the taxing power, it may therefore be incurred only for “public purposes.” The North Carolina Supreme Court determines what is and is not a public purpose within the meaning of the Constitution.

The Constitution requires voter approval for any unit of local government to give or lend its credit in aid of any person, association or corporation, and such lending of credit must be for public purposes as authorized by general law. A loan of credit is defined by the Constitution as occurring when a unit of local government exchanges its obligations with or in any way guarantees the debts of an individual, association or private corporation.

The Constitution does not impose a limit on the total indebtedness of a unit of local government.

Of the sources of revenue available to units of local government, only the property tax is subject to special Constitutional regulation. The Constitution does not mandate a general property tax; rather,

it authorizes the General Assembly to classify property for taxation under two conditions: (1) each class of property selected for taxation must be taxed by uniform rule and (2) every classification must be made by general law uniformly applicable to every unit of local government. No class of property is accorded exemption from ad valorem taxation by the Constitution except property belonging to the State, counties and municipal corporations. The General Assembly may exempt cemeteries and property held for educational, scientific, literary, cultural, charitable or religious purposes and, to a value not exceeding \$300, any personal property. The General Assembly may also exempt from taxation not exceeding \$1,000 in value of property used as the place of residence of the owner. Property of the United States is exempt by virtue of the supremacy clause of the United States Constitution.

The Constitution requires that any property tax must be levied for purposes authorized by general law uniformly applicable throughout the State, unless approved by a majority of the qualified voters of the unit of local government who vote thereon.

Under the Constitution, property taxes levied for unit-wide purposes must be levied uniformly throughout the territorial jurisdiction of the taxing unit, but the General Assembly may enact general laws authorizing the governing body of any county, city or town to define territorial areas and to levy taxes within those areas in order to finance, provide or maintain services, facilities and functions in addition to or to a greater extent than those financed, provided or maintained for the entire county, city or town.

The Local Government Bond Act

No unit of local government has authority to incur general obligation bonded indebtedness otherwise than in accordance with the limitations and procedures prescribed in The Local Government Bond Act, G.S. Ch. 159, Art. 4 (the "Act") and G.S. Ch. 159, Art. 7 or to issue short-term general obligation notes otherwise than in accordance with G.S. Ch. 159, Art. 9.

By statute, the faith and credit of the issuing unit are pledged for the payment of the principal of and interest on all bonds issued under the Act according to their terms, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of installments of principal and interest or for the maintenance of sinking funds is unrestricted as to rate or amount.

The revenues of each utility or public service enterprise owned or leased by a unit of local government are required by statute to be applied in accordance with the following priorities: (1) to pay the operating, maintenance and capital outlay expenses of the utility or enterprise; (2) to pay when due the interest on and principal of outstanding bonds issued for capital projects that are or were a part of the utility or enterprise; and (3) for any other lawful purpose. In its discretion, an issuing unit may pledge the revenues (or any portion thereof) of a utility or enterprise for the payment of the interest on and principal of bonds issued under the Act to finance capital projects that are to become a part of the utility or enterprise.

Bonds may be issued only for purposes specifically authorized by the Act.

No bonds may be issued under the Act without the approval of the Local Government Commission. The criteria for approval have been summarized in the description of the powers of the Commission in Appendix B to this Official Statement.

The Act provides that, subject to certain exceptions, no bond order may be adopted by the governing body of a unit of local government unless it appears from a sworn statement of debt filed in connection therewith that the net debt of the unit does not exceed 8% of the assessed value of property subject to taxation by the issuing unit. Under current law, the mandated assessment ratio is 100% of

appraised value. This limitation does not apply to funding and refunding bonds, bonds issued for water, gas or electric power purposes, or two or more of such purposes, certain sanitary sewer, sewage disposal or sewage purification plant bonds, bonds or notes issued for erosion control purposes or bonds or notes issued for the purposes of erecting jetties or other protective works to prevent encroachment by certain bodies of water.

“Net debt” is defined as gross debt less certain statutory exclusions and deductions. Gross debt, excluding therefrom debt incurred or to be incurred in anticipation of tax or other revenue collections or in anticipation of the sale of bonds other than funding or refunding bonds, is the sum of (i) outstanding debt evidenced by bonds, (ii) bonds authorized by orders introduced but not yet adopted, (iii) unissued bonds authorized by adopted orders and (iv) outstanding debt not evidenced by bonds. From gross debt are deducted (a) funding and refunding bonds (both those authorized by orders introduced but not yet adopted and those authorized but not yet issued), (b) the amount of money held in sinking funds or otherwise for the payment of any part of the principal of gross debt other than debt incurred for the purposes set forth in clause (e) below, (e) the amount of bonded debt included in gross debt and incurred, or to be incurred, for water, gas or electric light or power purposes, or two or more of such purposes, and certain bonded debt for sanitary sewer purposes, and (d) the amount of uncollected special assessments theretofore levied or estimated to be levied for local improvements for which any part of the gross debt (that is not otherwise deducted) was or is to be incurred, to the extent that the special assessments, when collected, will be applied to the payment of any part of the gross debt. Revenue bond indebtedness is not included in, nor deducted from, gross debt.

Bonds may be issued under an approved bond order at any time within seven years after the bond order takes effect. The effective date of the bond order is the date of formal passage of the bond order in the case of bonds that do not require voter approval and the date of voter approval in all other cases. If the issuance of bonds is prevented or prohibited by any order of any court or certain litigation, the period of time is extended by the length of time elapsing between the date of institution of the action or litigation and the date of its final disposition. The General Assembly may, prior to the expiration of the maximum period, also extend such period. In addition, such period may be extended from seven to ten years by the governing body of a unit of local government under certain circumstances with approval by the Commission. In any such case, no further voter approval is required.

The Commission has by regulation established the maximum useful lives of capital projects that may be financed by bonds. The maturity dates of any bonds issued for any project may not exceed the maximum useful life of the project, measured from the date of the bonds.

All bonds must mature in annual installments, the first of which must be payable not more than three years after the date of the bonds and the last of which must be payable within the maximum useful life of the project. Payment of an installment of principal may be provided for by the maturity of a bond, mandatory redemption of principal prior to maturity, a sinking fund, a credit facility or any other means satisfactory to the Commission. In addition, the Act prohibits “balloon installments” in that it requires that no installment of any issue may be greater than four times as large in amount as the smallest prior installment of the same issue. Bonds authorized by two or more bond orders may be consolidated into a single issue, and bonds of each issue may be issued from time to time in series with different provisions for each series. Each series is deemed a separate issue for the purposes of the limitations discussed in this paragraph. Bonds may be made payable from time to time on demand or tender for purchase as provided in the Act, and bonds may be made subject to redemption prior to maturity, with or without premium. The requirement that the bonds must mature in annual installments and the prohibition against balloon installments as described above does not apply to (a) refunding bonds, (b) bonds purchased by a State or federal agency or (c) bonds the interest on which is or may be includable in gross income for purposes of federal income tax, provided that the dates on which such bonds are stated to mature are approved by the Commission and the Commission may

require that payment of all or any part of the principal of and interest and any premium on such bond be provided for by mandatory sinking fund redemption.

Short-Term Obligations

Bond Anticipation Notes - Units of local government are authorized to issue short term notes in anticipation of the sale of bonds validly authorized for issuance within the maximum authorized amount of the bonds. General obligation bond anticipation notes must be payable not later than seven years after the effective date of the bond order and shall not be renewed or extended beyond that time unless the period of time within which the bonds may be issued has been extended as mentioned above. The faith and credit of the issuing unit are pledged for the payment of general obligation bond anticipation notes, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of such notes is unrestricted as to rate or amount. The proceeds of each general obligation bond issue are also pledged for the payment of any notes issued in anticipation of the sale thereof, and any such notes shall be retired from the proceeds of the bonds as a first priority.

Tax Anticipation Notes - Units of local government having the power to levy taxes are authorized to borrow money for the purpose of paying appropriations made for the current fiscal year in anticipation of the collection of taxes due and payable within the current fiscal year, and to issue negotiable notes in evidence thereof. Any tax anticipation note must mature not later than 30 days after the close of the fiscal year in which it is issued and may not be renewed beyond that time. No tax anticipation note shall be issued by the unit of local government if the amount thereof, together with the amount of all authorized or outstanding tax anticipation notes on the date the note is authorized, would exceed 50% of the amount of taxes uncollected as of the date of the proposed note authorization. The faith and credit of the issuing unit are pledged for the payment of tax anticipation notes, and the power and obligation of the issuing unit to levy taxes and raise other revenues for the prompt payment of such notes is unrestricted as to rate or amount.

Revenue Anticipation Notes - Units of local government are authorized to borrow money for the purpose of paying appropriations made for the current fiscal year in anticipation of the receipt of the revenues, other than taxes, estimated in their budgets to be realized in cash during such fiscal year, and to issue negotiable notes in evidence thereof. Any revenue anticipation note must mature not later than 30 days after the close of the fiscal year in which it is issued and may not be renewed beyond that time. No revenue anticipation note shall be issued if the amount thereof, together with the amount of all revenue anticipation notes authorized or outstanding on the date the note is authorized, would exceed 80% of the revenues of the issuing unit, other than taxes, estimated in its budget to be realized in cash during such fiscal year. Revenue anticipation notes are special obligations of the issuing unit, and neither the credit nor the taxing power of the issuing unit may be pledged for the payment of revenue anticipation notes.

Grant Anticipation Notes - Units of local government are authorized to borrow money for the purpose of paying appropriations made for capital projects in anticipation of the receipt of moneys from grant commitments for such capital projects from the State or the United States or any agencies of either, and to issue negotiable notes in evidence thereof. Grant anticipation notes must mature not later than 12 months after the estimated completion date of such capital project and may be renewed from time to time, but no such renewal shall mature later than 12 months after the estimated completion date of such capital project. No grant anticipation note may be issued if the amount thereof, together with the amount of all other notes authorized or issued in anticipation of the same grant commitment, exceeds 90% of the unpaid amount of said grant commitment. Grant anticipation notes are special obligations of the issuing unit, and neither the credit nor the taxing power of the issuing unit may be pledged for the payment of grant anticipation notes.

The Local Government Budget and Fiscal Control Act

The Local Government Budget and Fiscal Control Act, G.S. Ch. 159, Art. 3 (the “Fiscal Control Act”), sets forth procedures for the adoption and administration of budgets of units of local government. The Fiscal Control Act also prescribes certain accounting and auditing requirements. The Fiscal Control Act attempts to achieve close conformity with the accounting principles contained in the American Institute of Certified Public Accountants’ Industry Audit Guide, Audits of State and Local Government Units.

Budget - The Fiscal Control Act requires the adoption of an annual balanced budget, which includes all appropriations required for debt service and for eliminating any deficit. Any deficit is required to be eliminated by the imposition of a property tax at a rate which will produce the revenue necessary to balance revenues and appropriations in the budget. The Secretary of the Commission is required to notify each local government unit by May 1 of each year of its debt service obligations for the coming fiscal year, including sums to be paid into sinking funds. At least 30 days prior to the due date of each installment of principal or interest on outstanding debt, the Secretary must notify each unit of the payment due, the due date, the place which the payments should be sent, and a summary of the legal penalties for failing to meet debt service obligations.

The Fiscal Control Act directs that the budget ordinance be adopted by the governing board of the unit of local government by July 1 of the fiscal year to which it applies. There is no penalty for failure to meet this deadline. The fiscal year begins July 1 and ends the following June 30. The governing board is required to hold a public hearing concerning the budget prior to its adoption. A project ordinance authorizing all appropriations necessary for the completion of a capital project or a grant project may be adopted in lieu of annual appropriations for each project and need not be readopted in any subsequent fiscal year.

Fiscal Control – The Fiscal Control Act sets forth certain fiscal control requirements concerning the duties of the finance officer; the system of accounting; budgetary accounting for appropriations; investment of idle funds; semiannual reports of financial information to the Commission; and an annual independent audit.

Except as otherwise provided by regulation of the Commission, the Fiscal Control Act requires a unit of local government to use the modified accrual basis of accounting in recording transactions. The Commission is empowered to prescribe regulations as to (a) features of accounting systems; (b) bases of accounting, including identifying in detail the characteristics of a modified accrual basis, identifying what revenues are susceptible to accrual, and permitting or requiring the use of a basis other than modified accrual in a fund that does not account for the receipt of a tax; and (c) definitions of terms not clearly defined in the Fiscal Control Act.

The Fiscal Control Act requires each unit of local government to have its accounts audited annually by an independent certified public accountant or by an independent accountant certified by the Commission as qualified to audit local government accounts. The audit must be conducted pursuant to a written contract containing the form, terms and fees for the audit. The Secretary of the Commission must approve this contract before the audit may begin and must approve invoices for the audit fee. Approval of final payment is not given until the audit report is rendered in accordance with the requirements of the contract. All audits are to be performed in conformity with generally accepted auditing standards.

Major General Fund Revenue Sources

Ad Valorem Tax - Each unit of local government having authority to incur general obligation bonded indebtedness also has authority to levy ad valorem taxes on property having a situs within the

unit. The ad valorem tax is levied on classes of property selected for taxation by the General Assembly through laws that are uniform throughout the State. The statute governing the listing, appraisal and assessment of property for taxation and the collection of taxes levied is the Machinery Act, G.S. Ch. 105, Subchapter II.

Tax Base - The basic class of property selected for taxation comprises all real and tangible personal property. Thus, unless a class of property is specifically excluded from the property tax base, exempted from taxation or specifically accorded some kind of preferential tax treatment, it must be taxed by each unit of local government exercising its authority to levy property taxes. Several classes of property have been selected for exclusion from the property tax base, exemption from taxation or taxation at reduced valuation or for special appraisal standards. The most significant of these classes are:

- (1) Tangible household personal property is excluded from the property tax base.
- (2) Stocks and bonds, accounts receivable and certain other types of intangible personal property are excluded from the property tax base.
- (3) Property belonging to certain qualified owners and used wholly and exclusively for religious, educational, charitable, cultural, fraternal or civic purposes is wholly exempted from taxation. Property belonging to the United States, the State and units of local government is also exempt from taxation.
- (4) Real and personal property owned by certain nonprofit homes for the aged, sick or infirm are excluded from property taxation, provided such homes are exempt from the State income tax.
- (5) Certain kinds of tangible personal property held for business purposes are excluded from taxation, the most important of which are:
 - (a) Manufacturers' inventories (raw materials, goods in process, finished goods, materials or supplies consumed in processing, crops, livestock, poultry, feed used in production of livestock and poultry, and other agricultural or horticultural products held for sale) and inventories of retail and wholesale merchants (tangible personal property held for sale and not manufactured, processed or produced by the merchant).
 - (b) Property imported through a North Carolina seaport terminal and stored at such terminal for less than 12 months awaiting further shipment.
 - (c) Certain pollution abatement and resource recovery equipment.
 - (d) "Bill and hold" goods manufactured in North Carolina and held by the manufacturer for shipment to a nonresident customer.
 - (e) Nuclear materials held for or in the process of manufacture or processing or held by the manufacturer for delivery.
 - (f) Motor vehicle frames that belong to nonresidents and enter the State temporarily for the purpose of having a body mounted thereon.
- (6) A homestead exemption of the greater of \$25,000 or 50% of the appraised value of the residence is allowed if the property owner is a North Carolina resident, has income for the

preceding calendar year of not more than the eligibility limit, and is at least 65 years of age or totally and permanently disabled.

- (7) Certain agricultural, horticultural and forest land is eligible for taxation at its value for agricultural, horticultural or forest use

Appraisal Standard - All property must be appraised at its true value in money, except agricultural, horticultural and forest land eligible for appraisal at its present-use value. Property must be assessed for taxation at 100% of its appraised value.

Frequency of Appraisal - Real property must be appraised at least once in every eight years. The requirement of octennial real property revaluations has been enforced since 1965, and no taxing unit has been permitted to postpone a scheduled revaluation since that time. Many units revalue real property more frequently than every eight years. Personal property is appraised annually.

Tax Day - All real and tangible personal property (other than most motor vehicles) subject to ad valorem taxation must be listed for taxation as of January 1 each year. Motor vehicles, with certain exceptions, must be listed annually in the name of the record owner on the day on which the current vehicle registration is renewed or the day on which the application is submitted for a new vehicle registration.

Tax Levy - Property taxes are levied in conjunction with the adoption of a budget which covers a July 1 to June 30 fiscal year. The property tax levy must be sufficient to raise during the fiscal year a sum of money equal to the difference between total appropriations and the total estimated receipts of all other revenues. In estimating the percentage of the levy that will be collected during the fiscal year, the taxing unit is prohibited from estimating a greater collection percentage than that of the prior fiscal year.

The tax rate may not exceed \$1.50 per \$100 assessed valuation unless the voters approve a higher rate. Tax levies by counties for the following purposes are not counted against the rate limit: courts, debt service, deficits, elections, jails, schools, mandated social services programs and joint undertakings with any other taxing unit with respect to any of these. Tax levies by cities for the following purposes are not counted against the rate limit: debt service, deficits and civil disorders.

Tax Collection - The taxing unit has a lien by operation of law on all real property within its jurisdiction that attaches as of January 1 for all taxes levied for the fiscal year beginning on the following July 1. Taxes levied on a parcel of real property are a lien on that parcel but not on other real property owned by the taxpayer. Taxes levied on personal property are a lien on all real property owned by the taxpayer within the taxing unit. The tax lien enjoys absolute priority against all other liens and claims whatsoever except, in limited circumstances, federal tax liens and certain other prior liens and perfected security interests.

Except for motor vehicles, taxes fall due on September 1 following the date of levy and are payable at par until January 6. For the period January 6 to February 1, interest accrues at the rate of 2%, and for the period February 1 until the principal amount of the taxes, the accrued interest, and any penalties are paid, interest accrues at the rate of 3/4% per month or fraction thereof. Each taxing unit may enforce collection of its tax levy by (a) foreclosure of the lien on real property, (b) levy and sale of tangible personal property and (c) garnishment and attachment of intangible personal property. There is no right of redemption of real property sold in a tax foreclosure action.

Discounts for early payment of property taxes are allowed by some taxing units. To allow such discounts, the unit must adopt a discount schedule which must then be approved by the Ad Valorem Tax Division of the Department of Revenue.

No taxing unit has authority to release or refund any valid tax claim. The members of any governing board voting to make an unlawful release or refund of property taxes are personally liable for the amount unlawfully released or refunded.

The Commission periodically publishes statistics on the percentage of property tax levies collected before the close of the fiscal year for which levied. These statistics are available upon request.

Although the State has not levied a general property tax in more than forty years, it does continue general oversight of property tax administration by units of local government through the Ad Valorem Tax Division of the Department of Revenue. The Division has three main functions: (1) it appraises the property of electric power, gas, telephone and telegraph companies, the rolling stock of bus companies and motor freight carriers and the flight equipment of airlines; (2) it oversees local property tax administration; and (3) it provides staff assistance to the Property Tax Commission, an administrative appellate agency hearing listing and valuation appeals from local taxing units.

Local Government Sales and Use Taxes

The one percent local sales and use tax authorized by the Local Government Sales and Use Tax Act is levied by 99 of the 100 counties of the State (Mecklenburg County levies a virtually identical tax under a 1967 local act). The local sales tax base is the same as the State general sales tax base excluding exempt food sales, except that for goods sold to out-of-county purchasers for delivery out-of-county and sales of certain utility services. The situs of a transaction is the location of the retailer's place of business. Sales of tangible personal property delivered to out-of-county purchasers will be subject to sales tax in the county in which the retailer's place of business is located and will not be subject to the use tax of the destination county. The tax is collected by the State on behalf of local government, and the net proceeds, after deduction of the cost of collection and administration, are returned to the county of collection. The county governing board selects one of two formulas for allocation of the tax among the county and the municipalities therein. One formula calls for allocation on the basis of population and the other on the basis of ad valorem tax levy.

Counties are also authorized under the Supplemental Local Government Sales and Use Tax Act to levy a one-half percent sales tax. This sales tax is collected by the State, allocated to counties on a per capita basis and divided among each county and the municipalities located therein in accordance with the method by which the one percent sales and use taxes are distributed. An adjustment factor is applied to the per capita allocation for each county. All 100 counties levy this one-half percent supplemental sales tax.

Counties are also authorized under the Additional Supplemental Local Government Sales and Use Tax Act to levy an additional one-half percent sales tax. This additional supplemental sales tax is collected and distributed based on a point-of-origin allocation. During the first 16 fiscal years in which this tax is in effect, 60% of the revenue derived by counties from this tax is required to be used for public school capital outlay purposes or to retire any indebtedness incurred by the county for these purposes during the period beginning five years prior to the date the taxes took effect. Counties may be relieved of the percentage restriction if it can demonstrate to the satisfaction of the Local Government Commission that it is able to meet the aforementioned capital outlay needs without resorting to proceeds of such tax. All 100 counties levy this additional supplemental one-half percent sales tax.

Alcoholic Beverage Control Store Profits

The sale of liquor in the State is a government monopoly. Stores are operated by counties and municipalities that have been authorized and have chosen to establish them. The net profits of these stores are distributed to the units of local government in which they operate. The General Assembly

has enacted numerous local acts prescribing different formulas for the distribution of profits. Local elections are authorized to permit sales of liquor by the drink by qualified restaurants and clubs. An additional tax of \$20 per four liters is levied on liquor purchased by restaurants or clubs for resale as mixed beverages, and \$10 of the \$20 is paid to the State's General Fund.

Intragovernmental Shared Revenues

The net amount of excise taxes collected by the State on beer, fortified and unfortified wine is shared with counties and municipalities in which the sale of these beverages is lawful. Counties and municipalities where beer and wine are sold receive on a per capita basis an annual distribution equal to the following percentages of the net amount of excise taxes collected on the sale of beer and wine during the 12-month period ending March 31 each year: 20.47 percent of malt beverage tax revenue, 49.44 percent of unfortified wine tax revenue and 18 percent of fortified wine tax revenue. A municipality or a county is eligible to share in both beer and wine excise tax revenues if beer and wine may legally be sold within its boundaries. If only one beverage may be sold at retail in a municipality located in a county in which the sale of such beverage is otherwise prohibited, only the municipality receives a portion of the amount distributed.

The State levies a tax on the gross receipts derived from the sale of electricity at the combined general rate prescribed by statute. The State distributes 44 percent of the net proceeds of such tax to municipalities, less certain administration costs. Each municipalities' share is calculated pursuant to a formula provided by statute.

The State levies a sales tax on the gross receipts derived from providing telecommunications and ancillary services at the statutorily prescribed combined general rate. Each quarter, the State distributes to municipalities 18.7 percent of the net proceeds from that quarter, minus \$2,620,948.

The State levies a tax on the gross receipts derived from the sale of piped natural gas at the combined general rate. The State distributes quarterly 20 percent of the net proceeds of such tax to municipalities, less certain administration costs. Each municipalities' share is calculated pursuant to a formula provided by statute, with certain "gas cities" eligible for an increase to their shares provided that certain requirements are met.

All cities and counties receive shares of three State sales taxes on video programming service and telecommunications service revenues pursuant to a formula provided by statute. The revenue to be distributed includes 7.7 percent of the net proceeds of taxes collected on telecommunications and ancillary services, 23.6 percent of the net proceeds of taxes collected on video programming services (other than direct-to-home satellite service), and 37.1 percent of the net proceeds of taxes collected on direct-to-home satellite services. Before the distribution of such net proceeds is made, certain cities or counties may receive supplemental public, educational or governmental access channel ("PEG Channel") support funds from such net proceeds, provided that certain requirements are met.

State and Local Fiscal Relations

The State finances from State revenues (primarily individual income taxes, corporate income taxes and sales taxes) several governmental programs that are largely financed from local revenues in other states, thus decreasing reliance on local property taxes for these purposes. The major programs of this nature are as follows:

Public Schools and Community Colleges - The State provides approximately 70% of the funds required for current operating costs of the public school and community college systems, while county government finances the greater portion of the capital costs of these systems. North Carolina school administrative units do not have independent tax-levying authority. The local share of the costs of the

public school and community college systems are raised primarily by county government from its general revenues including the local sales tax revenue.

Court System - The State finances virtually all of the current operating costs of the General Court of Justice. County government is required to provide courthouses, certain jails and related judicial facilities.

Correctional System - The State finances all of the cost of correctional facilities used for confinement of convicted felons and long-term (more than 30 days) misdemeanants. Counties and some municipalities furnish jails for short-term misdemeanants and prisoners awaiting trial.

Highway System - The State finances the entire cost of public roads and highways outside the corporate limits of cities and towns. Counties may voluntarily participate in improvements to public roads and highways. Within cities and towns, the State finances the cost of major thoroughfares and streets connecting elements of the State highway system. Cities share responsibility with the State for State-maintained roads inside city limits and take full responsibility for the remaining public streets within city limits.

Management Discussion and Analysis

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

As management of the Town of Fuquay-Varina, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2023. We encourage readers to read the information presented here in conjunction with the Town's financial statements, which follow this section.

Financial Highlights

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

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

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

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

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

Overview of the Financial Statements

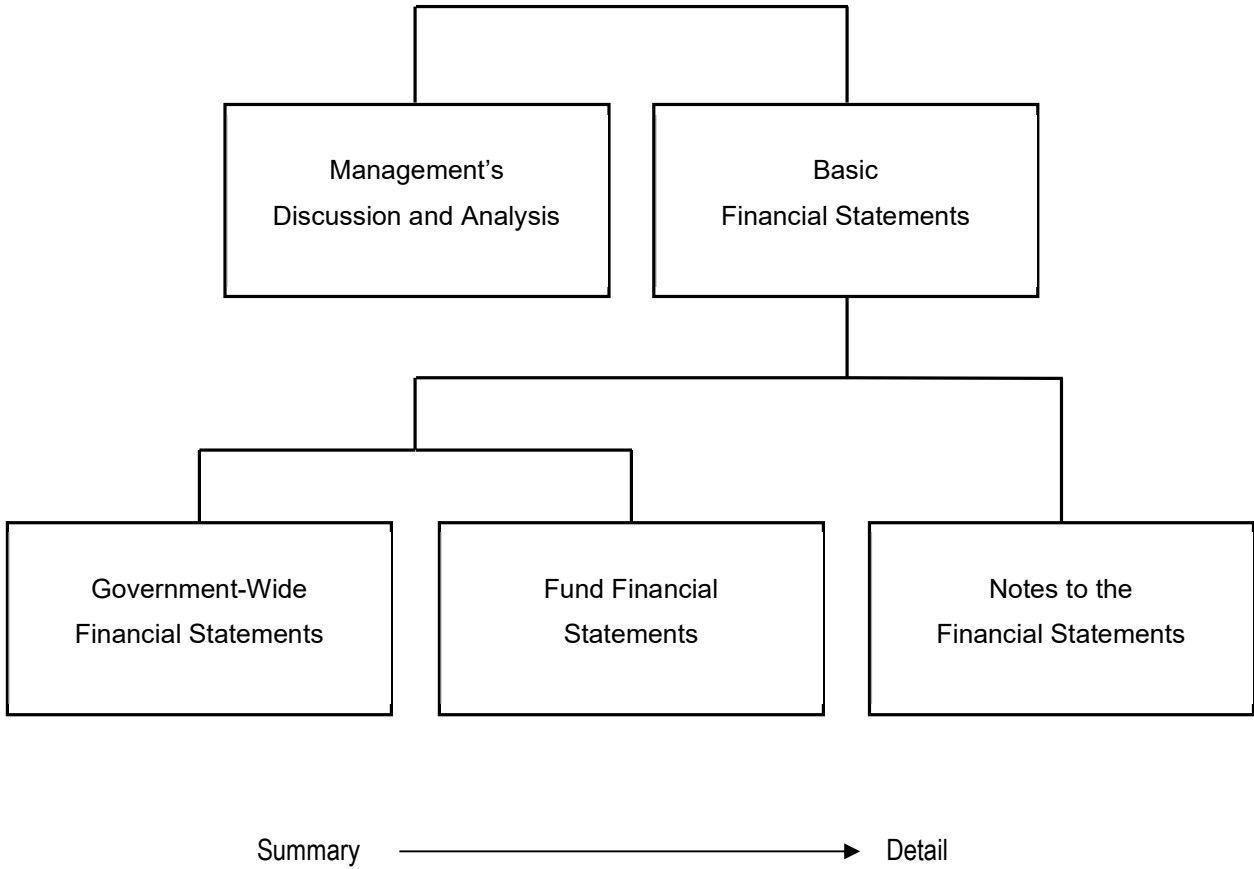
This discussion and analysis are intended to serve as an introduction to Fuquay-Varina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see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

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

JUNE 30, 2023

Required Components of Annual Financial Report

Figure 1



TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition. The Statement of Activities presents information showing how the Town's net position has changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Fuquay-Varina.

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

Fund financial statements

Traditional users of governmental fund financial statements will find the fund financial statements presentation more familiar. The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Fuquay-Varina uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, such as the North Carolina General Statutes, and the Town's budget ordinance. All funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes for the financial statements can be found beginning on page 26 of this report.

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

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

Government-Wide Financial Analysis

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

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

JUNE 30, 2023

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

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

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

The following table reflects the condensed statement of net position:

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

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

JUNE 30, 2023

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

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

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

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

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

JUNE 30, 2023

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

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

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

Financial Analysis of the Town's Funds

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

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

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

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

Capital Asset and Debt Administration

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

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

JUNE 30, 2023

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

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

Long-Term Debt.

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

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

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

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Economic Factors and Next Year's Budget

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

Budget Highlights for Fiscal Year Ending June 30, 2024

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

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

Request for Information

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

(THIS PAGE LEFT BLANK INTENTIONALLY)

Financial Information

Financial Statements

The financial statements of the Town have been audited by certified public accountants for the fiscal years ended June 30, 2023, 2022 and 2021. Copies of these financial statements containing the reports of the independent certified public accountants are available in the office of JoAnne Crabtree, Finance Director, Town of Fuquay-Varina, 134 North Main Street, Fuquay-Varina, NC 27526, or on the Town's website at: <https://www.fuquay-varina.org/203/Financial-Reports>.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. To receive this award, the highest form of recognition in governmental financial reporting, a governmental unit must publish a financial report that complies with both generally accepted accounting principles and applicable legal requirements. The Town believes that the annual financial report for the year ended June 30, 2023, will continue to meet the requirements under the Certificate of Achievement Program.

The Town financial statements present the government-wide financial statements, which are shown on pages D-2 through D-3 of this official statement and include fund and budgetary reporting. The government-wide financial statements are prepared on the full accrual basis of accounting. The government-wide statements report capital assets and all long-term obligations, for both governmental-type and business-type activities. As a result, government officials can demonstrate operational accountability in their stewardship of public funds in the long-term, in addition to demonstrating fiscal accountability in the short-term through the budgetary statements.

Fund reporting is presented to report on the government's most important funds individually as *major* funds instead of reporting all funds in the aggregate by fund type. The General Fund is always a major fund for a unit of government, and other governmental or enterprise funds may qualify as well. Also, in addition to presenting the budget as it stands at fiscal year-end, the budget is presented as originally adopted by the governing board as well. This information will provide readers the opportunity to see what changes have been made to the budget over the course of the fiscal year and to evaluate the Town's ability to manage and estimate its resources. See page D-8 for the presentation of the Town's budgetary statement.

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

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

JUNE 30, 2023

Exhibit 1

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

Exhibit 2

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

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

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

JUNE 30, 2023

Exhibit 3

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

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

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

JUNE 30, 2023

Exhibit 3

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

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

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

YEAR ENDED JUNE 30, 2023

Exhibit 4

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General	Special Revenue	Capital Projects		
Revenues					
Ad valorem taxes	\$ 25,378,868	\$ -	\$ -	\$ -	\$ 25,378,868
Other taxes and license	61,563	-	-	-	61,563
Unrestricted intergovernmental	13,612,164	-	-	157,735	13,769,899
Restricted intergovernmental	4,112,705	9,606,334	537,285	-	14,256,324
Permits and fees	3,592,607	-	-	4,698,898	8,291,505
Sales and services	5,176,451	-	-	25,298	5,201,749
Investment earnings	1,664,963	145,331	428,883	238,691	2,477,868
ARPA Reimbursement	9,606,334	-	-	-	9,606,334
Miscellaneous	420,743	-	90,490	-	511,233
Total Revenues	63,626,398	9,751,665	1,056,658	5,120,622	79,555,343
Expenditures					
Current:					
Governmental	4,322,290	9,606,334	751,364	-	14,679,987
Public safety	19,014,654	-	4,604,965	-	23,619,619
Transportation	3,217,829	-	806,318	-	4,024,147
Environmental protection	4,102,662	-	262,914	-	4,365,576
Cultural and recreation	5,649,538	-	1,656,223	-	7,305,761
Economic and physical development	1,936,437	-	-	-	1,936,437
Central services	3,769,883	-	-	-	3,769,883
Debt service:					
Prinicpal	-	-	-	2,636,000	2,636,000
Interest and other charges	-	-	-	1,408,010	1,408,010
Total Expenditures	42,013,293	9,606,334	8,081,783	4,044,010	63,745,420
Excess (deficiency) of revenues over (under) expenditures	21,613,105	145,331	(7,025,125)	1,076,612	15,809,923
Other Financing Sources (Uses)					
Transfers from other funds	553,874	-	10,927,492	4,345,313	15,826,679
Transfer to other funds	(12,057,393)	(150,186)	-	(8,395,992)	(20,603,571)
Sale of capital assets	-	-	2,257,000	-	2,257,000
Issuance of debt - Installment purchase	-	-	7,305,000	-	7,305,000
Issuance of debt - General Obligation Bonds	-	-	23,800,000	-	23,800,000
Premium on sale of bonds	-	-	3,281,017	-	3,281,017
Lease liabilities issued	11,472	-	-	-	11,472
IT subscription agreement	37,052	-	-	-	37,052
Total Other Financing Sources (Uses)	(11,454,995)	(150,186)	47,570,509	(4,050,679)	31,914,649
Net change in fund balances	10,158,110	(4,855)	40,545,384	(2,974,067)	47,724,572
Fund balance - beginning	34,562,738	4,855	22,543,158	12,239,147	69,349,898
Fund balance - ending	\$ 44,720,848	\$ -	\$ 63,088,542	\$ 9,265,080	\$ 117,074,470

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

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

YEAR ENDED JUNE 30, 2023

Exhibit 4

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

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The components of the change are as follows:

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

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

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

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

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

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

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

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

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

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

Change in net position of governmental activities \$ 29,397,213

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

YEAR ENDED JUNE 30, 2023

Exhibit 5

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Positive (Negative)</u>
Revenues				
Ad valorem taxes	\$ 25,089,894	\$ 25,089,894	\$ 25,378,868	\$ 288,974
Other taxes and licenses	58,289	58,289	61,563	3,274
Unrestricted intergovernmental	12,293,620	12,366,820	13,612,164	1,245,344
Restricted intergovernmental	3,643,471	3,789,354	4,112,705	323,351
Permits and fees	4,887,188	3,307,521	3,592,607	285,086
Sales and services	4,575,700	4,734,100	5,176,451	442,351
Investment earnings	15,000	15,000	1,664,963	1,649,963
Miscellaneous	50,000	5,339,649	10,027,077	4,687,428
Total Revenues	<u>50,613,162</u>	<u>54,700,627</u>	<u>63,626,398</u>	<u>8,925,771</u>
Expenditures				
Current:				
General government	4,568,259	4,651,530	4,322,290	329,240
Public safety	18,757,972	20,121,656	19,014,654	1,107,002
Transportation	3,878,172	4,126,089	3,217,829	908,260
Environmental protection	4,014,391	4,326,938	4,102,662	224,276
Cultural and recreational	5,586,159	6,093,173	5,649,538	443,635
Economic and physical development	2,248,816	2,414,125	1,936,437	477,688
Central services	5,477,868	4,676,022	3,769,883	906,139
Total Expenditures	<u>44,531,637</u>	<u>46,409,533</u>	<u>42,013,293</u>	<u>4,396,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,081,525</u>	<u>8,291,094</u>	<u>21,613,105</u>	<u>13,322,011</u>
Other Financing Sources (Uses)				
Transfers from other funds	403,688	403,688	553,874	150,186
Transfers to other funds	(6,827,631)	(12,418,913)	(12,057,393)	361,520
Lease liabilities issued	-	-	11,472	11,472
IT subscription agreement	-	-	37,052	37,052
Fund balance appropriations	342,418	3,724,131	-	(3,724,131)
Total Other Financing Sources (Uses)	<u>(6,081,525)</u>	<u>(8,291,094)</u>	<u>(11,454,995)</u>	<u>(3,163,901)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	10,158,110	<u>\$ 10,158,110</u>
Fund balance - beginning			34,562,738	
Fund balance - ending			<u>\$ 44,720,848</u>	

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

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

JUNE 30, 2023

Exhibit 6

	Water and Sewer Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 56,585,837
Restricted cash	7,214,761
Accounts receivable (net), billed	867,253
Accounts receivable (net), unbilled	1,098,450
Total Current Assets	<u>\$ 65,766,301</u>
Noncurrent Assets:	
Capital Assets:	
Land and other nondepreciable assets	\$ 4,127,917
Other capital asset, net of accumulated depreciation	123,149,730
Capital Assets (net)	<u>127,277,647</u>
Total Noncurrent Assets	<u>\$ 127,277,647</u>
Total Assets	<u>\$ 193,043,948</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension and OPEB deferrals	\$ 945,529
Total Deferred Outflows of Resources	<u>\$ 945,529</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 888,474
Liabilities payable from restricted assets	511,794
Legal settlement liability	7,067,998
Accrued interest payable	279,233
Customer deposits	307,111
Compensated absences, current	68,146
Lease Liability, current	12,555
Revenue bonds payable, current	2,148,000
Total Current Liabilities	<u>\$ 11,283,311</u>

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

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

JUNE 30, 2023

Exhibit 6

	Water and Sewer Sewer Fund
	<hr/>
Noncurrent Liabilities:	
Lease Liability	\$ 26,472
Net pension liability	1,587,737
Total OPEB liability	306,153
General obligation bonds payable, net	5,714,249
Revenue bonds payable, net	31,630,060
Compensated absences	65,881
Total Noncurrent Liabilities	<hr/> \$ 39,330,552
Total Liabilities	<hr/> \$ 50,613,863
DEFERRED INFLOWS OF RESOURCES	
Pension and OPEB deferrals	\$ 203,764
Total Deferred Inflows of Resources	<hr/> \$ 203,764
NET POSITION	
Net investment in capital assets	\$ 94,692,987
System Development reserves	7,832,194
Other purposes	6,907,651
Unrestricted	33,739,018
Total Net Position	<hr/> <hr/> \$ 143,171,850

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

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

YEAR ENDED JUNE 30, 2023

Exhibit 7

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

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

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

YEAR ENDED JUNE 30, 2023

Exhibit 8

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

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

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

YEAR ENDED JUNE 30, 2023

Exhibit 8

**Water and Sewer
Fund**

Reconciliation of operating income to net cash from operating activities:

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

Supplemental schedule of noncash capital and related finance activities

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies

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

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

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

B. Government-wide and fund financial statements

The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements - The fund financial statements provide information about the Town’s funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The Town has no fiduciary funds to report. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds, if any, are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

The Town reports the following major governmental funds:

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

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

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

The Town reports the following nonmajor governmental funds:

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

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

The Town reports the following major enterprise fund:

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

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

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. The State of North Carolina is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts, including the Town. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Wake County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual. Grant revenues, for which requirements have not been met, are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

D. Budgetary data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Reserve Funds, Debt Service Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund, Special Revenue Fund and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multiyear funds. The budget officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to 10% of the appropriated monies for the functional areas whose allocation is reduced; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10% must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State Law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNow accounts, money market accounts, and certificates of deposit.

State Law (G. S. 159-30(c)) authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT – Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

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

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

JUNE 30, 2023

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

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

Restricted assets

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

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

Restricted assets

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Ad valorem taxes receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2022. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town’s General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for doubtful accounts

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

Capital Assets

The government defines capital assets as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Donated capital assets are recorded at acquisition value at the date of donation. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2004, consist of the road network and water and sewer system assets and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Capital assets are depreciated on a straight-line method over the following estimated useful lives:

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Leases

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

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

Subscriptions

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Deferred outflows/inflows of resources

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

Long-term Obligations

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

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Compensated absences

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

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

Net position/fund balances

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

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

The governmental fund types classify fund balances as follows:

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Net position/fund balances (continued)

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

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

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

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

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

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Net position/fund balances (continued)

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

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

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

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

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

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

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

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Net position/fund balances (continued)

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

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

Unassigned - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The general fund is the only fund that reports a positive unassigned fund balance.

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

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

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

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

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

JUNE 30, 2023

Note 1—Summary of significant accounting policies (continued)

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

Net position/fund balances (continued)

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

F. Defined Benefit Cost Sharing Plans

Pensions

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

Other postemployment benefit plan

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, the Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable.

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

JUNE 30, 2023

Note 2—Detail Notes on All Funds

A. Assets

Deposits

All of the Town’s deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town’s agent in the unit’s name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town’s agent in the Town’s name. The amount of the pledged collateral is based on an approved averaging method for noninterest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

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

Investments

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

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

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

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

A. Assets (continued)

Investments (continued)

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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

Receivables – Allowances for Doubtful Accounts

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

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

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

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

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

Capital Assets

Governmental capital assets

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

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

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

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

Capital assets (continued)

Governmental capital assets (continued)

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

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

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

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

JUNE 30, 2023

Note 2 - Detail Notes on All Funds (continued)

Capital Assets (continued)

Business-type capital assets

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

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

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

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

Assets (continued)

Capital assets (continued)

Business-type capital assets (continued)

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

Active construction

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

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2—Detail Notes on All Funds (continued)

B. Liabilities

Pension plan obligations

Local governmental employees' retirement system

Plan Description - The Town is a participating employer in the statewide Local Governmental Employee's Retirement System ("LGERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers ("LEO") of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report ("ACFR") for the State of North Carolina. The State's ACFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410 or by calling (919) 707-0500, or at www.osc.nc.gov.

Benefits Provided - LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees’ retirement system (continued)

Contributions - Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town’s contractually required contribution rate for the year ended June 30, 2023 was 13.0% of compensation for law enforcement officers and 12.10% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$2,756,753 for the year ended June 30, 2023.

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

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

At June 30, 2023, the Town reported a liability of \$14,150,958 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2022 (measurement date), the Town’s proportion was 0.25%, which was an increase of 0.02% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Town recognized pension expense of \$4,022,759. At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees’ retirement system (continued)

\$2,756,753 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Years Ending June 30:

2024	\$	2,114,332
2025		1,829,002
2026		597,890
2027		2,228,228
	\$	<u>6,769,452</u>

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

Inflation	2.5%
Salary increases	3.25 to 8.25%, including inflation and productivity factor
Investment rate of return	6.50%, net of pension plan investment expense, including inflation

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies’ return projections reflect the foregoing and

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees’ retirement system (continued)

historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

The information above is based on 30-year expectations developed with the consulting actuary for the asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Local governmental employees’ retirement system (continued)

Sensitivity of the Town’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

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

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

Law enforcement officers’ special separation allowance

Plan Description - The Town administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2022, the Separation Allowance’s membership consisted of:

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Law enforcement officers' special separation allowance (continued)

The Separation Allowance has no assets accumulated in a trust.

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

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

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

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

Contributions - The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made through the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$97,398 as benefits came due for the reporting period.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - On June 30, 2023, the Town reported a total pension liability of \$1,802,625. The total pension liability was measured as of December 31, 2022, based on a December 31, 2021, actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2022, utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2023, the Town recognized pension expense of \$256,330.

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Law enforcement officers’ special separation allowance (continued)

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

\$ 48,699 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30:

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

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

	1% Decrease <u>(3.31%)</u>	Discount Rate <u>(4.31%)</u>	1% Increase <u>(5.31%)</u>
Total pension liability	<u>\$ 1,994,841</u>	<u>\$ 1,802,625</u>	<u>\$ 1,630,840</u>

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

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

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

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

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

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

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

Supplemental retirement income plan for law enforcement officers

Plan Description - The Town contributes to the Supplemental Retirement Income Plan (the “Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns authority to establish and amend benefit provisions to the North Carolina General Assembly. The Town has also elected to have employees not engaged in law enforcement to participate in the Plan. The Plan for Law Enforcement Officers is included in the ACFR for the State of North Carolina. The State’s ACFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454.

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension plan obligations (continued)

Supplemental retirement income plan for employees other than law enforcement officers

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

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

Other post-employment benefits

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

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

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other post-employment benefits (continued)

Actuarial Assumptions and Other Inputs - The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real Wage Growth	0.75%
Salary increases	3.25% - 8.41%, average, including inflation
Discount rate	3.54%
Dental	4.00%
Vision	2.50%
Healthcare cost trend rates	
Pre-Medicare Medical	7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
Medicare Medical	5.125% for 2021 decreasing to an ultimate rate of 4.50% by 2024

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

Changes in the Total OPEB Liability -

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

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

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other post-employment benefits (continued)

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

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

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

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB liability	\$ 2,881,747	\$ 3,574,369	\$ 4,504,032

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2023, the Town recognized OPEB expense of \$163,334. At June 30, 2023 the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,956	\$ 614,936
Changes of assumptions and other inputs	784,798	1,505,148
Benefit payments and administrative expenses subsequent to the measurement date	48,958	-
Total	<u>\$ 835,712</u>	<u>\$ 2,120,084</u>

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other employment benefits (continued)

\$48,958 was reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Years Ending June 30,</u>	
2024	\$ (186,578)
2025	(186,578)
2026	(186,578)
2027	(186,578)
2028	(165,307)
Thereafter	(421,711)
Total	<u>\$ (1,333,330)</u>

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the LGERS (the “Death Benefit Plan”), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term-cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in LGERS, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in LGERS at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee’s 12 highest months’ salary in a row during the 24 months prior to the employee’s death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The Town considers these contributions to be immaterial.

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Deferred outflows and inflows of resources

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

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

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in several self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town has the following coverage:

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

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

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations

Leases

Principal and Interest Requirements to Maturity

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Subscriptions Payable

Principal and Interest Requirements to Maturity

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

Installment purchase

Serviced by the General Fund:

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

\$ 300,000

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

\$ 3,200,000

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Installment Purchase (continued)

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

\$ 1,028,000

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

\$ 7,305,000

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

General obligation indebtedness

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

Serviced by the General Fund:

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

\$ 1,750,000

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

\$ 13,850,000

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

\$ 2,065,000

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

\$ 1,650,000

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

Serviced by General Fund \$ 22,150,000

Serviced by Water and Sewer 5,000,000

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

General Obligation Bonds (continued)

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

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

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Limited obligation indebtedness

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

Serviced by the General Fund:

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

\$ 8,880,000

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Revenue Bonds

Serviced by the Water and Sewer Fund:

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

\$ 16,185,000

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

\$ 14,890,000

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

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Revenue bonds (continued)

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

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

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

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Changes in long-term liabilities

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

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

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

JUNE 30, 2023

Note 2 – Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-term obligations (continued)

Changes in long-term liabilities (continued)

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

Note 3—Interfund balances and activity

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

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

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs. For the year ended June 30, 2023, the Water and Sewer fund made a \$223,108 transfer for a debt service payment to the Debt Service Fund.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

Note 4—Joint ventures

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

Note 5—Summary disclosure of significant contingencies

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

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

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

Note 6—Subsequent events

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

The following financial statements have been compiled from the audited financial statements of the Town for the fiscal years ended June 30, 2023, 2022, and 2021.

Town of Fuquay-Varina, North Carolina

General Fund

Balance Sheet

As of June 30, 2023, 2022, and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Cash and cash equivalents	\$ 40,057,924	\$ 31,045,785	\$ 29,555,053
Restricted cash and equivalents	2,582,334	2,063,192	2,184,813
Receivables:			
Taxes, net	100,429	86,174	95,563
Accounts	180,774	103,871	96,120
Prepays	7,200	-	-
Due from other governments	4,097,837	3,860,118	2,909,561
Total assets	<u>\$ 47,026,498</u>	<u>\$ 37,159,140</u>	<u>\$ 34,841,110</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	\$ 2,189,979	\$ 2,488,935	\$ 2,164,680
Total liabilities	<u>2,189,979</u>	<u>2,488,935</u>	<u>2,164,680</u>
 Deferred Inflows of Resources			
Property taxes receivable	100,429	86,174	95,563
Prepaid property taxes	15,242	21,293	6,891
Total deferred inflows of resources	<u>115,671</u>	<u>107,467</u>	<u>102,454</u>
 Fund balances			
Non-spendable:			
Prepayments	7,200	-	-
Restricted:			
Stabilization by State Statute	4,379,040	3,963,990	3,005,682
Street improvements	2,582,334	2,063,192	2,184,813
Federal forfeitures	61,324	91,824	11,110
Assigned:			
Parks and recreation	2,500	2,500	2,500
LEO pension benefit	373,390	363,054	363,054
Projects carried forward	726,005	445,448	1,163,796
Subsequent year's expenditures	4,000,000	-	4,360,450
Unassigned	32,589,055	27,632,730	21,482,571
Total fund balances	<u>44,720,848</u>	<u>34,562,738</u>	<u>32,573,976</u>
 Total liabilities, deferred inflows of resources and fund balances	<u>\$ 47,026,498</u>	<u>\$ 37,159,140</u>	<u>\$ 34,841,110</u>

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

Town of Fuquay-Varina, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues			
Ad valorem taxes	\$ 25,378,868	\$ 21,264,997	\$ 19,694,439
Other taxes and licenses	61,563	62,520	44,140
Unrestricted intergovernmental	13,612,164	12,251,939	9,317,243
Restricted governmental	4,112,705	3,906,486	4,033,916
Permits and fees	3,592,607	3,355,858	2,782,096
Sales and services	5,176,451	3,794,801	2,891,654
Investment earnings	1,664,963	80,727	13,931
ARPA reimbursement	9,606,334	-	-
Miscellaneous	420,743	581,747	120,705
Total revenues	<u>63,626,398</u>	<u>45,299,075</u>	<u>38,898,124</u>
Expenditures			
General government	4,322,290	3,666,316	2,832,073
Public safety	19,014,654	16,253,029	13,179,319
Transportation	3,217,829	2,838,467	1,774,890
Environmental protection	4,102,662	3,133,801	2,634,543
Cultural and recreation	5,649,538	5,127,215	3,916,245
Economic and physical development	1,936,437	1,824,910	1,183,690
Central services	3,769,883	2,969,361	2,578,818
Special contributions:			
Other agencies	-	-	97,750
Disaster recovery	-	-	-
Total expenditures	<u>42,013,293</u>	<u>35,813,099</u>	<u>28,197,328</u>
Revenues over expenditures	<u>21,613,105</u>	<u>9,485,976</u>	<u>10,700,796</u>
Other financing sources (uses)			
Proceeds from installment purchases	-	1,279,000	-
Lease liabilities issued	11,472	-	-
SBITA agreements	37,052	-	-
Transfers from other funds:			
Special revenue funds	150,186	805,000	1,628,150
Capital projects funds	403,688	-	-
Transfers to other funds:			
Special revenue funds	-	(3,500,000)	(3,500,000)
Capital projects funds	(8,394,282)	(2,971,912)	(17,689)
Debt service fund	(3,663,111)	(3,109,302)	(3,488,031)
Total other financing uses	<u>(11,454,995)</u>	<u>(7,497,214)</u>	<u>(5,377,570)</u>
Net change in fund balances	<u>10,158,110</u>	<u>1,988,762</u>	<u>5,323,226</u>
Fund balance, beginning of year	<u>34,562,738</u>	<u>32,573,976</u>	<u>27,250,750</u>
Fund balance, end of year	<u>\$ 44,720,848</u>	<u>\$ 34,562,738</u>	<u>\$ 32,573,976</u>

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

Town of Fuquay-Varina, North Carolina
Debt Service Fund
Balance Sheet
As of June 30, 2023, 2022, and 2021

	2023	2022	2021
Assets			
Cash and cash equivalents	\$ 1,793,355	\$ 1,045,837	\$ 1,543,057
Prepaid expense	-	446,215	-
Total assets	\$ 1,793,355	\$ 1,492,052	\$ 1,543,057
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Fund balances			
Restricted:			
Debt service	\$ 1,793,355	\$ -	\$ -
Non-spendable:			
Prepaid	-	446,215	-
Assigned	-	1,045,837	1,543,057
Total fund balances	1,793,355	1,492,052	1,543,057
Total liabilities, deferred inflows of resources and fund balances	\$ 1,793,355	\$ 1,492,052	\$ 1,543,057

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

Town of Fuquay-Varina, North Carolina
Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues			
Investment earnings	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Debt service:			
Principal	2,636,000	2,390,000	2,385,000
Interest and other charges	<u>1,408,010</u>	<u>1,498,431</u>	<u>1,552,034</u>
Total expenditures	<u>4,044,010</u>	<u>3,888,431</u>	<u>3,937,034</u>
Revenues under expenditures	<u>(4,044,010)</u>	<u>(3,888,431)</u>	<u>(3,937,034)</u>
Other financing sources (uses)			
Transfers from other funds:			
General Fund	3,663,111	3,109,302	3,488,031
Special revenue funds	459,094	471,324	481,740
Enterprise funds	<u>223,108</u>	<u>256,800</u>	<u>262,480</u>
Total other financing sources	<u>4,345,313</u>	<u>3,837,426</u>	<u>4,232,251</u>
Net change in fund balances	<u>301,303</u>	<u>(51,005)</u>	<u>295,217</u>
Fund balance, beginning of year	<u>1,492,052</u>	<u>1,543,057</u>	<u>1,247,840</u>
Fund balance, end of year	<u>\$ 1,793,355</u>	<u>\$ 1,492,052</u>	<u>\$ 1,543,057</u>

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

The following budget statements have been compiled from the budget ordinance and related amendments of the Town for the fiscal year ended June 30, 2024 and for the year ending June 30, 2025.

Town of Fuquay-Varina, North Carolina
Compiled Budget - Annually Budgeted Funds
For the Fiscal Year Ended June 30, 2024
As of June 30, 2024

	General Fund	Debt Service Fund
Estimated Revenues		
Ad valorem taxes	\$ 29,570,936	\$ -
Other taxes and licenses	60,000	-
Unrestricted intergovernmental	13,938,378	-
Restricted intergovernmental	4,299,409	-
Permits and fees	3,256,969	-
Sales and services	5,391,164	-
Investment earnings	800,000	-
Other	244,810	-
Total estimated revenues	57,561,666	-
 Appropriations		
General government	8,402,275	-
Culture and recreation	7,150,201	-
Economic and physical development	2,585,499	-
Public Safety	23,728,858	-
Transportation	4,212,514	-
Environmental protection	4,619,422	-
Central services	3,156,619	-
Debt service:		
Principal	-	3,008,000
Interest and other charges	-	2,528,511
Total appropriations	53,855,388	5,536,511
Estimated revenues over (under) appropriations	3,706,278	(5,536,511)
 Other financing sources (uses)		
Transfers from other funds:		
General Fund	-	4,856,540
Special revenue funds	-	448,771
Enterprise funds	-	231,200
Transfers to other funds:		
Debt Service Fund	(4,856,540)	-
Capital projects funds	(3,166,913)	-
Appropriated fund balances	4,317,175	-
Total other financing sources (uses)	(3,706,278)	5,536,511
Estimated revenues and other sources over appropriations and other uses	\$ -	\$ -

Compiled by the staff of the Finance Department of the Town of Fuquay-Varina.

Town of Fuquay-Varina, North Carolina
Compiled Budget - Annually Budgeted Funds
For the Fiscal Year Ending June 30, 2025
As of July 1, 2024

	General Fund	Debt Service Fund
Estimated Revenues		
Ad valorem taxes	\$ 37,680,883	\$ -
Other taxes and licenses	110,000	-
Unrestricted intergovernmental	15,395,381	-
Restricted intergovernmental	4,533,300	-
Permits and fees	1,958,677	-
Sales and services	5,771,365	-
Investment earnings	2,276,447	-
Other	388,092	149,393
Total estimated revenues	68,114,145	149,393
 Appropriations		
General government	9,914,755	-
Culture and recreation	7,974,267	-
Economic and physical development	2,410,070	-
Public Safety	25,505,915	-
Transportation	5,267,352	-
Environmental protection	4,563,225	-
Central services	1,706,643	295,000
Debt service:		
Principal	-	5,353,920
Interest and other charges	-	3,133,318
Total appropriations	57,342,227	8,782,238
Estimated revenues over (under) appropriations	10,771,918	(8,632,845)
 Other financing sources (uses)		
Transfers from other funds:		
General Fund	-	7,967,098
Special revenue funds	205,086	438,447
Enterprise funds	-	227,300
Transfers to other funds:		
Debt Service Fund	(7,967,098)	-
Capital projects funds	(11,946,667)	-
Appropriated fund balances	8,936,761	-
Total other financing sources (uses)	(10,771,918)	8,632,845
Estimated revenues and other sources over appropriations and other uses	\$ -	\$ -

Compiled by the staff of the Finance Department of the Town of Fuquay-Varina.

SanfordHolshouser

209 Lloyd Street, Suite 350 | Carrboro, NC 27510
www.shlawgroup.com

[Proposed form of bond counsel's approving opinion]

October __, 2024

Town of Fuquay-Varina, North Carolina

\$10,000,000

Town of Fuquay-Varina, North Carolina
General Obligation Transportation Bonds, Series 2024

We have acted as bond counsel to the Town of Fuquay-Varina, North Carolina (the "Town"), in connection with the Town's issuance today of the above-captioned bonds (the "Bonds"). The Town is and has been our only client in this transaction.

We have examined the applicable law and certified copies of proceedings and documents relating to the issuance. Without undertaking to verify the same by independent investigation, we have relied on representations and certifications by representatives of the Town, the North Carolina Local Government Commission (the "LGC") and others as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Town has made certain covenants (the "Covenants") to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of Bond proceeds and the timely payment to the United States of any arbitrage rebate required under the Code, all as set forth in the proceedings and documents providing for the issuance of the Bonds.

We have assumed the capacity of all natural persons, the genuineness of all

signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies or specimens.

Based on the foregoing, as of today and under existing law, we are of the following opinions:

1. The Town has duly authorized and issued the Bonds. The Bonds are legal, valid and binding obligations of the Town, enforceable in accordance with their terms. The Town's faith and credit are pledged for the payment of principal of and interest on the Bonds, and the Town is authorized to levy and collect ad valorem taxes, without restriction as to rate or amount, on all locally taxable property to pay the principal of and interest on the Bonds.

Our opinion as set forth in paragraph 1 is subject to the effect (a) of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and (b) of general principles of equity, regardless of whether applied in a proceeding in equity or at law.

2. Interest on the Bonds paid by the Town is not included in gross income for federal income tax purposes. Interest on the Bonds is not a separate tax preference item for purposes of the federal alternative minimum tax; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations. The Town's failure to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The Town has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Code Section 265(b)(3).

3. Interest on the Bonds is exempt from existing State of North Carolina

income taxes.

We express no opinion regarding other federal or North Carolina tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Our services as bond counsel have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we have deemed necessary to evaluate the legality, validity and enforceability of the Bonds and to evaluate the status of the interest on the Bonds under the federal and North Carolina tax laws referenced above.

We have not made any investigation concerning the Town's operations or condition. We express no opinion (a) as to the Town's financial condition or its ability to provide for payments on the Bonds, (b) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in deciding to purchase Bonds, including the LGC's Official Statement with respect to the Bonds, or (c) as to any party's compliance with any terms or conditions precedent to any purchase of Bonds.

This opinion is based on constitutional and statutory provisions and judicial decisions existing today. We assume no responsibility to update this opinion or take any other action with regard to changes in facts, circumstances or the applicable law.

Very truly yours,

[To Be Signed, "Sanford Holshouser LLP"]

BOOK-ENTRY ONLY SYSTEM

Beneficial ownership interests in the Bonds will be available only in a book-entry system. The actual purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interests in such Bonds purchased. So long as The Depository Trust Company (the “DTC”), a New York Corporation, or its nominee is the registered owner of the Bonds, references in this Official Statement to the registered owners of the Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners of the Bonds.

The following description of DTC, of procedures and record keeping on beneficial ownership interests in the Bonds, payment of interest and other payments with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Bonds and of other transactions by and between DTC, DTC Participants, and Beneficial Owners are based on information furnished by DTC.

DTC will act as a securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s Participants (the “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 the Bonds. 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 (the “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 (the “Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual identities of the Beneficial Owners of the Bonds; DTC's records reflect only the identities of the Direct Participants to whose accounts the 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 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest and redemption premiums, if any, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town, on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Town or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption premiums, if any, is the Town's responsibility, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as a securities depository with respect to the Bonds at any time by giving reasonable notice to the Town. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The Commission or the Town may decide to discontinue the use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates 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 cannot and does not give any assurances that DTC, Direct Participants, or Indirect Participants will distribute to the Beneficial Owners of the Bonds (a) payments of principal of, premium, if any, and interest on the Bonds, (b) confirmations of their ownership interests in the Bonds or (c) redemption or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the 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.

THE TOWN HAS NO RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OR ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OR ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, PREMIUM, IF ANY OR INTEREST ON THE 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 BONDS UNDER THE TERMS OF THE RESOLUTIONS AUTHORIZING THE ISSUANCE OF THE BONDS; AND (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.