

Ratings:
Moody's: Aa1
S&P: AA+
(see "RATINGS" herein)

NEW ISSUE – Book-Entry Only

This Official Statement has been prepared by the Local Government Commission and the City of Fayetteville, North Carolina (the "City") to provide information in connection with the sale and issuance of the Bonds described herein (the "Bonds"). 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. Unless otherwise indicated, capitalized terms used on this cover page have the meanings given in this Official Statement.

City of Fayetteville, North Carolina
\$40,000,000
General Obligation
Public Improvement Bonds, Series 2026

Dated: Date of Delivery

Due: As shown on inside cover

Tax Treatment

In the opinion of Bond Counsel, under existing law and assumes continuing compliance by the City with certain covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code. Furthermore, in the opinion of Bond Counsel, based on existing law, interest on the Bonds will be exempt from all State of North Carolina income taxes. See "TAX TREATMENT" herein.

Redemption

The Bonds will be subject to optional redemption at the times and price set forth herein.

Security

The Bonds will constitute general obligations of the City, secured by a pledge of the faith and credit and taxing power of the City.

Interest Payment Dates

February 1 and August 1, commencing August 1, 2026.

Denominations

\$5,000 or any integral multiple thereof.

Expected Delivery Date

April 15, 2026.

Bond Counsel

The Charleston Group, Fayetteville, North Carolina.

Municipal Advisor:

First Tryon Advisors LLC, Charlotte, North Carolina.

The date of this Official Statement is March 24, 2026.

MATURITY SCHEDULE

\$40,000,000

**City of Fayetteville, North Carolina
General Obligation Public Improvement Bonds, Series 2026**

<u>Due February 1</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield¹</u>	<u>CUSIP⁺</u>	<u>Due February 1</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield¹</u>	<u>CUSIP⁺</u>
2027	\$2,000,000	5.00%	2.40%	312765 B58	2037	\$2,000,000	5.00%	3.28% ²	312765 C73
2028	2,000,000	5.00	2.43	312765 B66	2038	2,000,000	5.00	3.40 ²	312765 C81
2029	2,000,000	5.00	2.50	312765 B74	2039	2,000,000	5.00	3.48 ²	312765 C99
2030	2,000,000	5.00	2.58	312765 B82	2040	2,000,000	5.00	3.56 ²	312765 D23
2031	2,000,000	5.00	2.67	312765 B90	2041	2,000,000	4.00	3.93 ²	312765 D31
2032	2,000,000	5.00	2.76	312765 C24	2042	2,000,000	4.00	4.00	312765 D49
2033	2,000,000	5.00	2.86	312765 C32	2043	2,000,000	4.00	4.06	312765 D56
2034	2,000,000	5.00	2.96	312765 C40	2044	2,000,000	4.00	4.12	312765 D64
2035	2,000,000	5.00	3.06	312765 C57	2045	2,000,000	4.00	4.18	312765 D72
2036	2,000,000	5.00	3.16	312765 C65	2046	2,000,000	4.00	4.24	312765 D80

¹ Information obtained from the underwriters of the Bonds.

² Yield to February 1, 2036 call date at par.

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CITY OF FAYETTEVILLE, NORTH CAROLINA

CITY COUNCIL

Mitch Colvin..... Mayor

Derrick Thompson..... Mayor Pro Tem

Stephon Ferguson

Malik Davis

Antonio Jones

D.J. Haire

Lynne Greene

Brenda McNair

Shaun McMillan

Deno Hondros

CITY STAFF

Douglas J. Hewett City Manager

Tiffany R. Murray Chief Financial Officer

Lachelle H. Pulliam City Attorney

BOND COUNSEL

The Charleston Group
Fayetteville, North Carolina

MUNICIPAL ADVISOR

First Tryon Advisors LLC
Charlotte, North Carolina

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STATE AND LOCAL GOVERNMENT FINANCE DIVISION
LOCAL GOVERNMENT COMMISSION

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is intended to furnish information in connection with the issuance, sale and delivery of \$40,000,000 General Obligation Public Improvement Bonds, Series 2026 (the "Bonds") of the City of Fayetteville, North Carolina (the "City").

The information furnished herein includes a brief description of the City and its economic condition, government, debt management, tax structure, financial operations, budget, pension plans and contingent liabilities. The City has assisted the North Carolina Local Government Commission (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 hereof. 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 ("Rule 15c2-12"). In accordance with the requirements of Rule 15c2-12, the City will agree pursuant to a resolution adopted by the City Council of the City prior to the sale of the Bonds to certain continuing disclosure obligations. See "CONTINUING DISCLOSURE" herein.

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

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 as of their date of delivery and will bear interest from their date. Interest on the Bonds will be payable semiannually on each February 1 and August 1, beginning August 1, 2026, at the rates per annum set forth on the inside cover of this Official Statement. The Bonds will mature, subject to the right of prior redemption as described below on February 1 in the years and amounts set forth on the inside cover of this Official Statement.

Payment of interest will be made by the Bond Registrar on each interest payment date to the registered owner of the Bonds (or the previous Bond or Bonds evidencing the same debt as that evidenced by such Bonds) at the close of business on the record date for such interest, which shall be the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date.

The Bonds will be issuable as fully registered bonds in a book-entry only system maintained by The Depository Trust Company, a New York corporation (the "DTC"). DTC will act as securities depository for the Bonds. Purchases and transfers of the Bonds may be made only in denominations of \$5,000 and any integral multiple thereof 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 February 1, 2036 will not be subject to redemption prior to maturity. The Bonds maturing on February 1, 2037 and thereafter will be subject to redemption, at the option of the City, from any moneys that may be made available for such purpose, either in whole or in part on any date not earlier than February 1, 2036, 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 Bonds to be redeemed shall be selected by lot in such manner as the City 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 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 Bonds to be redeemed shall be called in such manner as the City may determine.

Not more than sixty days nor less than thirty days before the redemption date of any Bonds to be redeemed, whether such redemption be in whole or in part, the City 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 City, 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 City 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. In the event that such notice contains such a condition and moneys sufficient to pay the redemption price of and interest on such Bonds are not received by the City on or prior to the redemption date, the redemption shall not be made and the City 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, such Bonds or portions thereof shall cease to be entitled to any benefits or security under the resolution providing for their issuance or to be deemed outstanding, 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 Purposes

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 duly adopted by the City Council of the City on August 8, 2022, which bond orders were approved by the vote of a majority of the qualified voters of the City who voted thereon at a referendum duly called and held on November 8, 2022, and a resolution duly adopted by said City Council on January 12, 2026.

The Bonds are being issued for the purpose of providing funds, together with any other available funds, to acquire, construct, and equip various law enforcement and firefighting facilities, as well as funding various transportation related improvements inside and outside the corporate limits of the City.

Security

The Bonds are general obligations of the City. The City is authorized and required by law to levy on all property taxable by the City such ad valorem taxes, without limitation as to rate or amount, as may be necessary to pay the Bonds and the interest thereon.

THE CITY

General Description

The City is the county seat of Cumberland County (the “County”) and covers an area of approximately 150 square miles. The City is situated approximately 60 miles south of Raleigh, the State capital, and 140 miles east of Charlotte, a significant commercial center in the State. The City is located adjacent to Interstate Highway 95, a major north-south corridor that links the City to Washington, D.C., Baltimore and New York to the north, and to Charleston, Orlando and Miami to the south. State highways also link the City to the beaches along the southeast coast of the State and to the mountains in the west.

Population

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

<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
75,850	121,015	200,564	208,501

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

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
212,111	215,967	241,753	212,567	211,756

Commerce and Industry

The City serves as the trade, service, health care, learning and transportation center of the Fayetteville Metropolitan Statistical Area (the “Fayetteville MSA”), which is the sixth largest metropolitan statistical area in the State. The civilian labor force within the County is over 131,140 and is supplemented by military personnel stationed at Fort Bragg.

Regional Trade. The City is a major regional trade center in eastern North Carolina, with a significant number and variety of shopping plazas, centers and independent retailers being located throughout the City. The City serves as the primary market for a two-county trade area. Evidence of the strong retail sector is reflected by one of the largest shopping areas in the Carolinas, a two square-mile area located within the City within which shoppers can visit a regional mall, five shopping centers, a variety of department stores and specialty, antique and gift shops. Additionally, Cross Creek Mall has more than one million square feet of floor space and three major department stores.

Recreation and Tourism. Visitors, business travelers and motorists had an approximate economic impact of \$698 million in the County during 2024 according to DistiNctly Fayetteville. During 2024, overnight accommodations in the area generated approximately \$8.45 million in occupancy tax revenues based on lodging revenues in excess of \$139.25 million. There are approximately 72 hotel/motel properties with over 6,000 rooms in the area catering to overnight guests.

The City serves as the cultural and arts center for the region east of Fort Bragg. The City’s cultural and arts venues include the Cape Fear Regional Theatre, Cape Fear Botanical Gardens, Festival Park, as well as seven museums including the Museum of the Cape Fear Historical Complex and the Airborne and Special Operations Museum (the “ASOM”). The North Carolina Veterans Park opened beside the ASOM in 2011 creating a destination for education, reflection and celebration of military service. The Crown Center hosts sporting events, national music tours, theatre productions and trade shows. Fayetteville State University and Methodist University also host cultural and sporting events. In addition, ten golf courses are located within the area. The Fayetteville Downtown Historic District includes the Market House, a national historic landmark, Liberty Row and the Cool Spring Tavern, which was built in 1788 and is the oldest building in the City.

Downtown Development and Other City Initiatives. The City completed construction and opened a new 4,800-seat baseball stadium in the downtown area in April 2019. The stadium serves as home to a minor league franchise affiliated with the Houston Astros and was host to the NCAA Big South Conference tournament from 2019 through 2021. The stadium has facilitated more than \$100 million in public and private investment toward downtown development in the City, including the renovation of an old landmark hotel into residential apartments and a downtown parking deck. In

addition, a major chain hotel and approximately 80,000 square feet of office space is expected to be constructed in the downtown area over the next several years.

A \$35 million parks and recreation general obligation bond referendum approved by voters in 2016 has led to the construction of new recreational amenities and improvements across the City including several splash pads, improvements to various parks and recreation centers, a new skateboard park located in the downtown area, and a new senior center in the western part of the City. Construction has also begun on another senior center located in the eastern part of the City along with a sports field complex, a soccer complex, and a tennis center.

The North Carolina General Assembly enacted the Small Business Enterprise Program, which modified the City's Charter. It allows the City to establish a race- and gender-neutral small business enterprise program to promote the development of small businesses in the Fayetteville MSA and to enhance opportunities for small businesses to participate in City contracts. City staff is developing and implementing this program.

For the fiscal year ending June 30, 2025, the City made significant strides in community and economic development, having managed more than \$11 million in federal grants, including \$1.5 million in community development block grants.

United States Military. The Fort Bragg Army Base has a significant impact on the City's economy. It accounted for more than \$8.87 billion in total direct and indirect economic impact on the local economy in federal fiscal year 2024.

Fort Bragg is the largest US Army base by population, serving a population of approximately 48,775 active-duty Soldiers, 3,597 Reserve Components and Temporary Duty students, 12,419 civilian employees, 4,926 Contractors, and 70,109 active-duty family members. There are 125,278 Army retirees and family members in the area. Fort Bragg covers approximately 254 square miles, which is nearly 163,000 acres. Of the 163,000 acres, 146,000 acres are dedicated training lands. Fort Bragg has traditionally been the home of the Army's XVIII Airborne Corps and the 82nd Airborne Division, as well as the U.S. Army Special Operations Command and 3rd Special Forces Group. In 2011, Fort Bragg became the headquarters for the Army's combat-ready conventional forces and Army Reserve following the move of U.S. Army Forces Command and U.S. Army Reserve Command to the base. The base also encompasses Pope Army Airfield which provides fixed wing aviation assets, and Simmons Army Airfield, which provides rotary wing aviation assets required to support Fort Bragg's missions.

The North Carolina Military Business Center (the "NCMBC") was established in 2004 by the North Carolina General Assembly as a business development entity of the North Carolina Community College System headquartered at Fayetteville Technical Community College. The mission of the NCMBC is to leverage military and other federal business opportunities to expand the economy, grow jobs and improve quality of life in North Carolina. The NCMBC's primary goal is to increase federal revenues for businesses in North Carolina.

Since the NCMBC opened in 2005, companies assisted by the NCMBC have won more than 6,570 contracts worth an approximate value of \$18.20 billion. Given that the City is headquarters for the NCMBC, their share of the contracts and other economic benefits is a boost to the area economy.

Local Economy. In addition to Fort Bragg and the City, substantial employment is also offered in the government sector through Cumberland County Schools, Fayetteville State University, Fayetteville Technical Community College, County of Cumberland and the Veterans Administration.

Other major employers in the area include Cape Fear Valley Health System, the largest health care provider in the region, Goodyear Tire & Rubber Inc., which has one of the largest tire producing factories in the world located in the City, Wal-Mart Associates Inc., through its distribution center and

retail outlets, Mann Hummel, which has its largest U.S. facility producing advanced filtration products located in the City, and Food Lion, a large supermarket chain.

The City's commitment to expanding and diversifying its economy includes maintaining a strong industrial base. Manufacturing and distribution services are diverse in the City. The leading products include tires, oil, air, fuel and cabin filters, sportswear, industrialized motor controls, and plastics. The City has sites available for new industry at its 1,270 acre Cumberland Industrial Center, adjacent to Interstate Highway 95, the Fayetteville Regional Airport, and local rail service.

Recently announced logistics-based projects include two Amazon distribution facilities and new facilities for both FedEx and the United States Postal Service. Additionally, there have been significant new announcements by companies providing customer support services, data services, and information technology services including MetroNet's \$65 million fiber optic project, which will bring advanced and affordable high-speed data to Fayetteville and Cumberland County residents.

In March 2025, air dome manufacturer Yeadon Fabric Domes announced plans to invest more than \$4.5 million and create 72 jobs in the City. The company acquired 14 acres near Fayetteville Regional Airport, 11 of which were annexed into the City, where it will locate its headquarters and manufacturing facility.

Another important advantage is the region's capacity for training workers. In addition to North Carolina's nationally known higher education institutions like North Carolina State University, Duke University and the University of North Carolina, employers can tap into education and training support from the City's local postsecondary schools, including Fayetteville Technical Community College, the fourth largest comprehensive two-year college in the State, Fayetteville State University, a master's-level constituent unit of the University of North Carolina, and Methodist University, a private university providing educational opportunities and a trained work force.

Health Care. The City's access to health care continues to expand with new facilities and medical professionals. Cape Fear Valley Health Systems is a private, not-for-profit health system, providing local health care in the City. Since opening in 1956, it has grown into the State's eighth largest health system. With approximately 1,000 patient beds, it serves over one million patients annually. A full-service medical center specializing in trauma care, cardiac care, cancer treatment and surgical services, as well as neuroscience, pediatrics, rehabilitation and orthopedics, the Cape Fear Valley Health System offers a wide range of primary care, specialty clinics, and outpatient, inpatient and emergency services. With a full-service Family Birth Center and Level-III Neonatal Intensive Care, the Cape Fear Valley Health System is also a leader in mother-baby and pediatric care in the region.

In addition, Cape Fear Valley, in partnership with Methodist University, has broken ground on a new 127,500 square foot School of Medicine and is expected to welcome its first class in Fall 2026. Cape Fear Valley recently completed a \$110 million expansion which added two stories to the Valley Pavilion, 92 new beds to the hospital, two helipads and created approximately 180 new positions. Their list of medical facilities in the Cape Fear region include Cape Fear Valley Medical Center, Highsmith-Rainey Specialty Hospital, Cape Fear Valley Rehabilitation Center, Behavioral Health Care, Bladen County Hospital, Hoke Hospital, Central Harnett Hospital, Betsy Johnson Hospital, as well as several medical offices and clinics spread throughout the region.

With the City being home to the largest military installation in the world, Fort Bragg, there is also a significant range of medical services offered to active duty, families and veterans through the installation of hospitals, clinics and two Veterans Administration Medical Centers (the "VA Hospitals"). Womack Army Medical Center (the "Medical Center"), a state-of-the-art medical complex with more than 100 beds, is an integral component of Fort Bragg's military mission, with approximately 75,000 patients visiting the Medical Center's emergency department and more than 7,100 patients admitted annually. The Medical Center's physicians perform a wide range of inpatient

and outpatient surgeries annually, serving approximately 200,000 eligible beneficiaries in the region, the largest beneficiary population in the Army.

The VA Hospitals offer a variety of health services to meet the needs of local veterans. More than 90,000 veterans living in a 19-county area of the southeastern part of the State receive health services from the VA Hospitals annually. The primary VA Hospital is a Level 2C medical center with 58 authorized general medical, surgical and mental health beds, along with a 69-bed long-term care unit. The second VA Hospital, the Fayetteville VA Health Care Center, opened in 2015 in western Fayetteville, expanding access to outpatient and specialty clinics for veterans.

Labor Force and Unemployment

The North Carolina Department of Commerce has estimated the percentage of unemployment in the City 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>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
2021	8.8%	8.4%	7.8%	7.3%	7.3%	7.9%	7.1%	7.1%	6.2%	6.2%	5.7%	4.9%
2022	5.8	5.5	5.2	4.5	4.8	5.4	5.6	5.8	4.8	5.0	5.1	4.7
2023	5.2	5.1	4.9	4.1	4.6	5.1	5.0	5.2	4.4	4.6	4.7	4.6
2024	5.0	5.1	4.8	4.2	4.6	5.2	5.5	5.2	4.5	4.4	4.7	4.5
2025	5.3	5.0	4.9	4.6	5.0	5.4	5.3	5.5	5.0	N/A*	5.5	4.6

*Due to the 2025 Federal shutdown, October unemployment rates were not calculated.

Note: Not seasonally adjusted.

Source: N.C. Department of Commerce: Labor and Economic Analysis Division.

According to the Labor and Economic Analysis Division of the North Carolina Department of Commerce, the percentage of unemployment in the United States, the State and the City is as follows (latest data available):

<u>Year</u>	<u>United States</u>	<u>State</u>	<u>City</u>
2021	5.3%	4.9%	7.1%
2022	3.6	3.7	5.2
2023	3.6	3.5	4.8
2024	4.0	3.6	4.8
2025	4.3	3.8	5.1

(Remainder of page left blank intentionally)

The following table lists the twenty-five largest employers in the County:

<u>Employer</u>	<u>Description</u>	<u>Employees</u>
Defense Ex-Army Navy & Air Force	Public Administration	1000+
Cumberland County Schools	Education	1000+
Cape Fear Valley Health Systems	Health Services	1000+
Wal-Mart Associates Inc.	Retail	1000+
County of Cumberland	Public Administration	1000+
Goodyear Tire and Rubber Inc.	Manufacturing	1000+
City of Fayetteville	Public Administration	1000+
Veterans Administration	Health Services	1000+
Fayetteville Technical Community College	Education	1000+
Fayetteville State University	Education	1000+
Food Lion	Retail Trade	1000+
Amazoncom Services Inc.	Transportation and Warehousing	1000+
U S Postal Service	Transportation and Warehousing	1000+
Army & Air Force Exchange Service	Public Administration	1000+
Booz Allen Hamilton Inc.	Waste Management and Remediation Services	500-999
U.S. Army (Non-appropriated Fund Activity)	Health Services	500-999
Public Works Commission	Public Administration	500-999
Lowes Home Centers Inc.	Retail Trade	500-999
Carolina Power & Signalization LLC	Construction	500-999
Mann+ Hummel Purolator Filters LLC	Manufacturing	500-999
Caci Inc-Federal	Professional, Scientific, and Technical Services	500-999
PruittHealth Veteran Services NC	Health Services	500-999
Directional Services, Inc.	Construction	250-499
Sitel Operating Corporation	Waste Management and Remediation Services	250-499
Vectrus Systems Corporation	Other Services	250-499

Source: North Carolina Department of Commerce, Demand Driven Data Delivery System (First Quarter 2025).

The total taxable sales in the County for the fiscal years ended June 30, 2021 through June 30, 2025 and a portion of fiscal year 2026 are shown in the following table:

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Total</u> <u>Retail Sales</u>	<u>Increase (Decrease)</u> <u>Over Previous Year</u>
2021	\$ 5,238,219,221	20.96%
2022	5,743,623,701	9.65
2023	6,118,176,646	6.52
2024	6,167,392,254	0.80
2025	6,239,800,488	1.17
2026 (6 months) ¹	3,158,543,075	--

¹ The comparable number for the six-month period ended December 31, 2024, was \$3,078,185,321.

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

Note: Separate data for the City is not available.

Construction activity in the City for the fiscal years ended June 30, 2021 through June 30, 2025 is indicated in the following table showing the number and value of commercial building permits and the number and value of residential units (including renovations):

<u>Fiscal Year</u>	<u>Commercial</u>		<u>Residential</u>		<u>Total Value¹</u>
	<u>Number</u>	<u>Value¹</u>	<u>Number</u>	<u>Value¹</u>	
2021	410	\$122,187	801	\$ 80,765	\$202,952
2022	444	240,643	1,429	122,084	362,727
2023	549	273,157	1,149	187,298	460,455
2024	427	155,098	1,084	188,228	343,326
2025	409	216,278	1,031	170,714	387,001

¹ Value shown in thousands.

Source: City Building Inspections; City Planning Department.

According to the United States Department of Commerce, Bureau of Economic Analysis, per capita income figures for the County and the State are as follows:

<u>Year</u>	<u>County</u>	<u>State</u>
2020	\$42,429	\$51,816
2021	45,828	57,233
2022	46,246	59,092
2023	49,057	62,233
2024	52,382	65,634

Note: Latest available data.

Government

The City has a Council-Manager form of government. The Mayor and nine Council members are elected every two years. The City Council is the legislative body of the City government with the Mayor as the presiding officer. The City Council appoints a City Manager who administers the daily operations of the City through department heads appointed by the City Manager.

Transportation

The Fayetteville Area System of Transit (the “FAST”) is the City’s major public transportation system. It operates a fleet of 33 fixed-route buses on 18 routes to provide bus service. In addition, 21 FASTTRAC! vehicles provide complementary ADA paratransit service to customers with disabilities that are unable to use the fixed-route bus system. FAST completes about 1.6 million passenger trips annually, while providing safe and affordable transportation services to more than 6,000 daily passengers.

The City opened a new FAST Transit Center in November 2017. This approximately \$12.6 million facility includes 34,000 square feet of space and bus bays or covered passenger loading areas. The new center serves Greyhound, intercity bus lines and is located one block from the Fayetteville AMTRAK station. Although the City charges for FAST services, the system is primarily funded annually with general funds of the City and federal grants. FAST has recently transitioned a few of its diesel buses to zero-emission electric buses.

The City’s centralized location on Interstate Highway 95 (“I-95”) and its link to a network of highways offers direct access to other major cities. The City’s metropolitan area is connected by two interstate highways (I-95 and I-295), two U.S. Highways (U.S. 301 and 401) and five North Carolina Highways (NC 24, 53, 59, 87 and 210). The Fayetteville Outer Loop, also known as Interstate 295, was

officially completed in November 2025 after 26 years of construction. The loop is 39 miles long and crosses the Cape Fear River over twin bridges. It connects major thoroughfares in the City and Fort Bragg and roads in the County and Robeson County with I-95. The loop will provide relief for traffic congestion in the City as well as a more secure, direct, highway-only route to I-95 for Fort Bragg to carry out its missions. In addition, in May 2024, U.S. 421 was designated as Future Interstate 685. This designation will help support the continued development of the Carolina Core, an economic corridor in central North Carolina, centered along U.S. Highway 421. Adding another interstate to this region will help further facilitate the safety and mobility of commuter and freight traffic through the State.

The Fayetteville Metropolitan Transportation Improvement Program's goal is to develop plans that will provide the safest and most efficient transportation while protecting and enhancing the environment. The City's highways are the backbone of the entire transportation plan. Projects in the highway plan consist of widening of lanes on major and minor thoroughfares, new road construction, and development of the most appropriate street system that will meet existing and future travel needs within the City. Other objectives of the highway plan include ways to provide for the orderly development of an adequate major street system as land development occurs, ways to reduce travel and transportation costs, ways to reduce the cost of major street improvements to the public through the coordination of the street system with private action and ways to enable private interest to plan their actions, improvements, and development with full knowledge of public intent. In addition, a study that could bring microtransit to the County and surrounding areas has been initiated by the Fayetteville Area Metropolitan Planning Organization. The study will also evaluate existing public transit and recommend ways to consolidate services and improve mobility across Cumberland, Hoke and Harnett counties.

Major expansion, maintenance and improvements of primary and secondary highways of the Federal and State systems within the City limits are primarily the responsibility of the State. The City is responsible for a portion of the acquisition of rights-of-way for such expansion or improvements, related sidewalk improvements and street lighting. At March 11, 2026, the number of linear miles of streets in the City maintained by the State was approximately 288.

Major expansion, maintenance and improvements of the local street system are primarily the responsibility of the City. Major expansions and improvements are primarily funded by bond issues. Maintenance is funded primarily from the City's proportionate share of the amount produced by a one and three-fourths cent State tax on each gallon of motor fuel sold and an appropriation from the State Highway Trust Fund. At March 11, 2026, the number of linear miles of streets maintained by the City was approximately 755.45.

The City has completed and approved the Comprehensive Transportation Plan (2024), Pedestrian Plan and Supplemental Pedestrian Plan (2025), and is actively working on their Comprehensive Safety Action Plan, made possible by the Safe Streets For All program.

The City owns and operates the Fayetteville Regional Airport, which offers regularly scheduled flights. The airport is a local leader in airline service, general aviation and car rental services. Service is offered daily to three airline hub airports, each with hundreds of destinations around the world. Delta has service to Hartsfield-Jackson Atlanta International Airport, and American Airlines has service to Charlotte Douglas International Airport and Dallas/Fort Worth International Airport. The Fayetteville Regional Airport covers 1,400 acres of land with two runways, a two-concourse terminal for commercial aviation and a separate terminal for general aviation traffic.

In December 2024, Fayetteville Regional Airport completed Phase III renovations for the main terminal. Phase III renovations included the reconstruction and expansion to replace the existing main terminal first story baggage claim wing roof to replace the old out baggage luggage room, which had been replaced with a new and improved outbound baggage system. Additional square footage was added for the Concourse B seating, adding large windows with expanded seating between gates 4 and 5.

In addition, an International Arrivals facility is scheduled for 2026 and will be used for military aircraft returning from overseas. The Fayetteville Regional Airport has received \$7.3 million in state and federal grants for this project.

The City is provided with both rail and motor freight service. Passenger train service is provided by Amtrak. Rail freight service is provided by Norfolk-Southern and CSX. Short line railroad service is provided by Aberdeen and Rockfish Railroad. Truck transportation is readily available and provided by numerous motor freight carriers. The N.C. Department of Transportation's Rail Division is investing \$16.3 million to improve freight rail infrastructure on 12 short line railroads and at the Port of Morehead City. The awarded projects include the Rail Corridor improvements for Raleigh & Fayetteville Railroad to the NS and VF lines (Wake and Harnett counties).

Education

The Cumberland County Public School System serves all residents of the County. For the 2024-25 school year, approximately 47,090 students were enrolled in 87 schools staffed by approximately 3,500 permanent full-time teachers.

The following table reflects ADM* in the County schools and the number of schools and classrooms for a five-year period ending with the 2024-25 school year:

School Year	Elementary Schools	ADM	Middle Schools	ADM	High Schools	ADM	Total ADM
2021-22	50	20,658	19	11,861	17	15,042	47,561
2022-23	50	21,179	19	11,567	17	15,284	48,030
2023-24	50	21,063	19	11,161	17	15,290	47,514
2024-25	50	20,726	19	10,993	17	15,371	47,090
2025-26	50	20,214	19	10,507	17	15,214	45,935

*ADM - Average Daily Membership (using two-month average daily membership) 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.

Note: Number of schools excludes special schools and academies.

Source: North Carolina Department of Public Instruction.

The County has two charter schools: Alpha Academy and The Capitol Encore Academy. Both charters serve K-12. The 2025-26 average daily membership is 2,011.

There are also three colleges and universities in the County: Fayetteville State University, Methodist University and Fayetteville Technical Community College.

Utilities

The City has operated its own electric system since 1896, its own water system since 1890 and its own wastewater system since 1906. Under provisions of the City Charter of 1905, the Public Works Commission (the "PWC") was organized to manage these utility systems. The PWC consists of four members appointed by the City Council to serve up to three four-year staggered terms. The Mayor of the City is responsible for annually designating a member of the City Council to serve on the PWC as

an ex officio, nonvoting member. Once appointed, the commissioners annually elect a Chairman, Vice Chairman, Secretary and Treasurer. The PWC is responsible for overseeing daily operations of the utility, setting rates, approving certain contracts, and appointing a general manager to administer the policies and day-to-day activities of the utilities work force.

North Carolina Session Law 2016-47 amended the City Charter and established the PWC as a public authority effective July 1, 2016. This legislation makes clear that the City Charter amendment is not intended to contravene any provision of the obligations associated with the debts of the City that are payable from revenues of the utility system or to limit, impair or alter the rights vested to bondholders or creditors under any of the obligations associated with the debts of the City that are payable from revenues of the utilities system.

Electric System. The PWC is the largest municipal electric provider in the State and 38th largest in the United States serving over 86,000 customers. The City and the PWC strive to maintain low energy costs to help attract and retain new industry. The PWC's electric system provides for the transmission and distribution of electrical energy purchased from Duke Energy Progress, LLC ("DEP"). In 2009, the PWC entered into a Power Supply and Coordination Agreement (the "PSCA") with DEP that became effective on the termination date of the prior agreement. Under a 30-year agreement effective July 1, 2012, DEP provides the PWC's full power supply requirements at an annually determined capacity and energy price based on DEP's average system cost. The PWC continues to utilize its allocation from the Southeastern Power Administration ("SEPA"), as permitted in the SEPA contract and the PSCA.

Water System. The PWC's water utility provides retail service to over 86,000 residential, 7,000 commercial and 18 industrial customers. The PWC operates two water treatment facilities, P.O. Hoffer Water Treatment Facility (the "P.O. Hoffer WTF") and Glenville Lake Water Treatment Facility (the "Glenville Lake WTF"). These facilities have combined nominal treatment capacity of 50 million gallons per day ("MGD") with an additional high-rated capacity of 7.5 MGD. Historical trending and the supply requirement for Fort Bragg, which began in 2010, requires the water system treatment capacity to be expanded to meet the projected peak-day demand for the 20 year planning horizon. The Glenville Lake WTF, which is rated at 18 MGD, cannot be expanded due to site constraints. Therefore, planning and design for a 16 MGD expansion for the P.O. Hoffer WTF has been completed. Design for expansion of the P.O. Hoffer residuals facilities is underway. Three projects addressing reliability improvements not associated with treatment expansion have been completed to date. Based on current demand trending, the liquids treatment expansion work is anticipated to begin in May 2031. Total treatment capacity for the water system will then be 66 MGD and will be sufficient for supplying the PWC's service area's needs beyond the current 20-year planning period.

Wastewater System. The PWC's wastewater system serves over 87,000 residential, 6,000 commercial, 16 industrial and 6 wholesale customers. The wastewater system is separated into two basins, the Cross Creek and the Rockfish Creek basins, where wastewater is conveyed to its two wastewater treatment plants, the Cross Creek Water Reclamation Facility (the "Cross Creek WRF") and the Rockfish Creek Water Reclamation Facility (the "Rockfish Creek WRF"). The current combined permitted capacity of the PWC's wastewater system is 46 MGD. Projections of wastewater flow for both basins through year 2060 were updated in 2020. Based on these projections and the historical trending for each water reclamation facility that accounts for inflow/infiltration volumes in the wastewater system, capacity at the Cross Creek WRF of 25 MGD is expected to be sufficient to meet the PWC's 20 year planning needs. Design for expansion of the Rockfish Creek WRF from 21 MGD to 28 MGD was initiated in 2020 and completed in August of 2023. Construction is tentatively scheduled to begin in late 2026 or early 2027.

Debt Information

Legal Debt Limit.

In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, the City had the statutory capacity to incur additional net debt in the approximate amount of \$1,232,275,927 as of June 30, 2025.

Outstanding General Obligation Debt.

General Obligation Bonds	Principal Outstanding as of				
	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2025</u>
Parks and Recreation	\$14,400,000	\$32,600,000	\$30,850,000	\$29,100,000	\$27,350,000
Refunding	<u>1,505,000</u>	<u>1,120,000</u>	<u>730,000</u>	<u>340,000</u>	<u>--</u>
Totals	<u>\$15,905,000</u>	<u>\$33,720,000</u>	<u>\$31,580,000</u>	<u>\$29,440,000</u>	<u>\$27,350,000</u>

General Obligation Debt Ratios.

<u>At June 30</u>	<u>Total GO Debt</u>	<u>Assessed Valuation</u>	<u>Total GO Debt to Assessed Valuation</u>	<u>Population¹</u>	<u>Total GO Debt Per Capita</u>
2021	\$15,905,000	\$14,372,645,910	0.11%	215,967	\$ 74
2022	33,720,000	14,439,545,929	0.23	214,753	157
2023	31,580,000	14,664,440,917	0.22	212,567	149
2024	29,440,000	15,204,747,836	0.19	211,756	139
2025	27,350,000	15,403,449,090	0.18	211,756 ²	129
After Bonds now offered are issued	\$67,350,000	\$15,403,449,090	0.44%	211,756 ²	\$ 318

¹ Estimates of the North Carolina Office of State Budget and Management.

² For the purpose of this table 2024 population data is used.

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General Obligation Debt Service Requirements and Maturity Schedules.

Fiscal Year Ending June 30th	Other Debt		Bonds Now Offered
	Principal	Principal & Interest	Public Improvement, 2026 ¹
2026	\$ 1,750,000	\$ 2,797,625	\$ -
2027	1,750,000	2,710,125	2,000,000
2028	1,750,000	2,622,625	2,000,000
2029	1,750,000	2,535,125	2,000,000
2030	1,750,000	2,447,625	2,000,000
2031	1,750,000	2,360,125	2,000,000
2032	1,750,000	2,296,625	2,000,000
2033	1,750,000	2,225,125	2,000,000
2034	1,750,000	2,163,125	2,000,000
2035	1,750,000	2,105,125	2,000,000
2036	1,750,000	2,052,625	2,000,000
2037	1,750,000	2,000,125	2,000,000
2038	1,750,000	1,947,625	2,000,000
2039	1,750,000	1,895,125	2,000,000
2040	950,000	1,041,438	2,000,000
2041	950,000	1,011,750	2,000,000
2042	950,000	980,875	2,000,000
2043	-	-	2,000,000
2044	-	-	2,000,000
2045	-	-	2,000,000
2046	-	-	2,000,000
Totals	\$ 27,350,000	\$ 35,192,813	\$ 40,000,000

¹ Principal 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</u>
Refunding	3/18/2019	\$ 330,000	\$ --	\$ 330,000 ¹
Public Safety	11/8/2022	60,000,000	15,000,000	45,000,000
Streets & Sidewalks	11/8/2022	25,000,000	25,000,000	--
Housing	11/8/2022	<u>12,000,000</u>	<u>--</u>	<u>12,000,000</u>
Totals		<u>\$97,330,000</u>	<u>\$40,000,000</u>	<u>\$57,330,000</u>

¹ The City does not intend to issue the balance of these bonds.

General Obligation Debt Information for Overlapping Unit as of June 30, 2025.

<u>Unit</u>	<u>2024 Population¹</u>	<u>Assessed Valuation</u>	<u>Total GO Debt to Assessed Valuation</u>	<u>Bonds Authorized and Unissued</u>		<u>Total GO Debt</u>		<u>Total Go Debt Per Capita</u>
				<u>Utility</u>	<u>Other</u>	<u>Utility</u>	<u>Other</u>	
Cumberland Co.	341,758	\$26,094,046,361	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

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

Other Long-Term Commitments. The City has entered into various installment financing agreements (including limited obligation bonds of the City) for land, equipment, facilities and vehicles. Principal and interest requirements are subject to appropriation in the fiscal year in which they become due. Debt service requirements to maturity are presented in the following table:

Installment Financing/LOBs (Non-Stormwater)

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 6,090,796	\$ 2,011,085	\$ 8,101,881
2027	4,731,000	1,817,713	6,548,713
2028	4,433,000	1,640,965	6,073,965
2029	3,601,000	1,478,792	5,079,792
2030	3,601,000	1,341,107	4,942,107
2031-2035	18,008,000	4,599,480	22,607,480
2036-2040	11,838,000	1,183,690	13,021,690
2041-2042	<u>1,042,000</u>	<u>51,423</u>	<u>1,093,423</u>
Totals	<u>\$53,344,796</u>	<u>\$14,124,254</u>	<u>\$67,469,050</u>

Revenue Bonds/SRF Loans (Stormwater)

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 880,000	\$ 40,598	\$ 920,628
2027	465,030	13,794	478,824
2028	25,030	--	25,030
2029	25,030	--	25,030
2030	<u>25,030</u>	<u>--</u>	<u>25,030</u>
Totals	<u>\$1,420,150</u>	<u>\$54,392</u>	<u>\$1,474,542</u>

Debt Outlook. Over the next 12 months, the City expects to enter into an installment financing agreement for a new fire truck in the approximate amount of \$4.5 million. In addition, the City expects to issue approximately \$18.5 million of Limited Obligation Bonds to fund a new park and approximately \$25 million of Stormwater System Revenue Bonds to fund various improvements to the City's stormwater system. Lastly, the City expects to issue the remaining General Obligation Bond authorization under its Public Safety and Housing referenda by Spring 2029.

Tax Information

General Information.

	Fiscal Year Ended or Ending June 30,			
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Assessed Valuation:				
Assessment Ratio ¹	100%	100%	100%	100%
Real Property	\$12,019,863,762	\$12,119,263,976	\$12,549,307,179	\$12,557,344,750
Personal Property	2,227,740,706	2,347,347,180	2,439,413,701	2,661,373,945
Public Service Companies ²	<u>191,941,461</u>	<u>197,829,761</u>	<u>216,026,956</u>	<u>184,730,395</u>
Total Assessed Valuation	<u>\$14,439,545,929</u>	<u>\$14,664,440,917</u>	<u>\$15,204,747,836</u>	<u>\$15,403,449,090</u>
Assessed Valuation Per Capita	\$67,238	\$68,987	\$71,803	\$68,793
Rate per \$100	0.4995	0.4995	0.5395	0.5795
Levy	\$72,203,354	\$73,318,343	\$80,637,591	\$89,661,900

¹ Percentage of appraised value has been established by State statute.

² Public service companies' property includes real and personal property of utilities, railroad and business, etc. These assessments are made by the North Carolina Department of Revenue with no distinction between real and personal property.

Note: The County is responsible for determining the assessed valuation of real property in the City for ad valorem taxation purposes. Every eighth year, State law requires a revaluation of such property to approximate market value and to realign the respective tax burdens among taxpayers. The most recent octennial revaluation of real property was effective January 1, 2025 for fiscal year 2026.

Tax Collections.

<u>Fiscal Year Ended June 30,</u>	<u>Current Year's Levy Collected</u>	<u>Percentage of Current Year's Levy Collected</u>
2021	\$71,226,078	99.16%
2022	71,819,894	99.47
2023	72,992,186	99.56
2024	80,321,068	99.61
2025	89,326,819	99.63

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Ten Largest Taxpayers for Fiscal Year Ended June 30, 2025.

<u>Company</u>	<u>Type of Enterprise</u>	<u>Assessed Valuation¹</u>	<u>Percentage of Total Taxable Assessed Value</u>
Cross Creek Mall LLC	Retail	\$154,692,125	1.02%
Duke Energy Progress, Inc.	Utility	113,221,525	0.74
Fayetteville VA Co. LLC	Public Administration	91,139,174	0.60
Wal-Mart Associates, Inc.	Retail	80,196,554	0.53
Project Bronco Fayetteville, Inc.	Distribution	78,540,439	0.52
Mann + Hummell Purolator Filters LLC	Manufacturing	59,860,756	0.39
Campbell Soup Supply Co LLC	Manufacturing	49,753,229	0.33
Piedmont Natural Gas	Utility	47,606,662	0.31
Westlake at Morganton LLC	Apartments	37,609,579	0.25
Spectrum Southeast LLC	Utility	<u>35,928,297</u>	<u>0.24</u>
Totals		<u>\$748,548,340</u>	<u>4.93%</u>

¹ Assessed valuations are as of June 30, 2025 and the associated tax levies were due in the fiscal year ended June 30, 2025.

2025-26 Budget Outlook

The City's original General Fund budget for the fiscal year ending June 30, 2026 totals \$208,020,737, a decrease of \$10,557,992, or 4.8%, from the General Fund budget for the fiscal year ended June 30, 2025. Following revaluation, the property tax rate was lowered by 13 cents to 44.95 cents per \$100 valuation. The FY 2026 budget includes a reduction in sales tax revenue due to a change in the County's allocation of sales tax from a per capita method to an ad valorem method. The FY 2026 budget includes an appropriation of fund balance of approximately \$7.85 million.

As of January 31, 2026, the City had recognized 64.1% of its budgeted General Fund revenues and had incurred 40.9% of its budgeted General Fund expenditures for the fiscal year ending June 30, 2026.

The City has a minimum fund balance policy for the General Fund, which instructs management to conduct the business of the City in such a manner that unassigned fund balance is at least 10% of the succeeding fiscal year's expenditure budget. Management will continue to evaluate revenues and expenditures, and if needed, will take all necessary measures to operate within the fund balance policy.

Pension Plan

Plan members are required to contribute 6% of their annually covered salary. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The City's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the Local Government Employee Retirement System Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2025, was 15.10% of compensation for law enforcement officers and 13.60% for general employees and firefighters. The City's contractually required contribution rate for the year ending June 30, 2026, is 16.10% of compensation for law enforcement officers and 14.35% for general employees and firefighters.

Law Enforcement Officers' Special Separation Allowance. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers under the age of 62 who have completed at least thirty years of creditable service, or have attained fifty-five years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service.

See Note 10 to the City's basic financial statements included in Appendix D for further information regarding the City's pension liabilities.

Other Post-Employment Benefits

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions (the "GASB 75"), was implemented by the City in fiscal year 2018. GASB 75 addresses accounting and financial reporting for Other Post-Employment Benefits (the "OPEB") that are provided to the employees of state and local governmental employers. GASB 75 requires employers to perform periodic actuarial valuations to determine annual accounting costs and to keep a running tally of the extent to which these amounts are over or under funded. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. GASB 75 requires that projections of benefit payments incorporate the effects of projected salary changes and service credits, as well as projected automatic postemployment benefit changes including automatic cost-of-living adjustments. In addition, GASB 75 requires the effects of ad hoc postemployment benefit changes to be included in the projections and that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments. At June 30, 2025, the City's Total OPEB liability was \$46,588,444.

See Note 11 to the City's basic financial statements included in Appendix D for further information regarding the City's OPEB liabilities.

Contingent Liabilities

The City has several contingent liabilities common for urban municipalities of its size and complexity. However, in the opinion of the City Attorney, there are no contingent liabilities which are expected to result in judgments against the City that are not covered by insurance or self-insured retention reserves or that would otherwise materially adversely affect the ability of the City to meet its financial obligations.

Cybersecurity

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations and faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, the "Systems Technology"). As a recipient and provider of personal, private, or sensitive information, the City may be the target of cybersecurity incidents that could result in adverse consequences to the City and its Systems Technology, requiring a response action to mitigate the consequences.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City's System Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the City invests in multiple forms of cybersecurity and operational safeguards.

CONTINUING DISCLOSURE

In the resolutions adopted by the City Council of the City authorizing the issuance of the Bonds, the City has undertaken, for the benefit of the beneficial owners of the Bonds, to provide to the Municipal Securities Rulemaking Board (the “MSRB”):

- (a) by not later than seven months from the end of each fiscal year of the City, beginning with the fiscal year ending June 30, 2026, audited financial statements of the City 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 City are not available by seven months from the end of such fiscal year, unaudited financial statements of the City for such fiscal year to be replaced subsequently by audited financial statements of the City to be delivered within fifteen (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 City, 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 CITY – Debt Information and – Tax Information” (excluding any information on overlapping units) in this Official Statement, and (ii) the combined budget of the City 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, if material;
 - (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 (the “IRS”) 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 the rights of the beneficial owners of the Bonds, if material;
 - (8) Bond calls, if material, and tender offers;
 - (9) defeasances;
 - (10) release, substitution or sale of any property securing repayment of the Bonds, if material;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of the City;

- (13) the consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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 trustee or 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 City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect beneficial owners of the Bonds, if material; and
 - (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the City, any of which reflect financial difficulties; and
- (d) in a timely manner, notice of a failure of the City to provide the required annual financial information described in (a) or (b) above on or before the date specified.

All information provided to the MSRB as described above shall be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The City may meet the continuing disclosure filing requirements described above by complying with any other procedure that may be authorized or required by the United States Securities and Exchange Commission.

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

At present, Section 159-34 of the General Statutes of North Carolina requires the City’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 resolutions adopted by the City authorizing the issuance of the Bonds provide that if the City fails to comply with the undertaking described above, any beneficial owner of the Bonds 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 each such resolution, the City has reserved the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the City, 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 City;
- (b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances, and
- (c) any such modification does not materially impair the interests of the beneficial owners of the Bonds, as determined either by parties unaffiliated with the City (such as bond counsel), or by the approving vote of the registered owners of a majority in principal amount of the Bonds pursuant to the terms of such resolution, as it may be amended from time to time, at the time of such 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 of each respective series.

For the fiscal year ended June 30, 2021, the City inadvertently failed to link the required annual financial information to CUSIP numbers for two of its then or currently outstanding series of bonds. The required annual financial information was linked to all other issues of the City subject to continuing disclosure undertakings, so such information was available on the EMMA system. Within a reasonable period of time upon becoming aware of this, the City linked the required annual financial information to the CUSIP numbers for such bonds. On December 3, 2021 and March 20, 2025, the PWC incurred two separate financial obligations, notices of which were not posted on the EMMA system in a timely manner; but which have since been posted on the EMMA system. Otherwise, in the last five years, the City has made all required annual financial information filings pursuant to their prior continuing disclosure undertakings under Rule 15c2-12. The City has issued various publicly offered securities that were insured by various bond insurers whose ratings have changed at various times since such securities were issued. Additionally, certain securities issued by the City were subject to a global ratings recalibration process instituted by certain rating agencies resulting in changes to the ratings of such securities. Information about such insurer ratings changes and ratings recalibrations was publicly reported. The City may not have filed notices of all such events or may not have filed such notices in a timely manner.

Other than as described above, the City is not aware of any failure to comply in all material respects with any of their prior continuing disclosure undertakings under Rule 15c2-12 during the previous five years.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approval of The Charleston Group, Fayetteville, North Carolina, Bond Counsel, whose approving legal opinion will be available at the time of the delivery of the Bonds. The proposed form of such opinion is attached hereto as Appendix E. Such legal opinion does not address any matters with respect to this Official Statement.

RATINGS

Moody's Investors Service and S&P Global Ratings have given the Bonds ratings of Aa1 and AA+ respectively. Those ratings reflect only the respective views of such organizations, and an explanation of the significance of each such rating may be obtained only from the respective organization providing such rating. Certain information and materials not included in this 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.

MUNICIPAL ADVISOR

First Tryon Advisors LLC, Charlotte, North Carolina has served as municipal advisor (the "Municipal Advisor") to the City in connection with the sale and issuance of the Bonds. The Municipal Advisor's fee for services rendered in connection with the sale of the Bonds is contingent on the issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in this Official Statement or the appendices hereto.

TAX TREATMENT

Opinion of Bond Counsel. In the opinion of Bond Counsel, under existing law and assumes continuing compliance by the City with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other matters, the use, expenditure and investment of the Bonds proceeds and the timely payment of certain investment earnings to the United States Treasury, interest on the Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code. Furthermore, in the opinion of Bond Counsel, under existing law, interest on the Bonds will be exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which Bond Counsel renders no opinion, as a result of the ownership or transfer of the Bonds or the inclusions of certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

Original Issue Discount. Robert W. Baird & Co., Inc., as senior managing underwriter of the Bonds, has advised the Commission that the initial public offering prices of the Bonds maturing on February 1, 2043 to 2046, inclusive (collectively, the "Discount Bonds"), are less than the amounts payable at maturity.¹ An amount not less than the difference between the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) of the Discount Bonds and the amounts payable at maturity constitutes original issue discount. Under existing federal income tax law and regulations, the original issue discount on a Discount Bond is interest not includable in the gross income of an owner who purchases such Discount Bond in the original offering at the initial public offering price thereof and holds it to maturity, and such owner will not realize taxable gain upon payment of such Discount Bond at maturity.

¹ Information provided by the underwriters of the Bonds.

Owners who purchase Discount Bonds at a price other than the initial offering price or who do not purchase Discount Bonds in the initial public offering should consult their tax advisors with respect to the consequences of the ownership of such Discount Bonds.

An owner who purchases a Discount Bond in the initial offering at the initial offering price and holds such Discount Bond to maturity is deemed under existing federal tax laws and regulations to accrue original issue discount on a constant yield basis under Section 1288 of the Code from the date of original issue. An owner's adjusted basis in a Discount Bond is increased by accrued original issue discount for purposes of determining gain or loss on sale, exchange or other disposition of such Discount Bond. Accrued original issue discount may be taken into account as an increase in the amount of tax-exempt interest received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond, even though there will not be a corresponding cash payment.

Owners and prospective purchasers of the Discount Bonds should consult their own tax advisors regarding the calculation of accrued original issue discount for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the ownership or disposition of Discount Bonds.

Original Issue Premium. Robert W. Baird & Co., Inc., as senior managing underwriter of the Bonds, has advised the Commission that the initial public offering prices of the Bonds maturing on February 1, 2027 to 2041, inclusive (collectively, the "Premium Bonds"), are greater than the amounts payable at maturity.¹ The difference between (a) the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) at which a substantial amount of each maturity of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium. In general, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners and prospective purchasers of the Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences in connection with the ownership and disposition of Premium Bonds.

¹ Information provided by the underwriters of the Bonds.

Other Tax Consequences. Ownership or transfer of, or the accrual or receipt of interest on, the Bonds may result in collateral federal, State of North Carolina, other state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers who may be eligible for the federal earned income tax credit, and taxpayers subject to franchise, estate, inheritance, gift or capital gains taxes. Owners and prospective purchasers of the Bonds should consult their tax advisors as to any such possible tax consequences.

Except to the extent covered in its legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

No assurance can be given that future legislation, including amendments to the Code or interpretations thereof, if enacted into law, or certain litigation or judicial decisions, if upheld, will not contain provisions or produce results which could, directly or indirectly, reduce the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the IRS will commence an audit of the Bonds.

Interest paid on tax-exempt obligations, such as the Bonds, will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest with respect to the Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest with respect to the Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner’s federal income tax liability provided the required information is furnished to the IRS.

Future Law Changes. No assurance can be given that future legislation or changes to law, including amendments to the Code, or interpretations thereof if enacted into law, will not contain provisions or produce results which could, directly or indirectly, affect federal or state tax treatment of interest on the Bonds.

UNDERWRITING

The underwriters of the Bonds are Robert W. Baird & Co., Inc.; Davenport & Co. LLC; C.L. King & Associates; Crews & Associates, Inc.; Edward Jones; BOK Financial Securities, Inc.; Stifel, Nicolaus & Company, Inc.; SouthState Securities; Northland Securities, Inc.; Carty, Harding & Hearn, Inc.; CADZ Securities Inc.; Celadon Financial Group, LLC; Midland Securities; FMS Bonds Inc.; First Southern LLC; Alliance Global Partners; Dinosaur Financial Group; Mountainside Securities LLC; InspereX; First Bankers' Banc Securities, Inc.; Blaylock Van, LLC; Falcon Square Capital; Caldwell Sutter Capital, Inc.; ZIONS BANK, division of ZB, N.A.; and Institutional Bond Network LLC.¹

Such underwriters 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 of this Official Statement, such underwriters would anticipate total underwriters' discount of \$270,000.00.¹ The public offering prices or yields of the Bonds may be changed from time to time by such underwriters.

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.

Reference 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.

¹ Information provided by the underwriters of the Bonds.

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 City, lifted from the Annual Comprehensive Financial Report for the City of Fayetteville for the fiscal year ended June 30, 2025. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the City'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 City 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As management of the City of Fayetteville ("the City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2025. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the transmittal letter at the front of this report, and the City's financial statements, which follow this narrative.

Financial Highlights

The assets and deferred outflows of resources of the City of Fayetteville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$657.6 million (*net position*). Of this amount, unrestricted net position of \$4.0 million is used to meet the government's ongoing obligations to residents and creditors. The government's total net position increased by \$26.8 million. Beginning net position was restated to reflect the implementation of GASB Statement No. 101, which updated guidance on the recognition and measurement of compensated absences.

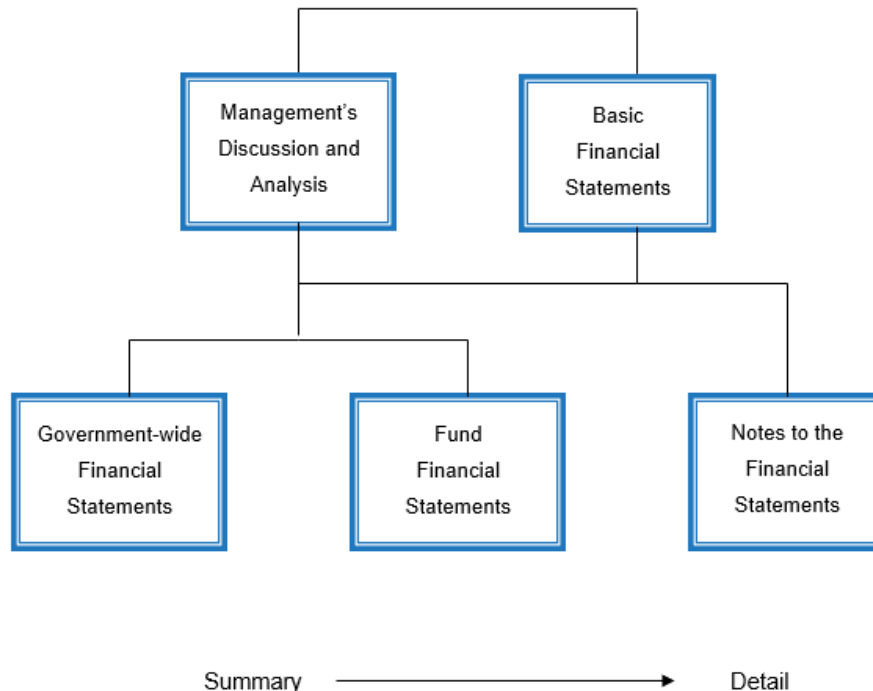
- Net position in the Governmental activities increased \$15.9 million to \$457.8 million in fiscal year 2025 after the restatement of net position from the implementation of GASB 101, up from \$441.9 million in fiscal year 2024. By far the largest portion of net position, \$399.3 million or 87.2%, reflects the net investment in capital assets less any related debt still outstanding.
- Net position in the Business type activities increased \$10.8 Million to \$199.7 million in fiscal year 2025 after the restatement of net position from the implementation of GASB 101, up from \$188.9 million in 2024. The largest portion of net position, \$157.3 million or 78.8%, reflects the net investment in capital assets less any related debt still outstanding that was issued to acquire assets in the Stormwater Management, Transit, Airport, Solid Waste, and Intergovernmental activities.
- As of the close of fiscal year 2025, the City's governmental funds reported an ending fund balance of \$138.4 million, a decrease of \$6.7 million in comparison to the prior year. Approximately 67.25% of total fund balance, or \$93.1 million, is non-spendable or restricted.
- At the end of fiscal year 2025, unassigned fund balance for the General Fund was \$27.0 million or 12.3% of the fiscal year 2025 General Fund original adopted budget of \$218.6 million.
- The City's total debt at fiscal year-end 2025 decreased by \$18.6 million. General obligation debt, limited obligation debt, revenue bond debt, installment agreements, lease and subscription liabilities and notes payable decreased \$15.3 million. Bond premium and PWC assessments decreased by \$0.7 million, and compensated absences, net pension liabilities and other postemployment benefits decreased by \$2.5 million. The decrease was primarily attributable to scheduled debt service payments and favorable actuarial changes.
- During fiscal year 2025, the City maintained its Aa1 and AA+ credit rating for its outstanding general obligation bonds from Moody's and Standard & Poor's, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Fayetteville's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements as shown below. The basic financial statements present two different views of the City, 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 City. This report includes all funds of the City of Fayetteville, as well as its component units, which are described in the following pages. Note 1 in the financial report includes further discussion of the reporting entity and description of funds.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the City of Fayetteville's financial status.

The next statements are Fund Financial Statements. These statements focus on the activities of the individual parts of the City of Fayetteville's government. These statements provide more detail than the government-wide statements.

There are four parts to the Fund Financial Statements: 1) the governmental fund statements, 2) the budgetary comparison statements, 3) the proprietary fund statements, and 4) the fiduciary fund statements.



The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, required supplementary information include reports concerning the City's progress in funding its obligations to provide Pension Benefits, the Law Enforcement Officers' Special Separation Allowance, and Other Post-Employment Benefits.

Additional supplementary information is provided to show details about the City's major and non-major governmental funds, proprietary funds and non-major internal service funds. The governmental and internal service funds are added together in one column on the basic financial statements. Budgetary information required by General Statute 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 City of Fayetteville's finances, similar in format to a financial statement for a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City'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 City's financial condition.

The government-wide statements include activities for the primary government and its component unit. The primary government function is divided into two categories: 1) governmental activities and 2) business-type activities. Governmental activities include most of the City's basic services such as general administration, public safety, environmental protection, transportation, economic and physical development, and recreation and community facilities. Property and other taxes, and state and federal grant funds finance most of these activities. Business-type activities are those that the City charges customers to provide. These include stormwater, airport, transit, and solid waste services offered by the City of Fayetteville.

The Public Works Commission (PWC) is a legally separate authority and is presented as a discretely presented component unit. The City appoints the PWC Commissioners, issues PWC's debt, maintains ownership of PWC capital assets and must approve certain contracts.

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

Fund Financial Statements – The fund financial statements provide a more detailed look at the City of Fayetteville'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 City, like all other governmental entities in North Carolina, use fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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



The City of Fayetteville adopts an annual budget for its General Fund, as required by the North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the residents of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement on page E-5 of this report uses the budgetary basis of accounting, and except for debt service, is presented using the same format as the legally adopted budget. Note A on the bottom of page E-5 provides a reconciliation of differences between expenditure classifications on the budget basis (page E-5) and the modified accrual basis (E-3). The budgetary statement shows four columns: 1) the original budget as adopted by the City Council, 2) the final budget as amended by the City Council, 3) the actual revenues, expenditures and changes in fund balance, and 4) the difference, or variance, in revenues and expenditures between final budget and actual amounts.

Proprietary Funds – The City of Fayetteville has two kinds of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its stormwater, transit, airport, solid waste, and intergovernmental operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the functions of the City. The City uses an internal service fund to account for its insurance and risk management and fleet maintenance activities. These services benefit both governmental functions and business-type activities. These services have been included within their respective predominant activities in the government-wide financial statements.

Fiduciary Funds – Private Purpose Trust funds are used to account for the activities of funds the City holds in trust for others. The City has two private-purpose trust funds. Custodial funds are used to account for assets the City holds on behalf of others. The City maintains one custodial fund which is the Police Evidence Fund.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages F-1 through F- 63 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages G-1 through G-6 of this report.

Government-Wide Financial Analysis

Net Position – The following is a summary of net position for the City of Fayetteville at June 30, 2025 with comparative data for June 30, 2024. The City's combined net position increased \$26.7 million, or 4.24%, from fiscal year 2024. Net position may serve over time as one useful indicator of a government's financial condition. The information below provides a more detailed view of the City's net position. Year-over-year comparisons are affected by the timing of federal and state grant reimbursements, particularly those associated with ARPA-funded projects and capital infrastructure initiatives.

City of Fayetteville's Net Position (dollars in thousands)

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 230,734	\$ 232,032	\$ 69,985	\$ 67,155	\$ 300,719	\$ 299,186
Capital assets, net	479,080	469,439	162,429	154,574	641,509	624,012
Total Assets	709,814	701,471	232,414	221,729	942,228	923,200
Deferred outflows of resources	36,636	46,778	4,874	6,221	41,510	52,999
Total Assets and Deferred Outflows of Resources	746,450	748,249	237,288	227,950	983,738	976,199
Current and other liabilities	40,484	40,114	13,509	11,097	53,993	51,211
Long-term liabilities outstanding	231,041	240,348	19,103	20,975	250,144	261,323
Total Liabilities	271,525	280,462	32,612	32,072	304,137	312,534
Deferred inflows of resources	17,112	19,153	4,931	6,272	22,043	25,425
Total Liabilities and Deferred inflows of resources	288,637	299,615	37,543	38,344	326,180	337,959
Net Position:						
Net investment in capital assets	399,345	433,397	157,331	150,883	556,676	584,280
Restricted	93,066	81,070	3,795	3,092	96,861	84,162
Unrestricted	(34,598)	(65,833)	38,619	35,631	4,021	(30,202)
Total Net Position	\$ 457,813	\$ 448,634	\$ 199,745	\$ 189,606	\$ 657,558	\$ 638,240

The assets and deferred outflows of the City exceeded liabilities and deferred inflows by \$657.6 million as of June 30, 2025. Net position is reported in three categories: net investment in capital assets of \$556.7 million, restricted net position of \$96.9 million, and unrestricted net position of \$4.0 million.

The net investment in capital assets category is defined as the City's investment in City owned capital assets (e.g. infrastructure, land, buildings, automobiles, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of



the 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.

Another category of net position is restricted net position. This represents resources that are subject to external restrictions on how they may be used.

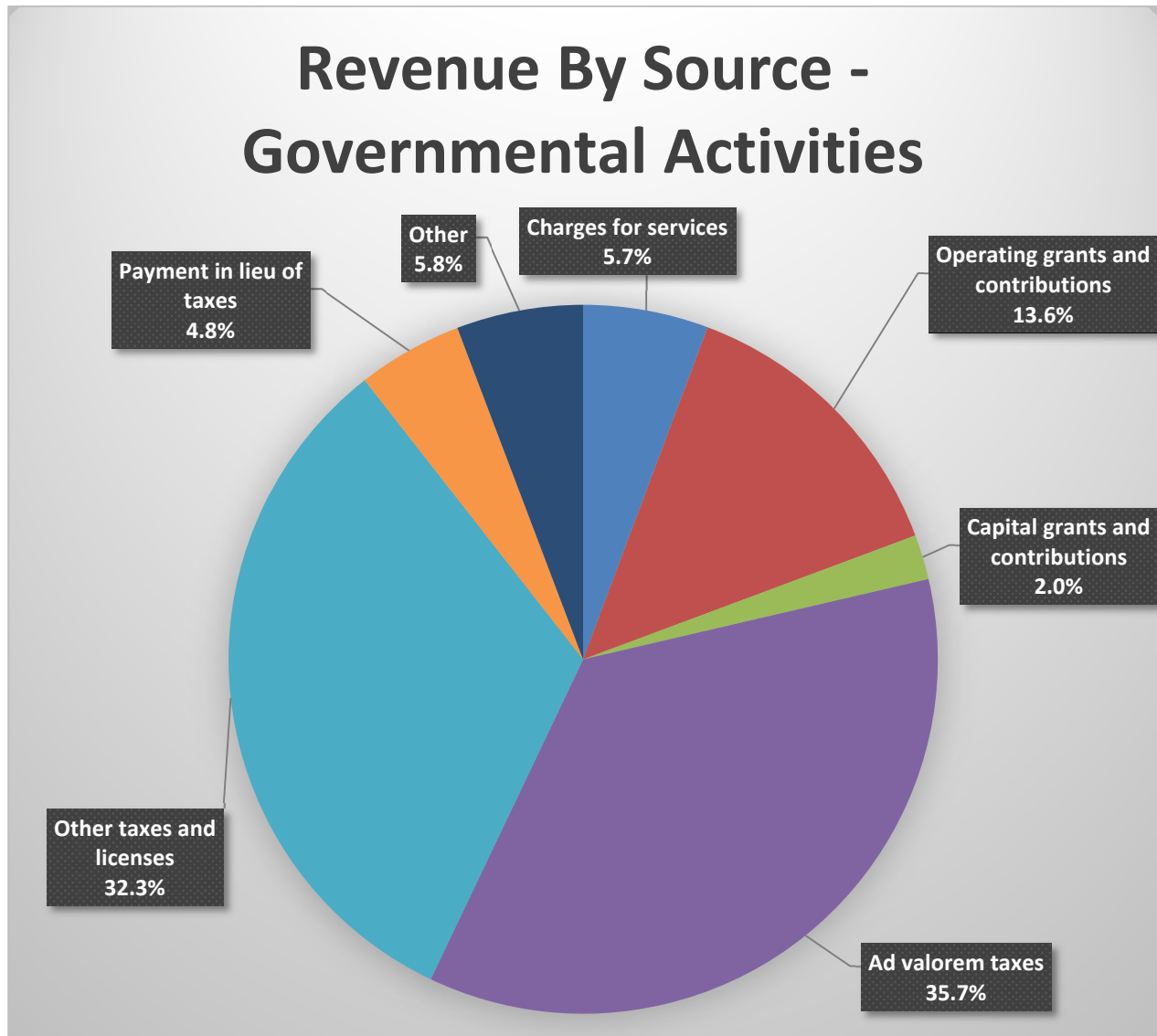
The final category of net position is unrestricted net position. This balance may be used to meet the government's ongoing obligations to residents and creditors. On June 30, 2025, the City had positive unrestricted net position of \$4.0 million of the reported total net position of \$657.6 million.

City of Fayetteville's Changes in Net Position (dollars in thousands)

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	\$ 14,226	\$ 25,127	\$ 40,186	\$ 34,570	\$ 54,412	\$ 59,697
Operating grants and contributions	33,970	10,743	17,198	3,230	51,168	13,973
Capital grants and contributions	5,080	4,420	-	5,832	5,080	10,252
General Revenues:						
Ad valorem taxes	89,092	80,258	-	-	89,092	80,258
Other taxes and licenses	80,678	88,429	646	537	81,324	88,966
Payment in lieu of taxes	11,969	9,577	-	-	11,969	9,577
Other	14,407	8,734	3,392	3,053	17,799	11,787
Total Revenues	249,422	227,286	61,422	47,221	310,844	274,507
Expenses:						
Administration	52,308	39,371	-	-	52,308	39,371
Public safety	113,597	95,985	-	-	113,597	95,985
Environmental protection	1,565	459	-	-	1,565	459
Transportation	22,557	22,427	-	-	22,557	22,427
Economic and physical development	9,645	17,157	-	-	9,645	17,157
Recreation and community facilities	23,349	22,268	-	-	23,349	22,268
Interest on long-term debt	3,395	3,817	-	-	3,395	3,817
Stormwater management	-	-	11,084	10,277	11,084	10,277
Transit	-	-	16,037	15,030	16,037	15,030
Airport	-	-	12,203	12,731	12,203	12,731
Solid Waste	-	-	16,947	14,895	16,947	14,895
Intergovernmental	-	-	1,406	-	1,406	-
Total Expenses	226,416	201,484	57,677	52,933	284,093	254,417
Increase (Decrease) in Net Position:						
before transfers	23,006	25,802	3,745	(5,712)	26,751	20,090
Transfers	(7,095)	(8,814)	7,095	8,814	-	-
Change in net position	15,911	16,988	10,840	3,102	26,751	20,090
Net position, beginning	448,634	431,646	189,606	186,504	638,240	618,150
Changes in accounting principal (GASB 101)	(6,731)	-	(701)	-	(7,432)	-
Net position, beginning, as restated	441,903	-	188,905	-	630,808	-
Net position, ending	\$ 457,813	\$ 448,634	\$ 199,745	\$ 189,606	\$ 657,558	\$ 638,240

Governmental Activities – Revenues for the City's governmental activities were \$249.4 million, while total expenses were \$226.4 million in fiscal year 2025.



The increase in net position for governmental activities, after transfers out, was \$15.9 million.

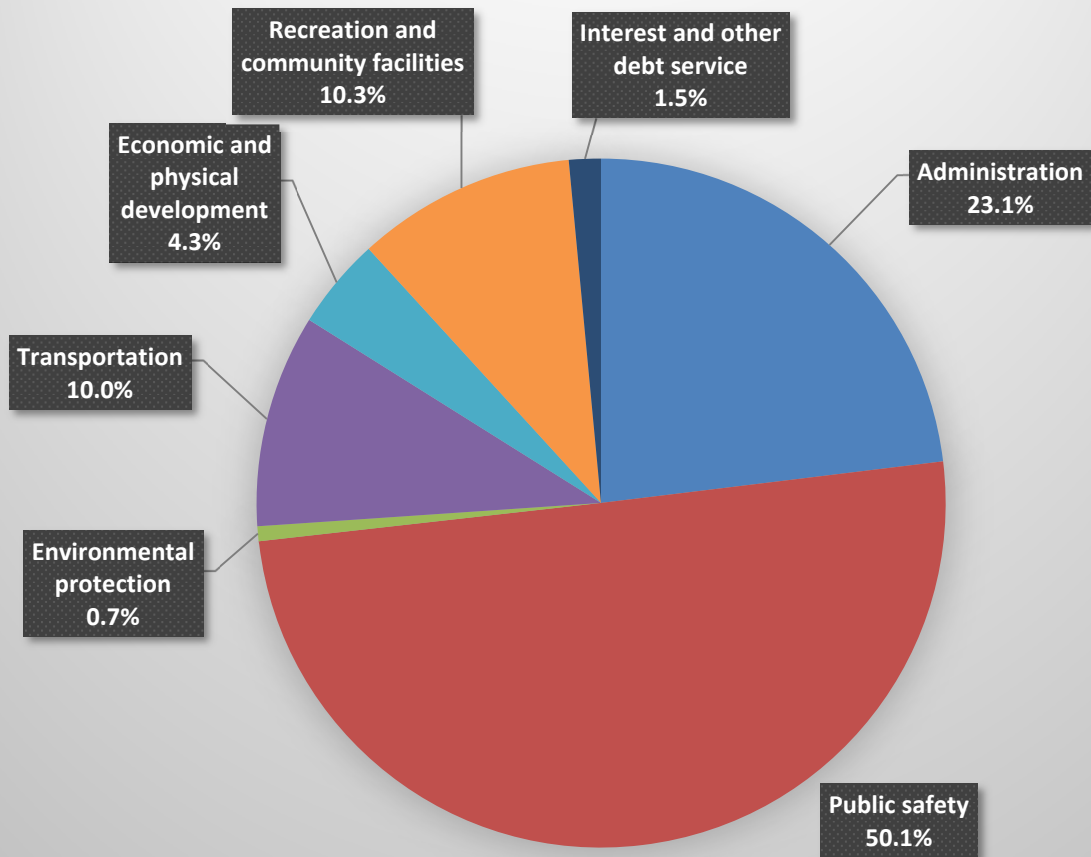
Current year revenues increased by \$22.1 million primarily due to increased operating/capital grants and contributions, strong property tax collections.



Key elements of this change are as follows:

- Property taxes of \$89.1 million represent 35.7% of total governmental revenues and is the largest revenue category. The ad valorem tax rate is 57.95 cents of which 1.42 cents is dedicated to supporting Parks and Recreation bond projects approved in a March 2016 bond referendum. The City's fiscal year 2025 tax collection rate was 99.6%.
- Other taxes and licenses including sales tax, utilities sales tax, telecommunications sales tax, video franchise tax and vehicle license taxes totaling \$80.7 million represent 32.3% and is the second largest revenue category.
- Operating grants and contributions increased to \$34.0 million during fiscal year 2025, an increase of 216.2% from 2024. Most of the increase related federal and state grants, primarily spending related to ARPA projects for administrative initiatives, public safety, transportation infrastructure, and park and recreation improvements during the fiscal year.
- Capital grants and contributions increased to \$5.1 million during fiscal year 2025, an increase of \$660 thousand from 2024. Most of the increase was related to receiving more federal and state grants for transportation infrastructure including streets, sidewalks and drainage improvements and economic and physical development.
- Another large revenue source supporting the governmental activities include \$12.0 million for payments in lieu of taxes from PWC.
- Charges for services from fee-based programs such as parks and recreation, permitting and inspections, and parking fees decreased to 14.9 million during fiscal year 2025, a decrease of \$10.2 million from fiscal year 2024.

Expenses by Function - Governmental Activities



- The cost of all governmental activities this year was \$226.4 million as compared to \$201.5 million reported in fiscal year 2024. These costs were incurred in order to provide municipal services to the residents of Fayetteville. These services include but are not limited to: public safety (police, fire, office of community safety, etc.), administrative (city manager, city attorney, finance, human resources, information technology), transportation (street maintenance), and recreation and community facilities.
- The City's four largest governmental programs – public safety (50.1%), administration (23.1%), transportation (10.0%), and recreation and community facilities (10.3%), represent 93.5% of the total governmental activities.

Business-Type Activities – Revenues for the City's business-type activities were \$61.4 million, while total expenses were \$57.7 million in fiscal year 2025 compared to fiscal year 2024 revenues of \$47.2 million, and total expenses of \$52.9 million. Net position increased to \$199.7 million in 2025, compared to \$188.9 million in 2024.

Change in Net Position (in thousands)

	Stormwater Management	Transit	Airport	Solid Waste	Intergovernmental
2025	\$ 61,288	\$ 25,148	\$ 102,229	\$ 11,331	\$ (251)
2024	55,160	21,824	101,992	10,630	-
Change	<u>\$ 6,128</u>	<u>\$ 3,324</u>	<u>\$ 237</u>	<u>\$ 701</u>	<u>\$ (251)</u>

Stormwater Management - Net position in stormwater management activities increased to \$61.3 million in fiscal year 2025. Net investment in storm water capital assets increased \$5.9 million to \$46.5 million.

Transit - The City, federal, and state agencies continue to subsidize transit operations. Net position is \$25.1 million in fiscal year 2025 which represents a 15.2% increase from 2024. Nearly all of transit's net position was its \$28.2 million net investment in transit assets. Transit's increase of net position is the result of increased operating and capital grants and contributions received.

Airport - Net position of the airport fund at the end of the year amounted to \$102.2 million, an increase of \$0.23 million. The increase is primarily due to federal and state contributions for airport enhancements. Net investment in capital assets was \$71.2 million.

Solid Waste - Net position for the solid waste function in fiscal year 2025 was \$11.3 million which represents a 9.3% increase from 2024. Net investment in capital assets used to provide solid waste services was \$11.4 million.

Intergovernmental - Net position for the intergovernmental function was a deficit of \$251 thousand at fiscal year-end 2025 due to timing differences between service delivery and collection for charges for services. All outstanding receivables were subsequently collected..

Financial Analysis of the City's Funds

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

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financial requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2025, unassigned fund balance of the General Fund was \$27.0 million, while total fund balance was \$102.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 12.4% of total General Fund expenditures and transfers out, while total fund balance represents 47.0% percent of that same amount.



The North Carolina Local Government Commission strongly recommends that local governments maintain an available fund balance of at least 8 percent of annual General Fund expenditures. The City of Fayetteville has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that unassigned fund balance is at least 10% of the succeeding year's General Fund expenditure budget, excluding the budget for the County Recreation Program. The City's target for unassigned fund balance, however, is at least 12 percent. In the event that the balance drops below the established minimum level, the City Council will develop a plan to replenish the fund balance to the established minimum level within two years.

The fund balance of the City's General Fund increased by \$3.3 million during the current fiscal year. This increase can be primarily attributed to an increase in revenues supporting operations for police, and fire:

- Overall General Fund revenues increased \$17.4 million in fiscal year 2025. Ad valorem tax increased \$8.5 million from the previous year.
- At \$196.2 million, General Fund expenditures increased \$11.5 million in 2025. Debt service principal and interest payments decreased \$2.1 million. Operations expenditures for public safety increased by \$17.5 million due to the investment in employee compensation. Economic and physical development expenditures decreased \$6.9 million primarily due to closing of projects in 2025 compared to fiscal year 2024.

At June 30, 2025, the governmental funds of the City reported a combined fund balance of \$138.4 million, reflecting a decrease in fund balance of \$6.7 million. The overall decrease in governmental fund balance reflects planned capital project expenditures, the timing of grant reimbursements, and continued investment in infrastructure and environmental initiatives. Non-major governmental fund balance decreased by \$7.9 million in fiscal year 2025, compared to the decrease in fiscal year 2024. The Federal and State Financial Assistance ending fund balance is \$10.0 million, a decrease of \$1.9 million. The Environmental Protection ending fund balance is negative \$371 thousand a decrease of \$192 thousand million.

General Fund Budgetary Highlights

The City Council approved a \$219 million General Fund budget for fiscal year 2025 which represented an \$8.4 million increase from the original budget for fiscal year 2024. The general ad valorem tax rate changed to 57.95 cents per \$100 of assessed valuation.

In fiscal year 2025 the City continued to focus on our strategic plan and Vision 2032 Statement that establishes that we are striving to be an attractive, culturally diverse and inclusive city that is safe, prosperous, innovative and unified. The 2025 fiscal year budget provided for continuation of municipal services, improvements to service delivery and technology, and sustained investment in employee compensation, retention, and infrastructure. These priorities translated into targeted investments across public safety, infrastructure, and economic development in the adopted FY25 budget.

During the past year the City provided funds for Fayetteville Regional Airport expansion and growth, vehicles and heavy equipment, improvements to City streets, to continue the Corridor Revitalization program, to support the Fayetteville Cumberland Economic Development Corporation and the Center for Economic Empowerment and Development, to subsidize the management cost of the downtown Arts and Entertainment District and to continue the partnership with Cumberland County to fund strategies to assist homeless residents.

The most significant addition to the fiscal year 2025 budget in terms of cost and impact was an adjustment to continue the Police, Fire, and 911 Communications employee pay step plans, with an adjustment to the step to maintain competitive increases by adopting a tax increase of \$0.04 dedicated to public safety market increases. Additionally, all other employees received a 4% increase from their midpoint, and an additional 1% increase to



their 401(K) contributions, bringing the city's contribution to 3%. Sworn police officers continued to receive a mandatory 5% city contribution to a 401(K)-contribution plan. The budget included funding to establish the Office of Community Safety strategically aligned with the City goal for a safe and secure community. The budget continues to support the Downtown Municipal Service District, including a \$0.07 ad valorem tax rate increase.

The City continues to leverage the American Rescue and Recovery Act funding on priorities identified by City Council. That funding joins the more than \$10 million also awarded to the City by the State of North Carolina to address, among other things, parks and recreation projects, historic sites preservation and stormwater infrastructure projects. The voters overwhelmingly approved the \$97 million bond measure on the November 2022 ballot, supporting the City's plans to issue \$97 million in general obligation bonds and spend \$60 in support of projects related to public safety, \$25 million for infrastructure needs and \$12 million for housing.

Actual Revenues Compared to Final Budget – General Fund actual revenue was \$220.1 million and final budgeted revenue was \$225.3 million for fiscal year 2025.

The City's permits and fees continue to be strong revenue source for the General Fund in fiscal year 2025 with \$0.3 million more collected than the budgeted expectations.

The City's investments also performed better than budget expectations due to interest rates remaining relatively high. Interest earned on investments totaled \$3.9 million.

Actual Expenditures Compared to Budgeted Appropriations – The City budgets General Fund appropriations by portfolio. As shown on the General Fund Budget and Actual Statement on page E-5, expenditures in each portfolio are compared to final budgeted appropriations, with overall actuals being \$19.1 million less than budget. The following is an analysis of actual expenditures compared to budget by portfolio:

- Community investment portfolio expenditures were \$1.4 million less than budget.
- Operations portfolio expenditures were \$5.2 million less than budget.
- Support services portfolio expenditures were \$3.5 million less than budget.
- Law enforcement officer's separation allowance expenditures were \$1.5 million less than budget.
- Other appropriations, excluding debt service, were \$5.9 million less than budget.
- Debt service expenditures were \$1.2 million less than budget.

Capital Asset and Debt Administration

Capital Assets – The City's capital assets for its governmental and business-type activities as of June 30, 2025 total \$641.5 million net of accumulated depreciation and amortization. These assets include land, construction in progress, infrastructure, buildings and improvements, equipment, furniture and fixtures, computer software, vehicles, subscription-based information technology agreements and right to use leased assets. These investments support long-term service delivery, regulatory compliance, and asset management in the City's capital improvement planning process.

City of Fayetteville's Capital Assets (dollars in thousands) (Net of Accumulated Depreciation and Amortization)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land and land rights	\$ 46,602	\$ 44,209	\$ 6,416	\$ 6,196	\$ 53,018	\$ 50,405
Construction in progress	51,519	32,104	12,437	7,317	63,956	39,421
Infrastructure	219,865	223,986	39,474	35,439	259,339	259,425
Buildings and improvements	130,761	133,805	78,248	83,666	209,009	217,471
Equipment, furniture, and fixtures	2,996	4,343	2,074	2,307	5,070	6,649
Computer software	2,382	2,913	60	152	2,442	3,065
Vehicles	19,068	19,352	23,620	19,355	42,688	38,707
Intangible right-of-use assets	5,888	8,727	100	142	5,988	8,869
Total	<u>\$ 479,081</u>	<u>\$ 469,438</u>	<u>\$ 162,429</u>	<u>\$ 154,574</u>	<u>\$ 641,510</u>	<u>\$ 624,012</u>

Major capital asset transactions during the year include the following for governmental activities:

- \$2.6 million was spent to construct a new senior center, a tennis center, renovate parks, and upgrade recreation facilities.
- \$3.1 million was spent on public safety enhancements.
- \$1.8 million was spent to acquire property for the Police Department's Cross Creek District Office.
- \$7.1 million on street resurfacing, pavement preservation, and sidewalk improvements.

Major capital asset transactions during the year include the following for business-type activities:

- \$6.4 million was spent on stormwater drainage system improvements.
- \$3.8 million was spent on transit capital improvements including bus purchases.
- \$1.5 million was spent on airport terminal renovations.
- \$4.5 million was spent on solid waste on trucks and equipment to provide residential solid waste and recycling services.

Additional information on the City's capital assets can be found in Note 3 of this report.

Long-Term Debt – The City issues debt to finance the acquisition and construction of many of its capital assets. As of June 30, 2025, the City had total outstanding debt of \$88.3 million consisting of general obligation debt, limited obligation debt, leases and subscription debt, revenue bonded debt, installment agreements and notes payable. Long-term debt decreased \$15.3 million over 2025. A summary of total long-term debt is shown in Figure 5.

Outstanding Debt (dollars in thousands)

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
General obligations debt	\$ 27,350	\$ 29,440	\$ -	\$ -	\$ 27,350	\$ 29,440
Direct Placement:						
Limited obligation debt	36,520	39,320	-	-	36,520	39,320
Leases and subscription liability	6,069	9,123	85	133	6,154	9,256
Revenue bonds	-	-	1,295	2,130	1,295	2,130
Direct Borrowing:						
Installing agreements	16,599	22,000	224	1,278	16,823	23,278
Notes payable	-	-	125	150	125	150
Total Long-Term Debt	<u>\$ 86,538</u>	<u>\$ 99,883</u>	<u>\$ 1,729</u>	<u>\$ 3,691</u>	<u>\$ 88,267</u>	<u>\$ 103,574</u>

The City's other long-term obligations related to governmental activities are as follows:

- \$61.1 million representing the City's portion of the N.C. Local Government Employers' Retirement System net pension liability, which is managed by the N.C. Department of State Treasurer.
- \$39.4 million net Other Postemployment Benefits (OPEB) liability, which is retiree healthcare benefits for employees hired before July 1, 2014.
- \$19.1 million net Law Enforcement Officers' Special Separation Allowance.
- \$17.9 million compensated absences, a liability for the estimated amount of vacation, compensatory time and banked holiday leave to ultimately be paid.
- \$4.3 million PWC Assessments Payable, which is offset by amounts owed to the City.

The City's other long-term obligations related to business activities are as follows:

- \$8.6 million representing the City's portion of the N.C. Local Government Employers' Retirement System net pension liability, which is managed by the N.C. Department of State Treasurer.
- \$7.2 million net Other Postemployment Benefits (OPEB) liability, which is retiree healthcare benefits for employees hired before July 1, 2014.
- \$1.6 million compensated absences, a liability for the estimated amount of vacation, compensatory time and banked holiday leave to ultimately be paid.



The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property. The legal debt margin for the City is approximately \$1.1 billion.

Additional information regarding the City's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budget and Rates

The City Council approved a \$300.3 million budget for fiscal year 2026, which represented a \$14.4 million increase from the original budget for fiscal year 2025.

The general ad valorem tax rate is 44.95 cents per \$100 of assessed valuation. While this rate is \$0.0619 above the revenue-neutral rate of \$0.3876, it reflects a \$0.13 reduction from the prior year's rate, providing approximately 22.4% in tax relief to property owners while maintaining fiscal balance. The adopted rate is expected to generate \$83.6 million in property tax revenue, a \$6.9 million increase over 2025. Cumberland County's 2025 countywide property revaluation produced a total assessed valuation increase of 61.1 % - 88.4% in residential and 27.5% in commercial property—significantly expanding the City's tax base and providing an opportunity to recalibrate rates while maintaining essential service levels.

For fiscal year 2026, the supporting general fund operating budgets reflect a decrease of 4.83% over the values projected for the adopted fiscal year 2025 budget. This year-over-year decline represent the balance of adopting a general fund operating tax rate above revenue neutral to offset the net loss in sales tax revenue due to a distribution change and rising costs of employee wage increases, operating inflation, declines in motor vehicle tax revenue, and service expansion initiatives. Based on expected growth and the increased tax rate, the 2025 general fund budgeted ad valorem tax revenues of \$106.8 million are projected to decrease 1.82%.

The City's other major unrestricted revenue is sales tax. A major external factor affecting next year's financial outlook is the Cumberland County Board of Commissioners' decision to change the local sales tax distribution method from per capita to ad valorem, effective July 1, 2025. This change is projected to reduce the City's annual share of sales tax revenue by approximately \$13 million, or 20.2%, with a net loss of \$3.1 million following a one-year transition agreement. To offset this decline and maintain service delivery, the adopted FY 2026 budget incorporates \$0.0619 above the revenue neutral property tax rate to replace lost revenue.

Other revenue sources and rates remain stable. The City maintained the stormwater fee at \$7.00 per month and the solid waste fee at \$275 annually per household. While both funds remain self-sustaining in FY 2026, preliminary projections indicate that a stormwater rate adjustment may be required in 2027 to address future infrastructure and capital needs. Revenues from user fees, licenses, and permits are projected to remain relatively flat due to ongoing market constraints and modest population growth.

Personnel costs remain the City's largest operating expenditure, accounting for 56.9%, or approximately \$172 million, of the 2026 operating budget. The adopted budget includes a 4% midpoint compensation increase for non-step employees, continuation of step progression for public safety personnel, and an additional 1% employer contribution to the 401(k) plan for non-sworn employees an increase from 3% to 4%. These investments support the City's "Employer of Choice" initiative and help offset recruitment and retention challenges. To preserve structural balance, the City implemented \$2.8 million in service reductions and deferred approximately \$7.2 million in departmental enhancement requests, focusing resources on public safety, infrastructure maintenance, and community engagement priorities.

The 2026 general property tax rate of 44.95 cents per \$100 value includes .83 cents for parks and recreation projects and bond debt service, 4.0 cents for the general capital funding plan, 4.00 cents for the 2024 bond debt service, and 38.52 cents for general operations. The property tax rate for the Central Business Tax District, 14.89 cents per \$100 of assessed valuation, is the revenue neutral tax rate. The stormwater fee will remain at \$7 per month, the residential solid waste fee remains at \$275 per year, and additional minor fee adjustments are



proposed with minimal expected revenue impacts. Bus fares, code enforcement, building permits, taxicab permits, fire inspection fees, and parks and recreational fees include minor adjustments with negligible expected revenue impacts. Payment in lieu of taxes from the Public Works Commission (PWC) is projected to be \$12.2 million in FY26.

The FY26 budget is balanced with a \$7.86 million General Fund appropriation, including \$2.6 million from the fund balance assigned for the general capital funding plan, \$.9 million from the fund balance assigned for ERP Remediation, and \$3.3 million from the fund balance reserved for North Carolina History Center on the Civil War, and \$1.06 million for Fast Transit Center Buildout. This represents an increase of \$6.3 million, in the use of unassigned fund balance as compared to the \$1.6 million original fund balance appropriation for fiscal year 2025. This marked increase is primarily due to the one-time capital funding. The increased use of fund balance in FY26 is primarily attributable to one time capital and strategic investments and does not represent a structural reliance on reserves for ongoing operations.

The fiscal year 2026 budget enhances our services as a major metropolitan area – the 6th largest city in the 9th largest state in the most powerful country in history – while also addressing our need to take care of our most valuable resource, our employees.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, City of Fayetteville, 433 Hay Street, Fayetteville, NC 28301. You can also call (910) 433-1474, visit our website www.fayettevillenc.gov/finance.

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Financial Information

Financial Statements

The financial statements of the City have been audited by certified public accountants for the fiscal years ended June 30, 2025, 2024 and 2023. Copies of these financial statements containing the reports of the independent certified public accountants are available by contacting the office of Tiffany Murray, Chief Financial Officer, at City of Fayetteville, 433 Hay Street, Fayetteville, North Carolina 28301 or on the City's website at <https://www.fayettevillenc.gov/City-Departments/Finance>.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2024. 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 City believes that the annual financial report for the year ended June 30, 2025, will continue to meet the requirements under the Certificate of Achievement Program.

The City 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. 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 City's ability to manage and estimate its resources. See page D-8 for the presentation of the City's budgetary statements.

The following financial statements are the basic financial statements of the City and the notes thereto, lifted from the Annual Comprehensive Financial Report of the City for the fiscal year ended June 30, 2025.

CITY OF FAYETTEVILLE
STATEMENT OF NET POSITION

JUNE 30, 2025

	Primary Government			Public Works Commission
	Governmental Activities	Business-Type Activities	Total Primary Government	
Assets				
Cash and investments	\$ 133,753,936	\$ 57,430,505	\$ 191,184,441	\$ 185,116,238
Taxes receivable	17,663,225	-	17,663,225	-
Accounts receivable	16,699,366	3,729,888	20,429,254	57,844,107
Leases receivable, current	219,443	504,188	723,631	768,984
Assessments receivable	5,918,126	-	5,918,126	-
Due from other governments	8,405,056	-	8,405,056	-
Internal balances	4,444,310	(4,444,310)	-	-
Notes Receivable	8,919,393	-	8,919,393	-
Inventories	118,215	199,855	318,070	24,739,073
Prepaid expenses	2,580,456	4,500	2,584,956	-
Restricted asset - cash and investments	21,593,907	432	21,594,339	292,737,673
Restricted asset - accounts receivable	5,181,142	8,986,051	14,167,193	14,662,758
Collateral pledged in lieu of deposits	-	-	-	701,720
Property held for resale	27,871	-	27,871	-
Leases receivable, noncurrent	5,209,533	3,573,821	8,783,354	2,597,962
Other assets	-	-	-	4,825,556
Capital assets:				
Intangible right to use lease assets, net of amortization	2,502,090	-	2,502,090	7,064,369
Intangible right to use subscription assets, net of amortization	3,385,855	99,462	3,485,317	-
Land and construction in progress	98,120,224	18,853,309	116,973,533	344,083,365
Other capital assets, net of depreciation and amortization	375,072,209	143,475,967	518,548,176	1,056,288,839
Total assets	709,814,357	232,413,668	942,228,025	1,991,430,644
Deferred Outflows of Resources				
Charge on refunding	-	-	-	480,389
OPEB deferrals	2,383,747	432,119	2,815,866	3,772,171
Pension deferrals	34,252,646	4,442,250	38,694,896	24,033,556
Total deferred outflow of resources	36,636,393	4,874,369	41,510,762	28,286,116
Liabilities				
Accounts payable and accrued expenses	19,747,721	6,844,236	26,591,957	34,575,132
Restricted liabilities - accounts payable	5,479	-	5,479	-
Restricted unearned deposits	13,762,292	6,665,181	20,427,473	35,716,308
Unearned deposits	-	-	-	688,517
Unearned revenues	6,968,261	-	6,968,261	-
Long-term liabilities:				
Due within one year	15,412,112	1,643,349	17,055,461	26,564,735
Due in more than one year	215,629,654	17,459,146	233,088,800	622,365,616
Total liabilities	271,525,519	32,611,912	304,137,431	719,910,308
Deferred Inflows of Resources				
Prepaid and tax receivable	843,648	-	843,648	-
OPEB deferrals	3,940,168	723,856	4,664,024	585,451
Pension deferrals	4,670,947	325,867	4,996,814	358,988
Lease deferrals	5,029,641	3,881,695	8,911,336	3,167,296
Accounts receivable	2,627,777	-	2,627,777	-
Total deferred inflow of resources	17,112,181	4,931,418	22,043,599	4,111,735
Net position				
Net investment in capital assets	399,345,489	157,330,652	556,676,141	920,442,142
Restricted for:				
Nonspendable	11,713,257	-	11,713,257	-
Capital projects	-	3,795,483	3,795,483	44,381,322
Stabilization by State Statute	40,672,959	-	40,672,959	-
Central business district	130,119	-	130,119	-
Donations	177,113	-	177,113	-
County recreation	1,418,678	-	1,418,678	-
Public safety	3,077,967	-	3,077,967	-
Recreation and community facilities	8,210,921	-	8,210,921	-
Economic and physical development	27,664,994	-	27,664,994	-
Renewable energy	-	-	-	9,929,172
Other internal restrictions	-	-	-	159,268,341
Unrestricted	(34,598,447)	38,618,572	4,020,125	161,673,740
Total net position	\$ 457,813,050	\$ 199,744,707	\$ 657,557,757	\$ 1,295,694,717

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

CITY OF FAYETTEVILLE
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2025

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Public Works Commission
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Administration	\$ 52,308,027	\$ 1,700,202	\$ 12,836,360	\$ -	\$ (37,771,465)	\$ -	\$ (37,771,465)	\$ -
Public safety	113,597,414	9,212,955	5,978,538	30,434	(98,375,487)	-	(98,375,487)	-
Environmental protection	1,565,265	5,150	136,381	-	(1,423,734)	-	(1,423,734)	-
Transportation	22,556,989	1,094,100	7,822,949	3,941,542	(9,698,398)	-	(9,698,398)	-
Economic and physical development	9,645,393	197,225	2,925,004	971,922	(5,551,242)	-	(5,551,242)	-
Recreation and community facilities	23,348,684	2,016,413	4,270,887	135,762	(16,925,622)	-	(16,925,622)	-
Interest and other debt service	3,395,002	-	-	-	(3,395,002)	-	(3,395,002)	-
Total governmental activities	226,416,774	14,226,045	33,970,119	5,079,660	(173,140,950)	-	(173,140,950)	-
Business-type activities:								
Stormwater management	11,084,008	13,642,163	3,439,106	-	-	5,997,261	5,997,261	-
Transit	16,036,663	1,000,639	9,069,879	-	-	(5,966,145)	(5,966,145)	-
Airport	12,203,243	6,796,555	4,205,270	-	-	(1,201,418)	(1,201,418)	-
Solid waste	16,946,743	17,590,876	483,348	-	-	1,127,481	1,127,481	-
Intergovernmental	1,406,153	1,155,491	-	-	-	(250,662)	(250,662)	-
Total business-type activities	57,676,810	40,185,724	17,197,603	-	-	(293,483)	(293,483)	-
Total primary government	\$ 284,093,584	\$ 54,411,769	\$ 51,167,722	\$ 5,079,660	\$ (173,140,950)	\$ (293,483)	\$ (173,434,433)	\$ -
Component Unit								
Public Works Commission	\$ 346,942,068	\$ 398,162,841	\$ 918,988	\$ 11,422,930	\$ -	\$ -	\$ -	\$ 63,562,691
Total component unit	\$ 346,942,068	\$ 398,162,841	\$ 918,988	\$ 11,422,930	-	-	-	63,562,691
General revenues:								
Ad valorem taxes					\$ 89,091,821	\$ -	\$ 89,091,821	\$ -
Other taxes								
Sales tax					62,769,547	-	62,769,547	-
Utilities sales tax					11,792,982	-	11,792,982	-
Telecommunications sales tax					606,944	-	606,944	-
Video franchise tax					1,408,621	-	1,408,621	-
Vehicle license tax					3,199,842	646,224	3,846,066	-
Vehicle gross receipts tax					900,474	-	900,474	-
Payment in lieu of taxes					11,968,928	-	11,968,928	-
Interest earned on investments					7,844,294	2,879,948	10,724,242	21,650,728
Miscellaneous					6,324,819	11,669	6,336,488	-
Special item - PFAS settlement					-	-	-	9,011,372
Gain on sale of capital assets					237,950	500,364	738,314	-
Total general revenues not including transfers					196,146,222	4,038,205	200,184,427	30,662,100
Transfers					(7,095,104)	7,095,104	-	-
Total general revenues and transfers					189,051,118	11,133,309	200,184,427	30,662,100
Change in net position					15,910,168	10,839,826	26,749,994	94,224,791
Net position - beginning, as previously stated					448,633,915	189,606,238	638,240,153	1,201,469,926
Changes in accounting principal (GASB 101)					(6,731,033)	(701,357)	(7,432,390)	-
Net position, beginning of year, as restated					441,902,882	188,904,881	630,807,763	1,201,469,926
Net position - ending					\$ 457,813,050	\$ 199,744,707	\$ 657,557,757	\$ 1,295,694,717

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

CITY OF FAYETTEVILLE
BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2025

	Major Funds			Nonmajor	Total
	General	Federal and State Financial Assistance	Environmental Protection	Governmental Funds	Governmental Funds
Assets					
Cash and investments	\$ 74,444,414	\$ -	\$ -	\$ 21,843,992	\$ 96,288,406
Taxes receivable	17,663,225	-	-	-	17,663,225
Accounts receivable	3,670,023	4,764,898	4,843,610	1,811,770	15,090,301
Due from other governments	2,879,846	560,368	2,051,650	2,913,192	8,405,056
Interfund receivable	16,067,760	-	-	-	16,067,760
Assessments receivable	1,051,551	-	-	4,866,575	5,918,126
Prepaid items	2,248,443	-	-	-	2,248,443
Lease receivable	5,428,976	-	-	-	5,428,976
Inventories	118,215	-	-	-	118,215
Restricted cash and investments	1,421,289	7,717,409	-	12,455,209	21,593,907
Restricted accounts receivable	262,760	4,918,382	-	-	5,181,142
Notes receivable	3,071,352	5,848,041	-	-	8,919,393
Property held for resale	-	27,871	-	-	27,871
Total assets	\$ 128,327,854	\$ 23,836,969	\$ 6,895,260	\$ 43,890,738	\$ 202,950,821
Liabilities, deferred inflows of resources and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 9,202,275	\$ 1,553,535	\$ 51,248	\$ 4,701,295	\$ 15,508,353
Interfund payables	-	-	7,214,831	4,154,984	11,369,815
Restricted unearned deposits	800,605	8,464,826	-	4,496,861	13,762,292
Unearned revenue	5,615,543	1,237,869	-	93,850	6,947,262
Restricted accounts payable and accrued expenses	-	-	-	5,479	5,479
Total liabilities	15,618,423	11,256,230	7,266,079	13,452,469	47,593,201
Deferred inflows of resources:					
Taxes receivable	769,353	-	-	-	769,353
Accounts receivable	3,121,910	2,627,777	-	-	5,749,687
Assessments receivable	1,051,550	-	-	4,268,930	5,320,480
Lease receivable	5,029,641	-	-	-	5,029,641
Prepaid taxes	74,295	-	-	-	74,295
Total deferred inflows of resources	10,046,749	2,627,777	-	4,268,930	16,943,456
Fund balances:					
Nonspendable					
Inventories	118,215	-	-	-	118,215
Prepays	2,248,443	-	-	-	2,248,443
Loan	3,071,352	5,875,912	-	-	8,947,264
Leases	399,335	-	-	-	399,335
Restricted					
Stabilization by State Statute	40,012,777	-	-	660,182	40,672,959
Central business district	130,119	-	-	-	130,119
County business	1,418,678	-	-	-	1,418,678
Donations	177,113	-	-	-	177,113
Public safety	-	272,720	-	2,805,247	3,077,967
Economic and physical development	-	8,356,280	-	19,308,714	27,664,994
Recreation and community facilities	-	-	-	8,210,921	8,210,921
Environmental protection	-	14,328	-	-	14,328
Committed					
Administration	-	-	-	7,139,439	7,139,439
Public safety	-	-	-	127,247	127,247
Economic and physical development	-	-	-	1,546,134	1,546,134
Recreation and community facilities	-	-	-	5,447,315	5,447,315
Law Enforcement Officers' Special Separation Allowance	13,494,341	-	-	-	13,494,341
Assigned					
Subsequent year's expenditures	7,853,418	-	-	-	7,853,418
Capital projects	6,745,221	-	-	-	6,745,221
Unassigned (deficit)	26,993,670	(4,566,278)	(370,819)	(19,075,860)	2,980,713
Total fund balances	102,662,682	9,952,962	(370,819)	26,169,339	138,414,164
Total liabilities, deferred inflows of resources and fund balances	\$ 128,327,854	\$ 23,836,969	\$ 6,895,260	\$ 43,890,738	\$ 202,950,821

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

CITY OF FAYETTEVILLE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2025

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

Ending fund balance - governmental funds	\$ 138,414,164
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land and Construction in Process	98,120,224	
Capital Assets being depreciated, net	375,001,553	
	<u>473,121,777</u>	473,121,777

Right-to-use leased assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Right-to-use assets being amortized, net	3,654,607
--	-----------

Deferred inflows of resources for taxes and receivables.	7,390,840
--	-----------

Internal service funds are used by management to charge insurance expenses and fleet maintenance expenses to individual funds. The assets and liabilities of the internal service funds are included in governmental activities.	33,790,686
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Accrued interest payable on long-term debt is not a current expenditure and, therefore, not recorded in the funds.	273,231
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Accrued federal subsidy receivable associated with accrued interest payable and, therefore, not recorded in the funds.	1,053,295
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

General obligation bonds	(27,350,000)	
Unamortized premium	(2,744,715)	
Limited obligation bonds	(36,520,000)	
Installment agreements	(16,598,994)	
Lease and subscription liabilities	(3,652,475)	
Assessments due PWC	(4,268,930)	
Compensated absences liability	(17,793,637)	
Net pension liability	(79,283,837)	
Total OPEB liability	<u>(39,250,761)</u>	
	<u>(227,463,349)</u>	(227,463,349)

Deferred outflows and inflows of resources on the statement of net position related to:

Pension related deferrals	33,765,082	
OPEB related deferrals	2,377,338	
Pension related deferrals	(4,635,184)	
OPEB related deferrals	<u>(3,929,437)</u>	
	<u>27,577,799</u>	27,577,799

Net position of governmental activities	<u>\$ 457,813,050</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF FAYETTEVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2025

	Major Funds			Nonmajor	Total
	General	Federal and State Financial Assistance	Environmental Protection	Governmental Funds	Governmental Funds
Revenues					
Ad valorem taxes	89,254,171	\$ -	\$ -	\$ -	\$ 89,254,171
Other taxes and fees	92,647,338	-	-	-	92,647,338
Unrestricted intergovernmental	17,736,522	-	-	-	17,736,522
Restricted intergovernmental	-	12,099,590	136,381	4,001,554	16,237,525
Permits and fees	3,317,663	-	-	-	3,317,663
Sales and services	8,405,592	-	-	-	8,405,592
Miscellaneous	4,807,681	98,276	-	1,418,862	6,324,819
Interest earned on investments	3,995,145	898,991	-	965,444	5,859,580
Total revenues	220,164,112	13,096,857	136,381	6,385,860	239,783,210
Expenditures					
Current:					
Administration	40,122,626	5,852,940	-	1,296,422	47,271,988
Public safety	104,254,042	667,667	-	416,738	105,338,447
Environmental protection	812,026	-	371,458	-	1,183,484
Transportation	9,115,214	-	-	-	9,115,214
Economic and physical development	2,982,212	7,233,752	-	-	10,215,964
Recreation and community facilities	20,494,698	-	-	16	20,494,714
Debt service:					
Principal	13,398,872	-	-	-	13,398,872
Interest	3,519,557	-	-	-	3,519,557
Capital outlay	1,526,965	1,561,728	-	27,039,805	30,128,498
Total expenditures	196,226,212	15,316,087	371,458	28,752,981	240,666,738
Revenues over (under) expenditures	23,937,900	(2,219,230)	(235,077)	(22,367,121)	(883,528)
Other financing sources (uses)					
Proceeds from sale of capital assets	237,950	-	-	-	237,950
Transfers in	1,080,784	304,530	43,003	14,452,640	15,880,957
Transfers out	(21,983,061)	-	-	-	(21,983,061)
Leases issued	51,522	-	-	-	51,522
Total other financing sources (uses)	(20,612,805)	304,530	43,003	14,452,640	(5,812,632)
Net change in fund balance	3,325,095	(1,914,700)	(192,074)	(7,914,481)	(6,696,160)
Fund balance					
Beginning	99,337,587	11,867,662	(178,745)	34,083,820	145,110,324
Ending	\$ 102,662,682	\$ 9,952,962	\$ (370,819)	\$ 26,169,339	\$ 138,414,164

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

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

CITY OF FAYETTEVILLE**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2025**

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

Net change in fund balances - total governmental funds \$ (6,696,160)

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 or amortization expense. This is the amount by which capital outlays exceeded depreciation or amortization in the current period:

Capital outlays	30,128,498	
Capital contributions	9,277,751	
Depreciation and amortization expense	<u>(29,626,478)</u>	9,779,771

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

Decrease in assessment receivable	480,043	
Increase in accrued tax penalties	<u>(2,384,637)</u>	(1,904,594)

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

Lease and subscription liabilities issued		(51,522)
Principal repayments		13,398,873
Change in assessments due PWC		465,230
Change in compensated absences		<u>(2,656,717)</u>

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. 12,502,949

Benefit payments paid and administrative expense for the LEOSSA are not included in the Statement of Activities. 844,681

OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities. 1,935,212

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:

OPEB gain	1,074,834	
Pension expense	<u>(15,970,195)</u>	
Change in accrued interest payable		64,554
Amortization of bond premium		319,288

Internal service funds are used by management to charge the costs of risk management and fleet maintenance to individual funds. The net revenue of certain activities of the internal service funds are reported with governmental activities.

2,803,964

Change in net position of governmental activities \$ 15,910,168

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

CITY OF FAYETTEVILLE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GENERAL FUND - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2025

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Ad valorem taxes	\$ 90,309,591	\$ 90,309,591	\$ 89,254,171	\$ (1,055,420)
Other taxes	94,964,400	94,964,400	92,647,338	(2,317,062)
Unrestricted intergovernmental	12,282,794	16,898,126	17,736,522	838,396
Restricted intergovernmental	-	-	-	-
Permits and fees	3,039,656	3,039,656	3,317,663	278,007
Sales and services	8,863,252	8,863,252	8,405,592	(457,660)
Miscellaneous	6,923,299	6,983,926	4,807,681	(2,176,245)
Interest earned on investments	4,245,225	4,245,225	3,995,145	(250,080)
Total revenues	220,628,217	225,304,176	220,164,112	(5,140,064)
Expenditures				
Current:				
Community investment	7,975,429	8,585,107	7,160,097	1,425,010
Operations	129,545,352	133,055,424	127,864,710	5,190,714
Support services and administration	22,520,274	26,291,690	22,809,604	3,482,086
Other appropriations	21,341,606	22,847,266	16,961,604	5,885,662
Parking	1,098,509	1,098,509	1,007,963	90,546
Central business tax district	324,114	380,764	303,868	76,896
Law enforcement officers' special separation allowance	3,179,584	3,179,584	1,672,972	1,506,612
Debt Service:				
Principal	14,564,676	14,564,676	13,398,872	1,165,804
Interest	3,825,785	3,825,785	3,519,557	306,228
Bond issuance costs	-	-	-	-
Capital outlay	2,225,598	2,706,380	1,475,443	1,230,937
Total expenditures	206,600,927	216,535,185	196,174,690	20,360,495
Revenues over (under) expenditures	14,027,290	8,768,991	23,989,422	15,220,431
Other financing sources (uses)				
Sale of capital assets	92,000	92,000	237,950	145,950
Transfers in from other funds	1,080,784	1,480,784	1,080,784	(400,000)
Transfers out to other funds	(16,774,597)	(21,983,061)	(21,983,061)	-
Appropriated fund balance	1,574,523	11,641,286	-	(11,641,286)
Total other financing sources (uses)	(14,027,290)	(8,768,991)	(20,664,327)	(11,895,336)
Revenues and other financing sources (uses) over (under) financing (uses)	\$ -	\$ -	3,325,095	\$ 3,325,095
Fund balance				
Beginning			99,337,587	
Ending			102,662,682	
Adjustments to Modified Accrual GAAP				
Capital outlay - leases and subscriptions			(51,522)	
Lease and subscription liabilities issued			51,522	
Fund balance			\$ 102,662,682	

	Function:						
Portfolio	Administration	Public Safety	Environmental Protection	Transportation	Economic and Physical Development	Recreation and Community Facilities	Total
Community investment	\$ 349,184	\$ 4,132,569	\$ -	\$ -	\$ 2,678,344	\$ -	\$ 7,160,097
Operations	3,048	98,448,501	812,026	8,106,437	-	20,494,698	127,864,710
Support services	22,809,604	-	-	-	-	-	22,809,604
Other appropriations	16,961,604	-	-	-	-	-	16,961,604
Parking	(814)	-	-	1,008,777	-	-	1,007,963
Central business tax district	-	-	-	-	303,868	-	303,868
Law enforcement officer's special separation allowance	-	1,672,972	-	-	-	-	1,672,972
Totals by function	\$ 40,122,626	\$ 104,254,042	\$ 812,026	\$ 9,115,214	\$ 2,982,212	\$ 20,494,698	\$ 177,780,818

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

CITY OF FAYETTEVILLE
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2025

	Major Enterprise Funds				Non-Major Enterprise Fund		
	Stormwater Management Fund	Transit Fund	Airport Fund	Solid Waste Fund	Intergovernmental Fund	Total	Internal Service Funds
Assets							
Current assets							
Cash and investments	\$ 16,646,942	\$ 87,971	\$ 35,191,841	\$ 5,503,751	\$ -	\$ 57,430,505	\$ 37,465,530
Accounts receivable	1,131,822	316,082	1,081,016	678,461	522,507	3,729,888	1,607,318
Inventories	-	159,379	5,990	34,486	-	199,855	-
Prepaid expenses	-	-	-	4,500	-	4,500	332,013
Leases receivable	-	66,976	437,212	-	-	504,188	-
Total unrestricted current assets	17,778,764	630,408	36,716,059	6,221,198	522,507	61,868,936	39,404,861
Restricted current assets							
Restricted cash and investments	432	-	-	-	-	432	-
Restricted accounts receivable	-	6,455,767	2,530,284	-	-	8,986,051	-
Total restricted current assets	432	6,455,767	2,530,284	-	-	8,986,483	-
Total current assets	17,779,196	7,086,175	39,246,343	6,221,198	522,507	70,855,419	39,404,861
Noncurrent assets							
Leases receivable	-	88,486	3,485,335	-	-	3,573,821	-
Capital assets, net	51,550,142	28,141,004	71,251,352	11,386,778	-	162,329,276	70,656
Right to use assets, net	-	16,412	83,050	-	-	99,462	2,233,338
Total noncurrent assets	51,550,142	28,245,902	74,819,737	11,386,778	-	166,002,559	2,303,994
Total assets	69,329,338	35,332,077	114,066,080	17,607,976	522,507	236,857,978	41,708,855
Deferred outflows of resources							
OPEB deferrals	62,647	154,249	45,660	169,563	-	432,119	6,409
Pension deferrals	722,318	1,986,371	541,738	1,191,823	-	4,442,250	487,564
Total deferred outflows of resources	784,965	2,140,620	587,398	1,361,386	-	4,874,369	493,973
Liabilities							
Current liabilities							
Accounts payable and accrued expenses	3,478,008	742,793	902,902	1,312,802	407,731	6,844,236	4,512,597
Current portion of long term liabilities	942,476	156,565	127,536	416,772	-	1,643,349	246,204
Interfund payables	-	4,078,872	-	-	365,438	4,444,310	253,635
Total current liabilities	4,420,484	4,978,230	1,030,438	1,729,574	773,169	12,931,895	5,012,436
Current liabilities to be paid from restricted assets							
Unearned deposits	1,121,345	400	5,543,436	-	-	6,665,181	-
Total current liabilities to be paid from restricted assets	1,121,345	400	5,543,436	-	-	6,665,181	-
Total current liabilities	5,541,829	4,978,630	6,573,874	1,729,574	773,169	19,597,076	5,012,436
Noncurrent liabilities							
OPEB obligation	1,048,241	2,580,999	764,052	2,837,237	-	7,230,529	107,154
Net pension liability	1,394,369	3,834,516	1,046,322	2,300,710	-	8,575,917	941,197
Unearned revenues	-	-	-	-	-	-	20,999
Lease liabilities	-	-	-	-	-	-	2,214,990
Subscription lease liabilities	-	-	42,885	-	-	42,885	-
Long-term liabilities	683,556	385,727	140,985	399,547	-	1,609,815	68,872
Total noncurrent liabilities	3,126,166	6,801,242	1,994,244	5,537,494	-	17,459,146	3,353,212
Total liabilities	8,667,995	11,779,872	8,568,118	7,267,068	773,169	37,056,222	8,365,648
Deferred inflows of resources							
OPEB deferrals	104,941	258,386	76,489	284,040	-	723,856	10,731
Pension deferrals	52,987	145,713	39,738	87,429	-	325,867	35,763
Lease deferrals	-	141,161	3,740,534	-	-	3,881,695	-
Total deferred inflows of resources	157,928	545,260	3,856,761	371,469	-	4,931,418	46,494
Net position							
Net investment in capital assets	46,537,793	28,157,415	71,248,667	11,386,777	-	157,330,652	(112,596)
Restricted net position							
Capital projects	-	-	3,795,483	-	-	3,795,483	-
Unrestricted (deficit)	14,750,587	(3,009,850)	27,184,449	(55,952)	(250,662)	38,618,572	33,903,282
Total net position	\$ 61,288,380	\$ 25,147,565	\$ 102,228,599	\$ 11,330,825	\$ (250,662)	\$ 199,744,707	\$ 33,790,686

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

CITY OF FAYETTEVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2025

	Major Enterprise Funds				Non-Major Enterprise Fund	Total	Internal Service Funds
	Stormwater Management Fund	Transit Fund	Airport Fund	Solid Waste Fund	Intergovernmental Fund		
Operating revenues							
Charges for services	\$ 13,516,172	\$ 700,369	\$ 5,760,577	\$ 17,270,214	\$ 1,155,491	\$ 38,402,823	\$ -
Other revenue from operations	125,991	237,532	381,389	320,662	-	1,065,574	1,646,627
Interfund charges and employee contributions	-	-	-	-	-	-	33,055,234
Total operating revenues	<u>13,642,163</u>	<u>937,901</u>	<u>6,141,966</u>	<u>17,590,876</u>	<u>1,155,491</u>	<u>39,468,397</u>	<u>34,701,861</u>
Operating expenses							
Salaries and employee benefits	3,514,867	8,835,647	2,244,608	5,872,909	-	20,468,031	2,742,584
Other operating expenses	5,871,692	5,173,946	2,304,506	9,488,501	1,406,153	24,244,798	29,369,524
Depreciation and amortization	1,649,013	2,026,873	7,652,678	1,573,509	-	12,902,073	199,224
Total operating expenses	<u>11,035,572</u>	<u>16,036,466</u>	<u>12,201,792</u>	<u>16,934,919</u>	<u>1,406,153</u>	<u>57,614,902</u>	<u>32,311,332</u>
Operating income (loss)	<u>2,606,591</u>	<u>(15,098,565)</u>	<u>(6,059,826)</u>	<u>655,957</u>	<u>(250,662)</u>	<u>(18,146,505)</u>	<u>2,390,529</u>
Nonoperating revenues (expenses)							
Interest earned on investments	1,045,008	-	1,507,153	327,787	-	2,879,948	1,984,713
Federal and State grants	3,439,106	9,069,879	4,205,270	-	-	16,714,255	-
Miscellaneous revenue	1,070	7,622	-	2,977	-	11,669	(506,079)
Gain (loss) on disposal of capital assets	91,551	24,240	12,599	371,974	-	500,364	2,081
County tax revenue	-	-	-	483,348	-	483,348	-
Vehicle license tax revenue	-	646,224	-	-	-	646,224	-
Lease revenues	-	62,738	654,589	-	-	717,327	-
Interest expense	(48,436)	(197)	(1,451)	(6,395)	-	(56,479)	(74,279)
Miscellaneous expense	-	-	-	(5,429)	-	(5,429)	-
Total nonoperating revenues (expenses)	<u>4,528,299</u>	<u>9,810,506</u>	<u>6,378,160</u>	<u>1,174,262</u>	<u>-</u>	<u>21,891,227</u>	<u>1,406,436</u>
Income (loss) before contributions and transfers	<u>7,134,890</u>	<u>(5,288,059)</u>	<u>318,334</u>	<u>1,830,219</u>	<u>(250,662)</u>	<u>3,744,722</u>	<u>3,796,965</u>
Transfers in	-	8,878,124	-	-	-	8,878,124	-
Transfers out	(913,011)	-	-	(870,009)	-	(1,783,020)	(993,000)
Change in net position	<u>6,221,879</u>	<u>3,590,065</u>	<u>318,334</u>	<u>960,210</u>	<u>(250,662)</u>	<u>10,839,826</u>	<u>2,803,965</u>
Net position - beginning, as previously stated	<u>55,160,214</u>	<u>21,823,763</u>	<u>101,992,379</u>	<u>10,629,882</u>	<u>-</u>	<u>189,606,238</u>	<u>31,019,588</u>
Changes in accounting principal (GASB 101)	(93,713)	(266,263)	(82,114)	(259,267)	-	(701,357)	(32,867)
Net position, beginning of year, as restated	<u>55,066,501</u>	<u>21,557,500</u>	<u>101,910,265</u>	<u>10,370,615</u>	<u>-</u>	<u>188,904,881</u>	<u>30,986,721</u>
Net position - ending	<u>\$ 61,288,380</u>	<u>\$ 25,147,565</u>	<u>\$ 102,228,599</u>	<u>\$ 11,330,825</u>	<u>\$ (250,662)</u>	<u>\$ 199,744,707</u>	<u>\$ 33,790,686</u>

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

CITY OF FAYETTEVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2025

	Major Enterprise Funds				Non-Major Enterprise Fund		
	Stormwater Management Fund	Transit Fund	Airport Fund	Solid Waste Fund	Intergovernmental Fund	Total	Internal Service Funds
Operating activities							
Cash received from customers	\$ 12,935,779	\$ (3,868,880)	\$ 8,578,243	\$ 17,379,852	\$ 632,984	\$ 35,657,978	\$ 34,441,206
Cash paid to or on behalf of employees for services	(3,571,216)	(8,722,045)	(2,176,388)	(5,880,385)	-	(20,350,034)	(2,891,718)
Cash paid for goods and services	(3,888,983)	(4,435,618)	(4,740,277)	(8,267,415)	(998,422)	(22,330,715)	(29,313,701)
Net cash provided by (used in) operating activities	<u>5,475,580</u>	<u>(17,026,543)</u>	<u>1,661,578</u>	<u>3,232,052</u>	<u>(365,438)</u>	<u>(7,022,771)</u>	<u>2,235,787</u>
Noncapital financing activities							
Transfers in	-	8,878,124	-	-	-	8,878,124	-
Intergovernmental contributions	3,440,176	11,141,659	4,205,270	486,325	365,438	19,638,868	253,635
Transfers out	(913,011)	-	-	(870,009)	-	(1,783,020)	(993,000)
Vehicle revenue fees	-	646,224	-	-	-	646,224	-
Net cash provided (used) by noncapital financing activities	<u>2,527,165</u>	<u>20,666,007</u>	<u>4,205,270</u>	<u>(383,684)</u>	<u>365,438</u>	<u>27,380,196</u>	<u>(739,365)</u>
Capital and related financing activities							
Gain or (loss) from sale of capital assets	91,551	24,240	12,599	394,952	-	523,342	2,081
Acquisition and construction of capital assets	(10,333,814)	(4,455,845)	(1,923,391)	(4,834,729)	-	(21,547,779)	-
Lease revenue	-	62,738	-	-	-	62,738	(273)
Principal paid on debt maturities	(860,030)	(41,749)	(27,777)	(1,054,194)	-	(1,983,750)	-
Interest paid on debt maturities	(59,549)	(197)	(1,451)	(9,180)	-	(70,377)	(580,358)
Net cash provided (used) by capital and related financing activities	<u>(11,161,842)</u>	<u>(4,410,813)</u>	<u>(1,940,020)</u>	<u>(5,503,151)</u>	<u>-</u>	<u>(23,015,826)</u>	<u>(578,550)</u>
Investing activities							
Interest and dividends	1,045,008	-	1,507,153	327,787	-	2,879,948	1,984,713
Net cash provided by investing activities	<u>1,045,008</u>	<u>-</u>	<u>1,507,153</u>	<u>327,787</u>	<u>-</u>	<u>2,879,948</u>	<u>1,984,713</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,114,089)</u>	<u>(771,349)</u>	<u>5,433,981</u>	<u>(2,326,996)</u>	<u>-</u>	<u>221,547</u>	<u>2,902,585</u>
Cash and cash equivalents							
Beginning of year	<u>18,761,463</u>	<u>859,320</u>	<u>29,757,860</u>	<u>7,830,747</u>	<u>-</u>	<u>57,209,390</u>	<u>34,562,945</u>
End of year	<u>\$ 16,647,374</u>	<u>\$ 87,971</u>	<u>\$ 35,191,841</u>	<u>\$ 5,503,751</u>	<u>\$ -</u>	<u>\$ 57,430,937</u>	<u>\$ 37,465,530</u>
Unrestricted cash and cash equivalents	\$ 16,646,942	\$ 87,971	\$ 35,191,841	\$ 5,503,751	\$ -	\$ 57,430,505	\$ 37,465,530
Restricted cash and cash equivalents	432	-	-	-	-	432	-
Total cash and cash equivalents	<u>\$ 16,647,374</u>	<u>\$ 87,971</u>	<u>\$ 35,191,841</u>	<u>\$ 5,503,751</u>	<u>\$ -</u>	<u>\$ 57,430,937</u>	<u>\$ 37,465,530</u>

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

CITY OF FAYETTEVILLE
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2025

	Major Enterprise Funds				Non-Major Enterprise Fund		Internal Service Funds
	Stormwater Management Fund	Transit Fund	Airport Fund	Solid Waste Fund	Intergovernmental Fund	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 2,606,591	\$ (15,098,565)	\$ (6,059,826)	\$ 655,957	\$ (250,662)	\$ (18,146,505)	\$ 2,390,529
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization	1,649,013	2,026,873	7,652,678	1,573,509	-	12,902,073	199,224
Nonoperating payments for goods and services	-	-	-	(5,429)	-	(5,429)	-
Nonoperating receipts from customers	-	-	654,589	-	-	654,589	-
Change in assets, liabilities and deferrals:							
(Increase) decrease in accounts and leases receivable and related deferrals	(730,929)	(4,806,781)	5,434,882	(209,262)	(522,507)	(834,597)	(273,223)
(Increase) decrease in inventory	-	506,423	(1,652)	15,919	-	520,690	-
(Increase) decrease in prepaid expenses	-	-	-	-	-	-	(76,847)
Increase (decrease) in unearned revenues/deposits	24,545	-	(3,668,265)	(1,762)	-	(3,645,482)	9,312
Increase (decrease) in accounts payable and accrued liabilities	1,881,556	458,124	(2,304,251)	1,195,639	407,731	1,638,799	132,670
Increase (decrease) in accrued compensated absences	7,440	6,988	(18,337)	(14,627)	-	(18,536)	(213,576)
Increase (decrease) Pension and OPEB expense	37,364	(119,605)	(28,240)	22,108	-	(88,373)	67,698
Total adjustments	2,868,989	(1,927,978)	7,721,404	2,576,095	(114,776)	11,123,734	(154,742)
Net cash provided by (used in) operating activities	\$ 5,475,580	\$ (17,026,543)	\$ 1,661,578	\$ 3,232,052	\$ (365,438)	\$ (7,022,771)	\$ 2,235,787

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

CITY OF FAYETTEVILLE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2025

	Private-purpose Trusts	Custodial Funds
Assets		
Cash and cash equivalents	\$ -	\$ -
Restricted cash	-	1,165,824
Total assets	-	1,165,824
Liabilities		
Accounts payable	-	1,165,824
Total liabilities	-	1,165,824
Net position		
Restricted for pension benefits and other purposes	-	-
Total net position	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF FAYETTEVILLE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	Private-purpose Trusts	Custodial Funds
Additions		
Other contributions	\$ 199,937	\$ -
Police Evidence fund deposits	-	150,176
Investment earnings	195	-
Total additions	200,132	150,176
Deductions		
Benefit payments and premiums	1,640,445	-
Police Evidence fund releases	-	29,120
Total deductions	1,640,445	29,120
Change in net position	(1,440,313)	121,056
Total net position - beginning	1,440,313	(121,056)
Total net position - ending	\$ -	\$ -

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

NOTES TO FINANCIAL STATEMENTSJune 30, 2025

Note 1—Summary of significant accounting policies

The City of Fayetteville, North Carolina (the “City”) was established in 1783. The City operates under a council-manager form of government and provides the following services: administration, public safety, environmental protection, transportation, economic and physical development, recreation and community facilities, wastewater and stormwater utilities, transit, airport, and solid waste collection and recycling. The City receives substantial revenues from Federal and State sources. Ad valorem taxes on the City of Fayetteville’s citizens represent a significant portion of the general government revenues.

The financial statements of the City of Fayetteville, North Carolina have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

A - Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units. GASB Statements number 14, 39 and 61 define component units as legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization’s governing body and a) it is able to impose its will on that organization or b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens upon, the primary government.

These statements provide two methods for reporting component units in the financial statements of the primary government: discrete presentation and blending. Discrete presentation means that data will be presented in one or more separate columns to the right of the primary government data columns. Blending means that the component unit’s financial data is reported as though the unit is part of the primary government. If the units provide services or benefits exclusively, or almost exclusively, to the primary government, or if the component units and the primary government have “substantively identical boards,” the legally separate component units should be incorporated by blending. If the units do not meet these criteria, their data should be incorporated by discrete presentation.

Based on evaluating these characteristics, the following is a brief review of the component units in the City’s reporting entity:

Fayetteville Public Works Commission

The Fayetteville Public Works Commission (PWC) was chartered by the North Carolina General Assembly in 1905. The charter has been amended by the General Assembly since then, most recently on June 30, 2016. As a result of these actions, PWC is presented as a discretely presented component unit because it is a legally separate authority, but it would be misleading to exclude it from the City’s financial statements; the City owns the PWC capital assets, approves certain contracts, issues debt for PWC and appoints the Board of Commissioners.

City of Fayetteville Linear Park, Inc.

The City of Fayetteville Linear Park, Inc., is a non-profit corporation formed for the purpose of assisting in the development of the Linear Park downtown. Linear Park, Inc., is shown in a blended presentation as it provides services exclusively to the City. Its operating fund is presented in the accompanying financial statements as a non-major special revenue fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

B - Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities, however, interfund services provided and used are not eliminated during the consolidation process. These statements distinguish between the governmental and business-type activities of the City. 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 City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The Government-wide Statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Fiduciary funds are not included in these statements.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary are presented, even though the fiduciary is excluded from the government-wide financial statements. 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 are aggregated and reported as non-major funds.

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

The City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, federal and state grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, recreation and community facilities, transportation, economic and physical development, and environmental protection. The Central Business Tax Fund and Parking Fund are legally budgeted funds under North Carolina General Statutes and are consolidated into the General Fund in accordance with GASB statement No. 54.

Federal and State Financial Assistance Fund. This special revenue fund accounts for the proceeds of special revenue sources as required by the grants.

Environmental Protection Fund. This capital project fund accounts for projects related to dam restoration and improvements in the City.

NOTES TO FINANCIAL STATEMENTSJune 30, 2025

Note 1—Summary of significant accounting policies (continued)

The City reports the following non-major governmental funds:

Special Revenue Funds. Special Revenue Funds account for specific revenue sources that are legally restricted or committed by City Council to expenditures for specific purposes. The Emergency Telephone System Fund accounts for the City's share of the State tax charged to telephone customers to fund the 911 system. The PWC Assessment Fund accounts for the fees assessed by the City for PWC since PWC does not have the power to assess the citizens. The Linear Park Fund accounts for projects associated with development of the Linear Park downtown.

Capital Project Funds. Capital Project Funds account for financial resources to be used for the acquisition or construction of governmental capital assets. The General Government Fund accounts for information technology and other projects supporting the entire government. The Public Safety Fund accounts for projects supporting the public safety services provided by the City. The Transportation Fund accounts for projects to improve transportation and related services throughout the City. The Economic and Physical Development Fund accounts for construction and improvement of various public facilities of the City and downtown development. The Recreational and Cultural Fund and the Bond Fund accounts for resources used for the acquisition, construction and improvements of facilities such as parks, recreation centers and museums. Resources are provided through intergovernmental revenues, facility financing proceeds and transfers from other funds.

The City reports the following major enterprise funds:

Transit Fund. This fund accounts for operation of the municipal transit system, including capital asset acquisition, construction of transit facilities, and related improvements.

Airport Fund. This fund accounts for the operation and capital asset acquisition of the Fayetteville Regional Airport.

Stormwater Management Fund. This fund accounts for the operation and maintenance of stormwater facilities for the customers within the City of Fayetteville.

Solid Waste Fund. This fund accounts for residential solid waste collection and recycling services operations and capital asset acquisition.

The City reports the following non-major enterprise funds:

Intergovernmental Fund. This fund accounts for solid waste collections and recycling services for the Fort Bragg area.

The City reports the following fund types:

Internal Service Funds. Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the City, on a cost reimbursement basis. The Risk Management Fund is used to account for the accumulation and allocation of costs associated with health, workers compensation, and liability claims. The Fleet Maintenance Fund is used to account for the accumulation and allocation of costs associated with repair and maintenance of City vehicles and equipment.

Private-Purpose Trust Funds. These funds are used to account for resources legally held in trust for use by others. The Firefighter's Benefit Trust Fund accounts for resources held in trust for this group of individuals. All resources of the funds, including any earnings on invested resources, may be used to support the organizations' activities. There is no requirement that any portion of these resources be preserved as capital.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

Custodial Funds. Custodial funds are used to report fiduciary activities that are not required to be reported in pension trust funds, investment trust funds, or private-purpose trust funds. Custodial funds are custodial in nature and do not involve the measurement of operating results. Custodial funds are used to account for assets the City holds on behalf of others. The City maintains the Police Evidence custodial fund which accounts for police evidence funds until they are authorized for release by court order.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. Activity occurs during the year involving transfers of resources between funds, which are reported at gross amounts as transfers in/out. While these balances are reported in the fund financial statements, certain eliminations are made for the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (governmental and internal services funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. Transfers between the funds included in governmental activities are eliminated so that only net amounts are included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only net amounts are included as transfers in the business-type activities column.

C - Measurement Focus and Basis of Accounting

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

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

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

The City's proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds' principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the City's enterprise funds include the costs of sales and services, general and administrative services and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, including leases and subscription based information technology arrangement (SBITAs) liabilities, 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 subscription based information technology arrangements (SBITAs) are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual at June 30, since taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on all registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles in North Carolina on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City because the tax is levied by Cumberland County and then remitted to and distributed by the State. Sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes including those dedicated for specific purposes are reported as general revenues. Grant revenues which are unearned at year-end are recorded as unearned revenues.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first then unrestricted resources, as they are needed.

D - Budgetary Data

Budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the general, selected special revenue, and enterprise funds, including the Emergency Telephone System Fund and the PWC Assessment fund. All annual appropriations lapse at fiscal year-end. Project and grant ordinances are adopted for the Federal and State Financial Assistance special revenue fund, Linear Park special revenue fund and capital project funds. Enterprise capital project funds are consolidated with the operating funds for reporting purposes.

The City's internal service funds are intra-governmental service funds, which operate under financial plans that were adopted by the governing board at the time the City's budget ordinance was approved, as is required by General Statutes. All budgets are prepared using the budgetary basis of accounting. Expenditures may not legally exceed appropriations at the portfolio level for the general fund, at the functional level for selected special revenue and proprietary funds, and at the project level for selected special revenue and capital project funds. Any revisions that alter total appropriations at the portfolio, functional or project level, as appropriate, of any fund must be approved by the City Council. During the year, several amendments to the original budget were necessary. 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.

NOTES TO FINANCIAL STATEMENTSJune 30, 2025

Note 1—Summary of significant accounting policies (continued)**E - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity*****Deposits and Investments***

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

State law (G.S. 159-30(c)) authorizes the City 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 NCCMT Government Portfolio 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.

The City's investments with maturity of more than one year at acquisition and non-money market 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 maintains an AAAM rating from S&P and AAAmf by Moody's Investor Service.

The NCCMT Government Portfolio security is measured at fair value with Level 1 inputs. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

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

Cash and Cash Equivalents

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

Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-136(a)), the City 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. The taxes are based on the assessed values as of January 1, 2025.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

Allowance for Uncollectible Receivables

The City recorded an allowance for uncollectible receivables of \$2,371,940 in the general fund and \$375,155 in the PWC Assessment fund.

The City operates enterprise funds that provide credit in the normal course of business to customers primarily located in Fayetteville, North Carolina. The City performs on-going credit evaluations of its customers and maintains allowances for doubtful accounts by using the experience method to estimate collection losses to be incurred. Credit losses, when realized, have been within the range of the City's estimations and historically have not been significant. Other receivables that historically experience uncollectible accounts are also shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

The receivables shown on the Statement of Net Position are presented net of the following allowances for doubtful accounts as of June 30, 2025:

General Fund	
Taxes receivable	\$ 426,656
Accounts receivable	1,122,265
Assessments receivable	823,019
Total general fund	<u>2,371,940</u>
Federal and State Financial Assistance	
Accounts receivable	2,370,166
Environmental Protection Fund	
Accounts receivable	15,441
Special Revenue Funds	
Assessments receivable	375,155
Capital Projects Funds	
Assessments receivable	87,938
Enterprise Funds	
Transit Fund - Accounts receivable	914,582
Airport Fund - Accounts receivable	514,919
Solid Waste Recycling Fund - Accounts receivable	40,025
Stormwater Management Fund - Accounts receivable	<u>1,119,174</u>
Total	<u>\$ 7,809,340</u>

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Interfund receivable" or "Interfund payable" on the balance sheet in the fund financial statements and as "internal balances" on the Statement of Net Position in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTSJune 30, 2025

Note 1—Summary of significant accounting policies (continued)***Lease Receivables***

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

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

Inventories and Prepaid Expenses

Governmental inventories of supplies are valued at cost. Other inventories are valued at the lower of average cost or net realizable value. The costs of governmental fund-type inventories, which consist of materials and supplies, are recorded as expenditures when they are consumed rather than when they are purchased. The costs of enterprise fund-type inventories, which consist of fuel, materials and spare parts, are expensed when used rather than when purchased.

Payments made to vendors for services that will benefit periods beyond June 30, 2025, are recorded as prepaid expenses. The costs of governmental fund-type prepaid expenses are recorded as expenditures when they are consumed rather than when they are purchased. The costs of enterprise fund-type prepaid expenses are expensed when used rather than when purchased.

Restricted Assets, Restricted Liabilities and Restricted Net Position

In the general, federal and state financial assistance, special revenue, capital project and enterprise funds, the City has classified as restricted the assets representing deposits, reserves, capital project appropriations, advance grant funding and unexpended financing proceeds because their use is completely restricted to the purpose for which the financing proceeds were issued. Liabilities due to be repaid from restricted assets are classified as restricted liabilities. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through state statute reduced by liabilities and deferred inflows of resources related to those assets.

The purposes of the restrictions are the same as the corresponding descriptions of restricted fund balance on pages F-13 and F-14. The restriction for "Recreational and Cultural" incorporates restrictions for county recreation and other recreation and community facilities. Restriction for Downtown is created by enabling legislation. Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening local streets per G.S. 136-41.1 through 136-41.4.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

	Externally Restricted
Governmental Activities	
Restricted Cash and Investments	
General Fund	
Trustee accounts	\$ 2,611
For county recreation	1,418,678
Federal and State Financial Assistance Fund	
Unexpended grant proceeds	7,717,409
Economic and Physical Development Fund	
Unexpended grant proceeds	1,099,954
Recreational and Cultural Bond Fund	
Unexpended debt proceeds	11,355,255
Total governmental activities - restricted cash and investments	<u>\$ 21,593,907</u>
Restricted Receivables	
General Fund	
For county recreation	\$ 262,760
Federal and State Financial Assistance Fund	
For OPIOD Settlement	2,627,777
For federal and state grants	2,290,605
Total governmental activities - restricted accounts receivable	<u>\$ 5,181,142</u>
Restricted Accounts Payable and Accrued Expenses	
Economic and Physical Development Fund	\$ 5,479
Total governmental activities - restricted accounts payable and accrued expenses	<u>\$ 5,479</u>
Restricted Unearned Deposits	
General Fund	\$ 800,605
Federal and State Financial Assistance Fund	8,464,826
Transportation Fund	256,232
Recreation and Culture Fund	4,006,846
Economic and Physical Development Fund	233,783
Total governmental activities - restricted unearned deposits	<u>\$ 13,762,292</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

<u>Business-type Activities</u>	<u>Externally Restricted</u>
Restricted Cash and Investments	
Stormwater Fund	
Restricted stormwater deposits	\$ 432
Total business-type activities - restricted cash and investments	<u>\$ 432</u>
Restricted Accounts Receivable - amounts due from federal and state granting agencies	
Transit Fund	\$ 6,455,767
Airport Fund	2,530,284
Total business-type activities - restricted accounts receivable	<u>\$ 8,986,051</u>
Restricted Unearned Deposits	
Stormwater Fund	\$ 1,121,345
Transit Fund	400
Airport Fund	5,543,436
Total business-type activities - restricted unearned deposits	<u>\$ 6,665,181</u>

Capital Assets

The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value. General infrastructure assets acquired prior to July 1, 2001 and stormwater network assets acquired prior to July 1, 2004 are reported at estimated historical cost using deflated current 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Gains and losses on dispositions of capital assets are credited or charged to operations. The City reviews assets for impairment at year end, no assets were impaired on June 30, 2025.

The City holds title to certain PWC capital assets in accordance with PWC's charter. These assets have been reported separately in Note 3. PWC has full use of the assets, and full responsibility for maintenance thereof. The assets are reflected as capital assets in PWC's financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

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

Asset Class	Estimated Useful Lives (Years)
Infrastructure	15 - 60
Buildings	40
Utility plant systems	20 - 45
Improvements	5 - 15
Vehicles	5 - 20
Furniture and equipment	5 - 10
Lease Arrangements	3 - 35
SBITA Arrangements	2 - 5
Computer software	3
Computer equipment	3

Depreciation includes amortization of intangible assets.

PWC's capital assets purchased or constructed since 1958 are recorded at cost. Contributed utility assets are recorded at acquisition value at the date of acquisition. Utility assets acquired prior to 1958 are carried on an estimated cost basis. The Utility Plant Systems are depreciated over the estimated useful lives of 20 to 45 years. Other property and equipment are depreciated over estimated useful lives ranging from 5 to 15 years. All capital assets are depreciated using the straight-line method.

Right to Use Lease Assets

The City has recorded right to use lease and SBITA assets as a result of implementing GASB 87 and GASB 96. The right to use lease and SBITA assets are initially measured at an amount equal to the initial measurement of the related lease or SBITA liability plus any lease or SBITA payments made prior to the lease or SBITA term, less lease or SBITA incentives, and plus ancillary charges necessary to place the lease or SBITA into service. The right to use lease or SBITA assets are amortized on a straight-line basis over the life of the related lease or SBITA.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has several items that meet this criterion, unamortized bond refunding charges, other post-employment deferrals (OPEB) and pension deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as revenue until then. The City has several items that meet the criterion for this category on the Statement of Net Position – prepaid taxes, leases, OPEB and pension deferrals. The City's governmental funds balance sheet has five items that meet the criterion for this category - taxes receivable, accounts receivable, assessments receivable, leases receivable and prepaid taxes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

Compensated Absences

Annual Leave

The City's policy permits employees to accumulate vacation based on years of service, with a max accumulation of 280 hours (7 weeks) of earned but unused annual leave, which are eligible for payment at the employee's current pay rate upon separation from employment.

Sick Leave

The City's policy permits employees to accumulate earned but unused sick leave. For retiring employees, any unused sick leave accumulated may be used in the determination of length of service for retirement benefit purposes. All other sick leave lapses upon separation of services. The City applied a First-In, First-Out (FIFO) flows assumption. This approach assumes that any leave paid in subsequent periods is deducted from the accumulated leave balances that exist as part of the year-end liability. As such, the liability was calculated using the aggregate balance of accrued, unused leave as of the end of the year.

Compensatory Time

The City's policy permits regular employees to accumulate up to 240 hours of earned but unused compensatory time and public safety employees to accumulate up to 480 hours of earned but unused compensatory time. Such hours are eligible for payment at the employee's current pay rate upon separation from employment.

The City implemented GASB Statement No. 101, Compensated Absences, effective June 30, 2024, requiring a restatement of net position as of June 30, 2024. Calculating the compensated absence liability as of June 30, 2024 resulted in a decrease of \$7,432,390 to net position at June 30, 2024. The following table presents a reconciliation of net position impacted by implementing the new accounting standard:

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Net Position at June 30, 2024, as previously reported	\$ 448,633,915	\$ 189,606,238	\$ 638,240,153
Change in Accounting Principle (Implementation of GASB 101)	(6,731,033)	(701,357)	(7,432,390)
As of June 30, 2024, as restated	<u>\$ 441,902,882</u>	<u>\$ 188,904,881</u>	<u>\$ 630,807,763</u>

Long-Term Obligations

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

In governmental 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

Net Position

Net position in government-wide and proprietary fund financial statements are 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 - consists of funds that cannot be spent due to their form (e.g. inventories and prepaid amounts) or funds that legally or contractually must be maintained intact.

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

Prepays – portion of fund balance that is not an available resource because it represents future expenses paid in advance, which are not spendable resources.

Leases – portion of fund balance that is not an available resource because it represents the year-end balance of the lease receivable in excess of the deferred inflow of resources for the lease receivable, which are not spendable resources.

Loans receivable - portion of fund balance that is not an available resource because it represents the year-end balance of the loan receivable, which are not spendable resources.

Restricted Fund Balance - consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

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. RSS is included as a component of Restricted net position and Restricted fund balance on the face of the balance sheet.

Restricted for central business district - portion of fund balance available for appropriation for projects in the Central Business District.

Restricted for county recreation – portion of fund balance available to pay for the recreational activities of Cumberland County.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

Restricted for donations - portion of fund balance that is not available for appropriation because it represents donor-imposed restrictions.

Restricted for public safety – portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures and external grantors, and encumbrances relate to public safety activities outstanding at the end of the fiscal year.

Restricted for economic and physical development – portion of fund balance restricted by revenue source for economic and physical development activities and encumbrances related to economic and physical development activities outstanding at the end of the year.

Restricted for recreation and community facilities – portion of fund balance restricted for parks and recreation facilities and improvements and other restrictions imposed by granting agencies and encumbrances related to recreation and community facility activities outstanding at the end of the fiscal year.

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

Committed for Law Enforcement Officer's Separation Allowance – portion of fund balance that will be used for Law Enforcement Officer's Separation Allowance obligations.

Committed for administration – portion of fund balance committed by City Council for the construction of specific assets that support the entire government held in the capital projects fund.

Committed for public safety - portion of fund balance committed by City Council for the construction of specific assets for public safety held in the capital project funds.

Committed for recreation and community facilities – portion of fund balance committed by City Council for the construction of specific assets for recreational facilities held in the capital projects fund.

Committed for economic and physical development – portion of fund balance committed by City Council for the construction of specific assets for economic and physical development held in the capital projects fund.

Assigned Fund Balance - consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision-making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance. The City's fund balance policy delegates the authority to assign funds to the City Manager.

Subsequent year's expenditures - portion of fund balance that is appropriated in the adopted 2025 - 2026 budget ordinance that is not already classified as restricted or committed.

Capital projects - portion of fund balance that is assigned to capital related projects.

Unassigned Fund Balance - consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. The general fund is the only fund that reports a positive unassigned fund balance amount.

NOTES TO FINANCIAL STATEMENTSJune 30, 2025

Note 1—Summary of significant accounting policies (continued)***Fund Balance Policy***

The City of Fayetteville 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-city funds, city 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 City.

The City of Fayetteville has also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that unassigned fund balance is at least 10% of the succeeding year's general fund expenditure budget, excluding the budget for the County Recreation Program. In the event that the balance drops below the established minimum level, the City Council will develop a plan to replenish the fund balance to the established minimum level within two years.

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 City's employer contributions are recognized when due and the City 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.

F - Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 1—Summary of significant accounting policies (continued)

G - Pronouncements Implemented

In June 2022, GASB issued Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.

Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

Note 2—Cash, cash equivalents and investments, and leases receivable

A - Deposits

All of the City's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal Depository Insurance coverage level are collateralized with securities held by the City's agents in the City'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 City, these deposits are considered to be held by the City's agents in their names.

The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 2—Cash, cash equivalents and investments, and leases receivable (continued)

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 State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The City relies on the State Treasurer to monitor those financial institutions for compliance. The City analyzes the financial soundness of any other financial institution used by the City. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The City's policy for custodial credit risk associated with deposits is to comply with the applicable North Carolina General Statutes.

The City places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The City from time to time may have amounts on deposit in excess of the insured amounts.

At June 30, 2025, the City's demand deposits had a carrying amount of \$14,284,630 and a bank balance of \$15,219,001. Of the bank balance, Federal Deposit Insurance covered \$250,000 and the remainder was covered by collateral under the Pooling Method.

The Firefighter's Fund had been fully disbursed and transferred to Firemen Relief Fund Board which is an independent entity from the City.

The City had \$10,944 in petty cash and change funds.

B - Investments

The funds of the City of Fayetteville are invested in compliance with the provisions of North Carolina General Statutes 159-30 and 159-31. The City's Investment Policy is a board-approved policy.

At June 30, 2025, the City investment balances were as follows:

Investments by Type	Valuation Measurement Method	Book Value at 6/30/2025	Maturity	Rating*
US Government Treasuries	Fair Value Level 1	\$ 33,055,007	< 1 year	AA+
US Government Agencies	Fair Value Level 2	41,572,910	1-3 years	AA+
Truist Capital Markets - Commercial Paper	Fair Value Level 2	35,197,146	< 1 year	A1/P1
Truist Safekeeping Principal Cash Uninvested	Fair Value Level 1	336,610	N/A	N/A
NC Capital Management Trust - Government Portfolio	Fair Value Level 1	89,487,357	N/A	AAAm
Total:		\$ 199,649,030		

All investments valued at fair value 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. Fair Value Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Fair Value Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities benchmark quoted prices.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 2—Cash, cash equivalents and investments, and leases receivable (continued)

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides for structuring the investment portfolio so that securities mature to meet cash requirements for the ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Also, the City's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities other than Treasuries, Agencies, and North Carolina State and local bonds to a final maturity of no more than three years.

Credit Risk. The City has no formal policy regarding credit risk; however, the State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The City minimizes credit risk by limiting investments to the types allowed by North Carolina General Statutes 159-30. The City diversifies the investment portfolio to minimize the impact of potential losses from any one security or from any one individual issuer. Also, the City pre-qualifies the financial institutions' brokers/dealers and requires them to meet specific financial and registration conditions. The City's investments in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's. The City's investment in Commercial Paper has an A1/P1 rating as of June 30, 2025. US Government Treasuries and US Government Agencies both hold an AA+ rating by Standard & Poor's.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City requires that investment securities are in the name of the City of Fayetteville and are held by a centralized independent third-party custodian. The City requires that the independent third-party custodian issue a safekeeping receipt to the Chief Financial Officer listing the specific instrument, rate, maturity, and other pertinent information as evidence. All investment security purchases and sales are on a delivery versus payment basis and are made through the independent third-party custodian by written instruction.

Reconciliation to cash and investments:

Totals per footnote:

Total investments (including escrow)	\$	199,649,030
Cash (demand deposits)		14,284,630
Petty cash		10,944
Total cash and investments	\$	213,944,604

Totals per Statement of Net Position and Fiduciary Net Position:

Cash and investments - unrestricted	\$	191,184,441
Cash and investments - restricted		21,594,339
Agency		1,165,824
Total cash and investments	\$	213,944,604

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 2—Cash, cash equivalents and investments, and leases receivable (continued)

C - Leases receivable

The City leases City-owned properties such as buildings, land, terminal concessions and other commercial space for offices and business activities. The lease agreements provide for minimum rental payments, have terms of 2 to 25 years and are due to expire at various dates from 2025 to 2048. As of June 30, 2025, the City reported principal lease receivables of \$5,428,976 and \$4,078,009 for its Governmental and Business-type activities, respectively. As a result, the City also reported a deferred inflow of resources in the amount of \$5,029,641 and \$3,881,695 for its Governmental and Business-type activities, respectively, at June 30, 2025. Minimum lease provisions at June 30, 2025 will result in rental income for future years as follows:

Governmental activities

Year(s) Ending	Principal Payments	Interest Payments	Total
2026	\$ 219,443	\$ 163,885	\$ 383,328
2027	187,814	157,663	345,477
2028	172,069	152,831	324,900
2029	177,726	147,174	324,900
2030	183,132	141,768	324,900
2031-2035	969,230	626,520	1,595,750
2036-2040	1,234,798	465,202	1,700,000
2041-2045	1,567,648	257,352	1,825,000
2046-2050	717,116	32,884	750,000
	<u>\$ 5,428,976</u>	<u>\$ 2,145,279</u>	<u>\$ 7,574,255</u>

Business-type activities

Year(s) Ending	Principal Payments	Interest Payments	Total
2026	\$ 504,188	\$ 105,785	\$ 609,973
2027	498,101	93,718	591,819
2028	212,957	84,894	297,851
2029	199,068	79,871	278,939
2030	203,903	75,036	278,939
2031-2035	801,667	305,529	1,107,196
2036-2040	830,424	189,271	1,019,695
2041-2045	827,701	56,034	883,735
	<u>\$ 4,078,009</u>	<u>\$ 990,138</u>	<u>\$ 5,068,147</u>

In fiscal year 2025, the City recognized \$362,488 of lease revenue and \$268,707 of interest revenue for the Governmental activities leases and \$717,327 of lease revenue and \$119,245 of interest revenue for the Business-type activities leases.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 3—Capital assets

A - Capital assets

Capital asset activity for the year ended June 30, 2025, was as follows:

Primary Government

	Balance June 30, 2024	Increases	Decreases	Transfers	Balance June 30, 2025
Governmental activities:					
Capital assets not being depreciated					
Land	\$ 44,209,295	\$ 1,711,663	\$ -	\$ 680,668	\$ 46,601,626
Construction in progress	32,104,031	20,703,968	(19,711)	(1,269,690)	51,518,598
Total capital assets not being depreciated	76,313,326	22,415,631	(19,711)	(589,022)	98,120,224
Capital assets being depreciated or amortized:					
Infrastructure	563,654,407	8,034,522	-	475,882	572,164,811
Buildings and improvements	222,076,625	4,658,508	-	113,140	226,848,273
Equipment, furniture and fixtures	40,331,658	662,993	(303,063)	-	40,691,588
Computer software	10,239,465	174,181	(52,211)	-	10,361,435
Vehicles	50,374,346	3,473,467	(654,468)	-	53,193,345
Intangible right to use assets	22,012,598	51,522	-	-	22,064,120
Total capital assets being depreciated and amortized	908,689,099	17,055,193	(1,009,742)	589,022	925,323,572
Less accumulated depreciation and amortization for:					
Infrastructure	(339,668,519)	(12,631,058)	-	-	(352,299,577)
Buildings and improvements	(88,271,888)	(7,815,296)	-	-	(96,087,184)
Equipment, furniture and fixtures	(35,988,924)	(2,004,865)	297,759	-	(37,696,030)
Computer software	(7,326,295)	(712,283)	59,133	-	(7,979,445)
Vehicles	(31,022,359)	(3,771,940)	669,292	-	(34,125,007)
Intangible right to use assets	(13,285,915)	(2,890,260)	-	-	(16,176,175)
Total accumulated depreciation and amortization	\$ (515,563,900)	\$ (29,825,702)	\$ 1,026,184	\$ -	(544,363,418)
Total capital assets being depreciated, net	393,125,199				380,960,154
General governmental activity capital assets, net	\$ 469,438,525				\$ 479,080,378

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

Administration	\$ 4,762,435
Public safety	5,837,633
Environmental protection	366,224
Transportation	13,898,332
Economic and physical development	368,804
Recreation and community facilities	4,592,274
Total depreciation and amortization expense	\$ 29,825,702

NOTES TO FINANCIAL STATEMENTS
June 30, 2025

Note 3—Capital assets (continued)

	Balance June 30, 2024	Increases	Decreases	Transfers	Balance June 30, 2025
Business-type activities:					
Capital assets not being depreciated					
Land and land rights	\$ 6,196,096	\$ 219,859	\$ -	\$ -	\$ 6,415,955
Construction in progress	7,317,353	5,966,657	(95,955)	(750,701)	12,437,354
Total capital assets not being depreciated	13,513,449	6,186,516	(95,955)	(750,701)	18,853,309
Capital assets being depreciated or amortized:					
Buildings and improvements	173,064,457	2,125,656	-	142,986	175,333,099
Equipment, furniture and fixtures	12,323,811	472,793	(522,102)	-	12,274,502
Computer software	1,083,708	15,651	-	-	1,099,359
Vehicles	40,019,854	8,190,873	(4,119,921)	-	44,090,806
Infrastructure	58,864,428	4,556,664	-	607,715	64,028,807
Intangible right to use assets	440,268	22,092	(84,144)	-	378,216
Total capital assets being depreciated and amortized	285,796,526	15,383,729	(4,726,167)	750,701	297,204,789
Less accumulated depreciation and amortization for:					
Buildings and improvements	(89,398,431)	(7,689,393)	2,763	-	(97,085,061)
Equipment, furniture and fixtures	(10,017,056)	(705,575)	522,102	-	(10,200,529)
Computer software	(931,943)	(107,719)	-	-	(1,039,662)
Vehicles	(20,664,879)	(3,205,716)	3,400,127	-	(20,470,468)
Infrastructure	(23,425,862)	(1,129,024)	-	-	(24,554,886)
Intangible right to use assets	(298,252)	(64,646)	84,144	-	(278,754)
Total accumulated depreciation and amortization	\$ (144,736,423)	\$ (12,902,073)	\$ 4,009,136	\$ -	(153,629,360)
Total capital assets being depreciated, net	141,060,103				143,575,429
Business-type activity capital assets, net	\$ 154,573,552				\$ 162,428,738

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

Stormwater management	\$ 1,649,013
Transportation	2,026,873
Airport	7,652,678
Solid Waste	1,573,509
Total depreciation and amortization expense	\$ 12,902,073

NOTES TO FINANCIAL STATEMENTS
June 30, 2025

Note 3—Capital assets (continued)

PWC (discretely presented component unit)

	Balance 30-Jun-24	Additions	Disposals	Transfers	Balance 30-Jun-25
PWC:					
Capital assets not being depreciated:					
Land and land rights	\$ 24,182,299	\$ -	\$ (302)	\$ 914,787	\$ 25,096,784
Construction in progress	226,807,876	175,769,107	(539,834)	(83,050,568)	318,986,581
Total Capital assets not being depreciated and amortized	250,990,175	175,769,107	(540,136)	(82,135,781)	344,083,365
Capital assets being depreciated and amortized:					
Electric utility system	570,731,602	1,548,292	(1,588,095)	26,106,159	596,797,958
Water system	477,628,354	64,464	(544,595)	17,126,322	494,274,545
Sewer system	726,009,965	155,049	-	37,694,405	763,859,419
Buildings	71,015,766	298,491	(7,148)	406,878	71,713,987
Equipment and machinery	38,727,621	1,333,998	(558,491)	802,306	40,305,434
Intangibles	32,421,478	32,109	(137,849)	-	32,315,738
Computer equipment	28,242,395	7,857	(130,899)	-	28,119,353
Vehicles	27,295,866	4,183,023	(1,880,839)	(289)	29,597,761
Office equipment	1,678,182	-	(3,627)	-	1,674,555
Right to use assets	6,988,334	5,807,452	(298,981)	-	12,496,805
Total Capital assets being depreciated and amortized	1,980,739,563	13,430,735	(5,150,524)	82,135,781	2,071,155,555
Less accumulated depreciation and amortization for:					
Electric utility system	(315,507,037)	(15,190,201)	1,326,466	-	(329,370,772)
Water system	(212,521,642)	(10,285,130)	519,332	-	(222,287,440)
Sewer system	(291,557,192)	(15,215,471)	-	-	(306,772,663)
Buildings	(39,399,930)	(1,783,177)	7,148	-	(41,175,959)
Equipment and machinery	(27,409,607)	(1,441,959)	556,462	-	(28,295,104)
Intangibles	(30,133,780)	(874,744)	80,462	-	(30,928,062)
Computer equipment	(26,050,401)	(828,888)	73,512	-	(26,805,777)
Vehicles	(15,016,258)	(1,895,451)	1,843,788	-	(15,067,921)
Office equipment	(1,665,229)	(4,610)	3,626	-	(1,666,213)
Right to use assets, accumulated amortization	(3,112,972)	(2,618,445)	298,981	-	(5,432,436)
Total accumulated depreciation and amortization:	(962,374,048)	(50,138,076)	4,709,777	-	(1,007,802,347)
Electric fund capital assets, net	\$ 1,269,355,690	\$ 139,061,766	\$ (980,883)	\$ -	\$ 1,407,436,573

As disclosed in Note 1, the City holds title to certain PWC capital assets in accordance with PWC's charter. PWC has full use of the assets, and full responsibility for maintenance thereof. The assets are reflected as capital assets in PWC's financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 3—Capital assets (continued)

B - Intangible right to use assets

The City has entered into right to use asset contracts covering the lease of buildings, equipment and vehicles, and subscription contracts covering the subscription of software services (SaaS). The related liabilities are discussed in the Lease and subscription subsection of the Liabilities section of this note. The right to use assets are amortized on a straight-line basis over the terms of the related leases.

Intangible right to use asset activities for the City for fiscal year ended June 30, 2025 are as follows:

	Balance June 30, 2024	Increases	Decreases	Balance June 30, 2025
Governmental activities				
Intangible right to use assets				
Leased buildings	\$ 5,101,401	\$ -	\$ -	\$ 5,101,401
Leased vehicles	465,817	-	-	465,817
Leased equipment	585,468	51,522	-	636,990
Subscription software	15,859,912	-	-	15,859,912
Total intangible right to use assets	22,012,598	51,522	-	22,064,120
Less accumulated amortization for:				
Leased buildings	(1,821,638)	(471,855)	-	(2,293,493)
Leased vehicles	(514,230)	(29,650)	-	(543,880)
Leased equipment	(796,924)	(67,821)	-	(864,745)
Subscription software	(10,153,123)	(2,320,934)	-	(12,474,057)
Total accumulated amortization	(13,285,915)	(2,890,260)	-	(16,176,175)
Intangible right to use assets, net	\$ 8,726,683	\$ (2,838,738)	\$ -	\$ 5,887,945
Business-type activities				
Intangible right to use assets				
Leased equipment	\$ 84,144	\$ -	\$ (84,144)	\$ -
Subscription software	356,124	22,092	-	378,216
Total intangible right to use assets	440,268	22,092	(84,144)	378,216
Less accumulated amortization for:				
Leased equipment	(84,144)	-	84,144	-
Subscription software	(214,108)	(64,646)	-	(278,754)
Total accumulated amortization	(298,252)	(64,646)	84,144	(278,754)
Intangible right to use assets, net	\$ 142,016	\$ (42,554)	\$ -	\$ 99,462

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 4—Accounts payable

Unrestricted and restricted accounts payable and accrued expenses consist of the following at June 30, 2025:

Governmental funds

	General	Federal and State Assistance	Financial Environmental Protection	Nonmajor Governmental	Internal Service	Subtotal
Accounts payable	\$ 2,440,450	\$ 1,258,678	\$ 51,248	\$ 4,169,295	\$ 731,423	\$ 8,651,094
Incurred but not reported	-	-	-	-	3,713,426	3,713,426
Interest payable	-	-	-	-	6,033	6,033
Retainage payable	-	294,857	-	537,479	-	832,336
Interfund payable	-	-	7,214,831	4,154,984	253,635	11,623,450
Salaries and benefits payable	6,761,825	-	-	-	61,715	6,823,540
Total	\$ 9,202,275	\$ 1,553,535	\$ 7,266,079	\$ 8,861,758	\$ 4,766,232	31,649,879
Adjustment for interest payable						302,062
						<u><u>\$ 31,951,941</u></u>

Reconciliation to accounts payable on the financial statements:

Unrestricted	\$ 9,202,275	\$ 1,553,535	\$ 7,266,079	\$ 8,856,279	\$ 4,766,232	\$ 31,644,400
Restricted	-	-	-	5,479	-	5,479
	<u><u>\$ 9,202,275</u></u>	<u><u>\$ 1,553,535</u></u>	<u><u>\$ 7,266,079</u></u>	<u><u>\$ 8,861,758</u></u>	<u><u>\$ 4,766,232</u></u>	<u><u>31,649,879</u></u>
Adjustment for interest payable						302,062
						<u><u>\$ 31,951,941</u></u>

Proprietary funds

	Stormwater Management	Transit	Airport	Solid Waste	Intergovernmental	Subtotal
Accounts payable	\$ 3,131,695	\$ 478,418	\$ 677,298	\$ 1,108,559	\$ 407,731	\$ 5,803,701
Interest payable	51	186	16,720	1,014	-	17,971
Retainage payable	-	184,806	87,361	-	-	272,167
Interfund payable	-	4,078,872	-	-	365,438	4,444,310
Salaries and benefits payable	346,262	79,383	121,523	203,229	-	750,397
Total	\$ 3,478,008	\$ 4,821,665	\$ 902,902	\$ 1,312,802	\$ 773,169	\$ 11,288,546
Reconciliation to accounts payable on the financial statements:						
Unrestricted	\$ 3,478,008	\$ 4,821,665	\$ 902,902	\$ 1,312,802	\$ 773,169	\$ 11,288,546
	<u><u>\$ 3,478,008</u></u>	<u><u>\$ 4,821,665</u></u>	<u><u>\$ 902,902</u></u>	<u><u>\$ 1,312,802</u></u>	<u><u>\$ 773,169</u></u>	<u><u>\$ 11,288,546</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations

A - General Obligation Indebtedness

The City has issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are collateralized by the full faith, credit, and taxing power of the City. They are serviced by the general fund. Principal and interest payments are appropriated when due. General obligation bonds outstanding for the year ended June 30, 2025 are as follows:

Governmental activities

\$16,000,000 Parks and Recreation Bonds, Series 2019 due in various annual installments through June 1, 2039; interest at various rates between 2.0% and 5.0%.	\$ 11,200,000
\$19,000,000 Parks and Recreation Bonds, Series 2022 due in various annual installments through June 1, 2042; interest at various rates between 3.25% and 5.0%.	16,150,000
	27,350,000
Add unamortized premium	2,443,078
Total governmental general obligation bonds and premiums	<u>\$ 29,793,078</u>

Interest expense related to the general obligation bonds totaled \$1,153,719 for the year ended June 30, 2025.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

B - Limited Obligation Indebtedness

The City has issued direct placement limited obligation bonds to provide funds for the construction of capital facilities. The bonds are limited obligations of the City and payments thereon shall be limited to funds appropriated for that purpose by the City Council of the City in its sole discretion. Direct placement limited obligation bonds outstanding for the year ended June 30, 2025 are as follows:

Governmental activities

\$50,520,000 direct placement taxable limited obligation bonds Series 2018 due in annual installments through June 1, 2038; interest at various rates between 2.87% and 4.24%.	\$ 32,820,000
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\$2,620,000 direct placement taxable limited obligation bonds Series 2019A due in annual installments through June 1, 2038; interest at various rates between 2.63% and 3.93%.	1,785,000
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\$2,740,000 direct placement tax-exempt limited obligation bonds Series 2019B due in annual installments through June 1, 2039; interest at various rates between 4.0% and 5.0%.	1,915,000
	36,520,000

Add: Unamortized Premium	301,637
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Total governmental limited obligation bonds and premiums	\$ 36,821,637
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Default events include not paying interest or principal when due, and failure to appropriate funds for payment of interest and principal. In the event of a default under the Trust Agreements, the Trustee may declare the unpaid interest and principal of the bonds outstanding due and payable immediately or exercise the Trustee's rights under the Deed of Trust on mortgaged property. The City is in compliance with all requirements of the Trust Agreements.

C - Revenue Bonds (City)

The City has issued direct placement revenue bonds, which have been used to finance the construction of facilities used in the City's operations. Resources generated by the facilities' operations are retiring the bonds.

In 2011, the City entered into a \$10,595,000 direct placement Stormwater revenue bond due in various annual installments through August 1, 2026; interest at 3.135%. The City issued the bonds in August 2011, to acquire, construct and equip various improvements to the City's natural and structural water and drainage system. In the event of default the trustee may require that the aggregate principal amount of parity indebtedness then outstanding, require the City to endorse all checks and other negotiable instruments representing receipts to the order of the trustee, require the City to deliver to the trustee all money and investment obligations held by the City and notify all account debtors of the City to pay any amounts representing receipts owed to the trustee. As collateral, the City grants the trustee a pledge charge and lien upon the net receipts and a lien upon the money and investment obligations in all of the related accounts of the bond fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

Direct placement revenue bonds outstanding for the year ended June 30, 2025 are as follows:

Business-type activities

\$10,595,000 direct placement Stormwater Revenue Bonds, Series 2011
due in various annual installments through August 1, 2026;
interest at 3.135%.

\$ 1,295,000

Total revenue bonds

\$ 1,295,000

Interest expense related to the direct placement revenue bonds totaled \$48,438 for the year ended June 30, 2025.

Revenue bond debt service requirements to maturity are as follows:

Stormwater revenue bonds

Year Ending	Principal	Interest	Total
2026	\$ 855,000	\$ 33,936	\$ 888,936
2027	440,000	6,897	446,897
	<u>\$ 1,295,000</u>	<u>\$ 40,833</u>	<u>\$ 1,335,833</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

The total principal and interest remaining to be paid on the outstanding direct placement revenue bonds was \$1,335,833 as of June 30, 2025. These revenue bonds are secured by a covenant to budget and collect revenues in the Stormwater system sufficient enough to pay the principal and interest requirements. The City is in compliance with the covenants for the bonds, which require the debt service coverage for parity indebtedness (revenue bonds only, as of June 30, 2025) to be 1.20 and for all indebtedness to be 1.00. Financial information below is from the Stormwater Management Enterprise Fund.

Income Available for Debt Service		
Stormwater fee revenues	\$ 13,516,172	
Other operating revenues	125,991	
Nonoperating revenue (expense)	4,528,299	
Less/plus adjustments for:		
Interest expense	48,436	
Total revenues		\$ 18,218,898
Operating expenses	10,950,871	
Less adjustments for:		
Depreciation	(1,649,013)	
Change in OPEB accrual	76,358	
Total current expenses		9,378,216
Income Available for Debt Service		8,840,682
Unrestricted Cash, 6/30/24 (prior year)	18,761,333	
15% of unrestricted cash		2,814,200
Total resources available for debt service		<u><u>\$ 11,654,882</u></u>
Parity Indebtedness Debt Service Requirement		
Series 2011 Revenue Bonds – Principal	\$ 835,000	
Series 2011 Revenue Bonds – Interest	48,436	
		<u><u>\$ 883,436</u></u>
Total Available Resources Debt Service Coverage – Parity Indebtedness		13.19
Revenue Bond Covenant Requirement		1.20
Parity, Subordinated, and System G.O. Debt Service Requirement		
NC Stormwater Note Payable 0196	\$ 11,613	
NC Stormwater Note Payable 0231	13,417	
Series 2011 Revenue Bonds – Principal	835,000	
Series 2011 Revenue Bonds – Interest	48,436	
		<u><u>\$ 908,466</u></u>
Income Available for Debt Service Debt Service Coverage – All Indebtedness		9.73
Revenue Bond Covenant Requirement		1.00

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

D - Notes Payable (City)

In 2010, the City completed two Stormwater projects which were financed through two direct borrowing federal revolving loans for \$464,503 and \$536,692 administered through the State of North Carolina, Department of Environment and Natural Resources. As part of the American Recovery and Reinvestment Act of 2009 (ARRA), the unpaid principal was immediately reduced by one half of the loan amount to \$232,252 and \$268,346 as "Principal Forgiveness". These notes are reported as business-type activities in the Stormwater Management Enterprise Fund. These notes payable are subordinate to the Stormwater Revenue Bonds of the City of Fayetteville.

Direct placement and direct borrowing notes payable for the year ended June 30, 2025, in the accompanying financial statements are comprised of the following:

Business-type activities

\$232,252 direct borrowing Federal revolving loan due in annual installments through May 1, 2030; non-interest bearing, paid annually on May 1.	\$ 58,063
\$268,346 direct borrowing Federal revolving loan due in annual installments through May 1, 2030; non-interest bearing, paid annually on May 1.	67,087
Total business-type notes payable	<u>\$ 125,150</u>

The City is in compliance with all repayment requirements for all direct borrowing notes payable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

E - Installment Purchase Agreements (City)

The City has entered into various installment purchase agreements for financing certain equipment, vehicles, and fixtures. Installment purchase obligations are comprised of the following:

Governmental activities

In 2010, the City entered into a \$5,950,000 direct borrowing installment purchase to finance construction of a downtown parking deck. The obligations are payable in various semi-annual installments of approximately \$210,930 in 2025 including interest at 5.1%. The City receives a subsidy from the Federal Government reducing the effective interest rate. The City executed and delivered a Deed of Trust creating a lien on the mortgaged property as collateral. In case of default, the lender may declare the unpaid principal of the installment immediately due and payable, proceed to appropriate court action to enforce the City's performance of the applicable covenants or avail itself of all available remedies under the agreement.	\$ 201,501
In 2011, the City entered into a \$2,676,943 direct borrowing installment purchase to finance construction of Fire Station 19. The obligations are payable in various semi-annual installments of approximately \$92,198 in 2025 including interest of 1.90%. The City executed and delivered a Deed of Trust creating a lien on the mortgaged property as collateral. In case of default, the entire amount of principal and accrued interest will be immediately due and payable, the lender may exercise all remedies available at law or under the Deed of Trust including the sale of the mortgaged property or proceed by appropriate court action to enforce performance by the City.	181,006
In 2017, the City entered into a \$1,885,000 direct placement installment to renovate City Hall. The obligations are payable in various semiannual installments of approximately \$65,635 in 2025 including fixed rate interest of 3.05%. The City delivered the Deed of Trust creating a lien on the mortgaged property and hereby granting to the Trustee a security interest in all money and securities held by or on behalf of the Trustee as collateral. In the event of default the Trustee may, by a notice in writing to the City, declare the principal of all the bonds then outstanding to be due and payable immediately.	1,351,626
In 2017, the City entered into a \$3,600,000 direct borrowing to construct Fire Station 12. The obligations are payable in various semi-annual installments of approximately \$120,375 in 2025 including fixed rate interest estimated at 2.50%. The City executed a Deed of Trust as collateral for the debt. In the event of default the lender may require the entire amount of principal and accrued interest due and payable, exercise all remedies available at law or proceed by appropriate court action.	2,720,250
In 2022, the City entered into a \$10,430,000 direct borrowing to construct Fire Station 4. The obligations are payable in various semi-annual Installments of approximately \$406,829 in 2025 including fixed rate interest of 3.29%. The City executed a Deed of Trust as collateral for the debt. Upon the occurrence of an event of default and to the extent permitted by law, the Deed of Trust Trustee shall have the right to enter upon the mortgaged property to such extent and as often as the Deed of Trust Trustee, in his sole discretion, deems necessary or desirable in order to cure any default by the City. The Deed of Trust is intended to be a security agreement pursuant to the Uniform Commercial Code, as in effect in the State of North Carolina.	11,461,256
In 2022, the City entered into a \$4,015,000 direct borrowing installment purchase to finance vehicles and equipment. The obligations are payable in various semi-annual installments of approximately \$403,911 in 2025 including interest of 1.35%. The City executed a Security Agreement granting the lender a security interest if any of the events outlined in section 4 of the security agreement should occur, all payments under the agreement may become at once due and payable, regardless of the maturity date or other due date thereof. Upon the occurrence of an event of default, the secured party may proceed against the collateral as provided in and in accordance with the applicable provisions of the UCC. Subject to any limitations imposed by the applicable provisions of the UCC	808,111
In 2023, the City entered into a \$1,265,000 direct borrowing installment purchase to finance vehicles and equipment. The obligations are payable in various semi-annual installments of approximately \$171,400 in 2025 including interest of 3.70%. The City executed a Security Agreement granting the lender a security interest if any of the events outlined in section 4 of the security agreement should occur, all payments under the agreement may become at once due and payable, regardless of the maturity date or other due date thereof. Upon the occurrence of an event of default, the secured party may proceed against the collateral as provided in and in accordance with the applicable provisions of the UCC. Subject to any limitations imposed by the applicable provisions of the UCC	684,488

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

Governmental activities (continued)

In 2025, the City entered into a \$3,186,000 direct borrowing installment purchase to finance vehicles and equipment. The obligations are payable in various semi-annual installments of approximately \$437,574 in 2025 including interest of .63%. The City executed a security agreement granting the lender a security interest in the vehicles and equipment. In the event of default the lender may require the entire principal component of installment payments and unpaid accrued interest to be immediately due and payable, the lender may exercise all remedies available at law, in equity or under the security agreement or the lender may proceed by appropriate court action to enforce performance by the City of applicable covenants of the agreement.

	2,626,224
	20,034,462
Less amount representing interest	3,435,468
Present value of the minimum installment payments	\$ 16,598,994

Business-type activities

In 2022, the City entered into a \$4,015,000 direct borrowing installment purchase to finance vehicles and equipment. The obligations are payable in various semi-annual installments of approximately \$113,069 in 2025 including interest of 1.35%. The City executed a Security Agreement granting the lender a security interest if any of the events outlined in section 4 of the security agreement should occur, all payments under the agreement may become at once due and payable, regardless of the maturity date or other due date thereof. Upon the occurrence of an event of default, the secured party may proceed against the collateral as provided in and in accordance with the applicable provisions of the UCC.

	\$ 226,218
	226,218
Less amount representing interest	2,259
Present value of the minimum installment payments	223,959
Total Installment Obligations	\$ 16,822,953

The City is in full compliance of all repayment requirements for all direct borrowing installment agreements.

The following is an analysis of property purchased using installment agreements as of June 30, 2025:

Classes of Property	Cost	Depreciation	Net Book Value
Equipment	\$ 8,129,097	\$ 5,637,706	\$ 2,491,391
Vehicles	17,389,502	12,912,446	4,477,056
Buildings and Improvement	17,544,788	6,024,974	11,519,814
	\$ 43,063,387	\$ 24,575,126	\$ 18,488,261

Interest expense related to the installment agreements totaled \$617,970 for the year ended June 30, 2025.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

F - Leases and Subscriptions

The City has entered into agreements to lease buildings, equipment, vehicles, and subscriptions for certain software. These agreements qualify as long-term leases and subscription-based information technology arrangements under GASB 87 and GASB 96. They have been recorded at the present value of the future minimum lease and subscription payments as of the date of their inception. The terms of these agreements range from two to thirty-five years and may be paid on a monthly, quarterly or annual basis according to the terms of the contract. The lease liability and subscription is measured at a discount rate range of 1.3 to 4.4% based on the City's imputed borrowing rate. As shown in the schedule below, the City has recorded lease principal payments in the amount of \$558,409 and \$7,038 for its Governmental and Business-type Activities, respectively, at June 30, 2025. For SBITAs, the City has recorded principal payments in the amount of \$2,542,489 and \$69,526 for its Governmental and Business-type Activities, respectively, at June 30, 2025.

Governmental activities - Leases

Year(s) Ending	Principal Payments	Interest Payments	Total
2026	\$ 294,155	\$ 74,317	\$ 368,472
2027	159,548	67,315	226,863
2028	148,961	62,947	211,908
2029	151,299	58,223	209,522
2030	157,763	53,542	211,305
2031-2035	874,382	192,518	1,066,900
2036-2040	836,719	50,342	887,061
	<u>\$ 2,622,827</u>	<u>\$ 559,204</u>	<u>\$ 3,182,031</u>

Governmental activities - SBITAs

Year Ending	Principal Payments	Interest Payments	Total
2026	\$ 1,918,420	\$ 78,720	\$ 1,997,140
2027	1,198,968	29,795	1,228,763
2028	325,432	4,470	329,902
2029	3,418	4	3,422
	<u>\$ 3,446,238</u>	<u>\$ 112,989</u>	<u>\$ 3,559,227</u>

Business-type activities - SBITAs

Year Ending	Principal Payments	Interest Payments	Total
2026	\$ 42,847	\$ 353	\$ 43,200
2027	42,353	847	43,200
	<u>\$ 85,200</u>	<u>\$ 1,200</u>	<u>\$ 86,400</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

G - Changes in Long-Term Obligations (City)

The following is a summary of changes in the City's long-term obligations for the fiscal year ended June 30, 2025.

	Balance June 30, 2024 (Restated)	Increases	Decreases	Balance June 30, 2025	Current Portion
Governmental Activities:					
General obligation debt	\$ 29,440,000	\$ -	\$ 2,090,000	\$ 27,350,000	\$ 1,750,000
Plus: Unamortized premium	2,736,916	-	293,838	2,443,078	-
Direct placement:					
Limited obligation debt	39,320,000	-	2,800,000	36,520,000	2,795,000
Plus: Unamortized premium	327,087	-	25,450	301,637	-
Direct borrowing:					
Installment agreements	21,999,930	-	5,400,936	16,598,994	3,071,836
PWC assessment	4,674,159	-	405,229	4,268,930	-
Lease liability	3,136,752	51,522	565,447	2,622,827	294,155
Subscription liability	5,986,087	2,640	2,542,489	3,446,238	1,918,420
Compensated absences*	15,171,123	2,735,991	-	17,907,114	5,582,701
Net pension liability (LGERS)	64,665,269	-	3,522,169	61,143,100	-
Net pension liability (LEOSSA)	19,454,921	-	372,988	19,081,933	-
OPEB liability	40,106,963	-	749,048	39,357,915	-
Total long-term obligations	<u>\$ 247,019,207</u>	<u>\$ 2,790,153</u>	<u>\$ 18,767,594</u>	<u>\$ 231,041,766</u>	<u>\$ 15,412,112</u>

	Balance June 30, 2024 (Restated)	Increases	Decreases	Balance June 30, 2025	Current Portion
Business-Type Activities:					
Direct placement:					
Revenue bonds	\$ 2,130,000	\$ -	\$ 835,000	\$ 1,295,000	\$ 855,000
Direct borrowing:					
Notes payable	150,180	-	25,030	125,150	25,030
Installment agreements	1,278,152	-	1,054,194	223,958	223,958
Subscription liability	132,633	22,093	69,526	85,200	42,315
Compensated absences*	1,548,205	18,536	-	1,566,741	497,046
Net pension liability (LGERS)	9,069,360	-	493,443	8,575,917	-
OPEB liability	7,368,138	-	137,609	7,230,529	-
Total long-term obligations	<u>\$ 21,676,668</u>	<u>\$ 40,629</u>	<u>\$ 2,614,802</u>	<u>\$ 19,102,495</u>	<u>\$ 1,643,349</u>

*The change in the compensated absences liability is presented as a net change.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

G - Changes in Long-Term Obligations (PWC)

The following is a summary of changes in the PWC's long-term obligations for the fiscal year ended June 30, 2025:

	Balance June 30, 2024	Increases	Decreases	Balance June 30, 2025	Current Portion
Business-type activities:					
Direct placement:					
Revenue bonds	\$ 479,150,000	\$ -	\$ 12,630,000	\$ 466,520,000	\$ 16,105,000
Plus: Unamortized premium	35,204,551	-	1,725,501	33,479,050	-
Notes payable	48,395,044	21,423,010	2,193,783	67,624,271	2,193,783
Grants related to capital assets	-	4,265,781	-	4,265,781	-
Unearned deposits	569,278	797,277	678,038	688,517	-
Compensated absences	5,529,404	6,585,554	5,529,404	6,585,554	5,901,908
Lease and subscription liability	3,741,050	5,807,452	3,003,850	6,544,652	2,364,044
Net pension liability (LGERS)	39,073,896	3,520,741	-	42,594,637	-
Net OPEB liability	21,624,502	1,797,618	2,742,299	20,679,821	-
Total business-type activities	<u>\$ 633,287,725</u>	<u>\$ 44,197,433</u>	<u>\$ 28,502,875</u>	<u>\$ 648,982,283</u>	<u>\$ 26,564,735</u>

The Commission has pledged future electric, water and wastewater customer revenues, net of specified operating expenses to repay \$538,660,000 in direct placement revenue and revenue refunding bonds issued at various times from 2014 through 2025. Proceeds from the bonds provided financing for extensions, additions and capital improvements to or the renewal and replacement of capital assets of, or purchasing and installing new equipment for, the electric, water, and wastewater systems. The bonds are payable solely from electric, water and wastewater customer net revenues and are payable through 2053. The total principal and interest remaining to be paid on the bonds is \$718,443,127. Principal and interest paid for the current year and total customer revenues were \$32,478,012 and \$407,170,213.

The revenue bond order contains significant covenants respecting annual debt service requirements, use of the system, and minimum revenue bond coverage. The Commission is in compliance with all such significant covenants at June 30, 2025.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

H - Maturities of Long-Term Obligations (City)

The following table summarizes the annual requirements to amortize all general long-term debt outstanding (excluding leases, PWC assessments, compensated absences, pension liabilities, and net OPEB liability).

Governmental activities

Year(s) Ending	General Obligation Bonds		Limited Obligation Bonds from Direct Placements	
	Principal	Interest	Principal	Interest
2026	\$ 1,750,000	\$ 1,047,625	\$ 2,795,000	\$ 1,491,791
2027	1,750,000	960,125	2,790,000	1,387,122
2028	1,750,000	872,625	2,790,000	1,279,939
2029	1,750,000	785,125	2,805,000	1,170,102
2030	1,750,000	697,625	2,805,000	1,056,957
2031-2035	18,600,000	3,479,688	22,535,000	4,273,129
	<u>\$ 27,350,000</u>	<u>\$ 7,842,813</u>	<u>\$ 36,520,000</u>	<u>\$ 10,659,040</u>

Year(s) Ending	Construction and Improvement Installment Obligations from Direct Borrowings		Vehicles and Equipment Installment Obligations from Direct Borrowings		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 1,172,796	\$ 389,866	\$ 1,899,040	\$ 127,169	\$ 7,616,836	\$ 3,056,451
2027	796,000	357,772	1,145,000	72,819	6,481,000	2,777,838
2028	796,000	333,231	847,000	27,795	6,183,000	2,513,590
2029	796,000	308,690	-	-	5,351,000	2,263,917
2030	796,000	284,149	-	-	5,351,000	2,038,731
2031-2035	8,351,158	1,561,464	-	-	49,486,158	9,314,281
	<u>\$ 12,707,954</u>	<u>\$ 3,235,172</u>	<u>\$ 3,891,040</u>	<u>\$ 227,783</u>	<u>\$ 80,468,994</u>	<u>\$ 21,964,808</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

The following table includes the City's expected estimated schedule of maturity for the business-type activities noted above, as well as the annual requirements to amortize all business-type long-term debt outstanding (excluding leases, compensated absences, pension liabilities, and net OPEB liability).

Business-type activities

Year(s) Ending	Revenue Bonds from Direct Placements		Notes Payable from Direct Borrowings		Installment Obligations from Direct Borrowings		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 855,000	\$ 33,936	\$ 25,030	\$ -	\$ 223,958	\$ 2,259	\$ 1,103,988	\$ 36,195
2027	440,000	6,897	25,030	-	-	-	465,030	6,897
2028	-	-	25,030	-	-	-	25,030	-
2029	-	-	25,030	-	-	-	25,030	-
2030	-	-	25,030	-	-	-	25,030	-
	<u>\$ 1,295,000</u>	<u>\$ 40,833</u>	<u>\$ 125,150</u>	<u>\$ -</u>	<u>\$ 223,958</u>	<u>\$ 2,259</u>	<u>\$ 1,644,108</u>	<u>\$ 43,092</u>

I - Legal Debt Margin (City)

Pursuant to the North Carolina General Statutes, the City's outstanding general obligation debt is subject to a legal limitation based on eight percent of the total assessed value of real and personal property. As of June 30, 2025, the City's legal debt limit was \$1,232,275,927. The outstanding debt subject to this limit was \$89,591,933 leaving a legal debt margin of \$1,142,683,994.

J - Authorized but Un-issued Debt and Unused Lines of Credit (City)

At June 30, 2025, the City had a total of \$97,000,000 in bonds authorized but un-issued, including \$60,000,000 for Public Safety, \$25,000,000 for Public Infrastructure, and \$12,000,000 for Housing Affordability.

At June 30, 2025, the City had no unused lines of credit.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 5—Long-term obligations (continued)

K - Net Investment in Capital Assets

	City		
	Government Activities	Business-Type Activities	PWC
Capital assets, net	\$ 479,080,378	\$ 162,428,738	\$ 1,407,436,573
Less: Long term debt related to capital assets	(80,468,994)	(1,644,108)	(534,144,271)
Less: Unamortized bond premium	(2,744,715)	-	(33,479,050)
Less: Deferred loss related to unspent bond proceeds	(766,050)	-	(133,035)
Less: Retainage and payables related to capital assets	(1,041,320)	(3,368,243)	(3,910,674)
Add: Deferred loss on bond refunding	-	-	480,389
Less: Lease and subscription liabilities	(6,069,065)	(85,735)	(6,544,652)
Add: Unspent bond/lease proceeds	11,355,255	-	90,736,862
Total net investment in capital assets	<u>\$ 399,345,489</u>	<u>\$ 157,330,652</u>	<u>\$ 920,442,142</u>

Note 6—Unearned revenue

The governmental and proprietary funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the government-wide financial statement were as follows:

	Unearned Revenue
Amounts arising from cash:	
Unearned revenue (General)	\$ 5,615,543
Unearned grant receipts (Special Revenue)	1,237,869
Unearned assessments (Special Revenue)	93,850
Prepaid retiree insurance premiums (Internal Service)	20,999
Total	<u>\$ 6,968,261</u>

In addition, the City had \$16,390,069 and \$6,665,181 of restricted unearned deposits in the governmental funds and enterprise funds respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 7—Deferred outflows and inflows of resources

In the government-wide financial statements, deferred outflows of resources is the deferred amount for unamortized refunding charges and the contribution to the pension plan at June 30, 2025.

Gains and losses from debt refunding must be deferred and amortized over the lesser of the original remaining life of the old debt or the life of the new debt. In addition, gains or losses related to debt refunding are to be used in determining the carrying value of the new debt issued to finance debt refunding.

City pension plan contributions subsequent to the measurement date and changes in proportion and differences between City contributions and other pension related deferrals were also reported as deferred outflows of resources on the statement of net position at June 30, 2025. The amounts reported totaled \$12,645,513 and \$1,610,983 for governmental activities and business-type activities, respectively, for LGERS.

Deferred inflows of resources in the fund financial statements at year-end are comprised of the following:

	Unavailable Revenue
Prepaid taxes (General)	\$ 74,295
Taxes receivable, net (General)	769,353
Accounts and notes receivable (General)	3,121,910
Leases receivable (General)	5,029,641
Special assessments receivable, net (General)	1,051,550
Accounts receivable (Federal and State Financial Assistance)	2,627,777
PWC assessments receivable, net (Special revenue)	4,268,930
	<u>\$ 16,943,456</u>

Deferred outflows and inflows of resources for governmental activities in the government-wide financial statements are:

	Outflows	Inflows
Prepaid taxes	\$ -	\$ 843,648
Accounts receivable	-	2,627,777
OPEB deferrals	2,383,747	3,940,168
Pension deferrals LGERS	31,673,625	2,323,452
Pension deferrals LEOSA	2,579,021	2,347,495
Lease deferrals	-	5,029,641
	<u>\$ 36,636,393</u>	<u>\$ 17,112,181</u>

Deferred outflows and inflows of resources for business-type activities in the government-wide financial statements are:

	Outflows	Inflows
OPEB deferrals	\$ 432,119	\$ 723,856
Pension deferrals	4,442,250	325,867
Lease deferrals	-	3,881,695
	<u>\$ 4,874,369</u>	<u>\$ 4,931,418</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 8—Risk management

The City is self-insured (self-funded) with respect to insurance claims as follows: health insurance (up to \$175,000 per individual and approximately \$16,221,540 for all employees for the policy period ending June 30, 2025), general liability (up to \$500,000 per occurrence), workers' compensation (\$850,000 per occurrence), public officials liability (up to \$500,000 per occurrence), law enforcement liability (\$500,000 per occurrence), and automobile liability (up to \$500,000 per occurrence). The City maintains excess liability insurance (\$11,000,000) to cover catastrophic losses. Property insurance on City buildings is for replacement value (less \$100,000 self-funded retention). The health insurance coverage for individual large claims also includes a second deductible, known as an Aggregating Specific. If one or more claims exceeds the \$175,000, the claims over that amount are applied to the Aggregating Specific deductible of \$161,835. Once that amount has been exhausted, the stop loss policy will reimburse eligible claims in excess of the individual deductible at 100%. Also, the health insurance plan's excess coverage allows expenditures by the City up to 125% of expected claims adjusted for industry standard trend adjustments, and for expenditures by the City of up to \$175,000 per individual. Losses from asserted claims and from un-asserted claims identified under the City's incident reporting system are accrued based on estimates that incorporate the City's past experience, as well as other considerations including the nature of each claim and relevant trend factors.

The City carries commercial coverage for all other risks of loss. Within the last three fiscal years, the City had no general liability claims that exceeded the City's retention of \$500,000.

At June 30, 2025, a liability for incurred but not reported claims of \$3,713,426 is included in accounts payable and accrued expenses on the accompanying financial statements. An analysis of claims activity for the City is presented below.

	2025	2024
Liability, beginning	\$ 2,485,125	\$ 3,573,317
Current year claims and changes in estimate	19,556,523	16,866,768
Actual claim payments	(18,328,222)	(17,954,960)
Liability, ending	<u>\$ 3,713,426</u>	<u>\$ 2,485,125</u>

The City carries commercial flood insurance on three properties located at 671 North Eastern Blvd., 225 Ray Avenue, and 300 Bragg Blvd. These properties are covered by separate insurance policies with damage limits of \$500,000 for each building and contents coverage ranging from \$300,000 to \$500,000 per facility, with deductibles ranging from \$1,000 to \$15,000.

In accordance with G.S. 159-29, City employees who have access to \$100 or more of the City's funds at any given time are performance bonded through commercial surety bonds. The City's Chief Financial Officer is individually bonded for \$1,000,000. The remaining employees who have access to funds are bonded under a blanket bond for \$1,000,000 per theft coverage, with a \$10,000 per occurrence deductible.

NOTES TO FINANCIAL STATEMENTSJune 30, 2025

Note 9—Commitments and contingent liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. No provision has been made in the accompanying financial statements for the refund of grant money.

The City is a defendant in various lawsuits. Although the outcome of these proceedings is not presently determinable, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts, in the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial position, results of operations or cash flows of the City.

The City's bond issues are subject to Federal arbitrage regulations, and the City has elected to review its potential arbitrage liability annually on the bond issue dates. The arbitrage rebate payments are payable on the fifth anniversary of the bond issue date and every fifth year subsequent to that date. Although the actual amount to be paid is not presently determinable, the City believes that an adequate provision for arbitrage payables has been provided for in the accompanying financial statements.

The City has authorized expenditures totaling approximately \$658.1 million for capital additions and construction of various administration, public safety, recreation, transportation, economic development, environmental protection, Linear Park, stormwater, transit, airport, and solid waste projects. At June 30, 2025, cumulative expenditures to date totaled approximately \$443.3 million leaving an unexpended balance of \$214.8 million for projects that are expected to be completed at various dates in future fiscal years.

Note 10—Employee retirement systems**A - Local Governmental Employees' Retirement System**

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The City's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2025, was 14.04% of compensation for law enforcement officers and 12.90% for general employees and firefighters. Contribution rates are 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 City were \$14,256,499 for the year ended June 30, 2025.

Refunds of Contributions. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

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

At June 30, 2025, the City reported a liability of \$69,719,017 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024, utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City'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, 2024 (measurement date), the City's proportion was 1.03417%, which was an decrease of 0.07913% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the City recognized pension expense of \$19,849,513. At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 12,217,316	\$ 82,144
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plans investments	9,478,185	-
Changes in proportion and differences between City contributions and proportionate share of contributions	163,878	2,567,175
City contributions subsequent to the measurement date	14,256,496	-
Total	<u>\$ 36,115,875</u>	<u>\$ 2,649,319</u>

The City reported \$14,256,496 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the next fiscal year. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2026	\$ 5,972,991
2027	12,825,108
2028	1,483,676
2029	<u>(1,071,715)</u>
	<u>\$ 19,210,060</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

Actuarial Assumptions. The total pension liability in the December 31, 2023, 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 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. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2023, valuation were based on the results of an actuarial experience study as of December 31, 2019. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2024, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	33.00%	2.40%
Global Equity	38.00%	6.90%
Real Estate	8.00%	6.00%
Alternatives	8.00%	8.60%
Credit	7.00%	5.30%
Inflation Protection	6.00%	4.30%
Total	100.00%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2021 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 2.5%. All rates of return and inflation are annualized.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

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

Sensitivity of the City's proportionate share of the net pension liability/(asset) to changes in the discount rate. The following presents the City's proportionate share of the net pension asset calculated using the discount rate of 6.50%, as well as what the City'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%	Discount Rate 6.5%	1% Increase 7.5%
City's proportionate share of the net pension liability	\$ 123,543,176	\$ 69,719,017	\$ 25,440,253

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

B - Law Enforcement Officers' Special Separation Allowance

Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined benefit pension plan that provides retirement benefits to the City'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.

The Separation Allowance covers all full-time City law enforcement officers. At December 31, 2023, the Separation Allowance's membership consisted of:

Retirees receiving benefits	77
Active plan members	403
Total	480

Summary of Significant Accounting Policies

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

Actuarial Assumptions

The Entry Age Normal actuarial cost method was used in the December 31, 2023, valuation. The total pension liability in the December 31, 2023, 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	4.28%

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

Mortality rates use Pub-2010 amount-weighted tables and are projected from 2010 using generational improvement with Scale MP-2019.

Contributions

The City is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City'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 City paid \$1,485,583 as benefits came due for the reporting period.

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

At June 30, 2025, the City reported a total pension liability of \$19,081,933. The total pension liability was measured as of December 31, 2024, based on a December 31, 2023, actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2024, utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2025, the City recognized pension expense of \$1,938,995.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 506,374	\$ 369,857
Changes of assumptions	1,227,966	1,977,638
City benefit payments and plan administrative expense made subsequent to the measurement date	844,681	-
Total	<u>\$ 2,579,021</u>	<u>\$ 2,347,495</u>

The \$844,681 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 pension liability in the next fiscal year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount Recognized as an Increase/(Decrease) to Pension Expense
2026	\$ 1,156,269	\$ 867,117	\$ 289,152
2027	206,130	812,171	(606,041)
2028	206,130	542,472	(336,342)
2029	163,435	68,334	95,101
2030	2,376	57,401	(55,025)
	<u>\$ 1,734,340</u>	<u>\$ 2,347,495</u>	<u>\$ (613,155)</u>

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the City's total pension liability calculated using the discount rate of 4.28%, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.28%) or 1-percentage-point higher (5.28%) than the current rate:

	1% Decrease 3.28%	Current Discount Rate 4.28%	1% Increase 5.28%
Total pension liability	\$ 20,557,925	\$ 19,081,933	\$ 17,742,361

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, 2023, valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2019.

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

	2025
Beginning balance	\$ 19,454,921
Service cost	746,646
Interest on the total pension liability	748,485
Differences between expected and actual experience in the measurement of the total pension liability	16,536
Changes of assumptions or other inputs	(399,072)
Benefit payments	(1,485,583)
Ending balance of the total pension liability	<u>\$ 19,081,933</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 10—Employee retirement systems (continued)

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

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

	LGERS	LEOSSA	TOTAL
Pension expense	\$ 19,849,513	\$ 1,938,995	\$ 21,788,508
Pension liability	69,719,017	19,081,933	88,800,950
Proportionate share of the net pension liability	1.03417%	n/a	-
Deferred outflows of resources			
Differences between expected and actual experience	12,217,316	506,374	12,723,690
Changes of assumptions	-	1,227,966	1,227,966
Net difference between projected and actual earnings on plan investments	9,478,185	-	9,478,185
Changes in proportion and differences between contributions and proportionate share of contributions	163,878	-	163,878
Benefit payments and administrative costs paid subsequent to the measurement date	14,256,496	844,681	15,101,177
Deferred inflows of resources			
Differences between expected and actual experience	82,144	369,857	452,001
Changes of assumptions	-	1,977,638	1,977,638
Changes in proportion and differences between contributions and proportionate share of contributions	2,567,175	-	2,567,175

C - Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City 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 City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions for the law enforcement officers to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The state’s ACFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each law enforcement officer’s salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the Plan.

The City contributed \$1,554,560 for the year ended June 30, 2025.

D - NC 401(k) Plan

The City contributes to the NC 401(k) Plan (401(k)), a defined contribution plan administered by the North Carolina Total Retirement Plans. The City contributes 2% of employee base pay to the 401(k) on behalf of eligible employees. This plan is available to all non-law enforcement employees that are eligible for the NC Retirement System. The City contributed \$3,470,803 for the year ended June 30, 2025.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 11—Other postemployment benefits (OPEB)

A - Healthcare Benefits

Plan description. Under the terms of a City resolution, the City (excluding the City's Public Works Commission) administers the Other Post Employment Benefit Retiree Healthcare Plan, a single-employer defined benefit healthcare plan. The City Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits provided. For employees hired on or after February 1, 2008, this plan provides postemployment healthcare benefits to retirees of the City, up to the age of 65 or until they are eligible to receive Medicare benefits, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of creditable service with the City. For employees hired prior to February 1, 2008, employees qualified for similar level benefits after at least five years of creditable service with the City and 10 years of service credit with the System. Employees hired on or after July 1, 2014 are not eligible for this benefit. The City and retirees contribute to the cost of coverage for these benefits through a self-insured plan. Also, the City's retirees can purchase coverage for their eligible dependents at the City's group rates. The City also provides a death benefit through the plan based on the number of years of service at retirement. Retirees that retired prior to June 1, 1988 are provided with a \$1,000 life insurance policy. Retirees that retire on or after June 1, 1988 under NCLGERS and have at least 5 years of service with the City, are provided a life insurance policy based on years of service. The life insurance policy is \$100 per year of service (or fraction thereof) up to a maximum amount of \$3,000. The City may amend the benefit provisions. A separate report was not issued for the plan.

Membership in the healthcare and life insurance benefit plan consisted of the following at June 30, 2023, the date of the latest actuarial valuation:

	Law Enforcement		General	
	Officers	Firefighters	Employees	Total
Retirees and dependents receiving benefits	209	96	558	863
Active plan members	144	164	279	587
				<u>1450</u>

Total OPEB Liability

The City's total OPEB liability of \$46,588,444 was measured as of June 30, 2024, and was determined by an actuarial valuation as of June 30, 2023.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 11—Other postemployment benefits (OPEB) (continued)

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	0.75%
Wage inflation	3.25%
Salary increases including wage inflation	
General employees	3.25% - 8.41%
Firefighters	3.25% - 8.15%
Law enforcement officers	3.25% - 7.90%
Municipal bond index rate	
Prior measurement date	3.63%
Measurement date	3.93%
Healthcare cost trends	
Pre-medicare	7.00% for 2023 decreasing to an ultimate rate of 4.50% by 2033

The City selected a Municipal Bond Index Rate equal to the Bond Buyer 20-year General Obligation Bond Index published at the last Thursday of June by The Bond Buyer, and the discount rate used to measure the TOL is the Municipal Bond Index Rate as of the measurement date.

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, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2019, adopted by the LGERS Board.

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, 2024 valuation were based on a review of recent plan experience done concurrently with the June 30, 2024 valuation.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2024	\$ 47,475,101
Changes for the year:	
Service cost	1,010,315
Interest	1,738,293
Change in benefit terms	-
Difference between expected and actual experience	(824,458)
Changes of assumptions or other inputs	(1,073,350)
Benefit payments	(1,737,457)
Net changes	(886,657)
Balance at June 30, 2025	<u>\$ 46,588,444</u>

There are no changes in benefit terms since the Prior Measurement Date.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 11—Other postemployment benefits (OPEB) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.93 percent) or 1-percentage-point higher (4.93 percent) than the current discount rate:

	1% Decrease 2.93%	Current Discount Rate 3.93%	1% Increase 4.93%
Total OPEB liability	\$ 50,579,196	\$ 46,588,444	\$ 43,013,429

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

	1% Decrease	Current Pre-medicare Rate	1% Increase
Total OPEB liability	\$ 42,349,287	\$ 46,588,444	\$ 51,447,803

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

For the year ended June 30, 2025, the City recognized OPEB income of \$1,291,801. At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,544,090
Changes of assumptions	493,546	2,119,934
City benefit payments and administrative costs made subsequent to the measurement date	2,322,320	-
Total	\$ 2,815,866	\$ 4,664,024

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 11—Other postemployment benefits (OPEB) (continued)

The \$2,322,320 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the next fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

<u>Years Ending June 30:</u>	
2026	\$ (3,251,853)
2027	(811,201)
2028	(107,424)
Total	<u>\$ (4,170,478)</u>

B - Death Benefits

The City provides regular full-time and part-time employees with a \$3,000 death benefit during their first year of employment, unless the employee already has one year of membership in the North Carolina Retirement System. The benefit is effective on the first day of the month following 30 days of service. If eligible, the death benefit is discontinued after one year of employment, when the employee becomes qualified for the State Death Benefit Plan. The City considers these benefit payments to be immaterial.

The City has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits.

Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The City considers these contributions to be immaterial.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 12—Interfund receivables, payables and transfers

Interfund Receivables and Payables

The following schedule makes up the interfund balances at June 30, 2025 as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Environmental Protection Fund	\$ 7,214,831
General Fund	Internal Service Funds	253,635
General Fund	Transit Fund	4,078,872
General Fund	Intergovernmental Fund	365,438
General Fund	Nonmajor Capital Projects Fund	4,154,984
Total Interfund Receivables and Payables		<u>\$ 16,067,760</u>

Interfund receivables and payables were recorded due to timing differences in the receipt of funds from intergovernmental payments due to the City from federal and state sources related expenditures and other grant related expenditures. These balances represent overnight loans at fiscal year end from the receivable fund to the payable fund to cover cash deficits in the payable fund. The amounts are reversed on the first day of the next fiscal year. The fund with the cash deficit then has a liability to the pooled cash and investments.

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2025, consist of the following:

Transfer out:	Transfer in:					Total
	General	Federal and State Assistance	Nonmajor Governmental	Transit	Environmental Protection	
General	\$ -	\$ 304,530	\$ 14,452,640	\$ 8,878,124	\$ 43,003	\$ 23,678,297
Internal Service	993,000	-	-	-	-	993,000
Solid Waste	-	-	870,009	-	-	870,009
Stormwater	-	-	913,011	-	-	913,011
Totals	<u>\$ 993,000</u>	<u>\$ 304,530</u>	<u>\$ 16,235,660</u>	<u>\$ 8,878,124</u>	<u>\$ 43,003</u>	<u>\$ 26,454,317</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 12—Interfund receivables, payables and transfers

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, and include amounts provided as matching funds for various grant programs.

Transfers totaling \$14,452,640 were made during the fiscal year from the General Fund to nonmajor governmental funds. Of this amount, transfers to capital project funds included \$5,375,000 for transportation projects, including street resurfacing, intersection, and sidewalk improvements; \$4,467,024 for general government projects, including major facility maintenance, computer replacements, and technology upgrades; \$3,400,000 for recreation and cultural projects, including park and trail improvements; \$680,616 for public safety system enhancements and records management upgrades; and \$530,000 to support economic development initiatives. Transfers to the Federal and State Assistance Fund totaled \$304,530 to provide local matching funds for federal and state programs. Transfers from the General Fund to enterprise funds consisted of \$8,878,124 to support transit system operations, planning functions, and capital purchases, and \$43,003 for environmental protection projects. In addition, \$993,000 was transferred from internal service funds to the General Fund. The Stormwater and Solid Waste Funds transferred a combined \$1,740,017 to nonmajor governmental funds to support citywide technology enhancements.

Note 13—Fund balance

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

Total Fund Balance - General Fund	\$ 102,662,682
Less:	
Nonspendable	
Inventories	118,215
Prepays	2,248,443
Loan	3,071,352
Leases	399,335
Restricted	
Stabilization by State Statute	40,012,777
For Central Business District	130,119
For county recreation	1,418,678
Donations	177,113
Committed	
Law Enforcement Officer's Separation Allowance	13,494,341
Assigned	
Subsequent years expenditures	7,853,418
Capital funding plan	6,745,221
Unassigned	26,993,670
Working capital/fund balance policy	20,444,197
Remaining fund balance	\$ 6,549,473

The City has adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the City in such a manner that unassigned fund balance is at least 10% of the succeeding year's general fund expenditure budget, excluding the budget for the County Recreation Program.

NOTES TO FINANCIAL STATEMENTS

June 30, 2025

Note 13—Fund balance (continued)

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year end.

Total Encumbrances	General Fund	Other Major Funds	Non-Major Funds
\$ 49,260,180	\$ 2,866,634	\$ 8,643,328	\$ 37,750,218

Note 14—Related party transactions

PWC operates as a discretely presented component unit of the City of Fayetteville, North Carolina. As such, the Commission provides electric and water/wastewater services to the City. Services, which are billed and paid monthly, totaled \$2,414,963 in 2025. In addition, intergovernmental transactions are made in amounts as determined by the respective governing Boards. Net intergovernmental transactions with PWC amounted to \$11,049,940 in 2025. Balances due to/from PWC at June 30, 2025, were as follows:

Receivables (due from PWC)	\$ 29,367
Payables (due to PWC)	\$ 54,517
Assessments (due to PWC)	4,268,930
Assessment interest (due to PWC)	503,795
Total due to PWC	\$ 4,827,242

Note 15—Subsequent events

Management has evaluated subsequent events through February 12, 2026 in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. No subsequent events were evaluated for disclosure.

Note 16—Recently issued accounting pronouncements

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to bring more structure and detail to how subsequent events are reported ensuring users of governmental financial statements get comparable and comprehensive information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

The City is evaluating the requirements of the above statements and their impact on reporting.

The following financial statements have been compiled from the audited financial statements of the City for the fiscal years ended June 30, 2025, 2024, and 2023.

City of Fayetteville, North Carolina
General Fund
Balance Sheet
As of June 30, 2025, 2024, 2023

	2025	2024	2023
Assets			
Cash and investments	\$ 74,444,414	\$ 61,019,465	\$ 73,591,644
Taxes receivable	17,663,225	4,253,428	1,038,780
Accounts receivable	3,670,023	1,648,300	5,643,951
Due from other governments	2,879,846	20,925,409	20,936,675
Interfund receivable	16,067,760	11,537,601	3,593,259
Assessments receivable	1,051,551	1,051,551	925,969
Prepaid items	2,248,443	4,733,782	2,491,166
Lease receivable	5,428,976	5,440,643	5,612,521
Inventories	118,215	100,323	105,691
Notes receivable	3,071,352	3,071,352	-
Restricted cash and investments	1,421,289	1,978,006	3,460,396
Restricted accounts receivable	262,760	507,604	337,390
Total assets	<u>\$ 128,327,854</u>	<u>\$ 116,267,464</u>	<u>\$ 117,737,442</u>
Liabilities			
Accounts payable and accrued expenses	\$ 9,202,275	\$ 5,531,788	\$ 11,992,571
Restricted unearned deposits	800,605	720,745	799,608
Unearned revenues	5,615,543	122,756	97,831
Total liabilities	<u>15,618,423</u>	<u>6,375,289</u>	<u>12,890,010</u>
Deferred inflows of resources			
Taxes receivable	769,353	891,588	1,038,780
Accounts receivable	3,121,910	3,121,910	3,121,910
Assessment receivable	1,051,550	1,365,933	1,155,558
Lease receivable	5,029,641	5,100,862	5,375,710
Prepaid taxes	74,295	74,295	54,918
Total deferred inflows of resources	<u>10,046,749</u>	<u>10,554,588</u>	<u>10,746,876</u>
Fund Balances			
Nonspendable:			
Inventories	118,215	100,423	105,691
Prepaid items	2,248,443	4,733,782	2,491,166
Loan	3,071,352	3,071,352	-
Leases	399,335	339,781	236,811
Restricted for:			
Stabilization by State Statute	40,012,777	37,385,674	33,738,606
Interfund balances	-	11,537,601	-
Central business district	130,119	115,111	-
County business	1,418,678	-	-
County recreation	-	1,370,924	2,838,957
Downtown	-	-	119,454
Donations	177,113	77,850	49,441
Committed Fund Balance:			
Law Enforcement Special Separation Allowance	13,494,341	11,930,701	10,340,293
Assigned Fund Balance:			
For subsequent year's expenditures	7,853,418	3,149,046	5,928,086
For special purpose	-	-	3,300,000
For capital projects	6,745,221	5,261,546	6,748,577
Unassigned	26,993,670	20,263,796	28,203,474
Total fund balances	<u>102,662,682</u>	<u>99,337,587</u>	<u>94,100,556</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 128,327,854</u>	<u>\$ 116,267,464</u>	<u>\$ 117,737,442</u>

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

City of Fayetteville, North Carolina
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2025, 2024, 2023

	2025	2024	2023
Revenues			
Ad valorem taxes	\$ 89,254,171	\$ 80,769,510	\$ 73,856,911
Other taxes and fees	92,647,338	4,101,012	1,502,107
Unrestricted intergovernmental	17,736,522	87,979,466	88,541,823
Restricted intergovernmental	-	10,732,161	12,454,591
Permits and fees	3,317,663	4,304,246	3,308,455
Sales and services	8,405,592	7,263,718	5,592,546
Miscellaneous	4,807,681	3,508,734	3,591,182
Interest earned on investments	3,995,145	3,757,190	3,880,103
Total revenues	<u>220,164,112</u>	<u>202,416,037</u>	<u>192,727,718</u>
Expenditures			
Current:			
Administration	40,122,626	33,708,931	31,074,444
Public safety	104,254,042	86,780,231	96,484,379
Environmental protection	812,026	-	418,468
Transportation	9,115,214	9,796,269	10,647,649
Economic and physical development	2,982,212	9,898,901	2,576,931
Recreation and community facilities	20,494,698	18,110,596	17,376,425
Capital outlay	1,526,965	7,343,105	1,807,191
Debt service:			
Principal	13,398,872	14,998,330	16,125,426
Interest and other fees	3,519,557	4,043,551	4,135,517
Total expenditures	<u>196,226,212</u>	<u>184,679,914</u>	<u>180,646,430</u>
Revenues over expenditures	<u>23,937,900</u>	<u>17,736,123</u>	<u>12,081,288</u>
Other financing sources (uses)			
Transfers from other funds:			
Internal service funds	1,080,784	822,000	1,111,000
Transfers to other funds:			
Special revenue funds	(304,530)	(1,046,273)	(364,288)
Capital projects funds	(12,800,407)	(9,256,149)	(9,993,551)
Enterprise funds	(8,878,124)	(8,814,331)	(6,980,780)
Internal service funds	-	-	(118,649)
Custodial funds	-	-	(890)
Sale of capital assets	237,950	880,248	128,342
Lease and subscription liabilities	51,522	1,729,413	1,807,191
Issuance of debt	-	3,186,000	1,265,000
Total other financing uses	<u>(20,612,805)</u>	<u>(12,499,092)</u>	<u>(13,146,625)</u>
Net change in fund balances	<u>3,325,095</u>	<u>5,237,031</u>	<u>(1,065,337)</u>
Fund balance, beginning of year	<u>99,337,587</u>	<u>94,100,556</u>	<u>95,165,893</u>
Fund balance, end of year	<u>\$ 102,662,682</u>	<u>\$ 99,337,587</u>	<u>\$ 94,100,556</u>

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

The following budget statements have been compiled from the budget ordinance and related amendments of the City for the fiscal year ending June 30, 2026.

City of Fayetteville, North Carolina
Compiled Budget - General Fund
For the Fiscal Year Ending June 30, 2026
As of March 10, 2026

	<u>General</u>
Estimated Revenues	
Ad valorem taxes	\$ 110,033,211
Other taxes and fees	14,858,218
Unrestricted intergovernmental	7,012,648
Restricted intergovernmental	55,275,807
Permits and fees	6,185,052
Sales and services	2,576,441
Miscellaneous	1,316,478
Interest earned on investments	3,475,000
Total estimated revenues	<u>200,732,855</u>
Appropriations	
Current:	
Administration	39,950,684
Public safety	113,062,063
Environmental protection	851,000
Transportation	9,772,230
Economic and physical development	1,812,152
Recreation and community facilities	23,841,533
Debt service:	
Principal	7,838,953
Interest	3,058,710
Debt issuance costs	410,000
Total appropriations	<u>200,597,325</u>
Estimated revenues over appropriations	<u>135,530</u>
Other Financing Sources (Uses)	
Transfers from other funds	4,703,927
Transfers to other funds:	
Special revenue funds	(347,728)
Capital projects funds	(13,164,305)
Enterprise funds	(8,577,332)
Internal service funds	-
Sale of capital assets	82,000
Issuance of debt	410,000
Appropriated fund balance	16,757,908
Total other financing uses	<u>(135,530)</u>
Estimated revenues and other financing sources over appropriations and other uses	<u>\$ -</u>

Compiled by the staff of the Fayetteville Finance Department



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April 15, 2026

City Council of the
City of Fayetteville, North Carolina

We have examined, as bond counsel to the City of Fayetteville, North Carolina (the “City”), existing law, certified copies of such legal proceedings and such other proofs as we have deemed necessary to deliver this opinion, relative to \$40,000,000 General Obligation Public Improvement Bonds, Series 2026 (the “Bonds”), dated their date of delivery, of the City.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on such examination, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and proofs show lawful authority for the sale and issuance of the Bonds pursuant to The Local Government Finance Act, Chapter 159, as amended, of the General Statutes of North Carolina.
2. The Bonds constitute valid and binding general obligations of the City, for the payment of the principal of and the interest on which all taxable real and tangible personal property within the City is subject to the levy of ad valorem taxes, without limitation as to rate or amount.
3. Assuming continuing compliance by the City with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), regarding, among other matters, use, expenditure and investment of Bond proceeds, and the timely payment of certain investment earnings to the United States Treasury, interest on the Bonds is not includable in the gross income of the owners thereof for purposes of federal income taxation and is not a specific preference item for purposes of the alternative minimum tax imposed by the Code; however, interest on the Bonds held by certain corporations is included in the computation of “adjusted financial statement income” for purposes of the federal alternative minimum tax imposed on such corporations.

4. Interest on the Bonds is exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

With kind regards,

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 to 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 City 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 detailed information from the City, 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 City 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 City'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 City. 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 City 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 City takes no responsibility for the accuracy thereof.

The City 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 CITY 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.