

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 30, 2026

NEW ISSUE BOOK-ENTRY ONLY

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

In the opinion of McGuireWoods LLP, under existing law and subject to the conditions described in "TAX TREATMENT" herein, interest on the Series 2026 Bonds (defined herein) (i) is excludable from gross income of the owners thereof for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. McGuireWoods LLP is further of the opinion that interest on the Series 2026 Bonds is exempt from State of North Carolina income taxation. See "TAX TREATMENT" herein.



\$120,485,000* METROPOLITAN SEWERAGE DISTRICT OF BUNCOMBE COUNTY, NORTH CAROLINA Sewerage System Revenue Bonds, Series 2026

Dated: Date of Issuance

Due: July 1, as shown below

The above-referenced bonds (the "Series 2026 Bonds") are being issued by the Metropolitan Sewerage District of Buncombe County, North Carolina (the "District"). The principal of and interest on the Series 2026 Bonds are payable solely from, and secured solely by a pledge of, the Net Receipts (defined herein) of the System (defined herein) and from certain other moneys of the District under the terms of the Bond Order (defined herein). **NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NORTH CAROLINA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO PAYMENT OF THE SERIES 2026 BONDS. THE SERIES 2026 BONDS DO NOT OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY TAXES THEREFOR OR TO MAKE ANY PROVISION FOR THEIR PAYMENT EXCEPT FROM FUNDS MADE AVAILABLE THEREFOR UNDER THE BOND ORDER.**

The Series 2026 Bonds are subject to redemption prior to their maturity, as more fully described herein.

The Series 2026 Bonds will be issued as fully registered certificates and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of the Series 2026 Bonds will be made in book-entry only form in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates. Transfers of the Series 2026 Bonds will be effected through a book-entry only system as described herein. Payments of principal of, premium, if any, and interest on the Series 2026 Bonds will be made to Cede & Co., as nominee for DTC as registered owner of the Series 2026 Bonds, by The Bank of New York Mellon Trust Company, N.A., as trustee, to be subsequently disbursed to the beneficial owners of the Series 2026 Bonds. Interest on the Series 2026 Bonds is payable on January 1 and July 1, beginning July 1, 2027 at the rates set forth below. Principal is payable, subject to redemption of the Series 2026 Bonds as hereinafter described, on July 1 in the years and amounts set forth below.

Maturity Schedule*

\$97,550,000 Serial Bonds

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> [†]
2027	\$4,255,000				2038	\$4,255,000			
2028	2,610,000				2039	4,470,000			
2029	2,745,000				2040	4,690,000			
2030	2,880,000				2041	4,925,000			
2031	3,025,000				2042	5,170,000			
2032	3,175,000				2043	5,430,000			
2033	3,335,000				2044	5,700,000			
2034	3,500,000				2045	5,985,000			
2035	3,675,000				2046	6,285,000			
2036	3,860,000				2047	6,600,000			
2037	4,050,000				2048	6,930,000			

\$22,935,000 ____ % Term Bonds due July 1, 2051, Yield ____ %, CUSIP No. _____[†]

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by FactSet Research Systems, Inc. Copyright ©2026 CUSIP Global Services. All rights reserved. The District and the Underwriters do not take responsibility for the accuracy of such data. Also, investors should be aware that under certain circumstances the CUSIP identification number assigned to a maturity of the Series 2026 Bonds may be changed to a new replacement number.

The Series 2026 Bonds are offered, subject to prior sale, when, as and if issued by the District and accepted by the Underwriters, subject to the approval of their validity by McGuireWoods LLP, Raleigh, North Carolina, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by its counsel, Roberts & Stevens, P.A., Asheville, North Carolina, and for the Underwriters by their counsel, Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina. Davenport & Company LLC, Charlotte, North Carolina, is serving as Financial Advisor to the District. It is expected that the Series 2026 Bonds will be available through the facilities of DTC for delivery on or about October __, 2026.

Wells Fargo Securities

Raymond James

Dated: October 7, 2026

Truist Securities

*Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

In connection with this offering, Wells Fargo Bank, National Association, Raymond James & Associates, Inc. and Truist Securities, Inc. (collectively, the “Underwriters”) may overallocate or effect transactions that stabilize or maintain the market price of the Series 2026 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Neither the Series 2026 Bonds nor the Bond Order (as defined herein) has been registered or qualified with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended. The registration or qualification of the Series 2026 Bonds or the Bond Order in accordance with applicable provisions of securities laws of the states in which the Series 2026 Bonds and the Bond Order have been registered or qualified, if any, and the exemption from registration or qualification in other states, shall not be regarded as a recommendation thereof.

In making an investment decision, investors must rely on their own examination of the District and the terms of the offering, including the merits and risks involved. The Series 2026 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2026 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the District since the date hereof.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 (as defined herein).

For purposes of compliance with Rule 15c2-12, this Official Statement is deemed to be a final official statement with respect to the Series 2026 Bonds within the meaning of Rule 15c2-12, except, when it is in preliminary form, for the omission of certain pricing and other information authorized to be omitted by Rule 15c2-12.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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STATE AND LOCAL GOVERNMENT FINANCE DIVISION
LOCAL GOVERNMENT COMMISSION

OFFICIAL STATEMENT

Related to

\$120,485,000*

**METROPOLITAN SEWERAGE DISTRICT
OF BUNCOMBE COUNTY, NORTH CAROLINA
Sewerage System Revenue Bonds, Series 2026**

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is intended to furnish information in connection with the offering of \$120,485,000* Sewerage System Revenue Bonds, Series 2026 (the "Series 2026 Bonds") of the Metropolitan Sewerage District of Buncombe County, North Carolina (the "District").

This introduction provides certain limited information to serve as a guide to this Official Statement and is expressly qualified by this Official Statement as a whole. Prospective investors should make a full review of the entire Official Statement and of the documents summarized or described herein. For the definition of certain terms used in this Official Statement and a summary of certain provisions of the Bond Order and the 2026 Series Resolution (each as hereinafter defined), see **APPENDIX D, "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."** Capitalized terms used in this Official Statement, unless otherwise defined herein, have the meanings given such terms in the Bond Order.

The District and the System. See **APPENDIX A, "METROPOLITAN SEWERAGE DISTRICT OF BUNCOMBE COUNTY, NORTH CAROLINA"** for information regarding the District and its sewerage system facilities (the "System"). See **APPENDIX B, "DISTRICT SERVICE AREA"** for information regarding the District's service area.

Authorization. The Series 2026 Bonds are being issued pursuant to (1) the North Carolina Metropolitan Sewerage Districts Act, being Article 5 of Chapter 162A of the General Statutes of North Carolina, as amended, and, in accordance with the provisions thereof, The State and Local Government Revenue Bond Act, being Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended (collectively, the "Enabling Act"); (2) an Amended and Restated Bond Order adopted by the District Board of the District on April 21, 1999 (the "Bond Order"); and (3) a series resolution adopted by the District Board of the District on September 16, 2026 (the "2026 Series Resolution"). Under the Bond Order, The Bank of New York Mellon Trust Company, N.A. serves as the trustee (the "Trustee"). The Bank of New York Mellon Trust Company, N.A. also will serve as Bond Registrar for the Series 2026 Bonds.

Security. The Series 2026 Bonds will be special obligations of the District, secured by a pledge of and payable from Net Receipts and certain other moneys. The Series 2026 Bonds will be additionally secured by certain funds, accounts and subaccounts held by the Trustee under the Bond Order and the 2026 Series Resolution. The Series 2026 Bonds will be secured under the Bond Order on a parity with the District's (1) \$33,635,000 Sewerage System Revenue Refunding Bonds, Series 2008A, of which

*Preliminary; subject to change.

\$10,885,000 in principal amount will be outstanding after issuance of the Series 2026 Bonds (the “Series 2008A Bonds”); (2) \$30,230,000 Sewerage System Revenue Refunding Bonds, Series 2013, of which \$3,725,000 in principal amount will be outstanding after issuance of the Series 2026 Bonds (the “Series 2013 Bonds”); (3) \$26,195,000 Sewerage System Revenue Bonds, Series 2014, of which \$16,785,000 in principal amount will be outstanding after issuance of the Series 2026 Bonds (the “Series 2014 Bonds”); (4) \$37,485,000 Sewerage System Revenue Bonds, Series 2017, of which \$26,765,000 in principal amount will be outstanding after issuance of the Series 2026 Bonds (the “Series 2017 Bonds”); and (5) any additional bonds hereafter issued by the District pursuant to the Bond Order. The Series 2008A Bonds, the Series 2013 Bonds, the Series 2014 Bonds, the Series 2017 Bonds, the Series 2026 Bonds and any additional bonds hereafter issued by the District pursuant to the Bond Order are referred to herein collectively as the “Bonds”. The District also has an outstanding interest-free revolving loan from the State of North Carolina payable from and secured by Net Receipts, of which \$67,294 principal amount will be outstanding after issuance of the Series 2026 Bonds (the “State Loan”). The State Loan is Subordinated Indebtedness under the Bond Order. See “**Parity Indebtedness and Subordinated Indebtedness**” herein. Subject to the provisions of the Bond Order, the District may incur or issue other obligations secured by a pledge of Net Receipts on a parity with the Bonds. See “**SECURITY FOR THE BONDS**” herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NORTH CAROLINA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2026 BONDS. THE SERIES 2026 BONDS DO NOT OBLIGATE THE STATE OF NORTH CAROLINA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY TAXES THEREFOR OR TO MAKE ANY PROVISION FOR THEIR PAYMENT EXCEPT FROM THE FUNDS MADE AVAILABLE THEREFOR UNDER THE BOND ORDER. See “**SECURITY FOR THE BONDS**” herein.

Purposes. The District is issuing the Series 2026 Bonds for the purpose of providing funds, together with other available funds, to (1) pay, or reimburse the District for paying, certain costs of the 2026 Project, as hereinafter described and (2) pay certain costs and expenses incurred in connection with the issuance of the Series 2026 Bonds. See “**THE 2026 PROJECT**” and “**ESTIMATED SOURCES AND USES OF FUNDS**” herein.

The Series 2026 Bonds. The Series 2026 Bonds will be dated as of their date of issuance and will bear interest from their date payable on July 1, 2027 and semiannually thereafter on each January 1 and July 1 at the rates shown on the cover. Principal of the Series 2026 Bonds will be payable, subject to redemption of the Series 2026 Bonds as described herein, on July 1 in the years and amounts shown on the cover. The Series 2026 Bonds are offered in denominations of \$5,000 and integral multiples thereof. The Series 2026 Bonds will be subject to optional redemption and mandatory sinking fund redemption, as described below. See “**THE SERIES 2026 BONDS**” herein.

Book-Entry Form. The Series 2026 Bonds will be issued in book-entry only form, without physical delivery of Series 2026 Bonds to beneficial owners of the Series 2026 Bonds (the “Beneficial Owners”). The Trustee will make principal, redemption premium (if any) and interest payments to The Depository Trust Company (“DTC”), which will in turn remit such payments to its participants for subsequent distribution to Beneficial Owners. See **APPENDIX G** hereto.

Tax Treatment. See the caption “**TAX TREATMENT**” herein.

Professionals. The Underwriters for the Series 2026 Bonds are listed on the inside cover page of this Official Statement. McGuireWoods LLP, Raleigh, North Carolina, serves as Bond Counsel to the District. Roberts & Stevens, P.A., Asheville, North Carolina, is counsel to the District. Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, is serving as counsel to the Underwriters. The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, is serving as the Trustee and Bond

Registrar. Davenport & Company LLC, Charlotte, North Carolina, is serving as Financial Advisor to the District.

Financial Statements. The District's basic financial statements have been audited by independent certified public accountants for each Fiscal Year through the Fiscal Year ended June 30, 2025. Copies of these financial statements including the unqualified reports of the independent certified public accountants are available from the District at 2028 Riverside Drive, Asheville, North Carolina 28804, Attention: Director of Finance. APPENDIX C hereto contains the District's basic financial statements and the notes thereto, taken from the District's audited financial statements for the Fiscal Year ended June 30, 2025, including the notes thereto.

Copies of Documents. Brief descriptions and summaries of the Series 2026 Bonds, the Bond Order and the 2026 Series Resolution are included in this Official Statement and the appendices hereto. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Bond Order and the 2026 Series Resolution are qualified in their entirety by reference to the originals thereof. Upon written request, the District's Director of Finance will provide copies of the Bond Order and the 2026 Series Resolution in reasonable quantities. The Director of Finance's address is 2028 Riverside Drive, Asheville, North Carolina 28804.

Continuing Disclosure. The District has undertaken in the 2026 Series Resolution to provide certain annual financial information and operating data and to provide notice of certain material events. See "CONTINUING DISCLOSURE OBLIGATIONS" herein.

THE SERIES 2026 BONDS

Authorization

The Series 2026 Bonds will be issued under the Enabling Act, the Bond Order and the 2026 Series Resolution. The sale of the Series 2026 Bonds will be made by the Local Government Commission of North Carolina (the "LGC"), subject to the approval of the District. See APPENDIX F hereto for information on the LGC and its borrowers and duties.

General Terms

Payment Terms. The Series 2026 Bonds will be dated as of their date of issuance, and will bear interest from their date payable on July 1, 2027, and semiannually thereafter on each January 1 and July 1 (the "Interest Payment Dates"), at the rates shown on the cover (calculated on the basis of a 360-day year consisting of twelve 30-day months). Principal of the Series 2026 Bonds will be payable, subject to redemption of the Series 2026 Bonds as described herein, on July 1 in the years and amounts shown on the cover. Payments will be effected through DTC. See APPENDIX G hereto.

Denominations. The Series 2026 Bonds are issuable only as fully registered bonds in denominations of \$5,000 and integral multiples thereof.

Transfer, Registration and Exchange. So long as DTC or its nominee is the registered owner of the Series 2026 Bonds, registration of transfers and exchanges of beneficial ownership interests in the Series 2026 Bonds will be available only through DTC participants, as hereinafter described. See APPENDIX G hereto.

Redemption Provisions

Optional Redemption of Series 2026 Bonds. The Series 2026 Bonds maturing on or after July 1, 20__ are subject to redemption prior to maturity, at the District's option, on or after July 1, 20__, in whole or in part on any date, from any funds that may be available to the District for such purpose, at a redemption price equal to 100% of the principal amount of such Series 2026 Bonds to be redeemed, plus accrued interest to the redemption date.

Sinking Fund Redemption of Series 2026 Bonds. The Series 2026 Bonds maturing on July 1, 20__ (the "Term Bonds") are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of such Series 2026 Bonds to be redeemed, plus accrued interest to the redemption date, on July 1 in the years and amounts as follows:

YEAR

AMOUNT

*Maturity

Notice of Redemption. The Bond Registrar is required to send notice of redemption of any Series 2026 Bonds to be redeemed by first-class mail, postage prepaid, at least 30 days but not more than 45 days before the redemption date to all Owners of Series 2026 Bonds to be redeemed, but notice to DTC will be sent by registered or certified mail. Failure to mail any notice to any Owner or any defect in such notice will not affect the validity of any proceedings for such redemption as to any other Owner to whom such notice is properly given. The 2026 Series Resolution also requires the Bond Registrar to send such notice of redemption to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access (EMMA) system, or any other entity designated or authorized by the MSRB or the United States Securities and Exchange Commission in accordance with then current guidelines, but failure to mail such notice or any defect therein shall not affect the validity of any proceedings for the redemption of any Series 2026 Bonds.

Any notice of redemption, except a notice of redemption with respect to a mandatory sinking fund redemption of the Series 2026 Bonds, may state that the redemption to be effected is conditioned on receipt by the Trustee or the Bond Registrar on or before the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Series 2026 Bonds to be redeemed. If such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Series 2026 Bonds are not received by the Trustee or the Bond Registrar on or before the redemption date, the redemption will not be made and the Bond Registrar will 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.

Selection of Series 2026 Bonds for Redemption. If less than all of the Series 2026 Bonds are called for redemption, the District will select the maturity or maturities of the Series 2026 Bonds to be redeemed. If less than all Series 2026 Bonds of any maturity are to be redeemed, the Series 2026 Bonds of such maturity to be redeemed will be selected (1) by DTC pursuant to its rules and procedures or (2) if a book-entry system is no longer in effect, by the Bond Registrar by lot; provided that if less than all of any one maturity of Series 2026 Bonds that are Term Bonds are called for redemption at the option of the District, the principal amount of Series 2026 Bonds so redeemed shall be applied in satisfaction, in whole or in part, of the Sinking Fund Requirement with respect to such Term Bond payable in such year or years as the District shall determine in its discretion. If the Series 2026 Bonds are to be redeemed in part, they

may be redeemed only in integral multiples of \$5,000 and each \$5,000 portion of the principal will be counted as one Series 2026 Bond for such purpose. If a portion of a Series 2026 Bond is called for redemption, a new Series 2026 Bond in principal amount equal to the unredeemed portion thereof shall be issued to the Owner thereof upon surrender thereof.

Effect of Call for Redemption. On or before the date on which the Series 2026 Bonds or portions thereof are to be redeemed, the District will deposit with the Trustee or the Bond Registrar money or Defeasance Obligations, or a combination of both, that will be sufficient to pay on the redemption date the Redemption Price of and interest accruing on the Series 2026 Bonds to be redeemed on such redemption date.

If notice is properly given, the Series 2026 Bonds or portions thereof so called for redemption shall be due and payable at the redemption price provided therefor, plus accrued interest to such date, and if moneys sufficient to pay the redemption price of the Series 2026 Bonds or portions thereof to be redeemed plus accrued interest thereon to the date of redemption are held by the Trustee or the Bond Registrar in trust for the Owners of Series 2026 Bonds to be redeemed, (1) interest on such Series 2026 Bonds or portions thereof shall cease to accrue from and after such date, (2) such Series 2026 Bonds or portions thereof shall cease to be entitled to any benefits or security under the Bond Order or to be deemed Outstanding and (3) Owners of such Series 2026 Bonds or portions thereof shall have no right in respect thereof except to receipt of payment of the Redemption Price thereof, plus accrued interest to the date fixed for redemption.

SECURITY FOR THE BONDS

Special Obligations

The Series 2026 Bonds are special obligations of the District, secured by a pledge of and payable from Net Receipts and certain other moneys of the District hereinafter described. The Bonds are, and any additional Bonds issued by the District under the Bond Order will be, equally and ratably secured by Net Receipts and such other moneys, and the District is not obligated to pay the principal of or the interest on the Bonds or any such additional Bonds except from Net Receipts and such other moneys. **NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF NORTH CAROLINA OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2026 BONDS. THE SERIES 2026 BONDS DO NOT OBLIGATE THE STATE OF NORTH CAROLINA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY TAXES THEREFOR OR TO MAKE ANY PROVISION FOR THEIR PAYMENT EXCEPT FROM FUNDS MADE AVAILABLE THEREFOR UNDER THE BOND ORDER.**

The District will not sell or dispose of the System or any part thereof except upon compliance with the provisions of the Bond Order. See “**SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER—Covenants Against Sale and Exceptions Thereto**” in APPENDIX D hereto.

Pledge of Net Receipts

The Net Receipts of the System are pledged to the payment of, and as security for, the Bonds, the State Loan and any other Parity Indebtedness or Subordinated Indebtedness. See “**—Parity Indebtedness and Subordinated Indebtedness**” herein.

Net Receipts for any period means the excess, if any, of Gross Receipts after the payment of Current Expenses for such period. Gross Receipts generally include all receipts, revenues, income, proceeds and money received in any period by or for the District in respect of the System. Current Expenses generally include the District’s current expenses for the operation, maintenance and repair of the System as determined in accordance with generally accepted accounting principles, except that Current Expenses do not include reserves for extraordinary replacements and repairs, allowances for depreciation or amortization

of financing expense, deposits to any fund, account or subaccount created by the Bond Order or any Series Resolution or debt service payments or deposits in respect of Parity Debt, Subordinated Indebtedness or System G.O. Indebtedness. See **APPENDIX D** hereto for complete definitions of “Gross Receipts” and “Current Expenses.”

Subject to compliance with applicable provisions of North Carolina law, the District may issue general obligation bonds, secured by the ad valorem taxing power of the District, to finance the costs of improvements to the System. The District currently has no System G.O. Indebtedness. Under the Bond Order, System G.O. Indebtedness is not secured by a pledge of and lien on the Net Receipts, but may be paid from Net Receipts following the payment of the Bonds and Parity Debt, Subordinated Indebtedness and any required transfers to reserve funds. See “**Application of Gross Receipts**” herein. In addition, although the Bond Order does not create a pledge of and lien on the Net Receipts on behalf of the holders of System G.O. Indebtedness, North Carolina law requires that revenues, if any, of a utility or public service enterprise must be applied, first, to pay the operating, maintenance and capital outlay costs of the utility or enterprise, and, second, to pay the bonds incurred to finance the utility or enterprise before such funds may be used for any other purpose. Therefore, although the District is not required by law to collect rates, fees and charges sufficient to pay debt service on System G.O. Indebtedness, to the extent such rates, fees and charges are collected, they must be applied to pay debt service on System G.O. Indebtedness to the extent amounts are available for such purpose following payment of Current Expenses, capital outlay, debt service on Parity Debt and Subordinated Indebtedness and required reserve fund transfers.

Funds and Accounts

Revenue Account. The Revenue Account will be administered by the District and will not be a Trustee-held fund. The District will deposit all Gross Receipts as received in the Revenue Account. In addition, all proceeds of any Derivative Agreement will be deposited in the Revenue Account. However, on the occurrence of any Event of Default under the Bond Order, the Trustee may, and on the written request of the Owners and Holders of not less than a majority in aggregate principal amount of Parity Indebtedness then Outstanding will, (a) require the District to endorse all checks and other negotiable instruments representing Gross Receipts to the order of the Trustee immediately on receipt thereof and deliver such endorsed instruments daily to the Trustee, (b) notify any or all account debtors of the District to pay any amounts representing Gross Receipts, when due and owing, directly to the Trustee and (c) require the District to deliver to the Trustee all money and Investment Obligations held by the District in the Revenue Account. The disposition of Gross Receipts held by the Trustee under (a), (b) and (c) above is subject to the provisions of the Bond Order governing the disposition of Gross Receipts to the same extent as if the District had deposited such Gross Receipts in the Revenue Account.

Bond Fund. The Bond Fund is held by the Trustee and consists of six separate accounts known as the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account and the Parity Reserve Account. Each Series Resolution authorizing a Series of Bonds will provide for the creation, to the extent applicable, of separate subaccounts within the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account and the Redemption Account relating to the Series of Bonds authorized by such Series Resolution. Moneys held in such subaccounts are pledged to the payment of the principal of (whether at maturity or pursuant to mandatory sinking fund redemption) and interest on the Series of Bonds for which such subaccounts are established.

Parity Reserve Account. Each Parity Resolution providing for the issuance or incurrence of Parity Indebtedness may provide that the Parity Indebtedness authorized thereby will be secured by the Parity Reserve Account. If any Parity Indebtedness is secured by the Parity Reserve Account, the District must fund the Parity Reserve Account in an amount equal to the Parity Reserve Account Requirement at the time of delivery and payment for such Parity Indebtedness. If the Parity Resolution authorizing Parity

Indebtedness does not provide that such Parity Indebtedness will be secured by the Parity Reserve Account, such Parity Indebtedness will have no claim on the Parity Reserve Account. Moneys on deposit in the Parity Reserve Account (or provided under a Reserve Alternative Instrument) will be used as necessary to pay the principal of and interest on all Parity Indebtedness secured by the Parity Reserve Account to the extent that moneys on deposit for such payment are insufficient therefor. The Series 2026 Bonds will not be secured by the Parity Reserve Account.

Special Reserve Account. A Parity Resolution authorizing Parity Indebtedness may also provide for the creation of a Special Reserve Account to be maintained by the Trustee or a Depositary that will secure only the Parity Indebtedness authorized by such Parity Resolution. The Series 2026 Bonds will not be secured by a Special Reserve Account.

Insurance and Condemnation Award Account. The Insurance and Condemnation Award Account will be held by the Trustee. Under certain circumstances described in the Bond Order, Net Insurance Proceeds and Net Eminent Domain Proceeds are required to be deposited by the District in the Insurance and Condemnation Award Account. Moneys held in the Insurance and Condemnation Award Account will be (a) disbursed to replace, repair, rebuild or restore the System or to redeem Bonds or Parity Debt in the manner set forth in the Bond Order or (b) transferred to the District's General Fund or any other fund or account designated by the District if the System has been restored with other funds of the District which were not subject to the lien in favor of the Owners and Holders. See "**SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER—Insurance and Condemnation Award Account**" in **APPENDIX D** hereto.

Capital Reserve Fund. The Capital Reserve Fund will be administered by the District and will not be a Trustee-held fund. Moneys held in the Capital Reserve Fund will be used (a) in the District's sole discretion, to make deposits to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account to remedy any deficiency therein or to pay the interest on or the principal of or amortization requirements in respect of any Parity Debt when due, whenever moneys are insufficient for such purposes and (b) to pay all or a portion of the cost of unusual or extraordinary maintenance, repairs, renewals or replacements or capital improvements related to the System. The Capital Reserve Fund is currently funded at the Capital Reserve Fund Requirement. **DEPOSITS TO THE CAPITAL RESERVE FUND BY THE DISTRICT TO PAY PRINCIPAL OF OR INTEREST ON THE BONDS IS WHOLLY DISCRETIONARY, AND NO MONEYS ARE CURRENTLY BEING DEPOSITED THEREIN FOR SUCH PURPOSE. THE OWNERS OF THE SERIES 2026 BONDS SHOULD NOT ANTICIPATE THAT MONEYS WILL BE AVAILABLE IN THE CAPITAL RESERVE FUND TO PAY PRINCIPAL OF OR INTEREST ON THE SERIES 2026 BONDS.**

Series 2026 Project Account. On the delivery date of the Series 2026 Bonds, the District will cause to be deposited with the Trustee, from the proceeds of the Series 2026 Bonds, to the credit of the Series 2026 Project Account in the Construction Fund, such amount as is required by the 2026 Series Resolution. The Series 2026 Project Account will be governed by the provisions of the Bond Order, and the moneys in the Series 2026 Project Account will be applied to pay, or reimburse the District for paying, the costs of the 2026 Project and the costs of issuance of the Series 2026 Bonds.

Application of Gross Receipts

The District will pay Current Expenses from Gross Receipts deposited in the Revenue Account, and Current Expenses will be a first charge against the Revenue Account; provided, however, that the District may pay Current Expenses from any other legally available sources. Current Expenses will be paid as they become due and payable in conformity with the District's applicable budgetary and payment procedures. At such time or times as are specifically provided for in the Bond Order or in any Parity Debt

Resolution or Derivative Agreement, the District will use amounts on deposit in the Revenue Account to make the required deposits under such documents.

The 2026 Series Resolution provides that, with respect to the Series 2026 Bonds, the District will deposit with the Trustee from moneys held in the Revenue Account the following amounts, for application in the following order:

(a) into the Series 2026 Subaccount of the Interest Account, two Business Days prior to the next ensuing Interest Payment Date, an amount equal to the interest payable on the Series 2026 Bonds on such Interest Payment Date;

(b) into the Series 2026 Subaccount of the Principal Account, two Business Days prior to July 1 of each year, an amount equal to the principal of all Series 2026 Bonds that are Serial Bonds due on such July 1; and

(c) into the Series 2026 Subaccount of the Sinking Fund Account, two Business Days prior to July 1 of each year, the amount required to retire the Series 2026 Bonds that are Term Bonds to be called by mandatory redemption or to be paid at maturity on such July 1, in accordance with the Sinking Fund Requirements therefor.

The deposits required by the 2026 Series Resolution mentioned above are subject to the provisions of the Bond Order which provides that the District will deposit from moneys held in the Revenue Account the following amounts, for application in the following manner and order:

(a) (i) at such time or times as provided in the Parity Resolutions, the District will deliver to the Trustee (1) the amounts required in any Series Resolution for deposit to the appropriate subaccounts of the Interest Account and (2) the amounts required by any Parity Debt Resolution for the payment of interest on such Parity Debt for deposit with or payment to the appropriate Persons designated in such Parity Debt Resolution and (ii) if a Derivative Agreement provides for any payments thereunder by the District relating to interest on Parity Indebtedness constituting Derivative Indebtedness, then, at such time or times as provided in the Derivative Agreement, the District will deliver to the Trustee for deposit with or payment to the Person designated in the Derivative Agreement the amount of such interest required by such Derivative Agreement to be paid thereunder by the District, provided that if there are not sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments will be made to each such subaccount and appropriate Person designated in such Parity Debt Resolution or Derivative Agreement ratably according to the amount so required to be deposited or paid;

(b) at such time or times as provided in the Parity Resolutions, the District will deliver to the Trustee (1) the amounts required in any Series Resolution for deposit to the appropriate subaccounts of the Principal Account and the Sinking Fund Account and (2) the amounts required by any Parity Debt Resolution for the payment of principal on Parity Debt, whether at maturity or pursuant to an amortization requirement, for deposit with or payment to the appropriate Persons designated in such Parity Debt Resolution, provided that if there are not sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments will be made to each such subaccount and appropriate Person designated in such Parity Debt Resolution ratably according to the amount so required to be deposited or paid;

(c) at such time or times as provided in the Parity Resolutions, if the amount in the Parity Reserve Account is less than the Parity Reserve Account Requirement or the amount in any Special Reserve Account is less than the applicable Special Reserve Account Requirement, the District will deliver to the Trustee the amounts required by the Bond Order to replenish any

deficiency in the Parity Reserve Account and the amounts required by any Series Resolution or Parity Debt Resolution to make up any deficiencies in any Special Reserve Accounts for deposit in such Special Reserve Accounts or payment to the appropriate parties designated in such Series Resolution or Parity Debt Resolutions, provided that if there is not sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments will be made among the Parity Reserve Account and each Special Reserve Account ratably according to the amounts so required to be deposited or paid;

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

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

(f) beginning on July 25 of each Fiscal Year, and thereafter on the 25th day of each month, the District will deposit to the credit of the Capital Reserve Fund 1/12th of the difference between the amount on deposit therein at the close of business on the immediately preceding July 24th and the Capital Reserve Fund Requirement.

The District may provide in a Subordinated Indebtedness Resolution for the disposition of Net Receipts for the principal of or interest on Subordinated Indebtedness or in a Derivative Agreement for the making of payments or repayments thereunder on a subordinated basis prior to the deposits required by clauses (d), (e) and (f) above, but only after making the required deposits or payments required by clauses (a), (b) and (c) above.

Except during the continuation of an Event of Default, the District, in its discretion, after making the deposits required by clauses (a), (b), (c), (d), (e) and (f) above, may transfer any balance remaining in the Revenue Account in each month, in whole or in part, to the General Fund or any fund or account designated by the District, provided that (1) an Authorized Officer first certifies to the Trustee that, in his or her opinion, the transfer of such amount will not have a materially adverse effect on the District's ability over the next 12 calendar months to pay Current Expenses, to make the deposits required under the Bond Order and to meet all other financial obligations imposed by the Bond Order or any Parity Resolution and (2) the amount transferred in any month does not exceed 1/12th of the total amount budgeted to be transferred from the Revenue Account in such Fiscal Year as shown in the Annual Budget multiplied by the number of full months elapsed in such Fiscal Year less amounts previously transferred from the Revenue Account in such Fiscal Year. ANY MONEYS SO TRANSFERRED, OTHER THAN TRANSFERS MADE TO ANY ACCOUNT OR SUBACCOUNT OF THE BOND FUND, WILL NO LONGER BE SUBJECT TO THE PLEDGE, CHARGE AND LIEN UPON THE NET RECEIPTS CREATED BY THE BOND ORDER.

Notwithstanding anything in the 2026 Series Resolution to the contrary, the District's obligation to make any and all termination payments or other fees, expenses, indemnification or other obligations under any Derivative Agreement entered into with respect to the Series 2026 Bonds, other than required payments thereunder by the District relating to interest on Parity Indebtedness constituting Derivative Indebtedness, will be subordinate and junior in right of payment to the prior payment in full of Parity Indebtedness and Subordinated Indebtedness, and will be payable by the District after the payments required by clauses (a), (b), (c), (d), (e) and (f) above. The obligation of the District described in the preceding sentence will not constitute Indebtedness for purposes of the Bond Order and the 2026 Series Resolution.

General Fund

The Bond Order creates a General Fund established with a Depository of the District to the credit of which the District may make deposits monthly. The Bond Order also provides for the deposit to the credit of the General Fund of any moneys representing acreage, tap, connection, developer, plant capacity, sampling and monitoring fees, impact fees, special assessment and similar fees and charges and grants.

Under the Bond Order, moneys in the General Fund which represent Gross Receipts and such acreage, tap, connection, developer, plant capacity, sampling and monitoring fees, impact fees, special assessment and similar fees and charges and grants (less the allocable costs of providing the capital improvements in connection with which such fees and charges and grants are collected and any amounts of such fees and charges which are otherwise obligated) may be used for any lawful purpose of the District.

Parity Indebtedness and Subordinated Indebtedness

Under the conditions and limitations set forth in the Bond Order and without the approval or consent of the Owners or Holders of Indebtedness, the District may issue or incur additional Parity Indebtedness secured by a pledge, charge and lien upon the Net Receipts on parity with the Series 2026 Bonds. See **“SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER—Limitation on Parity Indebtedness”** in APPENDIX D hereto.

Under the conditions and limitations set forth in the Bond Order and without the approval or consent of the Owners or Holders of Indebtedness, the District may issue or incur Subordinated Indebtedness which shall be subordinate and junior in right of payment to the prior payment in full of Parity Indebtedness to the extent and in the manner set forth in the Bond Order and that may be made payable from Net Receipts but only after the District has made the cash deposits required under the Bond Order to pay, among other things, principal of and interest on the Series 2026 Bonds and any other Parity Indebtedness, and the amounts required by the related documentation to make up any deficiencies in the Parity Reserve Account or any Special Reserve Account. See **“SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER—Limitation on Subordinated Indebtedness”** in APPENDIX D hereto.

Rate Covenant

Under the Bond Order, the District has covenanted as follows:

(a) to fix, charge and collect rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary, to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Income Available for Debt Service for each Fiscal Year will not be less than the greater of (1) 120% of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year or (2) 100% of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year; and

(b) to fix, charge and collect rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the System, and from time to time and as often as it shall appear necessary to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Gross Receipts will be sufficient in each Fiscal Year (1) to pay the Current Expenses, (2) to make the cash deposits in each Fiscal Year required under the Bond Order to pay, among other things, principal of and interest on the Bonds and any other Parity Indebtedness, and the amounts required by the related documentation to make up any deficiencies in the Parity Reserve Account or any Special Reserve Account and (3) to make the cash deposits in each Fiscal

Year required by any Subordinated Indebtedness Resolutions with respect to the payment of interest on or principal of Subordinated Indebtedness.

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

THE 2026 PROJECT

The District is issuing the Series 2026 Bonds for the purpose of providing funds, together with other available funds, to (1) pay, or reimburse the District for paying, certain costs of the 2026 Project and (2) pay certain costs and expenses incurred in connection with the issuance of the Series 2026 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The 2026 Project consists of various improvements to the System including (1) the replacement and rehabilitation of various sewer interceptors and collection lines and (2) the replacement of, and installation of equipment for, incinerators and pump stations of the District. Certain details relating to the 2026 Project are set forth below.

Sewer Interceptors and Collection Lines Replacement and Rehabilitation. The 2026 Project includes 8 projects located throughout the District that replace and/or rehabilitate old lines in poor structural condition or are undersized. These projects include replacing or lining approximately 36,006 linear feet of 6-inch through 12-inch collection or interceptor pipe.

Intermediate Clarifier Effluent Trough Rehabilitation. This portion of the 2026 Project includes the demolition, removal and rehabilitation of troughs and sludge collection equipment in the intermediate clarifiers at the District's Water Reclamation Facility in Woodfin (the "Water Reclamation Facility").

Motor Control Center Replacement. This portion of the 2026 Project includes the replacement of obsolete motor control centers at the Plant Operations Maintenance Building and the Clarifier Switchgear Building of the District.

Incinerator Rehabilitation Project. This portion of the 2026 Project includes the rehabilitation of the fluidized bed incinerator at the Water Reclamation Facility, including (1) removal, disposal, and replacement of the incinerator's internal masonry dome floor, corbel, walls, ceiling, castable refractory, and all associated materials, (2) removal and replacement of the dome tuyeres, deteriorated sections of the exterior shell, various ports, and related accessories and (3) removal, disposal and replacement of a 52-inch expansion joint located in the incinerator's waste gas duct.

Carrier Bridge Pump Station Replacement Project. This portion of the 2026 Project includes the replacement of the District's largest pump station, known as the Carrier Bridge Pump Station, including an increase in capacity from 22 MGD to 40 MGD, with further ability to expand to 50 MGD.

ITT Pump Station Upgrade Project. This portion of the 2026 Project is located near the Broadpointe Industrial Park in south Asheville. The new station will be upgraded from 0.9 MGD (existing capacity) to 2.0 MGD in the initial construction phase. Capacity can be increased again to 3.75 MGD by replacing pumps. The project will involve a new access route through nearby parcels in addition to the pump station upgrade.

Weaverville Pump Station Replacement Project. This portion of the 2026 Project includes the replacement of the District's Weaverville Pump Stations 1 and 2, including (1) the complete replacement of Pump Station 1 and the replacement of existing 12 and 18-inch force main with a 24-inch force main

designed to pump directly to the Water Reclamation Facility and (2) the conversion of Pump Station 2 into a smaller residential pump station. These improvements will increase the capacity of the Weaverville pump stations from 2.8 MGD to 5.0 MGD, with further ability to expand to 6 MGD.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated funds available from the proceeds of the Series 2026 Bonds, together with other available funds, and the estimated uses of such funds are as follows:

Sources of Funds:

Principal Amount of Series 2026 Bonds \$ _____

[Net] Original Issue [Premium][Discount] _____

Total Sources of Funds \$ _____

Uses of Funds:

2026 Project Costs \$ _____

Costs of Issuance⁽¹⁾ _____

Total Uses of Funds \$ _____

⁽¹⁾ Includes underwriters' discount, fees and expenses of Bond Counsel and counsel to the District, fees and expenses of the Trustee and miscellaneous expenses.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for all outstanding Parity Indebtedness:

Fiscal Year Ending June 30	Outstanding Indebtedness ⁽¹⁾	Series 2026 Bonds		Total Debt Service Requirements
		Principal	Interest	
2027	\$8,657,735			
2028	8,656,359			
2029	8,639,240			
2030	8,636,872			
2031	5,619,628			
2032	5,618,307			
2033	4,311,400			
2034	4,331,250			
2035	4,333,988			
2036	3,280,375			
2037	3,277,500			
2038	3,262,250			
2039	3,260,475			
2040	3,263,550			
2041	1,578,438			
2042	1,577,109			
2043	1,579,297			
2044	-			
2045	-			
2046	-			
2047	-			
2048	-			
2049	-			
2050	-			
2051	-			
2052	-			
Total	\$79,883,773			

⁽¹⁾ Includes principal and interest payments with respect to the outstanding Bonds. Interest with respect to the Series 2008A Bonds assumes a rate of 3.4175% per annum (current swap rate of 3.291%) and is subject to change.

THE DISTRICT

The District is a public body and body politic and corporate of the State of North Carolina, exercising public and essential governmental functions and organized under the provisions of the North Carolina Metropolitan Sewerage Districts Act, being Article 5, Chapter 162A of the General Statutes of North Carolina, as amended. Certain information with respect to the District and the System is set forth in **APPENDIX A** hereto. See **APPENDIX B** for information regarding the District's service area. **APPENDIX C** hereto contains the District's basic financial statements and the notes thereto, taken from the District's audited financial statements for the Fiscal Year ended June 30, 2025, including the notes thereto.

Historical Income Available for Debt Service and Debt Service Coverage

The table below presents the Income Available for Debt Service of the District for the five Fiscal Years ended June 30, 2022 to 2026 and the ratio of Income Available for Debt Service to the Long-Term Debt Service Requirement on the Bonds at the time Outstanding under the Bond Order. The table was prepared using the District's audited financial statements for the four Fiscal Years ended June 30, 2022 to 2025 and unaudited statements for the Fiscal Year ended June 30, 2026 and the provisions of the Bond Order applicable to the determination of Income Available for Debt Service. These calculations of Income Available for Debt Service, defined in the Bond Order as being the excess of Revenues over Current Expenses, differ in several important aspects from the District's calculations of net income prepared in conformity with generally accepted accounting principles in that they do not include certain revenues and expenses as specified in the Bond Order. See "**DEFINITIONS OF CERTAIN TERMS**" in **APPENDIX D** hereto for the definitions of "Current Expenses" and "Revenues."

[Table on following page]

	FISCAL YEAR ENDED JUNE 30				
	2022	2023	2024	2025	2026*
Revenues					
Operating	\$48,111,506	\$49,811,226	\$56,038,216	\$54,948,275	\$66,992,183
Nonoperating	505,697	2,842,300	3,767,403	4,279,948	3,272,950
Adjustments to Revenues					
Grants and Donations	-	-	-	-	(3,246,192) ⁽¹⁾
Interest Income allocable to Non-Operating Funds	(4,088)	(57,833)	(169,581)	(101,773)	(96,230)
Facility, Tap, and Other Fees	(6,036,682)	(5,420,561)	(9,623,435)	(7,671,385)	(10,624,234)
Loss on Disposal of Property	(418,696)	(105,027)	854,386	9,435	-(⁽²⁾)
Adjusted Revenues	<u>\$42,157,737</u>	<u>\$47,070,105</u>	<u>\$50,866,989</u>	<u>\$51,464,500</u>	<u>\$56,298,477</u>
Operating Expenses	(28,696,145)	(30,850,826)	(32,881,444)	(37,685,982)	(35,243,151)
Adjustments to Expenses					
Pension plan and OPEB contributions net of expense	(218,502)	114,856	390,732	239,039	-(⁽²⁾)
Trustee and liquidity expense capitalized	(122,582)	(110,847)	(98,569)	(81,015)	(94,440)
Add back Depreciation	<u>12,339,044</u>	<u>12,395,591</u>	<u>12,984,129</u>	<u>13,169,966</u>	<u>13,433,365</u>
Adjusted Operating Expenses	<u>(16,698,185)</u>	<u>(18,451,226)</u>	<u>(19,605,152)</u>	<u>(24,357,992)</u>	<u>(21,904,226)</u>
Income Available for Debt Service	<u>\$25,459,552</u>	<u>\$28,618,879</u>	<u>\$31,261,837</u>	<u>\$27,106,508</u>	<u>\$34,394,251</u>
Long-Term Debt Service Requirement ⁽³⁾	\$9,797,850	\$8,829,772	\$8,807,718	\$8,780,245	\$8,780,984
Ratio of Income Available for Debt Service to Long-Term Debt Service Requirement	2.60x	3.24x	3.55x	3.09x	3.92x

*Unaudited. Estimated results as of August 14, 2026.

⁽¹⁾ Estimated disaster recovery funds provided by the Federal Emergency Management Agency as reimbursement for District expenditures to repair sewer lines damaged by Hurricane Helene.

⁽²⁾ Adjustments to Revenues reflecting Loss on Disposal of Property and adjustments to Expenses reflecting Pension plan and OPEB contributions net of expense are made on a full accrual basis in connection with the preparation of the audited financial statements.

⁽³⁾ Includes principal and interest payments with respect to the outstanding indebtedness.

Projected Debt Service Coverage

The following table sets forth projected debt service coverage under a modified accrual basis for the five Fiscal Years ending June 30, 2027 to 2031. The projected results assume that the Series 2026 Bonds will remain outstanding during the forecast period. Certain assumptions were made in conjunction with such financial projections as described in the notes accompanying the table. Certain of these assumptions may not materialize, and unforeseen events and circumstances may occur. Therefore, there will usually be differences between the forecasted operating results and the actual operating results, which differences may be material.

The financial projections shown in the table below, together with the assumptions mentioned in the preceding paragraph, have been prepared internally by the District and have not been reviewed by an independent consultant.

	FISCAL YEAR ENDING JUNE 30				
	2027	2028	2029	2030	2031
Revenues					
Operating ⁽¹⁾⁽²⁾	\$60,567,732	\$63,651,212	\$68,049,330	\$72,838,803	\$77,964,053
Nonoperating ⁽³⁾	2,623,184	2,383,967	1,987,455	2,148,404	1,321,862
Adjustments to Revenues					
Grants and Donations ⁽⁴⁾	(1,000,000)	-	-	-	-
Facility, Tap, and Other Fees ⁽²⁾	<u>(4,350,000)</u>	<u>(4,350,000)</u>	<u>(4,350,000)</u>	<u>(4,350,000)</u>	<u>(4,350,000)</u>
Adjusted Revenues	\$57,840,916	\$61,685,179	\$65,686,785	\$70,637,207	\$74,935,915
Operating Expenses ⁽⁵⁾	(23,160,782)	(24,070,348)	(25,032,413)	(26,041,284)	(27,099,303)
Adjustments to Expenses					
Trustee and liquidity expense capitalized	<u>(117,455)</u>	<u>(108,933)</u>	<u>(100,077)</u>	<u>(90,869)</u>	<u>(85,000)</u>
Adjusted Operating Expenses	(23,278,237)	(24,179,281)	(25,132,490)	(26,132,153)	(27,184,303)
Income Available for Debt Service	<u>\$34,562,679</u>	<u>\$37,505,898</u>	<u>\$40,554,295</u>	<u>\$44,505,054</u>	<u>\$47,751,612</u>
Long-Term Debt Service Requirement ⁽⁶⁾⁽⁷⁾⁽⁸⁾	\$17,313,333	\$17,312,074	\$25,818,093	\$22,756,181	\$22,742,080
Ratio of Income Available for Debt Service to Long-Term Debt Service Requirement	2.00x	2.17x	1.57x	1.96x	2.10x

⁽¹⁾ Operating Revenue projections reflect anticipated 7% annual rate increases for domestic and industrial user fees, as well as a 0.75% annual consumption and account growth.

⁽²⁾ Facility, Tap and Other fees assumed to be \$4,350,000 in accordance with the District's standard budgeting practices.

⁽³⁾ Investment earnings estimated based on an assumed 3% annual rate of return.

⁽⁴⁾ Estimated disaster recovery funds provided by the Federal Emergency Management Agency as reimbursement for District expenditures to repair sewer lines damaged by Hurricane Helene.

⁽⁵⁾ Operating Expenses projections reflect annual inflation factors of 7.5% on fuel, utilities and OPEB, 6.5% for medical expenses, 5.5% for contributions for North Carolina retirement contributions and 3% for all other expenses.

⁽⁶⁾ The Long-Term Debt Service Requirement reflects the required deposits to the Principal and Interest Accounts for the fiscal year shown resulting in July 1 principal and interest payments being deposited in the prior fiscal year.

⁽⁷⁾ Includes principal and interest payments with respect to the outstanding indebtedness. Interest with respect to the Series 2008A Bonds assumes a rate of 3.4175% per annum (current swap rate of 3.291%) and is subject to change.

⁽⁸⁾ Includes the proposed Series 2026 Bonds and a future \$120,000,000 series of bonds in fiscal year 2029, assuming a 5% interest rate and level annual combined principal and interest account deposits beginning in the fiscal year of issuance for a 25-year term.

LEGAL MATTERS

Litigation

No litigation is now pending or, to the best of the District's knowledge, threatened against or affecting the District which seeks to restrain or enjoin the authorization, execution or delivery of the Series 2026 Bonds, the Bond Order or the 2026 Series Resolution, or which contests the validity or the authority or proceedings for the authorization, execution or delivery of the Series 2026 Bonds, or the District's creation, organization or corporate existence, or the title of any of the present officers thereof to their respective offices or the authority or proceedings for the District's authorization, execution and delivery of the Bond Order, the 2026 Series Resolution or the Series 2026 Bonds, or the District's authority to carry out its obligations thereunder, or which would have a material adverse effect on the District's condition, financial or otherwise.

Opinions of Counsel

The authorization and issuance of the Series 2026 Bonds are subject to the approval of legality by McGuireWoods LLP, Raleigh, North Carolina, Bond Counsel. The proposed form of opinion of Bond Counsel is set forth in **APPENDIX E** hereto. Certain legal matters will be passed upon for the Underwriters by Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, counsel to the Underwriters, and for the District by Roberts & Stevens, P.A., Asheville, North Carolina, counsel to the District.

TAX TREATMENT

Opinion of Bond Counsel – Federal Income Tax Status of Interest

Bond Counsel's opinion regarding the federal income tax status of the interest on the Series 2026 Bonds will state that, under current law and assuming continuing compliance with the Covenants (as hereinafter defined), interest on the Series 2026 Bonds (i) is excludable from gross income of the owners thereof for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. See "**PROPOSED FORM OF OPINION OF BOND COUNSEL**" in **APPENDIX E** hereto.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the excludability of interest on the Series 2026 Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the District or about the effect of future changes in the Code, the applicable regulations, or the interpretation or the enforcement thereof by the Internal Revenue Service (the "IRS") and the courts.

Although Bond Counsel is of the opinion that interest on the Series 2026 Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2026 Bonds may otherwise affect the federal tax liability of an owner of the Series 2026 Bonds. The nature and extent of these other federal tax consequences depend on the owner's particular tax status and levels of other income or deductions. Bond Counsel will express no opinion regarding any such other tax consequences and prospective purchasers of the Series 2026 Bonds should consult their own tax advisors with respect thereto.

Reliance and Assumptions; Effect of Certain Changes

In delivering its opinion regarding the federal income tax treatment of interest on the Series 2026 Bonds, Bond Counsel is relying upon certifications of representatives of the District, the purchasers of such Series 2026 Bonds, and other persons as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants by the District. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2026 Bonds in order for interest on the Series 2026 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Series 2026 Bonds and the use of the property financed or refinanced by the Series 2026 Bonds, limitations on the source of the payment of and the security for the Series 2026 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2026 Bonds to the United States Treasury. The tax compliance certificate for the Series 2026 Bonds to be entered into by the District (the “Tax Certificate”) contains covenants (the “Covenants”) with which the District has agreed to comply. Failure by the District to comply with the Covenants could cause interest on the Series 2026 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. If such a failure were to occur, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2026 Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the Series 2026 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted subject to the terms and conditions set forth in the Tax Certificate. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Series 2026 Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2026 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of the Series 2026 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Series 2026 Bonds.

Prospective purchasers of the Series 2026 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, banks and other financial institutions, certain insurance companies, dealers in tax-exempt obligations, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the “branch profits tax,” individual recipients of Social Security or Railroad Retirement benefits, owners of an interest in a financial securitization trust, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

Original Issue Discount

Series 2026 Bonds purchased in the initial public offering with yields higher than their applicable interest rates, as shown on the inside cover page hereof, have been sold with “original issue discount.” Each such 2026 Bond is referred to below as an “OID Bond.” The excess of (i) the stated amount payable at the maturity (excluding qualified stated interest) of any OID Bond over (ii) the issue price of the OID Bond as determined under Section 1273 of the Code (which may differ from the price shown on the inside front cover page of this Official Statement) constitutes the amount of original issue discount, which is treated in the same manner as interest on the Series 2026 Bonds for federal income tax purposes.

The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest. In the case of an original owner of an OID Bond, the amount of original issue discount that is treated as having accrued on such OID Bond is added to the owner's adjusted basis in determining, for federal income tax purposes, gain or loss upon the disposition of the OID Bond (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued original issue discount will be excludable from the gross income of the owner for federal income tax purposes.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial public offering may be determined according to rules that differ from those described above.

In addition, original issue discount that accrues in each year to an owner of an OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed in this section. Consequently, the owner of an OID Bond should be aware that the accrual of original issue discount in each year may result in additional distribution requirements or other collateral federal income tax consequences although such owner has not received cash attributable to such original issue discount in such year.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the original issue discount accrued upon sale or redemption of such OID Bonds (including OID Bonds not purchased in the initial public offering) and with respect to the state and local tax consequences of owning OID Bonds.

Original Issue Premium

Series 2026 Bonds purchased in the initial public offering with yields lower than their applicable interest rates, as shown on the inside cover page hereof, have been sold with “bond premium.” Each such 2026 Bond is referred to below as an “OIP Bond.” The excess of (i) the owner's basis in the OIP Bond immediately after acquisition over (ii) the amount payable at maturity (excluding qualified stated interest) as determined under Section 171 of the Code constitutes the amount of the bond premium. Under the Code, the bond premium is amortized based on the owner's yield over the remaining term of the OIP Bond (or, in the case of certain callable OIP Bonds, to an earlier call date that results in a lowest yield on the OIP Bond). The owner of an OIP Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period against the bond premium allocable to that period. No deduction is allowed for such amortization of bond premium even though the owner is required to decrease the adjusted basis in the owner's OIP Bond by the amount of the amortizable bond premium, which will result in an increase in the gain (or decrease in the loss) recognized for federal income tax purposes upon a sale or disposition of the OIP Bond prior to its maturity.

Prospective purchasers of any OIP 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 acquisition, ownership, sale, exchange, or other disposition of, and amortization of bond premium on, such OIP Bonds.

Information Reporting and Backup Withholding

Prospective purchasers should be aware that the interest on the Series 2026 Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2026 Bonds may be subject to backup withholding if the interest is paid to an owner who or which (i) is not an “exempt recipient” and (ii) (A) fails to furnish an accurate U.S. taxpayer identification number in the manner required, (B) has been notified of a failure to report all interest and dividends required to be shown on federal income tax returns or (C) fails to certify under penalty of perjury that the owner is not subject to withholding. Individuals generally are not exempt recipients, although corporations and other entities generally are.

The reporting and backup withholding requirements do not in and of themselves affect the excludability of interest on the Series 2026 Bonds from gross income for federal income tax purposes, and amounts withheld under the backup withholding rules may be refunded or credited against the owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Internal Revenue Service Audits

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2026 Bonds, the IRS will, under its current procedures, treat the District as the taxpayer. As such, the beneficial owners of the Series 2026 Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the Series 2026 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the Series 2026 Bonds.

Prospective purchasers of the Series 2026 Bonds should consult their own tax advisors regarding the potential consequences of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Opinion of Bond Counsel – North Carolina Income Tax Status of Interest

Bond Counsel's opinion will also state that, under existing law, the interest on the Series 2026 Bonds is exempt from State of North Carolina income taxation. Bond Counsel will express no opinion regarding (a) other North Carolina tax consequences arising with respect to the Series 2026 Bonds or (b) any consequences arising with respect to the Series 2026 Bonds under the tax laws of any state or local jurisdiction other than North Carolina. Prospective purchasers of the Series 2026 Bonds should consult their own tax advisors regarding the tax status of interest on the Series 2026 Bonds in a particular state or local jurisdiction other than North Carolina.

BANKRUPTCY

Chapter 9 of Title 11 of the United States Code (as amended, the “Bankruptcy Code”) provides a process for a political subdivision of a state to voluntarily adjust its debts. An involuntary bankruptcy case may not be commenced against a political subdivision under Chapter 9. Section 109(c) of the Bankruptcy

Code sets forth certain conditions that must be met for an entity to be a debtor under Chapter 9 by state law. Section 23-48 of the North Carolina General Statutes (the “NC Authorizing Statute”) authorizes any taxing district, local improvement district, school district, county, city, town or village to file a Chapter 9 bankruptcy case, but only with the approval of the LGC. The NC Authorizing Statute does not currently list sewer authorities as entities which may file a Chapter 9 bankruptcy case. The ability of the District to file a Chapter 9 bankruptcy is uncertain under North Carolina law.

While the Series 2026 Bonds are outstanding, the provisions of the Bankruptcy Code and applicable North Carolina law, including the NC Authorizing Statute, may be amended, supplemented or repealed; therefore, it is not possible to predict whether and under what conditions the District may be authorized to become a debtor in a bankruptcy case and how any such bankruptcy case might affect holders of the Series 2026 Bonds in the future.

If the District were to initiate bankruptcy proceedings under Chapter 9 with the consent of the LGC, the bankruptcy proceedings could have material and adverse effects on the owners of the Series 2026 Bonds, including (1) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the District or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the District; (2) the incurrence of additional debt, including the claims of those supplying goods and services to the District after the initiation of bankruptcy proceedings and the expenses of administering the bankruptcy case, which may have a priority of payment superior to that of the bondholders; and (3) the possibility of the adoption of a plan for the adjustment of the District’s debt without the consent of all of the bondholders, which plan may restructure, delay, compromise or reduce the amount of the claim of the bondholders. In addition, the Bankruptcy Code might invalidate any provision of the bond documents that makes the bankruptcy or insolvency of the District an event of default.

The effect of the Bankruptcy Code on the rights and remedies of the bondholders cannot be predicted with certainty and may be affected significantly by judicial interpretation, general principles of equity, and considerations of public policy.

Regardless of any specific adverse determinations in a bankruptcy case of the District, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the Series 2026 Bonds.

LEGALITY FOR INVESTMENT

Section 159-140 of the General Statutes of North Carolina provides that the Series 2026 Bonds are securities in which all public officers and public bodies of the State of North Carolina and its political subdivisions and agencies and insurance companies, trust companies, investment companies, banks, savings banks, building and loan associations, savings and loan associations, credit unions, pension or retirement funds, other financial institutions engaged in business in the State of North Carolina, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the Series 2026 Bonds are securities that may properly and legally be deposited with and received by any State of North Carolina or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is now or may hereafter be authorized by law.

CONTINUING DISCLOSURE OBLIGATIONS

In the 2026 Series Resolution, the District has undertaken, for the benefit of the beneficial owners of the Series 2026 Bonds, to provide:

(a) by not later than seven months from the end of each Fiscal Year of the District, commencing with the Fiscal Year ended June 30, 2026, to the Electronic Municipal Market Access system (“EMMA”) (<http://emma.msrb.org>), the audited financial statements of the District 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 are not available by seven months from the end of such Fiscal Year, the unaudited financial statements of the District for such Fiscal Year to be replaced subsequently by the audited financial statements of the District to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year of the District, commencing with the Fiscal Year ended June 30, 2026, to EMMA, 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 DISTRICT—Historical Income Available for Debt Service and Debt Service Coverage” herein and “Rates, Fees and Charges” and “Commercial Customers” in APPENDIX A hereto, to the extent such items are not included in the 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, to EMMA, notice of any of the following events with respect to the Series 2026 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) substitution of any credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Series 2026 Bonds;
- (7) modification to the rights of the beneficial owners of the Series 2026 Bonds, if material;
- (8) call of any of the Series 2026 Bonds for redemption, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the Series 2026 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the District, which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets of the business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court of governmental authority, or the entry of an order confirming a plan of reorganization, arrangement

- or liquidation by a court or governmental authority having supervision over substantially all of the assets or business of the District;
- (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;
 - (14) appointment of a successor Trustee or additional Trustee or the change of name of a Trustee, if material;
 - (15) incurrence of a financial obligation (as defined below) of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect beneficial owners of the Series 2026 Bonds, if material; and
 - (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties; and

(d) in a timely manner, to EMMA, notice of a failure of the District to provide 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 is required to be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The District may meet the continuing disclosure filing requirement 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 undertaking, “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 issued under the Securities Exchange Act of 1934 (“Rule 15c2-12”).

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

The 2026 Series Resolution will provide that, if the District fails to comply with the undertaking described above, the Trustee or any beneficial owner of the Series 2026 Bonds may (and the Trustee at the written direction of a majority of beneficial owners and upon receipt of indemnification satisfactory to it, shall) 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 the District’s failure to comply with such undertaking will not constitute an Event of Default and will not result in any acceleration of payment of the Series 2026 Bonds. All actions must be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Series 2026 Bonds.

Pursuant to the 2026 Series Resolution, the District will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the District, 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 District;

(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 with respect to the Series 2026 Bonds, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the beneficial owners, as determined either by bond counsel, or by approving vote of the registered owners of a majority in principal amount of the Series 2026 Bonds pursuant to the terms of the Bond Order, as it may be amended from time to time, at the time of the amendment.

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

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Series 2026 Bonds.

Each year, the District has included a table summarizing historical and current residential sewer rates (which account for the majority of its operating revenue) as part of its annual continuing disclosure filings. The annual filings did not include updates for certain information included in the original offering documents concerning certain surcharges on industrial users, charges for meter sizes other than a standard 5/8" meter and certain miscellaneous fees; however, the District made such information available in its annual budget posted on its website. Such information has, as of the date hereof, been posted to EMMA. Except as disclosed in this paragraph, over the past five years, the District has, to the best of its knowledge, complied in all material respects with its continuing disclosure obligations pursuant to Rule 15c2-12.

UNDERWRITING

The Underwriters have entered into a Bond Purchase Agreement to purchase all of the Series 2026 Bonds, if any of the Series 2026 Bonds are to be purchased, at a purchase price equal to 100% of the principal amount thereof, less an underwriters' discount of \$_____ plus [net] original issue [premium][discount] of \$_____. The obligation of the Underwriters to pay for the Series 2026 Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriters may offer and sell the Series 2026 Bonds to certain dealers (including dealers depositing the Series 2026 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the District, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters

and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group (“WFBNA”), one of the underwriters of the Series 2026 Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2026 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2026 Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series 2026 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Truist Securities, Inc., one of the Underwriters of the Series 2026 Bonds, has entered into an agreement (the “Truist Distribution Agreement”) with Truist Investment Services, Inc. (“TIS”) for the retail distribution of certain municipal securities offerings, including the Series 2026 Bonds. Pursuant to the Truist Distribution Agreement, Truist Securities, Inc. will share a portion of its underwriting compensation, as applicable, with respect to the Series 2026 Bonds with TIS. Each of Truist Securities, Inc. and TIS is a subsidiary of Truist Financial Corporation.

Truist Securities, Inc. is the trade name for the corporate and investment banking services of Truist Financial Corporation and its subsidiaries. Securities and strategic advisory services are provided by Truist Securities, Inc., member FINRA and SIPC. Lending, financial risk management, and treasury management and payment services are offered by Truist Bank. Deposit products are offered by Truist Bank, Member FDIC. In its normal course of business Truist Bank may currently, or in the future, provide credit, treasury management, or other commercial banking services to the District.

RELATED PARTIES

McGuireWoods LLP serves as bond counsel for the District and, from time to time it and Robinson, Bradshaw & Hinson, P.A., counsel to the Underwriters, have represented the Underwriters as counsel in other financing transactions. Neither the District nor the Underwriters have conditioned the future employment of any of these firms in connection with any proposed financing issues for the District or for the Underwriters on the successful issuance of the Series 2026 Bonds.

FINANCIAL ADVISOR

Davenport & Company LLC, Charlotte, North Carolina, is serving as Financial Advisor to the District.

RATINGS

The Series 2026 Bonds have been assigned ratings of “AAA” by Fitch Ratings, Inc. (“Fitch”), “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by S&P Global Ratings (“S&P”). The ratings are not a recommendation to buy, sell or hold the Series 2026 Bonds and should be evaluated independently. No assurance can be given that such ratings will not be withdrawn or revised downward by Fitch, Moody’s or S&P. Any such action may have an adverse effect on the market price of the Series 2026 Bonds. Neither the District nor the Underwriters have undertaken any responsibility after the execution and delivery of the Series 2026 Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

FINANCIAL STATEMENTS

The financial statements of the District as of June 30, 2025 and for the year then ended have been audited by the District’s independent certified public accountants. **APPENDIX C** hereto contains the District’s basic financial statements and the notes thereto, taken from the District’s audited financial statements for the Fiscal Year ended June 30, 2025, including the notes thereto.

MISCELLANEOUS

The references herein to the Bond Order and the 2026 Series Resolution are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to the actual documents, copies of which are available for inspection in the offices of the District, for the full and complete provisions thereof.

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the Owners of the Series 2026 Bonds.

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the Series 2026 Bonds, but the LGC and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement other than those made in APPENDIX F hereto. The District and the LGC have authorized the delivery of this Official Statement.

**METROPOLITAN SEWERAGE
DISTRICT OF BUNCOMBE COUNTY, NORTH CAROLINA**

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METROPOLITAN SEWERAGE DISTRICT OF BUNCOMBE COUNTY, NORTH CAROLINA

History of the Metropolitan Sewerage District

The Metropolitan Sewerage District of Buncombe County, North Carolina (the “District”) was formed in 1962 to construct and operate facilities for sewage treatment for municipalities and sanitary districts within Buncombe County. In 1967, the District completed the construction of a 25 million gallon per day (“MGD”) wastewater treatment plant (the “Water Reclamation Facility”) adjacent to the French Broad River. Subsequently, the District expanded the Water Reclamation Facility to its current capacity of 40 MGD, rehabilitated a hydroelectric dam and power station to mitigate energy costs and built a thermal converter for sludge disposal.

In July 1990, the political subdivisions comprising the District transferred their respective sewerage systems to the District. These systems had been previously owned, operated, and maintained separately by each political subdivision. The purpose of this sewer consolidation (“Sewer Consolidation”) was to create a consolidated sewerage system in the urbanized portion of Buncombe County with ownership of all components of the sewerage system facilities (the “System”) and responsibility for their operation, maintenance, and capital improvement centralized with the District. Before Sewer Consolidation, the District had little control over the condition, operation, and maintenance of individual collector systems, which significantly affect the operational efficiency of the District’s Water Reclamation Facility. In 2020, the District expanded its boundaries to include the Cane Creek Water and Sewer District, serving northern Henderson County.

Today, the District is composed of the following political subdivisions located within Buncombe and Henderson Counties:

Beaverdam Water and Sewer District	Swannanoa Water and Sewer District
Busbee Sanitary Sewer District	Town of Biltmore Forest
Cane Creek Water and Sewer District	Town of Black Mountain
Caney Valley Sanitary Sewer District	Town of Montreat
City of Asheville	Town of Weaverville
Crescent Hill Sanitary Sewer District	Town of Woodfin
Enka-Candler Water and Sewer District	Venable Sanitary District
Fairview Sanitary Sewer District	Woodfin Sanitary Water and Sewer District
Skyland Sanitary Sewer District	

Under the North Carolina Metropolitan Sewerage Districts Act, the District is authorized, among other things, to: (a) acquire, lease, construct, reconstruct, improve, extend, enlarge, equip, repair, maintain and operate any sewerage system or part thereof (including facilities for the generation and transmission of electric power and energy) within or without the District; (b) issue general obligation bonds and revenue bonds to pay the costs of any of the foregoing; and (c) fix and revise from time to time and collect rents, rates, fees and other charges for the use of or the services and facilities furnished by any sewerage system.

The District is governed by a fourteen-member District Board (the “District Board”) whose members are appointed by the governing bodies of the municipalities and other political subdivisions comprising the District. The District is managed and supervised under the direction of the District Board by a registered Professional Engineer, who serves as the General Manager.

The System

Wastewater Collection. The District serves the City of Asheville and surrounding communities including Biltmore Forest, Weaverville, Black Mountain, Montreat, Woodfin, the Woodfin Sanitary Water and Sewer District and certain unincorporated areas in Buncombe County. The District also serves customers in the Cane Creek Water and Sewer District in north Henderson County. The collection system has been extended over the years as a result of expansion and development, and now collects wastewater through approximately 1,175 miles of sewer line, serving more than 60,000 residential and commercial accounts, with an estimated population of 277,210, and a service area of 264 square miles. The wastewater treated by the District is gathered in the collector sewer systems located primarily within the boundaries of the municipalities and other political subdivisions comprising the District and conveyed to the Water Reclamation Facility through large sewer lines called interceptors that generally run parallel to the French Broad River, the Swannanoa River or one of their primary and secondary tributaries. Included in the wastewater collection system are 39 pumping stations that pump wastewater through force mains where gravity flow is not feasible.

As a part of the Sewer Consolidation, the District agreed to operate, maintain and repair or replace, as necessary, the various collector sewer systems it acquired. Many of these collector sewer systems were undersized, deteriorated and inadequately maintained. Since taking over such systems, the District has developed and implemented, with input from its member political subdivisions, an ongoing Capital Improvements Program (as described herein). Approximately 1,459,523 feet of existing sewer line have been replaced since Sewer Consolidation, representing close to a third of the entire wastewater collection system. The District expects to replace another 200,000 feet of existing sewer lines over the next five years. See “Capital Improvements Program” herein for more information. The District also has a program in effect for systematic preventative maintenance of collector sewers. The lines are first cleaned using water under high pressure and then videotaped. The cleaning reduces line blockages and overflows, and the videotapes enable the District to locate and repair problems in the lines. The District cleans, and inspects by videotaping, between 15% and 20% of its system each year.

Water Reclamation Facility. The District operates a 40 MGD Water Reclamation Facility on the French Broad River. The wastewater treatment process includes coarse and fine screening, grit removal, chemically enhanced primary clarification, organics removal by rotating biological contactors, gravity settling for removal of solids, microfiltration with Aquadisk filters and chlorine disinfection prior to discharge. For fiscal year 2026, the average daily flow through the plant was 19.5 MGD and the maximum peak flow was 55.0 MGD. Sludge from the treatment process is burned in a thermal converter. See “Capital Improvements Program” herein for more information about planned projects related to the Water Reclamation Facility.

Hydroelectric Facility. Additionally, the District owns and operates a hydroelectric generating facility on the French Broad River adjacent to the Water Reclamation Facility. This facility is capable of generating 2,550 kilowatt hours of electricity, enough power to supply most of the needs of the Water Reclamation Facility. The hydroelectric facility allows the District to save \$300,000 to \$600,000 in energy costs per year.

Environmental Regulation

NPDES Permit. The Federal Clean Water Act, 33 U.S.C. 1251, et seq., regulates, by permit, any discharge to the waters of the United States. Pursuant to agreement with the United States Environmental Protection Agency (the “EPA”), the North Carolina Department of Environmental Quality (“NCDEQ”), through its Division of Water Resources (“DWR”), issues National Pollutant Discharge Elimination System (“NPDES”) permits for discharges to waters within the State of North Carolina (the “State”). The District

is authorized to discharge up to 40 MGD to the French Broad River pursuant to its NPDES Permit (the “NPDES Permit”). As a condition of the NPDES Permit, the District operates an industrial pretreatment program whereby certain industrial users, depending on the character and the quantity of their discharge, are required to pretreat their wastewater prior to discharging it to the System. The District carries out an extensive system of industrial monitoring and enforcement to ensure compliance with its pretreatment program. The District’s discharge has consistently been in compliance with the limitations in the NPDES Permit.

Air Quality Permit. The District has been issued a permit by the Asheville-Buncombe Air Quality Agency, which is charged with enforcement of Federal, State and local laws regulating air quality in Buncombe County. The permit governs emissions from the thermal converter used to incinerate sludge. The District is in compliance with the terms of its permit.

North Carolina Collection System Permit. The State’s Clean Water Act of 1999 authorized NCDEQ to issue permits to owners and operators of collector sewer systems. The District is currently operating the collection system pursuant to Permit # WQCS00004 issued by NCDEQ effective June 15, 2021 through May 31, 2029 (the “Collection System Permit”). The Collection System Permit prohibits overflows unless caused by factors beyond reasonable control or severe natural causes. The Collection System Permit also requires: (1) adequate measures to contain sanitary sewer system overflows (“SSOs”); (2) a capital improvement program and funding; (3) regular inspection and cleaning of 10% of the sewer system each year; and (4) a record of SSOs and complaints. The State’s Clean Water Act of 1999 also requires the operator of a sewer system treating municipal waste to give public notice of any discharge of untreated wastewater in excess of 1,000 gallons or in any amount if the discharge reaches surface waters, and to prepare an annual report on the sewer system, including the number of overflows. The District has submitted the required annual reports, issues public notice of overflows as required, inspects and cleans at least ten percent (10%) of its sewer system annually, has in place a capital improvement program and maintains a record of SSOs and complaints.

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

Due to the omnipresence of PFAS in the environment, wastewater systems can be pathways for PFAS. There is a growing concern that PFAS in wastewater systems could potentially be discharged in the effluent. Currently, State and federal regulatory agencies have not promulgated regulations establishing maximum effluent limits for PFAS in wastewater systems. However, in January 2024, the NCDEQ initiated a stakeholder process to receive feedback on proposed PFAS Surface Water Standards for eight PFAS compounds. These water quality standards did not get approved by the NC Environmental Management Commission (“NCEMC”). In January 2026, NCEMC sent to public comment a PFAS Monitoring and Minimization Rule that will require all Significant Industrial Users and Industrial Direct Dischargers to monitor for three PFAS compounds and develop minimization plans if any of the three are detected. This rule’s objective is to have industries minimize PFAS contribution to North Carolina sanitary sewer systems, thus reducing the need for advanced treatment installed at wastewater treatment plants.

However, this rule does not eliminate the possibility of adoption of water quality standards in the State. No assurance can be provided that future regulatory or permit actions will not be taken with respect to the permits applicable to the District. Compliance with any such future regulations or permit

requirements could result in an increase in capital expenditures and maintenance costs. The District has conducted preliminary PFAS testing and has seen low levels near the drinking water standard. The District's Pretreatment Division is involved in source control and testing where applicable.

Master Planning by the District

Collection System Master Plan. In 2008, with consultation from McGill Associates, the District completed a Collection System Master Plan (the "2008 Collection System Plan"). This plan focuses on the orderly growth of the collection system into future service areas. As the sewer system grows over time, this plan will ensure that extensions of the collection system are made in an orderly fashion, in accordance with the planning policies of the District's member agencies. This plan was updated in 2021 to include the Cane Creek Water and Sewer District.

Facilities Plan. In 2015, as part of its continuing planning process, the District completed an update to the Facilities Plan for the Water Reclamation Facility (the "2015 Facilities Plan"). Prepared by HDR, Inc., the 2015 Facilities Plan examined the plant's liquids unit processes, focusing on headworks, biological treatment alternatives and future regulatory requirements. Based on this analysis, the 2015 Facilities Plan offered two short- and mid-term recommendations. The first was the Plant Headworks Project, which added new grit removal, a fine screening system and peak-flow storage using existing decommissioned digesters. That project was completed in 2019. The second was the High-Rate Primary Treatment Project, which provided chemically enhanced primary clarification to remove solids before the biological treatment stage. Construction of the High-Rate Primary Treatment Project was completed in 2022. Together, these two projects totaled approximately \$28 million and have significantly improved the plant's treatment process.

Solids Handling PER and Biological PER. The 2015 Facilities Plan was updated in 2025 with two Preliminary Engineering Reports ("PERs") for Solids Handling Capacity Improvements and Biological Treatment Alternatives Evaluation prepared by Hazen and Sawyer. The Solids Handling PER was completed in January 2026. It evaluates the condition and capacity of the District's existing Solids Handling infrastructure and projected future flows and biosolids generation rates. It also provides a phased implementation plan for replacing existing thickening, dewatering and disposal processes. The Solids Handling Capacity Improvements project will replace the existing fluidizing bed incinerator, which is over thirty years old, with a thermal drying process, in addition to providing new thickening and dewatering equipment.

The Biological Treatment Alternatives Evaluation PER is a master planning document intended to evaluate and recommend improvements to the biological treatment process at the District's Water Reclamation Facility. Specifically, this PER (ongoing) will focus on alternative technologies capable of removing ammonia-nitrogen from the waste stream, a future regulatory requirement of the District's NPDES Permit. The PER will include a selected technology, phasing recommendations, preliminary design, and methods for maintaining plant operations during construction. This planning document will help guide the Biological Treatment Replacement project, the District's largest capital project to date. See "Capital Improvements Program" herein for more information.

The 2008 Collection System Plan, the 2015 Facilities Plan, Solids Handling PER, and the Biological Treatment Alternatives Evaluation PER are sometimes collectively referred to herein as the "Master Plans."

Capital Improvements Program

The District updates its 10-year Capital Improvements Program (“CIP”) annually. The CIP incorporates various considerations including recommendations from the Master Plans, state and federal environmental requirements and results of ongoing infrastructure assessments. As outlined in the Master Plans, objectives for these projects include replacing and rehabbing structurally defective sewer lines, handling wet-weather flow conditions, improving the performance at the Water Reclamation Facility and preparing the System to handle expected future wastewater flows.

Projects planned over the next 10 years include sewer line replacement and upgrades of approximately 40,000 linear feet per year. In addition, there will be a substantial investment in new pump stations, process upgrades at the Water Reclamation Facility and construction of a new Solids Handling Facility with thermal dryer and new solids thickening and dewatering equipment.

The District’s preventive maintenance program cleans and inspects, by videotaping, approximately 15% to 20% of the collection system each year. This reduces back-ups and overflows in the collection system, and also provides valuable information in development of the CIP. The District has developed an award winning program called “Pipe Rating” whereby the information from the videotaped inspections is incorporated into the District’s Geographical Information System. Each pipe is scored and rated based upon criteria such as number of structural defects and their severity, back-ups and overflows and work order history. The District recently updated the program to include additional parameters over previous versions and continues to use this program to prioritize rehabilitation and replacement throughout the System.

Approval of expenditures for capital improvements to the sewerage system and the financing of such expenditures are made by the District Board in consultation with representatives of the municipalities and other political subdivisions comprising the District and reviewed periodically by McGill Associates, the District’s consulting engineers (the “District’s Engineers of Record”). Set forth below are the expenditures on capital improvements during the past five fiscal years.

Fiscal Year Ended June 30,

<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026 (est.)</u>	<u>TOTAL</u>
\$15,075,230	\$21,238,618	\$18,620,553	\$29,713,197	\$65,545,920	\$150,193,518

The District’s projected capital improvement expenditures for fiscal years 2027 to 2036 aggregate approximately \$795 million. This large increase in the CIP is due largely to major improvements at the Water Reclamation Facility and various pump stations. The District anticipates paying the cost of the CIP during such period with approximately \$460 million of bonds issued from fiscal year 2027 to 2036 and approximately \$335 million of internally generated funds. Estimated capital costs include construction contingency allowances and inflationary increases during the ten-year period.

The District is currently pursuing a number of priority initiatives, including:

- *Weaverville Pump Station Replacement.* This \$25.9 million project is for the replacement of the Weaverville Pumping System. The new 5 MGD pump station and force main will be sized to accommodate a future expanded service area and sewer flows through 2070. Weaverville pump station number one will convey flow directly to the plant, and pump station number two (which currently repumps 100% of the flow) will be converted to a smaller residential pump station. Construction is underway and is expected to be

completed in Fall 2026. A portion of the cost of this project will be financed with proceeds of the Series 2026 Bonds offered hereby.

- *Elk Mountain Place.* This project replaced approximately 4,137 linear feet of existing six-inch sewer main, south of Elk Mountain Road in Woodfin. The existing vitrified clay sewer pipe was in poor condition and had led to numerous sanitary sewer overflows. A portion of the cost of this project will be financed with proceeds of the Series 2026 Bonds offered hereby.
- *Carrier Bridge Pump Station Replacement.* This \$96.5 million project is for the replacement of the Carrier Bridge Pump Station. This project will expand the capacity of the Carrier Bridge Pump Station from 22 MGD to 40 MGD and will provide ability to further expand the pump station in the future. Construction of the pump station is expected to be completed in 2028. A portion of the cost of this project will be financed with proceeds of the Series 2026 Bonds offered hereby.
- *Sand Hill Rd @ Baker Place.* This project was located in West Asheville, west of Trinity Baptist Church. Approximately 1,582 linear feet of existing six-inch clay line was replaced with eight-inch ductile iron pipe. The old sewer lines had multiple structural defects and access issues due to being located under several houses. This project is part of the 2026 Project to be financed with proceeds of the Series 2026 Bonds offered hereby.
- *Biological Treatment.* This project will replace the plant's existing biological treatment process, Rotating Biological Contactors ("RBCs"). This is the most significant project ever proposed by the District and is being driven by regulatory requirements and by the age and condition of the RBCs. The Biological Treatment Alternatives Evaluation is nearing completion and will identify the replacement treatment technology. The District is currently pilot testing one of the technologies that was shortlisted. Pilot testing is expected to conclude late in 2026. The Alternatives Evaluation will be finalized shortly thereafter, and design of the new system will follow. This approximately \$248 million project must be complete and in compliance by 2037.
- *ITT Pump Station Upgrade.* The ITT Pump Station is located near the Broadpointe Industrial Park in south Asheville. The station is in fair to poor condition and requires an increase in pumping capacity. The new station will be upgraded from 0.9 MGD (existing capacity) to 2.0 MGD in the initial construction phase. Capacity can be increased again to 3.75 MGD by replacing pumps. The project includes a new access route that will allow ingress/egress during flooding events. Construction is expected to begin in late 2026 on this \$5.8M project. A portion of the cost of this project will be financed with proceeds of the Series 2026 Bonds offered hereby.
- *Solids Handling Capacity Improvements.* This project will increase the capacity of the solids handling processes at the treatment plant. Additional capacity is needed to accommodate future flow rates and increased sludge generation from the High Rate Primary Treatment process and future biological treatment. Construction is expected to take place from 2028 through 2031. This project is anticipated to cost approximately \$149 million.

Hurricane Helene

In September 2024, Hurricane Helene moved through western North Carolina. The System experienced minimal impact during the storm. The Water Reclamation Facility continued treating throughout the storm and there were no breaches to any of the main interceptors in the collection system. Financially, sewer revenues decreased 0.10%, despite a 5.0% sewer rate increase at the start of the year, due to the impacts of Helene on the District's customer base and local economy. The storm also caused the District to decrease its internally generated hydroelectric power for eight months in FY 2025, increasing operating expenses. As of the end of FY 2026, the District has seen a full recovery in its sewer revenues and the hydroelectric facility has returned to full operation. The District has one outstanding FEMA project. The second phase of this project will involve CCTV inspection and cleaning of 62,000 linear feet of pipe, with completion expected in FY 2027. The project is planned to be fully reimbursed by FEMA.

Select Recognitions and Awards

2017	National Association of Clean Water Agencies ("NACWA") 2017 National Environmental Achievement Award for Incinerator Emissions Project
2017	American Council of Engineering Companies of North Carolina Grand Award for Engineering Excellence Water and Wastewater
2015	National Association of Clean Water Agencies Excellence in Management Gold Recognition
2012	NCAWWA-WEA Collection System of the Year Award (Large System)
2003	AMSA National Environmental Achievement Award for the District's Pipe Rating Program
2002 TO PRESENT	ISO 14001 Certification in Environmental Management
2001 TO PRESENT	NACWA Peak Performance Award for Excellence in Wastewater Management (21 of last 25 years)
1998 TO PRESENT	Government Finance Officers Association ("GFOA") Distinguished Budget Presentation Award
1995 TO PRESENT	GFOA Certificate of Achievement for Excellence in Financial Reporting

Organization and Employees

The District has a total of 153 employees and is governed by a 14-member District Board. The District's Engineers of Record render technical advice and assistance to the District Board. Members of the firm Roberts & Stevens, P.A., Asheville, North Carolina, render legal advice and assistance to the District Board.

Three members of the District Board are appointed by the Board of Commissioners for Buncombe County, three members are appointed by the City Council of the City of Asheville, two members are appointed by the Board of Commissioners for Henderson County, and one member is appointed by each of the governing bodies of the towns of Black Mountain, Biltmore Forest, Montreat, Weaverville, and

Woodfin and by the Woodfin Sanitary Water and Sewer District. The officers of the District Board are elected annually by the members of the District Board. Each member of the District Board is appointed for a term of three years. Appointments are staggered so that there is continuity in the membership from year to year.

The following persons are presently serving as members of the District Board holding the following offices and terms:

<u>Member</u>	<u>Years of Service</u>	<u>Term Expires</u>	<u>Appointing Unit</u>
Matt Ashley, Jr.	13	01/28	Town of Montreat
Jackie W. Bryson	41.5	01/27	Town of Woodfin
Mark Endries	-	01/28	Town of Weaverville
William G. Lapsley	6	07/29	Cane Creek Water and Sewer District
Esther Manheimer	15	01/29	City of Asheville
Martin Moore	3.5	01/29	County of Buncombe
Chris Pelly	14.5	01/28	City of Asheville
Nathan Pennington	7	01/28	County of Buncombe
Jim Player	1	01/29	Cane Creek Water and Sewer District
Allan R. Tarleton	1.5	01/28	Town of Biltmore Forest
M. Jerry Vebaun	22	01/29	Woodfin Sanitary Water and Sewer
Robert C. Watts	16.5	01/27	Town of Black Mountain
Al Whitesides	8	01/27	County of Buncombe
Gwen Wisler	11.5	01/27	City of Asheville

The members of the District Board, their educational backgrounds, their occupations and their professional affiliations are set forth below:

M. Jerry Vebaun, Chairman. Mr. Vebaun is a native of Woodfin and a graduate of Guyton College in Nashville, Tennessee. He was employed by Buncombe County as Director of Emergency Services for more than 40 years. Mr. Vebaun has served on numerous boards and commissions in his area of professional expertise on the national, state and local levels. He also served as the Mayor of Woodfin, North Carolina for 20 years before retiring in 2023. Mr. Vebaun was appointed to the District Board in 2004 and serves as Chairman of the Board.

Matt Ashley, Jr. Mr. Ashley has lived in Buncombe County since 1969. His service to the Town of Montreat includes work with Planning and Zoning, and chairmanship of the 2008 Comprehensive Plan Steering Committee. In Black Mountain, he served 14 years as a volunteer firefighter and emergency medical technician. After a career as a carpenter and builder, he joined Greybeard Realty in January of 2013 as a real estate broker. Mr. Ashley is active in his church where he has served as both Deacon and Elder. He was appointed to the District Board in August 2013 and serves as a member of the CIP and Right-of-Way Committees.

Jackie W. Bryson, Secretary/Treasurer. Mrs. Bryson is a graduate of Blanton's Business College where she received a secretarial degree. Mrs. Bryson retired in 1993 from a position as a teaching assistant at Woodfin Elementary School. She was appointed to the Board of Aldermen of the Town of Woodfin. Mrs. Bryson was appointed to the District Board in 1985. Mrs. Bryson is Secretary/Treasurer of the Board and serves as a member of the Personnel, Finance and Right-of-Way Committees.

Mark Endries. Mr. Endries was appointed to the District Board in 2026. He serves as a member of the Planning, CIP and Right-of-Way Committees. Mr. Endries serves on the Town Council for the Town of Weaverville, North Carolina. Mr. Endries holds a Master of Science in Biology and serves as a transportation liaison and cartographer for the United States Fish and Wildlife Service.

William Lapsley. Mr. Lapsley was appointed to the District Board in 2020. He serves as a member of the Planning and CIP Committees. Mr. Lapsley serves on the Board of Commissioners for Henderson County, North Carolina. Mr. Lapsley earned his Bachelor of Science in Civil Engineering from the University of Wyoming. Mr. Lapsley is a retired engineer and serves on the UNC Healthcare Board of Trustees. He previously served on the Henderson County Chamber of Commerce and the Henderson County Board of Social Services, among other positions.

Esther Manheimer. Ms. Manheimer is a partner with the Van Winkle Law Firm in Asheville, North Carolina. Ms. Manheimer received her Doctor of Jurisprudence and Master of Public Administration from the University of North Carolina at Chapel Hill and currently serves as Mayor of the City of Asheville. Ms. Manheimer was appointed to the District Board in 2011 and serves as a member of the Planning, Finance and Right-of-Way Committees.

Martin Moore. Mr. Moore was appointed to the District Board in 2023. Mr. Moore serves on the Board of Commissioners for Buncombe County, North Carolina, and is a practicing attorney. Mr. Moore obtained a Bachelor of Arts in Political Science from the University of North Carolina at Chapel Hill and his Doctor of Jurisprudence from the University of North Carolina at Chapel Hill School of Law.

Chris Pelly. Mr. Pelly formerly served as a member of the Asheville City Council and has been a licensed real estate broker since 1997. He served 12 years as president of the Haw Creek Community Association and is the former president of the Coalition of Asheville Neighborhoods. A veteran of the U.S. Army, he and his family have lived in Asheville for more than 30 years. Mr. Pelly was appointed to the District Board in 2012. He is the Chair of the Planning Committee and serves as a member of the Personnel, CIP and Right-of-Way Committees.

Nathan Pennington. Mr. Pennington was appointed to the District Board in 2019. He serves as a member of the Planning, Finance, CIP, and Right-of-Way Committees. Mr. Pennington serves as the planning director for Buncombe County, North Carolina. Mr. Pennington earned his bachelor's degree from the University of Tennessee at Knoxville and his master's degree in sociology from the University of Tennessee at Knoxville. Prior to working for Buncombe County, Mr. Pennington worked in the Florida Keys as a planner and worked for the City of Asheville.

Jim Player. Mr. Player was appointed to the District Board in 2025. He serves as a member of the Finance and CIP Committees. Mr. Player serves on the Town Council for the Town of Fletcher, North Carolina.

Allan R. Tarleton. Mr. Tarleton was appointed to the District Board in 2025. He serves as a member of the Personnel and CIP Committees. Mr. Tarleton serves on the Board of Commissioners for the Town of Biltmore Forest, North Carolina, and practices law in Asheville. Mr. Tarleton earned his Bachelor of Arts in English from Wake Forest University and earned his Doctor of Jurisprudence from Wake Forest University.

Robert Watts. Mr. Watts was appointed to the District Board in 2010. He is the Chair of the CIP Committee and serves as a member of the Planning Committee. Mr. Watts served on the Town Council for the Town of Black Mountain, North Carolina.

Al Whitesides. Mr. Whitesides was appointed to the District Board in 2018. He is the Vice Chair of the District Board, the Chair of the Personnel Committee, and serves as a member of the Finance and Right-of-Way Committees. Mr. Whitesides serves on the Board of Commissioners for Buncombe County, North Carolina. Mr. Whitesides graduated from North Carolina College (now known as North Carolina Central University) and served in the United States Navy. Mr. Whitesides worked in banking and served as a member of the UNC Asheville Board of Trustees as well as the Asheville City Schools Board of Education.

Gwen Wisler. Ms. Wisler has served as chief executive officer of several consumer products companies, most notably The Coleman Company, an outdoor recreation company. She has lived in Asheville for close to 20 years and was previously Vice Mayor of the City of Asheville. Ms. Wisler was appointed to the District Board in 2015. She is the Chair of the Finance Committee and serves as a member of the Personnel Committee.

Management

Thomas Hartye, P.E., General Manager. Mr. Hartye received a Bachelor of Science in Civil Engineering from Worcester Polytechnic Institute in 1980. He is a registered Professional Engineer in North Carolina, Georgia, and Florida. Mr. Hartye began his employment with the District in October 1998 as a Deputy General Manager of Operations and was promoted to his current position in January 2001. Prior to his employment at the District, he served as the Utilities Director for Hillsborough, North Carolina, as the Engineering Director of the Florida Keys Aqueduct Authority, as a Project Manager for Chattahoochee Geotechnical Consultants of Atlanta, Georgia, and as an engineer for Jamaica Water Supply Company, New York. Mr. Hartye is a member of the American Water Works Association and Water Environment Federation.

W. Scott Powell, CLGFO, Director of Finance. Mr. Powell received a Bachelor of Science Degree in Business Administration with high honors from the University of Tennessee at Knoxville in 1991. Mr. Powell is a member of the National and North Carolina Government Finance Officers Associations as well as the North Carolina Local Government Investment Association. Before being promoted to the Director of Finance position at the District in 2008, Mr. Powell was employed in public accounting for six years specializing in governmental auditing, served six years as Accounting Manager of Great Smoky Mountains Association, and five years as Accounting Manager/Deputy Finance Director of the District. He is a Certified Local Governmental Financial Officer of North Carolina.

Bart Farmer, Director of Waste Treatment. Mr. Farmer previously served as Water Reclamations Superintendent for Union County, North Carolina, and Operator in Responsible Charge/Assistant Public Works Director for the Town of Wingate, North Carolina. Mr. Farmer has certifications in Grade 4 Water Pollution Control Collection Systems operation and Grade 4 Biological Water Pollution Control Systems operation. Mr. Farmer has served in his current position for four years.

Michael W. Stamey, P.E., Director of System Services. Mr. Stamey received a Bachelor of Science in Civil Engineering Technology from the University of North Carolina at Charlotte in 1994. He is a registered Professional Engineer in the State of North Carolina and also holds a Grade IV Wastewater Collection System Operator Certification in North Carolina. Mr. Stamey began his employment with the District in November 1994 as the Wastewater Allocation Coordinator. In 1995, he was promoted to the position of Private Development Project Manager and in 2004 he was promoted to a Project Manager in the District's CIP program. In 2011, Mr. Stamey was promoted to his current position as Director of System Services. Mr. Stamey is a member of the Water Environment Federation, volunteers as a teacher for the American Water Works Association and Water Environment Association Wastewater Collection Schools and was formerly the chairperson for the Buncombe County Utilities Coordinating Committee.

Hunter Carson, P.E., Director of Engineering. Mr. Carson is a graduate of North Carolina State University where he earned a Bachelor of Science Degree in Environmental Sciences in 2000. In 2006, he graduated from Virginia Tech with a Master of Science in Environmental Engineering with a focus in water and wastewater treatment. For the next five years, Mr. Carson worked as a design engineer for an international consulting firm in Raleigh, North Carolina and assisted in various water and wastewater treatment and conveyance projects. In 2011, Mr. Carson, a native of Roanoke, Virginia, moved to Asheville where he began his employment with the District as an engineer and project manager. Mr. Carson has served with the District for over 15 years including five years as the District's Director of Engineering.

Rates, Fees and Charges

The District Board has adopted a rate resolution establishing the schedule of rates, fees and charges for wastewater disposal services. See "SECURITY FOR THE BONDS—Rate Covenant" in the front part of this Official Statement for information regarding certain covenants on the part of the District under the Bond Order. On an annual basis, the District Board reviews and sets user charges and fees for its industrial and domestic users based on a 10-year projection of revenues, operational budgets, the long-term CIP and future debt issues. The District Board intends, subject to the rate covenants set forth in the Bond Order, to continue reviewing and adjusting rates, fees, and charges annually.

The District is authorized by statute to set and revise from time to time rates, fees and other charges for services provided by the sewerage system. The District's power to set, revise and collect such fees, rates and charges is not subject to review, oversight or regulation by the North Carolina Utilities Commission or any other public or private rate regulatory agency. The agreements relating to Sewer Consolidation and other agreements in effect between the District and the political subdivisions comprising the District provide that the political subdivisions shall have no control over the rates, fees and charges imposed by the District.

Sewer Charges. Sewer rates consist of three components: a maintenance charge, a billing charge and a treatment (volume) charge.

The maintenance charge is calculated to recover service, inspection and maintenance-related operational and capital costs. Applicable to sewer accounts, regardless of whether or not there is a treatment charge, the monthly maintenance charge is based on water meter size as follows:

<u>Size</u>	<u>Monthly Maintenance Charge</u>
5/8"	\$9.58
3/4"	\$13.91
1"	\$24.71
1 1/2"	\$56.49
2"	\$99.90
3"	\$221.54
4"	\$395.34
6"	\$890.57
8"	\$1,581.28
10"	\$2,476.20

Industrial customers located within the District boundaries are currently charged \$6.21 per cubic hundred feet ("CCF") and those located outside the District are currently charged \$6.22 per CCF. The

North Carolina General Assembly passed a session law in 2026 codifying wastewater systems' rights to set higher rates, fees and charges for customers outside the systems' boundaries, and to do so without public hearing so long as the total of all rates, fees and charges, excluding tap fees and impact fees, does not exceed that of customers inside the boundaries by more than twenty-five percent (25%).

Industrial users may also be subject to additional high-strength waste surcharges. The purpose of this charge is to recover operation and maintenance costs from customers whose wastewater discharge into the sewerage system is in excess of certain parameters for normal strength wastewater as determined by the District. High-strength waste surcharges apply at the following rates to all wastes exceeding the following concentrations:

Biochemical Oxygen Demand ("BOD"):	\$0.300 per pound for all BOD in excess of 250 mg/l
Total Suspended Solids ("TSS"):	\$0.250 per pound for all TSS in excess of 250 mg/l

The treatment charge for domestic users of \$6.21 per CCF of water purchased within the District or \$6.22 per CCF outside the District boundaries is calculated to recover all direct and indirect costs of wastewater treatment and collection, maintenance, inspection, administration and capital costs not recovered by the maintenance charge. This charge is applicable to all accounts receiving sewer service based on the water meter reading, sewer meter reading, if applicable, or estimated volume of discharge as determined by the District.

For existing sewer only accounts where there is no water meter, the District uses the following method for calculating the fixed monthly charge: (1) the monthly maintenance charge will be determined by the water meter size which would be required to supply water service to the property, and (2) the billable quantity will be estimated using the System average of five CCF per month.

The billing charge of \$3.09 per invoice is to cover the cost of billing and collection procedures. The District remits this fee to the municipalities performing billing and collection services for the District.

Allocation Fee. A flat fee of \$170 is assessed for extensions serving more than one lot or parcel and is designed to recover a portion of the costs associated with processing applications, locating and evaluating the capacity and condition of sewers to which the applicant will connect and reserving capacity for the applicant's project for a period of one year.

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Development Fee. The purpose of the development fee is to recover a portion of the cost associated with providing treatment facility capacity. This charge must be paid for each connection to a public or private sewer system ultimately discharging to the District’s collection system. Development fees are based on the demand on the System represented by the relative size of residential units or, in the case of commercial and industrial customers, on the water meter size as follows:

Residential

Each unit	\$3,568
Mobile Homes.....	\$3,568
Multifamily Units	\$2,390
Affordable Housing	\$844

Non-residential

5/8” Meter	\$3,568
3/4” Meter	\$5,352
1” Meter	\$8,919
1 1/2” Meter	\$17,839
2” Meter	\$28,542
3” Meter	\$57,084
4” Meter	\$89,194
6” Meter	\$178,387
8” Meter	\$285,319
10” Meter.....	\$749,226
12” Meter.....	\$945,452

In an effort to encourage economic development from new and expanding industrial users, development fees may be waived when potential jobs created or revenue generated meet certain criteria.

Connection Fees. This charge applies to all new construction, as well as existing structures which have been demolished/rebuilt and sewer service is reinstated under new property ownership. The District requires that a licensed utility contractor install any sewer connection/service line within public rights-of-way extending over 75 feet or that requires pavement disturbance or boring to reach across a paved thoroughfare. If a utility contractor installs the tap, there is a \$140 inspection fee. Otherwise, the District fee is \$1,300 plus an additional charge if pavement disturbance or boring is required.

Miscellaneous Fees and Charges. The District also assesses miscellaneous fees and charges such as non-discharge permits, manhole installation or replacement, returned check fees, costs for map copies and civil penalties for violations of ordinances.

Historical Rate Increases. The District has implemented a number of actions to reduce expenses and stabilize sewer rates. See “Management’s Discussion and Analysis of Recent Financial Performance” herein. The District Board has attempted over the past nine years to keep rate increases to a minimum while maintaining an average debt service coverage ratio of 2.7 and investing approximately \$203 million in its CIP.

Recent historical and current fiscal year domestic sewer rates are shown below:

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Rate Increase %	2.75%	3.00%	5.0%	5.0%	5.0%	7.0%
Meter, Maintenance & Billing	\$9.99	\$10.38	\$10.94	\$11.45	\$11.96	\$12.67 ⁽¹⁾
Flow Rate (per ccf)	\$4.86	\$5.01	\$5.26	\$5.52	\$5.80	\$6.21 ⁽¹⁾
Avg. Monthly Bill (5ccf)	\$33.04	\$34.10	\$35.83	\$37.59	\$39.46	\$42.18 ⁽¹⁾

⁽¹⁾ Projections

The District's average monthly bill of \$37.59 in 2025 compared favorably with the Southeast and the nation, based on a nationwide survey of sewer bills conducted by the National Association of Clean Water Agencies ("NACWA") in 2025. The 2025 NACWA survey is the most current such survey available. For EPA Region IV (Southeast) the average residential bill was \$55.41 per month, while the average bill throughout the nation was \$54.00 per month.

Future Rate Increases. The District has developed a 10-year financial plan to fund its operations, debt service requirements and CIP. Consistent with the historical pattern of setting rates, the financial plan contemplates rate increases in such amounts as will be sufficient to fund the long-term obligations of the District and to maintain a balance between bond proceeds and user fees as sources of funds for the CIP. However, such rate increases have not been formally adopted by the District Board and are subject to change in the sole discretion of the District Board.

Commercial Customers

In the fiscal year ended June 30, 2025, no single customer of the District accounted for more than 1.62% of the District's total operating revenues. Information regarding the District's 10 largest commercial customers is shown below.

<u>Name of Customer</u>	<u>Total User Charge for Fiscal Year Ended June 30, 2025</u>	<u>% of Total Sewer User Charges</u>
Milkco, Inc.	\$890,254	2.05%
Sierra Nevada	405,221	0.93
Glatfelter Industries	355,304	0.82
New Belgium Brewing	304,229	0.70
Meritor Heavy Vehicle Systems	227,965	0.52
Royal George Water Authority	221,300	0.51
Mission Health Systems	215,294	0.50
University of North Carolina – Asheville	199,221	0.46
Arcadia Brewing	192,618	0.44
VA Medical Center	173,720	0.40
Total	<u>\$3,185,126</u>	<u>7.34%</u>

The following chart shows total residential and industrial customers of the District for the past five fiscal years.

<u>Fiscal Year Ended June 30,</u>				
<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
56,966	58,139	58,724	59,215	60,109

Source: The District's Annual Comprehensive Financial Report FY 2025.

Billing and Collections

The District contracts with the municipalities and other member agencies which furnish water on a retail basis to residential customers for billing and collecting the District's user charges and fees from such users. The fee that the District pays for billing and collections is included as a separate item on such bills. If any payments received are less than the total amount of the charges for both water service and wastewater disposal services, the amount received is pro-rated as to each such item. In the event of customer non-payment, the municipality or other political subdivision that furnishes water to the District's customer will terminate water service, and not reinstate it until the charges are paid in full. The City of Asheville currently serves and bills approximately 76% of the users of the District's facilities. The other municipalities and political subdivisions rendering such billing and collection services to the District are the Woodfin Sanitary Water and Sewer District and the towns of Biltmore Forest, Weaverville, Black Mountain, and Montreat. Henderson County, North Carolina also renders billing and collection services to the District for customers located in the Cane Creek Water and Sewer District, which is located in adjacent Henderson County.

The District bills approximately 700 customers directly. These customers are primarily residential users on private water supply wells. There are also some large commercial customers in this category. For domestic customers, District staff prepares and mails flat rate charges based on a Board-approved amount of five CCF per month. Business customers call in meter readings, which the District uses to prepare bills, and the District prepares invoices for significant industries reflecting appropriate charges for the content of the monitored wastewater.

Preparation of the Operating Budget

The Local Government Budget and Fiscal Control Act of North Carolina requires that before April 30 of each fiscal year (or an earlier date fixed by the budget officer), each department head shall transmit to the budget officer the budget requests and revenue estimates for his department for the budget year. At the same time, the finance officer or department heads must transmit to the budget officer a complete statement of, among other matters, the amount expended for each category of expenditure in the budget ordinance of the immediately preceding fiscal year, a complete statement of the amount estimated to be expended for each category of expenditure in the current year's budget ordinance by the end of the current fiscal year, the amount realized from each source of revenue during the immediately preceding fiscal year, and the amount estimated to be realized from each source of revenue by the end of the current fiscal year.

The development of the Annual Budget by the District is accelerated as the Bond Order requires the District to prepare a preliminary budget for the next fiscal year by May 15 of each year. The preliminary budget must include the District's estimates of Current Expenses, disbursements from the General Fund, Revenues of the District and the amount of moneys held for the credit of the General Fund to be transferred to the Revenue Fund. Copies of the preliminary budget must be filed with the Trustee and the Local

Government Commission of North Carolina and mailed to each Owner or Holder who has requested the same in writing.

The District further covenants in the Bond Order that on or before the 15th day before the end of each fiscal year it will adopt the Annual Budget for the next ensuing fiscal year, copies of which must be promptly filed with the Trustee and the Local Government Commission of North Carolina and mailed by the District to each Owner or Holder who has requested the same in writing.

Financial Statements

The financial statements of the District for the fiscal year ended June 30, 2025, have been audited by the District's independent certified public accountants. Appendix C hereto contains the District's general purpose financial statements and the notes thereto, lifted from the District's audited financial statements for fiscal year 2025, including the notes thereto.

Management's Discussion and Analysis of Recent Financial Performance

Cash and investments have exceeded \$26 million each year since Sewer Consolidation in 1990. The annual growth in the Operation and Maintenance Fund for the past five fiscal years has averaged 5.6%, a rate of increase that is comparable to cost-of-living increases in the national economy during the same period. The District's cost containment measures result from the following innovations and adoption of "best practices":

- Consolidation of five dispersed locations into one building complex adjacent to the Water Reclamation Facility in 2001 has improved operational efficiencies, intradistrict communications and overall utilization of resources.
- Technological and organizational efficiencies through reengineering have reduced full-time staff from 167 in 2000 to 153 in 2025 with no decrease in service levels.
- Annual budgeted additions to replacement funds for fleet, Water Reclamation Facility and pump station equipment have eliminated infrequent, large, unplanned expenditures resulting from equipment breakdowns and acquisitions. As of June 30, 2025, the replacement balance was in excess of \$2.28 million across the funds.
- The District has a capital reserve fund, which represents approximately 6% of its annual operations. This reserve is to be used only for unusual and unforeseen expenditures. As of June 30, 2025, the capital reserve balance was in excess of \$1.36 million.
- The District has several insurance funds to address medical, post-employment, worker's compensation and general liability needs. These reserve funds are used as part of the District's sewer rate stabilization strategy. As of June 30, 2025, the insurance funds balance was in excess of \$3.54 million.
- The entire District operation is ISO 14001 Certified. ISO 14001 is an international certification requiring an organization to achieve and maintain environmental, safety and performance goals throughout the organization.
- The District has included GASB 45 obligation funding in its financial plan starting in fiscal year 2009.
- The District has incorporated the EPA Capacity, Management, Operation and Maintenance program components into the daily operations of the collection system.
- Utility expense has been reduced by implementation of several energy audit recommendations at the Water Reclamation Facility.
- Water Reclamation Facility operational costs have been improved through more efficient use of the thermal converter to manage solids handling.

- In-house design and construction management have proved to be more cost-effective than outside contractors for managing some capital projects.
- Organizational structure and budgeting are adapted to changing circumstances to provide maximum managerial control over, and accountability for, operational expenditures.

Recent Operating Results

As of June 30, 2026 the District had collected approximately \$50.5 million or 112% of its budgeted sewer revenues for fiscal year 2026. During the fiscal year, the District has seen a full recovery in sewer revenues from Hurricane Helene.

The District has historically been conservative in budgeting for tap and facility fee revenue. As of June 30, 2026, the District has collected \$10.5 million or 318% of budgeted tap and facility revenue.

Over the last 10 years, the District has achieved an approximately 93.9% budget-to-actual ratio for operation and maintenance expenditures. As of June 30, 2026, the District incurred \$20.6 million or 91% budget-to-actual for the year.

Finally, the District incurred approximately \$65.5 million or 82.5% of its capital projects budget as of June 30, 2026. Amounts budgeted for capital projects are rarely expended proportionately throughout the fiscal year. Any unexpended amounts in FY 2026 are re-budgeted in FY 2027.

Cybersecurity

The District, like many other large public and private entities, faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems. These threats could result in adverse consequences to the District, including but not limited to, operational disruption and misappropriation of assets or information. The District has implemented multiple operational safeguards and cybersecurity procedures. However, no assurances can be given that such measures will protect against, or mitigate the impact of, the financial or operational damages that could result from a cybersecurity attack.

Pension Plans

For information concerning the District's participation in the North Carolina Local Governmental Employees' Retirement System and information concerning other retirement benefits, see Note 5 to the District's financial statements in Appendix C.

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

Other Post-Employment Benefits

The District administers a single-employer defined benefit group health and dental insurance plan. The plan allows retirees to continue coverage under the District's self-insured group health and dental insurance plan until the earlier of (1) reaching the age of 65 years old or (2) becoming covered under another group medical plan or (3) failing to timely pay any required premium for such coverage. For more information concerning the District's Other Post-Employment Benefits ("OPEB") obligations, see Note 6 to the District's financial statements in Appendix C.

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APPENDIX B

DISTRICT SERVICE AREA

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DISTRICT SERVICE AREA

The District provides wastewater transport and treatment for most of the urbanized portion of Buncombe County, North Carolina, as well as a section of the northern part of Henderson County. Most of the District's customers are located inside the geographical boundaries of the District. The District also provides service to a number of individuals and businesses in Buncombe County lying just outside the geographical boundaries of the District.

Most of the development within the service area of the District to date has consisted of dispersed industrial development and mixed residential development, including single-family residences, townhouses and condominiums, apartments and related commercial development, such as shopping facilities, restaurants and motels.

Location and Features of the Service Area

Buncombe and Henderson Counties are located in western North Carolina in the southern Appalachian Mountains. The topography ranges from fertile valleys to rugged mountains, with Buncombe County's urbanized core consisting of a long flat plain, which has allowed Buncombe County to develop differently from the more mountainous counties of western North Carolina. The plain, with an elevation of approximately 2,000 feet, averages about 45 miles in width. It is bisected from south to north by the French Broad River and from east to west by the Swannanoa River and Hominy Creek, two major tributaries of the French Broad River. The mean elevation of the City of Asheville is about 2,300 feet; the summers are cool and the winters are moderate with small amounts of snow. The higher elevations in Buncombe County may receive larger amounts of snow and the summers are cooler. The average January temperature is about 39 degrees for the City of Asheville and the average temperature in July is about 75 degrees. The City of Asheville receives an average of approximately 47 inches of rainfall per year. However, because the City of Asheville is located within a "rain shadow" caused by the shielding effect of the nearby mountain barriers, other areas of Buncombe County, especially to the south and southwest, receive significantly higher amounts of rainfall.

Impact of Hurricane Helene

On September 27, 2024, Hurricane Helene hit western North Carolina and neighboring states, causing considerable damage to the region. In Buncombe County, high winds, torrential flooding, and landslides destroyed more than 350 residences, damaged or destroyed more than 350 bridges, and caused the need for habitability repair to more than 11,000 housing units. Residents lost power, water, and other utilities for several weeks.

This destruction resulted in substantial short-term economic impacts. In October 2024, during the immediate aftermath of Helene and at the height of tourism season, Buncombe County had the highest unemployment rate in the State, topping out at more than 10%. Prior to Helene, Buncombe County consistently had one of the lowest rates in the State, hovering around 3%. Although the County continues to feel economic impacts from Helene, by mid-2026, unemployment rates in the County have returned to near their pre-storm levels.

The Asheville Area Chamber of Commerce conducted three business feedback surveys to assess the economic impact of Hurricane Helene on the region. The most recent survey, published in July 2026, reported results from 284 businesses and organizations. Approximately 76% of respondents estimated some level of revenue loss related to Hurricane Helene. Just over half of respondents (54%) reported needing further recovery support to stabilize or fully recover from the impacts of Hurricane Helene. Those

respondents listed financial support and increased customer demand as key areas of need. Only 4% of businesses estimated that they faced a significant risk of closure in the next six months.

On November 18, 2025, the Buncombe County Board of Commissioners formally adopted a five-year “Helene Recovery Plan,” focusing on housing repair and replacement, infrastructure restoration (roads, bridges, utilities), natural and cultural resource recovery, disaster preparedness and resilience, and economic revitalization and social services. Additionally, the Economic Development Coalition for Asheville-Buncombe County has published five-year “AVL 5x5” economic development plans since 2010. The Coalition’s most recent plan, covering 2025-2030, incorporates Hurricane Helene recovery initiatives into its broader economic development goals, aligning regional recovery efforts with long-term growth strategies.

Transportation

Buncombe County, the City of Asheville, and northern Henderson County are served by an integrated network of highway, rail, and air services. Interstate Highway 40, Interstate Highway 26 and U.S. Highways 19-23, 25, 25A, 70 and 74 link the region to the Piedmont area of North Carolina (including the cities of Charlotte, Greensboro, Raleigh and Winston-Salem) to the east, the Piedmont area of South Carolina (including the cities of Greenville and Spartanburg) to the south, Knoxville, Tennessee to the west, and the Tennessee-Ohio Valley area to the north. The Southern Railway System provides freight service to Buncombe County and about 40 motor freight carriers have terminals in Buncombe County.

Major air passenger and cargo services are available through the Asheville Regional Airport, which is operated by the Greater Asheville Regional Airport Authority and served by Allegiant Air, American Airlines, Delta Air Lines, Sun Country Airlines and United Airlines. The Asheville Regional Airport provided service to over 2.24 million passengers in 2025, which represents a 3% increase from 2024. In a 2025 study, the North Carolina Department of Transportation found that the Asheville Regional Airport contributed more than \$1 billion in personal income for the region and \$3.9 billion in economic impact for western North Carolina.

Population

Population growth in Buncombe County and surrounding areas has occurred largely in a linear fashion along major transportation routes, which is reflected in the configuration of the District’s service area. The District is approximately 215 square miles in total area and comprises approximately 25% of the total land area of Buncombe County, as well as a portion of northern Henderson County.

The U.S. Census Bureau recorded the population of Buncombe County as follows:

<u>2000</u>	<u>2010</u>	<u>2020</u>
206,330	238,318	269,452

The North Carolina Office of State Budget and Management has estimated the population of Buncombe County as follows:

<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
272,485	274,239	277,274	279,533

Located in the approximate geographic center of Buncombe County, the City of Asheville is the major population center in the District. The City’s population (estimated 98,270 as of 2024) represents

more than one-third of Buncombe County’s residents. Five other incorporated towns in Buncombe County—Black Mountain, Biltmore Forest, Weaverville, Woodfin and Montreat—are included in the District’s service area. Weaverville and Woodfin are north of Asheville. Black Mountain and Montreat are located in eastern Buncombe County, and Biltmore Forest is contiguous to the City of Asheville on its southern boundary. Parts of northern Henderson County—immediately south of the Buncombe County line—including the Fletcher area, Cane Creek valley and portions of Mill River, are also part of the District.

The City of Asheville and Buncombe County have historically attracted large numbers of new residents, primarily retirees and entrepreneurs. This in-migration stimulates the economy by adding to the supply of investment dollars and human capital, while increasing demand for residential and commercial facilities, consumer services and health care. National recognition of this significant trend is reflected in the following rankings:

Asheville ranked #13 in Best Cities in the U.S. and #4 on the list of “10 Best U.S. Mountain Towns to Live in Year-round.” – Travel + Leisure, 2026	Asheville ranked third on Southern Living’s list of the South’s Best Places in 2026. – Southernliving.com, March 2026
Asheville’s River Arts District awarded the #1 Best Arts District in the U.S. – USA Today, 2026	Asheville named the #1 “Wellness Town” in America. – EatingWell, 2026
UNC Asheville ranked No. 2 nationally for “Green Matters: Everyone Cares About Conservation.” – The Princeton Review, August 2025	Asheville ranked “2025’s Nicest Place in America.” – Reader’s Digest, September 2025
Asheville ranked #14 among best places for business and careers. – Forbes.com, 2025	Asheville listed on the Forbes Travel Guide’s Top 12 Destinations for 2025. – Forbes, 2025

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The impact of this in-migration trend is reflected in the number and value of residential and non-residential building permits for new construction issued in Buncombe County:

<u>Calendar Year</u>	<u>Residential⁽¹⁾</u>		<u>Non-residential⁽²⁾</u>		<u>Total Value</u>
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	
2021	1,284	\$477,545,997	107	\$423,065,403	\$900,611,400
2022	1,095	527,490,145	60	114,711,744	642,201,889
2023	1,001	449,441,684	134	416,340,324	865,782,008
2024 ⁽³⁾	1,024	483,728,884	135	271,891,261	755,620,145
2025 ⁽⁴⁾	756	401,166,383	63	128,433,320	529,599,703
2026 ⁽⁵⁾		253,539,632		98,011,420	351,551,052

Source: Buncombe County

Note: The table does not include permits issued by Asheville, the Town of Black Mountain or other municipalities within the County.

⁽¹⁾ Residential permits (a) include all single and multi-family units but no additions and alterations and (b) exclude mobile homes.

⁽²⁾ Non-residential permits exclude additions and alterations.

⁽³⁾ Excludes emergency repair and addition permits issued as a result of Hurricane Helene.

⁽⁴⁾ Aftermath of Hurricane Helene. See “Impact of Hurricane Helene” herein.

⁽⁵⁾ Information is for new construction only (does not reflect permits for repairs, renovations or additions) and is through July 2026.

Income

Per capita income has increased by 33.08% in Buncombe County from 2020 to 2024.

Per Capita Income

<u>Year</u>	<u>County</u>	<u>State</u>
2020	\$53,068	\$51,816
2021	59,315	57,233
2022	62,220	59,092
2023	66,776	62,233
2024	70,623	65,634

Source: Bureau of Economic Analysis; latest data available.

Employment and Major Industries

Buncombe County is the most populous county in the western part of the State and serves as a regional economic center for western North Carolina. Buncombe County has a diverse commercial and industrial base which includes healthcare, technology, manufacturing and tourism. In addition, the Buncombe County Tourism Development Authority works to foster the continued growth of tourism and convention business. Downtown redevelopment efforts by the City of Asheville have also provided additional office space, retail shop space and parking space. The makeup of the nonfarm payroll employment for the Asheville Metropolitan Statistical Area (“MSA”) as of 2025 was as follows:

Asheville Metropolitan Statistical Area

Job Growth - 2015/2025 Employment Comparison

<u>Industry</u>	<u>2015</u>	<u>2025</u>
Private Education & Health Services	32,600	35,200
Leisure & Hospitality	24,000	24,800
Government	22,100	23,400
Retail Trade	21,900	23,300
Professional & Business Services	16,800	19,100
Manufacturing	17,100	19,000
Mining, Logging & Construction	7,100	10,500
Other Services	7,000	9,400
Financial Activities	5,400	6,500
Transportation & Warehousing	4,100	6,400
Wholesale Trade	4,400	5,700
Information	1,700	2,000
Total (Nonfarm)	164,200	185,300

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

The following table lists the 10 largest non-manufacturing employers in Buncombe County including governmental entities as of June 30, 2025:

Company or Institution	Description	Number of Employees
Mission Health and Hospitals	Health Care and Social Assistance	1,000+
Ingles Markets Inc	Retail Trade	1,000+
Buncombe County Public Schools	Educational Services	1,000+
VA Medical Center-Asheville	Health Care and Social Assistance	1,000+
Buncombe County Government	Public Administration	1,000+
Biltmore Workforce Management Inc	Arts, Entertainment, and Recreation	1,000+
Wal-Mart Associates Inc	Retail Trade	1,000+
City Of Asheville	Public Administration	1,000+
Mountain Area Health Education Center	Health Care and Social Assistance	1,000+
Asheville-Buncombe Technical Community College	Educational Services	500-999

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

Unemployment. The North Carolina Department of Commerce, Labor and Economic Analysis Division has estimated the percentage of unemployment (not seasonally adjusted) in Buncombe County to be as follows:

<u>Year</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
2021	5.9%	5.6%	5.1%	4.6%	4.6%	5.0%	4.5%	4.3%	3.5%	3.5%	3.3%	2.8%
2022	3.5	3.4	3.1	2.9	3.1	3.4	3.2	3.4	2.8	3.2	3.0	2.6
2023	3.1	3.2	2.9	2.4	2.8	3.0	2.9	3.1	2.7	2.8	2.8	2.6
2024	3.0	3.2	3.0	2.6	2.9	3.2	3.2	3.3	2.6	11.3 ¹	8.0 ¹	6.4 ¹
2025	7.0 ¹	6.8	5.5	4.8	4.6	4.6	4.5	4.4	3.8	N/A ²	3.9	3.3
2026	4.0	3.7	3.4	3.2	3.3	3.2	3.4	3.2	--	--	--	--

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

¹ Aftermath of Hurricane Helene. See “Impact of Hurricane Helene” herein.

² Data not collected in October 2025 due to federal government shutdown from October 1 to November 12, 2025.

Healthcare. The healthcare and social assistance industry is another significant portion of Buncombe County’s economy. The strength of this portion of Buncombe County’s economy is anticipated to continue because of the aging population in the area, a high concentration of healthcare facilities and a healthcare spending rate higher than the national average.

Mission Health, which was purchased by HCA Healthcare, Inc. in 2019, is based in Asheville and serves as the primary referral center for western North Carolina and the adjoining region. Formerly a non-profit, Mission Health is the County’s top taxpayer (as of December 31, 2024). Mission Health’s flagship

hospital, Mission Hospital, is the largest employer west of Charlotte with over 8,000 employees including over 2,300 registered nurses. Mission Hospital has been rooted in the community since 1885. Today, it is licensed for 815 beds on its two adjoining campuses in Asheville. The medical staff has more than 1,000 physicians and is certified in more than 50 specialties and subspecialties. Mission Hospital includes the following Centers of Excellence: Cancer, Heart, Neurosciences, Orthopedics, Trauma, Women's Health and Mission Children's Hospital. Mission Hospital's facilities include a modern 630,000-square-foot facility in the County that houses a 94-bed emergency department and 220-bed acute and critical care facility. Mission Hospital is the regional referral center for tertiary and quaternary care and the region's only Level II trauma center. Mission Children's Hospital is the region's only Level III Neonatal Intensive Care Unit (NICU) and provides 30 pediatric subspecialists.

A member of Mission Health and located in Asheville, CarePartners Health Services ("CarePartners") offers a full continuum of post-acute care. CarePartners includes CarePartners Rehabilitation Hospital, an 80-bed regional referral center with intensive inpatient rehabilitation programs. CarePartners also offers (1) outpatient rehabilitation services at seven separate locations throughout the County, (2) home health nursing and therapy, and private duty services in the County and in surrounding counties, (3) hospice and palliative care (comfort care) services in the home, in long-term care facilities and in the Hospice Solace Center, a 27-bed, home-like facility in Asheville for end-of-life care, (4) adult day services, (5) private duty nursing, homemaker and personal care services, and (6) orthotics and prosthetics services, providing bracing and artificial limbs at clinics in Asheville, with care also available in the home and in medical facilities in the County and surrounding counties. CarePartners has more than 1,100 employees.

Charles George Veterans Administration Medical Center ("VA"), located in Asheville, serves the healthcare needs of more than 48,000 veterans living in a 23-county area of western North Carolina. The VA is a tertiary care, 119-bed acute care facility (including a 16-bed inpatient psychiatric unit). The VA also operates a separate 120-bed community living center where services include extended care rehabilitation, psychogeriatric care, and general nursing home care and 18 authorized Substance Abuse Residential Rehabilitation Treatment Program beds. The VA provides primary care, extended care and rehabilitation, hospice and palliative care, mental health, pharmacy and specialty care services on an inpatient and outpatient basis at the facility in Asheville and three rural clinics. The VA has more than 1,900 employees and over 400 physicians.

AdventHealth, a national nonprofit health system, broke ground in March 2026 on a new hospital in the Town of Weaverville. The first phase of the hospital is expected to open by the end of 2028, and the hospital is expected to generate 1,200 to 1,600 jobs.

The Mountain Area Health Education Center ("MAHEC"), headquartered in Asheville, was formed as part of a statewide network of health education programs to provide healthcare training and continuing education for practicing healthcare personnel in western North Carolina. MAHEC is a non-profit foundation formed by representatives from the Buncombe County Medical Society and Mission Hospitals in 1974. Activities of the MAHEC program include a family practice residency, continuing medical education for practicing physicians and other healthcare professionals, a family nurse practitioner program, pharmacy education, and public health education. In addition, there are programs for continuing education in all health fields. MAHEC is funded by State and federal revenues, local support and generated fees. As of June 2023, more than 700 physicians and dentists have graduated from MAHEC. More than 80% of MAHEC graduates in North Carolina practice locally in western North Carolina.

Buncombe County's healthcare industry includes various healthcare support industries including Change Healthcare, which provides pharmacy support services from its Asheville location. In addition, the

Department of Veterans Affairs located its Mid-Atlantic Consolidated Patient Account Center in Asheville and UNC Asheville opened a campus of the UNC Eshelman School of Pharmacy.

Technology and Science. Buncombe County and Asheville draw technology entrepreneurs from around the nation. The County is home of “Meet the Geeks,” an organization intended to foster creativity, innovation, professional development and intra-company collaboration among the County’s diverse technology companies. The County is also home to a specialized high school for science, technology, engineering, and mathematics (STEM) designed to prepare workforce-ready students.

Several science and technology sector companies are based in Buncombe County, including AvL Technologies, a high-tech manufacturer of mobile satellite antenna systems and positioners; Builderadius, a leading provider of software and data services to organizations involved with building safety and building code enforcement; Genesys Systems, a designer and producer of high-intensity discharge lighting; and Plasticard-Locktech International, the world’s largest keycard manufacturer. The County is also the site of several manufacturing facilities that fabricate innovative and technologically advanced products, including BorgWarner Inc., Arvato Digital Services, Eaton Corporation, Kearfott Corporation and Thermo Fisher Scientific. In addition to these commercial ventures, the County is home to the headquarters of the National Centers for Environmental Information (“NCEI”), one of the world’s most significant archives of environmental data. NCEI has approximately 250 full-time federal employees across the country including 120 employed in the County. In addition, there are about 200 cooperative institutes and contract employees around the country working with NCEI; 130 of those affiliates work in the County. NCEI has comprehensive oceanic, atmospheric and geophysical data.

Manufacturing and Distribution. Manufacturing is a strong segment of Buncombe County’s economy. The diverse products manufactured include food, craft beer, textiles, apparel, wood products, printing and publishing, rubber and plastics products, fabricated metal products, industrial machinery and equipment, electrical equipment and transportation equipment. Wholesalers located in the Asheville MSA account for a significant portion of the wholesale sales volume in the 16-county western North Carolina area. Sales include those to retail markets of groceries, motor vehicles, and a wide variety of non-durable goods, including machinery, lumber, electrical goods and construction materials to manufacturers and construction companies. Wholesale trade provided employment for approximately 5,398 people in 2024. As a regional urban center, the MSA also serves as a retail trade center for western North Carolina, employing approximately 23,591 people in 2024.

Retail grocer Ingles Markets, Incorporated is headquartered in Buncombe County and self-distributes its stores’ merchandise, other than direct store delivery product, from its 1.6 million square-foot distribution center in the County, the largest of its kind on the East Coast.

The following table lists the 10 largest manufacturing employers in Buncombe County as of June 30, 2025:

Company	Description	Approximate Number of Employees
Eaton Corporation	Electrical Equip., Appliance & Component Mfg.	1,000+
Thermo Fisher Scientific, Inc. ¹	Machinery Mfg.	1,000+
BorgWarner Turbo & Emission Systems	Transportation Equip. Mfg.	500-999
Linamar North Carolina Inc.	Machinery Mfg.	500-999
Jabil	Automated Assembly	500-999
Plasticard-Locktech International	Plastic Cards	400-499
Flint Group	Print Consumables	300-399
GE Aerospace	Jet Engine & Aircraft Mfg.	300-399
Kearfott Corporation	Electrical Equipment	300-399
Owens & Minor	Healthcare Logistics	300-399

Source: Buncombe County's Fiscal Year 2025 Annual Comprehensive Financial Report.

¹ Thermo Fisher Scientific announced in January 2026 that it will close its Town of Weaverville facility by the end of 2027, with expected layoffs of 421 positions.

Additionally, the following manufacturing companies have announced new or expanded business in Buncombe County since the beginning of 2021:

In February 2026, Southeastern Container, which provides bottles and pallets to Coca-Cola operations in the United States and Canada, announced plans to invest \$31 million in facility modernization, new technology and equipment at its Enka-Candler facility in Buncombe County. The expansion is expected to generate 12 new jobs.

In December 2025, East Fork Pottery announced plans to invest \$2.5 million to expand production operations capabilities. The expansion is expected to generate 40 new jobs and sustain over 125 existing jobs.

In January 2025, Pratt & Whitney, a world leader in design and manufacturing of aircraft engines and auxiliary power units, announced that it will expand its airfoil manufacturing plant in the County. The company's expansion project is expected to create 325 additional jobs and includes an additional investment of \$285 million.

In March 2024, GE Aerospace announced plans to make investments of \$20 million and \$11.3 million at its facilities in Asheville to scale production of military and commercial aircraft engine parts. In 2026, GE Aerospace announced plans for further investments at its Asheville site.

In June 2023, Poppy Handcrafted Popcorn announced plans to invest \$4.3 million in new operations in the County. The investment will increase production capacity sixfold for the locally founded snack maker and more than double the company's existing manufacturing space. The expansion was expected to facilitate the creation of 66 new jobs over five years.

In December 2022, System Logistics – Vertique, the American operations of System Logistics SpA (Italy), announced plans to invest \$8 million in its Asheville operations at Vista Industrial Park. This new project was expected to add 37 net new jobs with an average wage of \$26.38 per hour and sustain 172 existing jobs.

In March 2021, BorgWarner, a global technology leader in vehicle propulsion systems, announced plans to invest \$62.25 million in its Buncombe County operations. This investment was expected to sustain the existing workforce while bringing additional high-wage jobs from other BorgWarner locations in the United States.

Tourism. Activities and businesses supporting tourism constitute one of the largest sectors of Buncombe County’s economy, representing 20% of its total annual gross domestic product. Buncombe County attracts nearly 14 million visitors annually, including 5 million overnight guests. Visitors are primarily drawn to its mountain scenery, Asheville’s vibrant downtown and the world-famous Biltmore Estate. Total lodging sales grew 35% from the Fiscal Year ended June 30, 2021, to the Fiscal Year ended June 30, 2024. In the Fiscal Year ended June 30, 2025, which was impacted by Hurricane Helene, lodging sales declined approximately 22%. Year-to-date trends in the Fiscal Year ending June 30, 2026, indicate a recovery in lodging sales, currently 19% above the previous Fiscal Year as of January 2026. Annual hotel occupancy was 67.4% in the Fiscal Year ended June 30, 2024, and 66.1% in the Fiscal Year ended June 30, 2025. The County has attracted significant hotel development in the last decade.

<u>Fiscal Year</u>	<u>Lodging Sales (in millions)</u>	<u>Hotel Rooms Sold (in millions)</u>	<u>Vacation Rental Room Nights (in millions)</u>
2022	\$642	2.29	1.77
2023	633	2.28	1.75
2024	629	2.30	1.90
2025	490	2.25	1.69

Source: Explore Asheville Convention & Visitors Bureau.

The Blue Ridge Parkway, a National Parks System scenic parkway which attracted 16.5 million people in 2025, is headquartered in Buncombe County. It has been named an “All American Roadway.” Overlooks, hiking trails and the headquarters of the Southern Highland Craft Guild help account for the parkway’s attraction. The Parkway spans 469 miles and connects the Shenandoah Mountains in Virginia to the Great Smoky Mountains National Park, which attracted 11.5 million visitors in 2025, more than any other national park in the system.

A portion of the half-million-acre Pisgah National Forest is located in Buncombe County. Pisgah National Forest provides access to hiking, important wildflower habitats and visitor centers.

Biltmore Estate is a private attraction located in Buncombe County and draws approximately 1.4 million visitors annually. The 250-room Biltmore House, the largest private residence in the United States, was built in the late 1800s and has the most visitors of all historic buildings in the State. In addition to the Biltmore House, the estate contains two hotels, a winery, six restaurants, a licensed products division, and a number of outdoor activities. The 8,000-acre property was impacted very little by Hurricane Helene in September 2024; however, the low-lying entrance to the estate experienced flooding and is currently undergoing extensive repairs. Biltmore re-opened the estate on November 2, 2024.

The Omni Grove Park Inn (the “Grove Park”), a historic inn originally built in 1913 and located near downtown Asheville, is listed on the National Register of Historic Places and includes a 43,000-square-foot spa. The Grove Park hosts banquets, conventions and other meetings in 42 meeting rooms and suites, including the nearly 18,000-square-foot Grand Ballroom and 8,800-square-foot Heritage Ballroom.

Other tourist attractions in or near Buncombe County include the Blue Ridge Parkway Folk Art Center, Chimney Rock Park, Grandfather Mountain, Navitat Canopy Adventures zip line canopy tour, Vance Birthplace pioneer farmstead, Flat Rock Playhouse, Carl Sandburg Home National Historic Site, Oconaluftee Indian Village and “Unto These Hills” outdoor drama of the Cherokee story.

Recent special events in the area include the 2026 G20 Finance Ministers and Central Bank Governors conference in Asheville and a new PGA Tour golf tournament at The Cliffs at Walnut Cove, in addition to the 19th annual Art in Autumn festival in Weaverville. Additionally, Asheville has hosted the Southern Conference Men’s and Women’s Basketball Championships since 2012.

Retail Trade

Total taxable retail sales in Buncombe County are shown in the following table:

Fiscal Year Ended June 30	Total Retail Sales	Increase (Decrease) Over Previous Year
2021	\$6,160,933,639	12.22%
2022	7,310,486,077	18.66
2023	7,703,980,426	5.38
2024	7,815,439,159	1.45
2025	7,629,694,659	(2.38) ⁽¹⁾
2026	8,122,075,218	6.45

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

⁽¹⁾ Aftermath of Hurricane Helene. See “Impact of Hurricane Helene” herein.

Education

Buncombe County has two public school systems: (1) the Asheville City Administrative Unit, which serves approximately 15% of the students in Buncombe County, and (2) the Buncombe County Administrative Unit, which serves the remaining students in Buncombe County. Asheville-Buncombe Technical Community College (“A-B Tech”), a post-secondary institution located in Buncombe County, was established in 1959 and is jointly administered by the North Carolina Board of Community Colleges and a local Board of Trustees. A-B Tech serves approximately 23,000 students a year in a variety of business, technical and healthcare curricula frequently adjusted to reflect the economic development needs of Buncombe County. A-B Tech plans to build a 70,000-square-foot manufacturing innovation hub for research, pilot production and workforce training on 13 acres of land at Biltmore Farms. Warren Wilson College, located in the eastern part of Buncombe County, is a four-year, private, coeducational college accredited by the Southern Association of Colleges and Schools. Its enrollment for the 2025-2026 school year was approximately 790 students, including day students and low residency graduate program students. Montreat College, located in the eastern part of Buncombe County, is a four-year, private, liberal arts college with a record enrollment of approximately 929 full-time equivalent students in the 2025-2026 school year. The University of North Carolina at Asheville (“UNCA”) is an undergraduate, state-supported liberal arts college with an enrollment of approximately 2,800 students. UNCA also provides graduate education programs in collaboration with other universities in the North Carolina system.

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DISTRICT FINANCIAL STATEMENTS

The financial statements of the District as of June 30, 2025 and for the year then ended have been audited by the District's independent certified public accountants. This Appendix contains the management's discussion and analysis and the District's basic financial statements and the notes thereto, taken from the District's audited financial statements for the Fiscal Year ended June 30, 2025.

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Management's Discussion and Analysis

As management of the Metropolitan Sewerage District of Buncombe County (District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the Fiscal Year ended June 30, 2025.

Financial Highlights

A. Net Position

Net Position is defined as the value of all assets, plus deferred outflows of resources, less all liabilities and deferred inflows of resources. Restricted net position is restricted by law, bond covenant, or other contractual arrangement, less debt incurred. The financial well-being of a government is reflected to a large degree by the growth of net position.

- ▶ The District's net position totals \$578 million and reflects a \$29.6 million or 5.4% increase from the prior year. The income and expense items affecting this improvement will be discussed in greater detail in the section, "Financial Analysis of the District" on page 3.
- ▶ The \$29.6 million increase is attributable to the District's normal operations and includes contributed capital assets from developers of \$10.5 million.
- ▶ Net investment in capital assets increased by \$33.6 million or 7.4%, evidencing the District's continued rehabilitation of infrastructure as well as an increase in donated capital.

B. Outstanding Debt

After principal repayments of \$5.8 million, the District has approximately \$70.6 million of outstanding debt exclusive of related unamortized discounts and premiums.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: ① the financial statements and ② notes to the financial statements that explain in more detail some of the information in the financial statements.

After the notes, supplemental information is provided to show details about the District's fund structure as set forth in the Bond Order. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

A. Basic Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. There are three required statements, which provide both long-term and short-term information about the District's overall financial status.

- ✦ The **Statement of Net Position** presents information on all the District's assets, plus deferred outflows of resources, less liabilities, and deferred inflows of resources with the difference reported as net position. This Statement provides information about the types and amounts of resources (assets), deferred outflows of resources, the obligations to the District's employees and creditors (liabilities), and deferred inflows of resources, which may be used to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing liquidity and financial flexibility.
- ✦ The **Statement of Revenues, Expenses, and Changes in Net Position** presents the current year's results of operations and can be used to determine how successful the District has been in collecting revenues, controlling expenses, and recovering costs through user fees and charges.
- ✦ The final required financial statement is the **Statement of Cash Flows**. This Statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and related financing activities, and may be used to determine how cash originated, what that cash was used for, and how these activities resulted in the change to cash balance during the year.

These financial statements should be evaluated with other external factors such as economic conditions, regional employment statistics, and population growth for a more complete analysis of the District's current and future financial condition.

Financial Analysis of the District

A. Net Position

As previously noted, net position may serve over time as one useful indicator of an entity's financial condition. The District's assets plus deferred outflows of resources exceeded liabilities and deferred inflows by \$578 million at June 30, 2025.

The largest proportion of the District's net position, approximately 83.8%, reflects the District's net investment in capital assets (e.g., land, buildings, interceptor and collector sewer lines, treatment facilities, equipment, etc.), less any related debt outstanding that was issued to acquire these items. As these assets are required to provide wastewater collection and treatment services, these resources are not available for future spending. Although the District'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 as the capital assets cannot be used to liquidate these liabilities.

An additional \$7.4 million or 1.3% of the District's net position are funds restricted by the Bond Order to be held in reserve for either debt service or for emergency capital equipment repair or replacement. The remaining balance of \$86.1 million is unrestricted and may be used to fund pay-as-you-go capital projects, medical or workers' compensation claims, replacement reserves, or any other legal purpose.

The District's overall financial position improved during the Fiscal Year ended June 30, 2025 as overall net position grew by 5.4%. The District's financial strategy is to set rates at a level sufficient to cover operating and debt service expenses as well as to provide about half of the funding for pay-as-you-go infrastructure rehabilitation. The success of this approach is visible in the continuing growth of the District's net position. Current assets will decrease gradually as cash and investments are used to rehabilitate infrastructure, until the next planned revenue bond issuance.

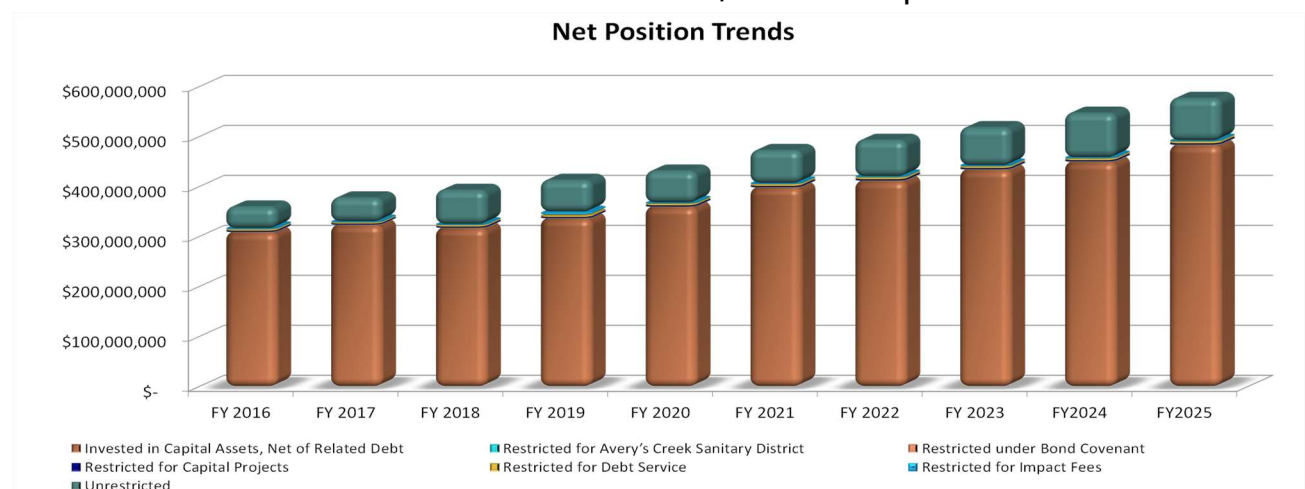


Table 1—Condensed Statement of Net Position

	FY 2025	FY 2024	% Increase (Decrease) 2025 Vs. 2024
Current and Other Assets	\$ 111,851,648	\$ 110,091,854	1.60%
Capital Assets, net	<u>555,977,543</u>	<u>528,524,686</u>	5.19%
Total Assets	<u>667,829,191</u>	<u>638,616,540</u>	4.57%
Deferred Outflows of Resources	<u>5,399,584</u>	<u>6,251,417</u>	(13.63%)
Long-Term Liabilities Outstanding	79,429,021	84,890,801	(6.43%)
Other Liabilities	<u>14,911,230</u>	<u>11,013,146</u>	4.69%
Total Liabilities	<u>94,340,251</u>	<u>95,903,947</u>	35.39%
Deferred Inflows of Resources	<u>871,575</u>	<u>571,480</u>	52.51%
Net Position:			
Net Investment in Capital Assets	484,513,370	450,946,524	7.44%
Restricted for:			
Debt Service	6,058,890	5,871,870	3.19%
Bond Covenant	1,365,403	1,304,575	4.66%
Unrestricted	<u>86,079,286</u>	<u>90,269,561</u>	(3.94%)
Total Net Position	<u>\$ 578,016,949</u>	<u>\$ 548,392,530</u>	5.40%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shown in Table 2 below provides information concerning what contributed to the net changes reported in Table 1.

Table 2—Condensed Statement of Revenues, Expenses, and Changes in Net Position

	FY 2025	FY 2024	% Increase (Decrease) 2025 Vs. 2024
Operating Revenues:			
Sewer Charges	\$ 45,803,098	\$ 45,847,633	(0.10%)
Facility and Tap Fees	7,597,834	9,541,237	(20.37%)
Miscellaneous	<u>1,547,343</u>	<u>649,346</u>	138.29%
Total Operating Revenues	<u>54,948,275</u>	<u>56,038,216</u>	(1.94%)
Operating Expenses:			
Salaries and Employee Benefits	13,584,505	10,534,254	28.96%
Contractual Services	2,057,203	1,980,153	3.89%
Utilities	2,036,484	1,516,015	34.33%
Repairs and Maintenance	1,097,008	1,112,775	(1.42%)
Other Supplies and Expenses	2,505,159	2,059,229	21.66%
Insurance Claims and Expenses	3,235,657	2,694,889	20.07%
Depreciation	<u>13,169,966</u>	<u>12,984,129</u>	1.43%
Total Operating Expenses	<u>37,685,982</u>	<u>32,881,444</u>	14.61%
Operating Income	<u>17,262,293</u>	<u>23,156,772</u>	(25.45%)
Non-operating Revenues (Expenses):			
Investment Income	4,289,383	4,621,789	(7.19%)
Interest Expense	(2,441,236)	(2,601,012)	(6.14%)
Loss on Sale of Surplus Property	<u>(9,435)</u>	<u>(854,386)</u>	98.90%
Total Non-operating Revenues (Expenses)	<u>1,838,712</u>	<u>1,166,391</u>	57.64%
Income before other transactions	19,101,005	24,323,163	(21.47%)
Capital Contribution	<u>10,523,414</u>	<u>4,566,137</u>	230.47%
Change in Net Position	29,624,419	28,889,300	2.54%
Total Net Position, beginning of year	<u>548,392,530</u>	<u>519,503,230</u>	5.56%
Total Net Position, end of year	<u>\$578,016,949</u>	<u>\$548,392,530</u>	5.40%

This section discusses significant factors contributing to the District's 5.4% increase in net position from \$548.4 million to \$578 million.

A. Operating Revenues

- Sewer revenues decreased 0.10%. The District raised domestic sewer rates by 5.0% at the beginning of the Fiscal Year 2025. The overall decrease was due to the impacts of Tropical Storm Helene on its customer base and on the general economy. During Fiscal Year 2025, the District revised its sewer revenues downward to reflect the impacts.

B. Operating Expenses

- **Salaries and Employee Benefits**—The District experienced a 29% increase in current year expense due to a 3.7% cost of living increase, a 5.5% increase in pension expense associated to the statewide Local Governmental Employees Retirement System as well as the implementation of accounting pronouncement GASB 101.
- **Utilities Expense**—A decrease in internally generated hydroelectric power for 8 months attributed to Tropical Storm Helene resulted in a 34.3% increase in current year expenses.
- **Other Supplies and Expenses**—The District experienced a 21.7% increase in current year expense due to an increased use of chemical supplies for a new high-rate primary treatment process.
- **Insurance Claims and Expenses**—The District experienced a 20.1% increase in current year's expenses due to an increase in medical claims in the current year.

C. Investment Income—Decreasing short-term interest rates resulted in a 7.2% decrease in the District's interest income.

D. Interest Expense—Interest expense decreased due to the reduction of outstanding debt.

E. Capital Contribution—The amounts reported as capital contributions represent the acquisition value of donated sewer collector lines by developers and member agencies. The District has no direct control over the amount of contributions received. These amounts are reflected as equal income and capital expenditures in the financial statement.

Capital Asset and Debt Administration

A. Capital Assets

The District owns capital assets with a historical cost of \$806,789,935. These assets consist of land (including easements), improvements including a hydroelectric dam, buildings, collector sewer lines, interceptor lines (large pipelines into which collector sewer lines feed), construction equipment and machinery, service vehicles, office machines, computer hardware and software.

The District has begun several projects expected to cost \$403.1 million to complete and at June 30, 2025 was committed to contracts expected to cost \$28.2 million.

Major capital asset transactions during the year include:

- Rehabilitation of over 23,000 feet of sewer line including:
 - ◆ Sandhill Road at Baker Place
 - ◆ Joyner Avenue at Amboy Road

Table 3—Capital Assets

	FY 2025	FY 2024
Land	\$ 2,811,065	\$ 2,808,890
Easements	12,848,034	12,276,095
Improvements Other than Buildings	11,797,190	9,640,128
Buildings	60,463,613	60,518,458
Machinery and Equipment	92,593,895	92,450,809
Interceptor Sewer Lines	135,384,641	135,049,818
Collector Sewer Lines	462,199,396	444,162,490
Construction in Progress	<u>28,692,101</u>	<u>10,348,441</u>
Subtotal	806,789,935	767,255,129
Less: Accumulated Depreciation	<u>(250,812,392)</u>	<u>(238,730,443)</u>
Net Property, Plant and Equipment	<u>\$ 555,977,543</u>	<u>\$ 528,524,686</u>

More detailed information on the District's capital assets is presented in Note 4 to the financial statements.

B. Debt Administration

At June 30, 2025, the District had \$70,554,117 in par value of outstanding debt. Unlike cities and counties, the District does not have a debt limit. However, the District's Bond Order requires that user rates be set to achieve a minimum debt service coverage ratio of 1.2 annually. This means that in any year, after the District pays all current operating expenses, the net revenues remaining must be at least 120% of that year's principal and interest payments.

The District holds an AA+ rating from Standard & Poor's, an Aaa rating from Moody's Investor Service, and an AAA rating from Fitch. These high ratings allow the District to pay a lower rate of interest than other entities with less favorable ratings.

Further details on long-term debt are provided in Note 3 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The District, located in Buncombe County within the Asheville metropolitan area, has been in a better economic position than many other communities in the state and the nation due to several key factors.

A. Unemployment—From 2003 through 2024, Asheville's unemployment rate has been among the lowest compared to the other ten metropolitan areas in North Carolina. As of June 2025, Asheville's unemployment rate was 4.6%. This is above the state and national averages of 4.0% and 4.4%, respectively. Over the past year, about 600 jobs have been subtracted from the economy, decreasing current employment to 191,200.

B. Balanced Economic Growth—The Asheville metropolitan area has developed a unique and balanced economy based on several key drivers. Actions of each driver can overlap and support other drivers in the local economy. History has also shown that a period of weakness for one driver can lead to the expansion of another.

Key drivers include:

- Specialized health care industry
- Restructured manufacturing sector

- Baby-boom generation fueled population growth
- Growing professional services sector
- Stable tourism activity
- Resilient housing market

- **Local Healthcare Employment**—At over 37,400 workers, health services is now the largest industry sector in the Asheville metropolitan area. Ambulatory health services is the chief source of the new jobs. Strong gains in well-paying health services have softened the earlier losses in the traditional manufacturing sector. Historically, stable growth in local healthcare services has had an average annual rate of 2% to 4%. Healthcare has had a 5.4% increase in employment over the previous year.
- **Manufacturing Employment**—With 19,000 workers, manufacturing continues to be transformed into a high-skilled sector restructured around an advanced group of machinery, plastics, and electronics manufacturers. Manufacturing did experience a 1.6% decrease over the previous year.
- **Continued Moderate Population Growth**—Population growth remains a consistent and stable contributor to the local economy. Estimates indicate moderate growth patterns will continue between 1.5% and 2.0% per year. More than 95% of local population growth is from in-migration, with the remaining from births over deaths.
- **Professional and Business Sector**—The confluence of retiring baby-boomers, local quality of life, and economic growth has resulted in the emergence of a growing professional and business services sector. This sector includes many highly technical and well-paid services such as engineering, computer design, and temporary employment services. The professional and business sector did experience a 3.1% increase over the previous year

The major economic challenge facing the District is the continued impact of Tropical Storm Helene on employment and tourism. However, the impacts should be temporary and tempered by the District's more than adequate cash position.

Based on the District's projections for residential, commercial, and industrial sewer use, sewer rates will increase by 5.0% for the Fiscal Year ended June 30, 2026. Current projections indicate adequate funding for operations, debt service, and the District's long-term Capital Improvement Program.

Requests for Additional Information

This report is designed to provide an overview of the District'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 W. Scott Powell, Director of Finance, Metropolitan Sewerage District of Buncombe County, 2028 Riverside Drive, Asheville, NC 28804, (828) 225-8211, or spowell@msdbc.org

Statement of Net Position June 30, 2025

Assets:

Current assets:

Cash and cash equivalents	\$ 69,983,860
Investments	22,303,747
Restricted cash and cash equivalents	7,205,134
Receivables (net):	
Accounts	9,542,979
Sales	838,002
Employee	9,724
Interest	97,035
Inventories	502,814
Prepaid expenses	2,950
Total current assets	110,486,245

Noncurrent assets:

Restricted cash and cash equivalents	1,365,403
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Capital assets:

Land	2,811,065
Easements	12,848,034
Plant and equipment	762,438,735
Construction in progress	28,692,101
Less: accumulated depreciation	(250,812,392)
Total capital assets	555,977,543

Total noncurrent assets

557,342,946

Total assets

667,829,191

Deferred outflows of resources:

5,399,584

Liabilities:

Current liabilities:

Payments from current assets:	
Accounts payable and accrued expenses	6,461,629
Current portion of compensated absences payable	1,251,533
Payments from restricted cash and cash equivalents:	
Bond interest payable	1,146,244
Current portion of long term obligations	6,051,824
Total current liabilities	14,911,230

Noncurrent liabilities:

Compensated absences, net of current portion	2,227,398
Total other post-employment benefits	3,479,000
Total pension liability	7,320,833
Derivative liability	261,766
Long-term obligations, net of current maturities	66,140,024
Total noncurrent liabilities	79,429,021

Total liabilities

94,340,251

Deferred inflows of resources:

871,575

Net position:

Net investment in capital assets	484,513,370
Restricted for:	
Debt service	6,058,890
Bond covenant	1,365,403
Unrestricted	86,079,286
Total net position	\$ 578,016,949

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

Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2025

Operating revenues:

Sewer charges	\$ 45,803,098
Facility and tap fees	7,597,834
Miscellaneous	1,547,343
Total operating revenues	<u>54,948,275</u>

Operating expenses:

Salaries and employee benefits	13,584,505
Contractual services	2,057,203
Utilities	2,036,484
Repairs and maintenance	1,097,008
Other supplies and expenses	2,505,159
Insurance claims and expenses	3,235,657
Depreciation	13,169,966
Total operating expenses	<u>37,685,982</u>
Operating income	<u>17,262,293</u>

Nonoperating revenues (expenses):

Investment income	4,289,383
Interest expense	(2,441,236)
Loss on disposal of surplus property	(9,435)
Total nonoperating revenues (expenses)	<u>1,838,712</u>
Income before contributions	<u>19,101,005</u>

Capital contribution	10,523,414
Change in net position	<u>29,624,419</u>

Total net position, beginning of year	<u>548,392,530</u>
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Total net position, end of year	<u>\$ 578,016,949</u>
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The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the Year Ended June 30, 2025

Cash flows from operating activities:

Cash received from customers	\$ 52,754,292
Sales tax paid	(372,698)
Cash paid to employees for services	(4,862,567)
Cash paid for goods and services	(16,935,449)
Other operating revenue	1,550,357
Net cash change in operating activities	<u>32,133,935</u>

Cash flows from capital and related financing activities

Acquisition and construction of capital assets	(27,244,183)
Proceeds from sale of surplus property	146,399
Principal paid on bond maturities	(5,826,824)
Interest paid on bond maturities	(2,806,518)
Net cash change in capital and related financing activities	<u>(35,731,126)</u>

Cash flows from investing activities:

Proceeds from sale of investments	39,000,000
Purchases of investments	(49,246,233)
Income on investments	4,236,261
Net cash change in investing activities	<u>(6,009,972)</u>

Net change in cash and cash equivalents	(9,607,163)
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Cash and cash equivalents, July 1	88,161,560
Cash and cash equivalents, June 30	<u>\$ 78,554,397</u>

Reconciliation to the Statement of Net Position:

Current Assets:	
Cash and cash equivalents	\$ 69,983,860
Restricted cash and cash equivalents	7,205,134
Noncurrent assets:	
Restricted cash and cash equivalents	1,365,403
	<u>\$ 78,554,397</u>

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

Statement of Cash Flows

For the Year Ended June 30, 2025 (continued)

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 17,262,293
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	13,169,966
Changes in assets and liabilities:	
(Increase) in receivables	(1,016,324)
(Increase) in inventory	(54,353)
Decrease in prepaid items	3,075
(Decrease) in accounts payable and accrued expenses	(441,392)
(Decrease) in other post-employment benefits	(214,000)
Increase in accrued compensated absences	2,381,199
Decrease in deferred outflows of resources - pensions	736,853
Decrease in deferred outflows of resources - other post-employment benefits	126,000
(Decrease) in net pension liability	(119,477)
Increase in deferred inflows of resources - other post-employment benefits	345,000
(Decrease) in deferred inflows of resources - pensions	(44,905)
Total adjustments	<u>14,871,642</u>
Net cash provided by operating activities	<u><u>\$ 32,133,935</u></u>

Noncash investing, capital, and financing activities:

- At various times during the year ended June 30, 2025 the District received contribution of sewer lines constructed by developers with a reported estimated fair value of \$10,523,414.
-
- During the year ended June 30, 2025, a total of \$62,825 of unrealized appreciation increased the fair value of investments not considered to be cash equivalents.

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

Notes to Basic Financial Statements

June 30, 2025

Note 1—Summary of Significant Accounting Policies

The accounting policies of the Metropolitan Sewerage District of Buncombe County, North Carolina (District) conform to generally accepted accounting principles as applicable to enterprise-type governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The District is a public body and body politic and corporate of the State of North Carolina, created pursuant to the North Carolina Metropolitan Sewerage Districts Act (Article 5, Chapter 162A of the General Statutes of North Carolina, as amended). The District was established in 1962 by the North Carolina State Stream Sanitation Committee for the purpose of constructing and operating facilities for sewage treatment within the political subdivisions serviced by the District as listed below.

City of Asheville	Town of Montreat
Beaverdam Water and Sewer District	Enka-Candler Water and Sewer District
Town of Biltmore Forest	Fairview Sanitary Sewer District
Town of Black Mountain	Skyland Sanitary Sewer District
Busbee Sanitary Sewer District	Swannanoa Water and Sewer District
Caney Valley Sanitary Sewer District	Town of Weaverville
Crescent Hill Sanitary Sewer District	Venable Sanitary District
Woodfin Sanitary Water and Sewer District	Cane Creek Water and Sewer District

Under the North Carolina Metropolitan Sewerage Districts Act, the District is authorized, among other things, to: **(a)** acquire, construct, improve, extend, maintain, and operate any sewerage system or part thereof (including facilities for the generation and transmission of electric power and energy) within or without the District; **(b)** to issue revenue bonds to pay the costs of any of the foregoing; and **(c)** to set and collect rents, rates, fees, and other charges for provision of sewerage services and the use of any District facilities.

The District Board consists of fourteen members appointed as follows: three from the County of Buncombe, three from the City of Asheville, two from the County of Henderson and one each from

Woodfin Sanitary Water & Sewer District, and the Towns of Biltmore Forest, Black Mountain, Montreat, Woodfin, and Weaverville.

The District owns, operates, and maintains a Wastewater Treatment Plant as well as the related network of collector and interceptor sewers. The Treatment Plant has a capacity to treat up to 40 million gallons per day, but currently receives an average of 20.1 million gallons per day from approximately 61,000 residential and commercial customer accounts transported through approximately 1,168 miles of collector sewers.

The District's basic financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units, which come under the criteria for inclusion. The District is not a component unit of any other governmental entity.

B. Basis of Presentation—Fund Accounting

The accounts of the District are organized and operated on the basis of funds in accordance with the District's Bond Order. A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District presents the basic financial statements as a proprietary fund basis. A proprietary fund accounts for those operations **(a)** that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or **(b)** where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

C. Measurement Focus and Basis of Accounting

The proprietary fund is accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the balance sheet. Proprietary Funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period incurred.

D. Budgetary Data

Budgets are adopted as required by state statute and in compliance with the Bond Order. All annual appropriations lapse at fiscal year-end. The budget is prepared using the modified accrual basis of accounting, which is consistent with the accounting system used to record transactions during the fiscal year. Expenditures may not legally exceed appropriations at the functional level. Management is authorized to transfer appropriations within a department; however, any revisions that alter total expenditures of any function must be approved by the governing board. There were two budget amendments.

As required by North Carolina State law [G.S. 159-26(d)], the District maintains encumbrance accounts, which are considered to be “budgetary accounts”. Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

E. Deposits and Investments

All deposits of the District are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The District may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. In addition, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the District 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, (the “State”); bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies, and certain high quality issues of commercial paper and bankers’ acceptances and the North Carolina Capital Management Trust (NCCMT).

The District's Bond Order limits investments to:

- a.** government obligations;
- b.** obligations of the following agencies: Federal Financing Bank, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), The Federal National Mortgage Association (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration;
- c.** direct general obligations of the State secured by the full faith and credit and taxing power of the State rated in one of the two highest rating categories by Moody's and S&P;
- d.** bonds and notes of any North Carolina local government or public authority (other than the District), subject to such restrictions as the Secretary of the Local Government Commission may impose, provided such bonds or notes are rated in one of the two highest rating categories by Moody's and S&P;
- e.** savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State or in any federal bank or savings and loan association having its principal office in the State; provided, however, that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof; or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, be fully collateralized by obligations reserved by financial institution;
- f.** prime quality commercial paper (having original maturities of not more than 270 days) bearing the highest rating of Moody's and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation;
- g.** participating shares in the government portfolio of North Carolina Capital Management Trust, provided that the investments of such fund are limited to those qualifying for investment under this definition and that said fund is certified by the Local Government Commission;
- h.** a commingled investment pool established and administered by the State Treasurer pursuant to G. S. 147-69.3;

- i. repurchase agreements with respect to Government Obligations if entered into with certain restrictions;
- j. any other investment now or hereafter permitted for investment of funds by the District by the General Statutes of North Carolina, including, without limitation, Section 159-30 of the General Statutes of North Carolina.

The District's investments with a 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 NCCMT Government Portfolio invest in treasuries and government agencies, is a money market fund (2a7), and maintains an AAAM rating from S&P and AAA-mf by Moody's Investor Service. It is reported at fair value.

F. Restricted Assets and Liabilities

Any unexpended bond proceeds from the revenue bonds issued by the District are classified as restricted assets because their use is completely restricted to the purpose for which the bonds were originally issued. Cash and investments included in the District's bond service and debt service reserve accounts are classified as restricted because their use is completely restricted for reserves and debt service of the outstanding bonds. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Any amounts payable from restricted assets are considered restricted liabilities. At June 30, 2025, the bond interest payable of \$1,146,244 and the current portion of long-term debt of \$6,051,824 represent total restricted liabilities of the District.

G. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated based on the percentage of receivables that were written off in prior years. The allowance was \$3,723,767 as of June 30, 2025.

H. Inventories

Inventories consist of materials and supplies held for consumption and expensed as used. Inventories are valued at cost (first-in, first-out) which approximates market.

I. Capital Assets

Capital assets, primarily property and equipment, are recorded at original cost at acquisition or construction. Donated capital assets are recorded at acquisition value. Assets costing at least \$15,000 and with a useful life greater than one year are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed on the straight-line basis. Assets are depreciated based on the useful life estimated by District engineers as follows. See Note 4 for further details.

Buildings/Waste Treatment Plants	50 years	Lab Equipment	5-10 years
Improvements other than Buildings	10-50 years	Maintenance Equipment	5-10 years
Waste Treatment/Pumping Stations Machinery	10-15 years	Automobiles/Trucks	5-10 years
Interceptor Sewer Lines	50-100 years	Communication Equipment	5-10 years
Collector Sewer Lines	50-100 years	Computer Equipment/Software	3-5 years
Office Furniture/Fixtures	10 years		

J. Deferred Outflows of Resources/Inflows of Resources

In addition to assets, the Statement of Net Position reports 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 therefore will not be recognized as an expense until that period.

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.

K. Compensated Absences

The District accrues a liability for earned leave that carries over to future periods and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. When determining the liability, the flow assumption of leave is considered taken on a first in, first out ("FIFO") basis.

The vacation policy of the District provides for the accumulation of up to forty (40) days earned vacation leave with such leave being fully vested when earned. Accordingly, an expense and a

liability for compensated absences and any salary-related payments such as defined contribution plan retirement contributions and payroll taxes are recorded. Accumulated earned vacation on June 30, 2025, is \$1,073,069. See Note 3D for further details.

The sick leave policy of District provides for the unlimited accumulation of sick leave. Any unused sick leave accumulated at the time of retirement may be used in the determination of the length of service for retirement benefit purposes. Any unused sick leave accumulated for employees that leave the county before retirement is forfeited.

The District uses a five-year look-back period to estimate the amount of sick leave that has been earned and will be used as sick leave over the employee's service period. The liability for sick leave is based on this estimate. On June 30, 2025, the sick leave liability is \$2,405,862. See Note 3D for further details.

L. Cash Equivalents

For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures 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.

N. Operating and Non-operating Revenues and Expenses

The District defines operating revenues and expenses as those directly received and incurred in the process of providing wastewater collection and treatment. Nonoperating revenues and expenses are those resulting from incidental functions such as investment income, interest expense on long-term debt, and sale of surplus equipment.

0. Pensions and OPEB

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

The District participates in one other postemployment benefit plan (OPEB) for health insurance (Plan). The District currently finances the Plan following a pay-as-you-go approach, paying an amount each year equal to premiums related to the coverage. For purposes of measuring the total OPEB liability, deferred outflows and inflows of resources related to OPEB, and the OPEB expense have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Note 2—Deposits and Investments

A reconciliation of the District's deposits and investments for disclosure purposes and cash, cash equivalents, and investments for financial statement presentation as of June 30, 2025, is included below:

Cash on hand	\$ 350
Deposits	2,646,371
Investments	<u>98,211,423</u>
Total	<u>\$ 100,858,144</u>
Presentation on Statement of Net Position	
Current Assets	
Cash and cash equivalents	\$ 69,983,860
Investments	22,303,747
Restricted cash and cash equivalents	7,205,134
Noncurrent Assets	
Restricted cash and cash equivalents	<u>1,365,403</u>
Total	<u>\$ 100,858,144</u>

A. Deposits

All of the District's deposits are either insured or collateralized by using the Pooling Method. 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 District, these deposits are considered to be held by the District's agent in the District's name.

The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the District or the escrow agent.

Because of the inability to measure the exact amount of collateral pledged for the District under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows.

However, the State Treasurer enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method and the District relies on the State Treasurer to monitor those financial institutions. The District's formally adopted investment policy attempts to mitigate custodial credit risk for deposits by pre-qualifying the financial institutions receiving funds. The District also complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2025, the District's deposits had a carrying amount of \$2,646,371 and a bank balance of \$3,130,194 of the bank balance, \$250,000 was covered by federal depository insurance and \$2,880,194 in interest-bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2025, the District had \$350 cash on hand.

B. Investments

As of June 30, 2025, the District had the following investments and maturities.

Investment Type	Valuation Measurement Method	Fair Value	Less Than 6 Months	6 to 12 Months	1 to 3 Years	3 to 5 Years
US Government Agencies	Fair Value –Level 2	\$ 13,985,696	\$ -	\$ 3,993,067	\$ 9,992,629	N/A
Commercial Paper	Fair Value –Level 2	8,318,051	8,318,051	N/A	N/A	N/A
NC Capital Management Trust–Government	Fair Value –Level 1	75,907,676	75,907,676	N/A	N/A	N/A
Total		\$ 98,211,423	\$ 84,225,727	\$ 3,993,067	\$ 9,992,629	N/A

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

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

- Interest Rate Risk**—As a means of limiting its exposure to changes in fair value arising from rising interest rates, the District's formally adopted investment policy calls for structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and/or scheduled debt service, thereby avoiding the need to sell securities on the open market prior to maturity. In addition, the District invests operating funds primarily in shorter-term securities.
- Credit Risk**—Credit risk is the risk of loss due to the failure of the security issuer or backer. The District's formally adopted investment policy mitigates credit risk by limiting investments to the safest types of securities and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. As of June 30, 2025, the District's investments in commercial paper were at least P-1 by Standard & Poor's, F-1 by Fitch Ratings, and A-1 by Moody's Investors Service. The District's investments in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2025. The District's investments in US Agencies(Federal Home Loan Bank and Federal Home Loan Mortgage Corporation) are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service.

- Custodial Credit Risk**—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s formally adopted investment policy requires all transactions to be conducted on a delivery-versus-payment (DVP) basis and to be held by a contracted third-party custodian and evidenced by safekeeping receipts. At June 30, 2025, the District did not have any investments exposed to custodial credit risk.
- Concentration of Credit Risk**—The District’s investment policy mitigates concentration of credit risk, that is, the risk from the failure of any one entity or industry, by limiting the maximum amount of the District’s portfolio that may be invested in Bankers’ Acceptances and Commercial Paper to 20% each.

In addition, the District’s formally adopted policy limits investment in any single issue of a non-governmental entity to the greater of \$5,000,000 or 1% of the entire portfolio.

C. Hedging Derivative Instrument

At June 30, 2025, the District had the following hedging derivative instrument:

Changes in Fair Value								Fair Value - June 30, 2025	
Type	Objective	Valuation Measurement Method	Notional Amount	Classification	Amount	Effective Date	Maturity Date	Classification	Amount
Cash Flow Hedge:									
Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the 2005/2008A Series Revenue Refunding Bonds	Fair Value Level 2	\$15,920,000	Deferred Outflow of Resources	\$174,156	1/6/2005	7/1/2031	Debt	\$(261,766)

The fair value of the interest rate swap is determined using Level 2 inputs of the fair value hierarchy. Inputs used in determining the fair value of the interest rate swap include both observable and unobservable inputs. Observable inputs include the notional amount as shown above and the variable and fixed rates within the swap agreement as disclosed in Note 3c. Unobservable inputs include quoted market prices for similar instruments, discounted cash flow methodologies, or similar techniques.

The mark-to-market valuation was established by market quotations from the counterparty representing estimates of the amounts that would be paid for replacement transactions. Because

the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

- **Objective**—As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in January 2005, the District issued variable interest rate debt and entered into an interest rate exchange agreement (swap) in connection with its variable rate Series 2005 Revenue Refunding Bonds in the amount of \$33,915,000. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate of 3.4175%.

In April 2008, the District issued \$33,635,000 in Series 2008A Revenue Refunding Bonds to currently refund the Series 2005 Revenue Refunding Bonds. The swap described above now applies to the Series 2008A Revenue Refunding Bonds. In April of 2020, the District amended the swap to eliminate the London Interbank Offered Rate (LIBOR) rate it receives as a variable payment. As a result the new synthetic fixed rate is 3.2910%.

- **Terms**—Under the initial terms of the swap, the District pays the counterparty a fixed payment of 3.4175% and receives a variable payment computed as 59% of the one-month LIBOR plus 35 basis points. In April of 2020, the District amended the term of the swap, the District pays the counterparty a fixed payment of 3.2910% and receives a variable payment computed as 100% of the Securities Industry and Financial Markets Association (SIFMA).

The swap had an initial notional amount equal to the associated Series 2005 variable rate bond principal amount of \$33,915,000. The swap was entered into at the same time the Series 2005 Bonds were issued in January of 2005.

Starting in Fiscal Year 2006, the notional value of the swap and the principal amount of the associated debt declined in equal amounts. As the swap now applies to the Series 2008A Bonds, the remaining notional value of the swap is correlated to the variable rate bond principal amount of \$33,635,000. Starting in Fiscal Year 2010, the notional value of the swap and the principal amount associated debt decline in similar amounts until the debt is completely retired. The notional amount outstanding is \$15,920,000 as of June 30, 2025.

The bonds' variable rate coupons are determined by the remarketing agent based on prevailing market conditions. This usually approximates SIFMA. The bonds and the related swap agreement both mature on July 1, 2031.

- ▶ **Credit Risk**—As of June 30, 2025, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated Aa2 by Moody's and A+ by Standard & Poor's, and AA by Fitch Ratings as of June 30, 2025. To mitigate the potential credit risk, if the counterparty's credit quality falls below Baa3 (Moody's) and BBB-(S&P), the value of the swap may be fully collateralized by the counterparty or by several other means specified in the International Swap Dealers Association (ISDA) Master Agreement and Counterparty Schedule.
- ▶ **Interest Rate/Basis Risk**—As noted above, the swap exposes the District to basis risk should the relationship between SIFMA and the bonds' variable rate coupons determined by the remarketing agent, changing the synthetic rate on the bonds.

The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.2910% and the actual synthetic rate for the period ending June 30, 2025 of 3.2410%. As of June 30, 2025, the rate on the District's bonds was 1.8700% whereas 100% of SIFMA was 1.9200%. If a change occurs that results in the rates moving in a direction unfavorable to the District, the expected cost savings may not be realized.

- ▶ **Termination Risk**—The interest rate exchange contract uses the ISDA Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The ISDA Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the District if the counterparty's credit quality rating falls below Baa3 (Moody's) and BBB-(S&P). The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap was terminated, the variable-rate bonds would no longer carry a synthetic interest rate. In addition, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.
- ▶ **Market Access Risk/Rollover Risk**—The District's interest rate exchange contract is for the term (maturity) of the bonds and, therefore, there is no market-access risk or rollover risk.

Note 3—Long-Term Obligations

A. Long-Term Debt

The District issues debt to help finance the cost of rehabilitation of wastewater interceptor and collection infrastructure, and treatment plant facilities. All debt is secured by a pledge of and payable from net receipts and certain other moneys. In the event of a default, the District agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the District under the related agreements. Unlike cities and counties, the District has no legal debt limit. However, the District must comply with the legal requirements contained in its Bond Order as described in Note 10.

The District's borrowings are subject to federal arbitrage regulations; however, management does not anticipate any material liability for arbitrage from any of these debt issues.

The District currently has the following issues outstanding:

	Original Issue Amount
Revenue Bonds:	
Series 2008A, Revenue Refunding Bonds	\$ 33,635,000
Series 2013, Revenue Refunding Bonds	30,230,000
Series 2014, Revenue Bonds	26,195,000
Series 2017, Revenue and Refunding Bonds	37,485,000
Direct Borrowings - State Revolving Fund:	
2009 North Carolina Water Pollution Control Revolving Fund	\$ 672,980

The following is a summary of changes in the Districts' long-term debt for the Fiscal Year ended June 30, 2025:

	BALANCE JULY 1, 2024	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2025
Revenue Bonds:				
Revenue Refunding Bonds, Series 2008A issued to refund the Series 2005 Revenue Refunding Bonds:				
Interest at variable rates in the weekly mode, payable monthly, due serially until 2031	\$ 18,355,000	\$ -	\$ 2,400,000	\$ 15,955,000
Total Bonds – Series 2008A	\$ 18,355,000	\$ -	\$ 2,400,000	\$ 15,955,000
Revenue Refunding Bonds, Series 2013 issued to refund Series 2003 and Series 2008B Revenue Refunding Bond:				
2.0% to 5.00% serial bonds issued May 1, 2013, with maturities on each July 1, 2014 through 2029 varying from \$1,065,000 to \$4,255,000: interest payable semi-annually	\$ 7,155,000	\$ -	\$ 1,105,000	\$ 6,050,000
Total Bond – Series 2013	\$ 7,155,000	\$ -	\$ 1,105,000	\$ 6,050,000
Revenue Bonds, Series 2014 issued to construct certain sewerage projects:				
2.0% to 5.00% serial bonds issued May 21, 2014, with maturities on each July 1, 2016 through 2039 varying from \$535,000 to \$1,430,000: interest payable semi-annually	\$ 14,885,000	\$ -	\$ 900,000	\$ 13,985,000
5.00% term bonds issued May 21, 2014, at 112.950%, due July 1, 2039: interest payable semi-annually	\$ 4,685,000	\$ -	\$ -	\$ 4,685,000
Total Bond – Series 2014	\$ 19,570,000	\$ -	\$ 900,000	\$ 18,670,000

	BALANCE JULY 1, 2024	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2025
Revenue Bonds (continued):				
Revenue Bonds, Series 2017 issued to construct certain sewerage projects and to refund portions of Series 2009A:				
3.0% to 5.00% serial bonds issued July 11, 2017, with maturities on each July 1, 2018 through 2039 varying from \$620,000 to \$2,260,000: interest payable semi-annually	\$ 26,680,000	\$ -	\$ 1,405,000	\$ 25,275,000
5.00% term bonds issued July 11, 2017, at 97.704%, due July 1, 2042: interest payable semi-annually	\$ 4,520,000	\$ -	\$ -	\$ 4,520,000
Total Bond – Series 2017	\$ 31,200,000	\$ -	\$ 1,405,000	\$ 29,795,000
Total Revenue Bonds	\$ 76,280,000	\$ -	\$ 5,810,000	\$ 70,470,000
Direct Borrowings - State Revolving Fund:				
2009 North Carolina Water Pollution Control Revolving Fund used to construct certain sewerage projects:				
\$672,980 revolving loan issued August 18, 2009 unpaid principal sum is reduced by one-half as "Principal Forgiveness", interest accrues at 0%, 20 annual installments May 1, 2011 to 2030	\$ 100,941	\$ -	\$ 16,824	\$ 84,117
Total Direct Borrowings - State Revolving Fund	\$ 100,941	\$ -	\$ 16,824	\$ 84,117
Total Long-Term Obligations	76,380,941	-	5,826,824	70,554,117
Plus, net unamortized discounts and premiums	2,088,032	-	450,301	1,637,731
	\$ 78,468,973	\$ -	\$ 6,277,125	\$ 72,191,848
Series 2008A	2,400,000			2,485,000
Series 2013	1,105,000			1,145,000
Series 2014	900,000			925,000
Series 2017	1,405,000			1,480,000
Direct Borrowings - 2009 State Revolving Fund	16,824			16,824
Less current portion	5,826,824			6,051,824
	\$ 72,642,149			\$ 66,140,024

Maturities of long-term debt are as follows:

Year Ending June 30:	Serial Maturity	Principal Mandatory Sinking Fund Requirements (Term Bonds)	Total	Interest
2026	\$ 6,051,824		\$ 6,051,824	\$ 2,633,643
2027	6,291,823	-	6,291,823	2,382,372
2028	6,546,823	-	6,546,823	2,125,982
2029	6,796,823	-	6,796,823	1,859,045
2030	<u>7,071,824</u>	<u>-</u>	<u>7,071,824</u>	<u>1,581,423</u>
	32,759,117	-	32,759,117	10,582,465
Five Years:				
2035	19,090,000	-	19,090,000	5,124,219
2040	9,500,000	4,685,000	14,185,000	2,159,150
2043	<u>-</u>	<u>4,520,000</u>	<u>4,520,000</u>	<u>214,844</u>
	<u>\$ 61,349,117</u>	<u>\$ 9,205,000</u>	<u>\$ 70,554,117</u>	<u>\$ 18,080,678</u>

The revenue bonds are secured by and payable solely from all sewer revenues of the District after provisions for operating expenses and from certain reserves and other monies of the District, as described in the Bond Order. Additional remittance requirements to the trustee for a sinking fund to redeem the term bonds, subordinated indebtedness outstanding, if any, and other purposes are set forth in the Bond Order.

B. Variable Debt

- Interest Rates**—Interest rates for variable debt change weekly as determined by the responsible remarketing agent based on competitive municipal bond rates in the secondary market.
- Liquidity Agreement**—The District has entered into a remarketing agreement with Wells Fargo to perform various functions in connection with the Series 2008A variable debt. The Remarketing Agent’s major responsibilities include ① soliciting of purchases of Bonds from qualified investors, ② processing and recordkeeping for such purchases, ③ billing and receiving payment for Bonds purchased, and ④ determining the interest rate on the Bonds as provided in the Series Resolution.

C. Hedging Derivative and Associated Hedged Debt

As of June 30, 2025, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows.

As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net	
2026	2,485,000	255,761	187,513	2,928,274
2027	2,585,000	207,578	152,187	2,944,765
2028	2,685,000	157,524	115,490	2,958,014
2029	2,785,000	105,601	77,422	2,968,023
2030	2,890,000	51,721	37,920	2,979,641
2031	1,240,000	25,962	19,034	1,284,996
2032	<u>1,285,000</u>	<u>2,002</u>	<u>1,468</u>	<u>1,288,470</u>
	<u>\$ 15,955,000</u>	<u>\$ 806,149</u>	<u>\$ 591,034</u>	<u>\$ 17,352,183</u>

The computations above are based on the following interest assumptions.

	Terms	Rates at June 30, 2025
Interest Rate Swap:		
Fixed Payment to Counterparty	Fixed	3.2910%
Variable Payment from Counterparty	100% of SIFMA	(1.9200%)
Net Interest Rate Swap Payments		1.3710%
Variable-rate Bond Coupon Payments	Remarketed Rate	1.8700%
Synthetic Interest Rate on Bonds		3.2410%

D. Compensated Absences

Changes to the liability for compensated absences were as follows:

Balance - June 30, 2024	\$	3,501,771
Additions		1,256,624
Deductions		<u>(1,279,464)</u>
Balance - June 30, 2025	<u>\$</u>	<u>3,478,931</u>

For the year ended June 30, 2025, the District estimates that \$1,251,533 is the current portion of this liability.

E. Net Pension Liability (LGERS)

Changes to the net pension liability (LGERS) were as follows:

Balance - June 30, 2024	\$	7,440,310
Additions		-
Deductions		(119,477)
Balance - June 30, 2025	\$	<u>7,320,833</u>

F. Other Post-Employment Benefits (OPEB)

Changes to the other post-employment benefit liability (OPEB) were as follows:

Balance - June 30, 2024	\$	3,693,000
Additions		-
Deductions		(214,000)
Balance - June 30, 2025	\$	<u>3,479,000</u>

Note 4—Capital Assets

A summary of changes in capital assets follows below.

	Balance June 30, 2024	Additions	Disposals	Transfers	Balance June 30, 2025
Capital Assets Not Being Depreciated					
Land	\$ 2,808,890	\$ -	\$ -	\$ 2,175	\$ 2,811,065
Easements	12,276,095	-	-	571,939	12,848,034
Construction in Progress	<u>10,348,441</u>	<u>29,186,526</u>	-	<u>(10,842,866)</u>	<u>28,692,101</u>
Total Capital Assets Not Being Depreciated	<u>25,433,426</u>	<u>29,186,526</u>	-	<u>(10,268,752)</u>	<u>44,351,200</u>
Capital Assets Being Depreciated					
Bldgs. & Waste Treatment Plants	60,518,458	-	(60,607)	5,762	60,463,613
Improvements & Other than Bldgs.	9,640,128	-	(21,847)	2,178,909	11,797,190
Machinery & Equipment	84,291,972	388,732	(584,287)	(36,327)	84,060,090
Interceptor Sewer Lines	135,049,818	-	-	334,823	135,384,641
Collector Lines	444,162,490	10,523,414	(265,121)	7,778,613	462,199,396
Automobiles & Trucks	6,224,654	679,985	(311,989)	-	6,592,650
Computer Equipment	1,175,033	-	-	-	1,175,033
Office Furniture & Equipment	<u>759,150</u>	-	-	<u>6,972</u>	<u>766,122</u>
Total Capital Assets Being Depreciated	<u>741,821,703</u>	<u>11,592,131</u>	<u>(1,243,851)</u>	<u>10,268,752</u>	<u>762,438,735</u>
Less Accumulated Depreciation					
Bldgs. & Waste Treatment Plants	(25,296,742)	(1,208,918)	37,895	-	(26,467,765)
Improvements & Other than Bldgs.	(6,621,894)	(446,899)	21,847	-	(7,046,946)
Machinery & Equipment	(54,038,521)	(3,735,265)	492,721	-	(57,281,065)
Interceptor Sewer Lines	(33,660,257)	(1,471,671)	-	-	(35,131,928)
Collector Lines	(112,646,225)	(5,789,448)	257,868	-	(118,177,805)
Automobiles & Trucks	(4,731,685)	(493,628)	277,686	-	(4,947,627)
Computer Equipment	(1,171,543)	(3,488)	-	-	(1,175,031)
Office Furniture & Equipment	<u>(563,576)</u>	<u>(20,649)</u>	-	-	<u>(584,225)</u>
Total Accumulated Depreciation	<u>(238,730,443)</u>	<u>(13,169,966)</u>	<u>1,088,017</u>	-	<u>(250,812,392)</u>
Capital Assets Being Depreciated, Net	<u>503,091,260</u>	<u>(1,577,835)</u>	<u>(155,834)</u>	<u>10,268,752</u>	<u>511,626,343</u>
Total Capital Assets	<u>\$ 528,524,686</u>	<u>\$ 27,608,691</u>	<u>\$ (155,834)</u>	<u>\$ -</u>	<u>\$ 555,977,543</u>

- ★ **Contributed Infrastructure**—The District’s responsibility is to maintain existing collector and interceptor sewer lines as well as to provide wastewater treatment. The majority of sewer lines added to the District are constructed by member agencies or developers and donated to the District. Occasionally, owners of private lines will petition the District to take over their sewer lines as well. This infrastructure must meet minimum District engineering standards, and when accepted by Board action, the District assumes all responsibility for future maintenance and rehabilitation. During the year ended June 30, 2025, the District accepted capital assets with an acquisition value of \$10,523,414.

- ★ **Easements**—The District acquires right-of-way easements in the course of sewer line rehabilitation projects. These easements have an indefinite useful life and are recorded at cost.

Note 5—Pension Plan Obligation

A. North Carolina Local Governmental Employees' Retirement System

- **Plan Description**—The District 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 for the State of North Carolina. The State’s Report 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.

- **Benefits Provided**—LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60.

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

- **Contributions**—Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The District's contractually required contribution rate for the year ended June 30, 2025 was 13.60% for general employees 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 District were \$1,552,062 for the year ended June 30, 2025.
- **Refunds of Contributions**—District employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions, or any other benefit provided by LGERS.

- **Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**—At June 30, 2025, the District reported a liability of \$7,320,833 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 District's proportion of the net pension liability was based on a projection of the District'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, 2025, the District's proportion was 0.10859% measured as of June 30, 2024, which was a decrease of 0.00375% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the District recognized pension expense of \$2,187,533. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,282,887	\$ 8,626
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	995,263	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	66,931	104,949
District's contribution subsequent to the measurement date	<u>1,552,062</u>	<u>-</u>
Total	<u>\$ 3,897,143</u>	<u>\$ 113,575</u>

\$1,552,062 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2026.

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

Year Ending June 30:		
2026	\$	683,854
2027		1,445,974
2028		214,214
2029		(112,536)

- **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	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.5 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

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

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

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	33.0%	2.4%
Global Equity	38.0%	6.9%
Real Estate	8.0%	6.0%
Alternatives	8.0%	8.6%
Opportunistic Fixed Income	7.0%	5.3%
Inflation Sensitive	6.0%	4.3%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. All rates of return and inflation are annualized.

- **Discount Rate**—The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined.

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

- Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**—The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the District'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 (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
District's proportionate share of the net pension liability (asset)	\$ 12,972,730	\$ 7,320,833	\$ 2,671,370

- 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 for the State of North Carolina.

B. Supplemental Retirement Income Plan for Non-Law Enforcement Officers 401(k) Plan

- Plan Description**—The District contributes to the Supplemental Retirement Income Plan of North Carolina, often referred to as the State's 401(k) Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to employees of the District who are members of LGERS. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.
- Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2%, or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) Plan or the 457 Plan described below. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2025, a total of \$459,395 and \$621,771 were contributed by the District and employees, respectively.

C. Deferred Compensation Plan

- **Plan Description**—The District also offers its employees a Deferred Compensation Plan, another type of defined contribution plan, established under the Internal Revenue Code Section 457. The Plan allows employees to defer receipt and taxation of a portion of their salary until future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan is administered by a third-party administrator who establishes and amends benefit provisions within the provisions of the Internal Revenue Code Section 457.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, and rights (until paid or made available to the employee or other beneficiary) are held in trust for the exclusive benefit of participants and their beneficiaries. As such, these assets and the related obligations are not reported in these financial statements.

- **Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2%, or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) Plan described above or a 401(a) Plan. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2025, \$24,156 and \$49,053 were contributed by the District and employees, respectively, to the deferred compensation plan.

Note 6—Other Employment Benefits

A. Death Benefits

- **Plan Description**—The District 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 his/her death, but the benefit may not be below \$25,000 or exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The District has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the District, the District does not determine the number of eligible participants. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The District considers these contributions to be immaterial.

Note 7—Other Post-Employment Benefits

A. Healthcare Benefits

- Plan Description**—Under terms of a District resolution, the District administers a single-employer defined benefit group health and dental insurance plan (the GHD Plan). The District Board has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust. However as of June 30, 2025, the District set aside \$3,221,124. These funds are to be used to meet the District's future post-employment obligation.
- Benefits Provided**—As of May 14, 2008, the plan allows retirees to continue coverage under the Districts' self-insured group health and dental insurance plan until the earlier of ① reaching age 65; or ② becoming covered under another group medical plan; or ③ failing to timely pay any required premium for such coverage.

The District will pay the premium cost for the eligible retired employee as follows:

Years of Service	Subsidy Vesting %
30 years at any age	100%
25 years at 55 years of age	90%
20 years at 55 years of age	80%
15 years at 55 years of age	65%
10 years at 55 years of age	55% - Existing Employees 50% - Employees hired after 7/1/08
5 years at 55 years of age	50% - Existing Employees

In addition, the District’s retirees can purchase coverage for their spouse at full actuarial cost. The District’s Board may amend the benefit provisions. A separate report was not issued for the plan.

Membership in the District’s GHD Plan consisted of the following at July 1, 2023, the date of the latest actuarial valuation:

Employees	
Retirees Receiving Benefits	18
Active Plan Members	147
Total	165

B. Total OPEB Liability

The District’s total OPEB liability of \$3,479,000 was measured as of July 1, 2024 and was determined by an actuarial valuation as of July 1, 2023.

➤ **Actuarial Assumptions and Other Inputs**—The total OPEB liability in the July 1, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Salary Increases	3.00 percent
Discount Rate	4.09 percent
Healthcare cost trend rates	(1.66%) for fiscal year end 2024 (to reflect actual experience), then 6.5% for fiscal year end 2025, decreasing 0.25% per year to an ultimate rate of 5.00%

The discount rate is based on the yield of the Fidelity Municipal Bond 20-Year Municipal GO AA Index as of the measurement date.

➤ **Changes in the Total OPEB Liability—**

	Total OPEB Liability
Balance at July 1, 2024	\$ 3,693,000
Changes for the year	
Service cost	185,000
Interest	148,000
Changes of benefit terms	-
Differences between expected and actual experience	(457,000)
Changes in assumptions or other inputs	17,000
Other changes	-
Benefit payments	(107,000)
Net changes	(214,000)
Total	\$ 3,479,000

Mortality rates were based on the PUB-2010 Mortality Table, with improvement scale MP-2021 fully generational.

The actuarial assumptions used in the July 1, 2023 valuation were based on the results of an actuarial experience study for the period July 2015 through December 2019.

- **Sensitivity of the Total OPEB Liability to Changes in the Discount Rate—**The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.09 percent) or 1-percentage-point higher (5.09 percent) than the current discount rate:

	1% Decrease	Discount Rate (4.09%)	1% Increase
Total OPEB Liability	\$ 3,712,000	\$ 3,479,000	\$ 3,260,000

- **Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**—The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current healthcare cost trend rates:

	1% Decrease	Discount Rate (Medical-6.5%)	1% Increase
Total OPEB Liability	\$ 3,161,000	\$ 3,479,000	\$ 3,845,000

- **OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB**—For the year ended June 30, 2025, the District recognized OPEB expense of \$354,000. At June 30, 2025, the District 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	\$ 188,000	\$ 533,000
Changes in assumptions	166,000	225,000
Benefit payments and administrative costs made subsequent to the measurement date	<u>159,000</u>	<u>-</u>
Total	<u>\$ 513,000</u>	<u>\$ 758,000</u>

\$159,000 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 year ended June 30, 2026.

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

Year Ending June 30:	
2026	\$ (26,000)
2027	(73,000)
2028	(113,000)
2029	(93,000)
2030	(37,000)
Thereafter	(62,000)

Note 8—Risk Management

The District has established a self-insured group health and dental insurance program, which provides medical coverage up to a maximum of \$70,000 per employee, and approximately \$2,500,000 in the aggregate. The District purchases commercial insurance for claims in excess of coverage.

All employees participate in the program and are responsible for premium and co-payment amounts as determined by the District. Charges to the Enterprise Fund are adjusted annually so that the program revenues and expenses are approximately equal and there is an adequate amount in reserves in the event the District decides to discontinue the plan. The accrued self-insurance claims liability of \$394,392 reported at June 30, 2025 represents estimated claims liabilities, including incurred but not reported losses, at the estimated ultimate cost of settling the claims using historical experience as determined by the Third-Party Administrator (TPA).

Changes since inception in the claim's liability amount are as follows:

Fiscal Years Ended June 30	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	Balances at Fiscal Year End
2023	\$ 247,062	\$ 2,033,421	\$ 2,080,855	\$ 199,628
2024	\$ 199,628	\$ 2,377,003	\$ 1,989,074	\$ 587,557
2025	\$ 587,557	\$ 2,715,756	\$ 2,908,921	\$ 394,392

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities.

Through these pools, the District obtains general liability and auto liability coverage, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The District carries flood insurance through the National Flood Insurance Plan (NFIP). Because the District's structures, situated adjacent to the French Broad River, are in an "A" area designated by the Federal Emergency Management Agency (FEMA), the District has purchased coverage in the maximum amount of \$500,000 through the NFIP for each eligible structure. Management believes this will be adequate to remediate flood damage to exposed buildings and their contents.

In accordance with G.S. 159-29, the District has adopted a system of blanket faithful performance bonds for all employees and has purchased coverage of \$100,000 from a commercial insurance carrier. The Finance Officer is individually bonded for \$1,000,000.

Note 9—Construction in Progress

As of June 30, 2025, the District had begun sewer projects expected to incur future costs of approximately \$403.1 million, and the District is committed under various contracts encumbered for sewer construction and rehabilitation estimated to cost \$28.2 million to complete. The majority of encumbered contracts are expected to be completed within the next fiscal year, and the projects currently under construction are scheduled to be completed within the next two to five years.

Note 10—Bond Covenants

The District is subject to the 1999 Amended Bond Order, which contains several operational directives including internal accounting fund structure, disclosure of financial records, and setting rates. A copy of the Bond Order may be obtained by contacting the Director of Finance.

The District is required by the 1999 Amended Bond Order to set rates as summarized by the following:

The District covenants to set rates and charges so that the Income Available for Debt Service (defined as the excess of "Revenues" over "Current Expenses") will not be less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year.

The definition of revenues for this purpose does not include grants, contributions, investment income credited to non-operating funds, or tap and connection fees. However, tap and connection fees may be considered revenues upon a resolution duly passed by the Board. Current expenses include operating expenses other than additions to reserve funds, depreciation or amortization, or debt service payments.

Long-Term Debt Service Requirement means the aggregate of the required deposits to be made in respect of principal and interest.

The various Bond Series Resolutions require either monthly or semi-annual deposits of the upcoming principal and interest payments to be received by the Trustee at least one day prior to the payment date. In other words, during the Fiscal Year ended June 30, 2025, the Long-Term Debt Service Requirement equaled principal and interest due on January 1, 2025 and July 1, 2025.

The District does not currently have any subordinated indebtedness, so the computation of the current fiscal year's compliance with this covenant is based solely on 120% of the debt service requirement as follows:

Operating Revenues	\$ 54,948,275
Interest and Non-Operating Revenues	4,279,948
Adjustments to Revenues:	
Interest Income allocable to Non-Operating Funds	(101,773)
Facility, Tap, and Other Fees	(7,671,385)
Loss on Disposal of Property	<u>9,435</u>
Adjusted Revenues	<u>51,464,500</u>
Operating Expenses	(37,685,982)
Adjustments to Expenses:	
Pension plan and OPEB contributions net of expense	239,039
Trustee and liquidity expense capitalized	(81,015)
Add back Depreciation	<u>13,169,966</u>
Adjusted Operating Expenses	<u>(24,357,992)</u>
Income Available for Debt Service	<u>\$ 27,106,508</u>
Long-Term Debt Service Requirement	\$ 8,780,245
Minimum Required Percentage	<u>120%</u>
Minimum Required Income	<u>\$ 10,536,294</u>

Therefore, the District believes it is in compliance with the rate covenant as income available for debt service is in excess of 120% of the annual required debt service. The actual coverage ratio is 309%.

Note 11–Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred bond refunding charges	\$ 727,675	\$ -
Accumulated decrease in fair value of hedging derivative	261,766	-
Pensions – difference between expected and actual experience	1,282,887	8,626
Pensions – change in assumptions	-	-
Pensions – net difference between projected and actual investment earnings	995,263	
Pensions – changes in proportion and difference between employer contributions and proportionate share of contributions	66,931	104,949
Contributions to pension plan made subsequent to measurement date	1,552,062	-
OPEB- difference between expected and actual experience	188,000	533,000
OPEB-Changes in assumptions	166,000	225,000
OPEB-benefit payments and administrative cost made subsequent to measurement date	159,000	-
Total	\$ 5,399,584	\$ 871,575

Note 12–Claims and Judgments

The District may be a party to lawsuits arising from the ordinary conduct of business. In the opinion of management, settlement of actual or possible litigation, if any, will not have a material effect on the financial position of the District.

The District has received federal grants for specific purposes that are subject to review by the grantor agencies. Such reviews could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under terms of the grants. The District management believes that such disallowances, if any, would not be significant.

Required Supplemental Information

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**Local Government Employees' Retirement System
Required Supplemental Information
Schedule of the District's Proportionate Share of the
Net Position Liability (Asset)
Last Ten Fiscal Years**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
District's proportion of the net pension liability (asset) %	0.112%	0.112%	0.111%	0.118%	0.117%	0.119%	0.120%	0.124%	0.126%	0.126%
District's proportionate share of the net pension liability (asset) \$	\$ 7,320,833	\$ 7,440,310	\$ 6,247,882	\$ 1,803,202	\$ 4,173,404	\$ 3,257,717	\$ 2,851,318	\$ 1,896,515	\$ 2,678,811	\$ 563,911
District's covered payroll	\$ 10,777,561	\$ 10,035,420	\$ 9,124,071	\$ 9,159,822	\$ 9,236,242	\$ 9,081,052	\$ 8,788,983	\$ 8,600,473	\$ 8,383,296	\$ 8,043,516
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	67.93%	74.14%	68.48%	19.69%	45.19%	35.87%	32.44%	22.05%	31.95%	7.01%
Plan fiduciary net position as a percentage of the total pension liability	83.30%	82.49%	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%

Local Government Employees' Retirement System
Required Supplemental Information
Schedule of District Contributions
Last Ten Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 1,552,062	\$ 1,373,222	\$ 1,239,847	\$ 1,024,648	\$ 922,750	\$ 816,121	\$ 698,651	\$ 654,448	\$ 614,323	\$ 553,176
Contributions in relation to the contractually required contribution	\$ 1,552,062	\$ 1,373,222	\$ 1,239,847	\$ 1,024,648	922,750	816,121	698,651	654,448	614,323	553,176
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Districts's covered payroll	\$ 11,538,699	\$ 10,777,561	\$ 10,035,420	\$ 9,124,071	\$ 9,159,822	\$ 9,236,242	\$ 9,081,052	\$ 8,788,983	\$ 8,600,473	\$ 8,383,296
Contributions as a percentage of covered payroll	13.45%	12.74%	12.35%	11.23%	10.07%	8.84%	7.69%	7.45%	7.14%	6.60%

Schedule of Changes in the Total OPEB Liability and Related Ratios Last Eight Fiscal Years*

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	\$ 185,000	\$ 171,000	\$ 234,000	\$ 212,000	\$ 189,000	\$ 162,000	\$ 161,000	\$ 156,000
Interest	148,000	129,000	80,000	92,000	113,000	109,000	110,000	106,000
Changes of benefit terms	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(457,000)	153,000	(231,000)	181,000	(75,000)	124,000	(441,000)	-
Changes of assumptions	17,000	35,000	(414,000)	134,000	159,000	433,000	188,000	-
Benefit payments	(107,000)	(230,000)	(283,000)	(244,000)	(294,000)	(168,000)	(69,000)	(226,000)
Net change in total OPEB liability	(214,000)	258,000	(614,000)	375,000	92,000	660,000	(51,000)	36,000
Total OPEB liability - beginning	3,693,000	3,435,000	4,049,000	3,674,000	3,582,000	2,922,000	2,973,000	2,937,000
Total OPEB liability - ending	3,479,000	3,693,000	3,435,000	4,049,000	3,674,000	3,582,000	2,922,000	2,973,000
Covered-employee payroll	\$ 10,130,814	\$ 10,130,814	\$ 8,916,369	\$ 8,916,369	\$ 8,755,301	\$ 8,335,863	\$ 8,502,682	\$ 8,261,415
Total OPEB liability as a percentage of covered-employee payroll	34.34%	36.45%	38.52%	45.41%	41.96%	42.97%	34.37%	35.99%

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

Notes to Schedule:

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

2025	2024	2023	2022	2021	2020	2019
4.09%	3.86%	3.69%	1.92%	2.45%	3.13%	3.62%

In 2019, amounts reflect a 1 percentage point increase in healthcare cost trend rates decreasing .50 percent point from the prior year and adjustments in mortality rates to better reflect actual plan experience.

In 2020, amounts reflect a 1 percentage point decrease in healthcare cost trend rates decreasing .25 percent point from the prior year and adjustments in mortality rates to better reflect actual plan experience. Finally, the District also adjusted retirement rates based on actual experience from July 2015 through December 2019. This is to better reflect actual retirement plan experience.

In 2021, 2022, 2023, 2024, and 2025, amounts reflect a .25 percentage point decrease in healthcare cost trend rates decreasing .25 percent point from the prior year and adjustments in mortality rates to better reflect actual plan experience.

No assets have been accumulated in a qualifying trust to pay benefits of the District's OPEB plan.

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Supplemental Financial Data

Comparative Statements of Net Position June 30, 2025 and 2024

	2025	2024
Assets:		
Current assets:		
Cash and cash equivalents	\$ 69,983,860	\$ 79,760,754
Investments	22,303,747	11,994,689
Restricted cash and cash equivalents	7,205,134	7,096,231
Receivables (net):		
Accounts	9,542,979	8,896,339
Sales	838,002	465,304
Employee	9,724	12,738
Interest	97,035	106,738
Inventories	502,814	448,461
Prepaid expenses	2,950	6,025
Total current assets	<u>110,486,245</u>	<u>108,787,279</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,365,403	1,304,575
Capital Assets:		
Land	2,811,065	2,808,890
Easements	12,848,034	12,276,095
Plant and equipment	762,438,735	741,821,703
Construction in progress	28,692,101	10,348,441
Less: accumulated depreciation	(250,812,392)	(238,730,443)
Total capital assets	<u>555,977,543</u>	<u>528,524,686</u>
Total noncurrent assets	<u>557,342,946</u>	<u>529,829,261</u>
Total assets	<u>667,829,191</u>	<u>638,616,540</u>
Deferred outflows of resources:	<u>5,399,584</u>	<u>6,251,417</u>
Liabilities and Net Position:		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	6,461,629	3,891,961
Current portion of compensated absences payable	1,251,533	70,000
Payments from restricted cash and cash equivalents:		
Bond interest payable	1,146,244	1,224,361
Current portion of long term debt	6,051,824	5,826,824
Total current liabilities	<u>14,911,230</u>	<u>11,013,146</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	2,227,398	1,027,732
Total other post-employment benefit	3,479,000	3,693,000
Total pension liability	7,320,833	7,440,310
Derivative liability	261,766	87,610
Bonds payable, net of current maturities	66,140,024	72,642,149
Total noncurrent liabilities	<u>79,429,021</u>	<u>84,890,801</u>
Total liabilities	<u>94,340,251</u>	<u>95,903,947</u>
Deferred inflows of resources:	<u>871,575</u>	<u>571,480</u>
Net position:		
Net investment in capital assets	484,513,370	450,946,524
Restricted for:		
Debt service	6,058,890	5,871,870
Bond covenant	1,365,403	1,304,575
Unrestricted	86,079,286	90,269,561
Total net position	<u>\$ 578,016,949</u>	<u>\$ 548,392,530</u>

Comparative Statements of Revenues, Expenses, and Changes in Net Position

For the Fiscal Years Ended June 30, 2025 and 2024

	2025	2024
Operating revenues:		
Sewer charges	\$ 45,803,098	\$ 45,847,633
Facility and tap fees	7,597,834	9,541,237
Miscellaneous	1,547,343	649,346
Total operating revenues	<u>54,948,275</u>	<u>56,038,216</u>
Operating expenses:		
Salaries and employee benefits	13,584,505	10,534,254
Contractual services	2,057,203	1,980,153
Utilities	2,036,484	1,516,015
Repairs and maintenance	1,097,008	1,112,775
Other supplies and expenses	2,505,159	2,059,229
Insurance claims and expenses	3,235,657	2,694,889
Depreciation	13,169,966	12,984,129
Total operating expenses	<u>37,685,982</u>	<u>32,881,444</u>
Operating income	<u>17,262,293</u>	<u>23,156,772</u>
Nonoperating revenues (expenses):		
Investment income	4,289,383	4,621,789
Interest expense	(2,441,236)	(2,601,012)
Gain (Loss) on disposal of surplus property	(9,435)	(854,386)
Total nonoperating expenses	<u>1,838,712</u>	<u>1,166,391</u>
Income before contributions	<u>19,101,005</u>	<u>24,323,163</u>
Capital contribution	<u>10,523,414</u>	<u>4,566,137</u>
Change in net position	<u>29,624,419</u>	<u>28,889,300</u>
Total net position, beginning of year	<u>548,392,530</u>	<u>519,503,230</u>
Total net position, end of year	<u><u>\$ 578,016,949</u></u>	<u><u>\$ 548,392,530</u></u>

Schedule of Revenues and Expenditures

Budget to Actual (Non-GAAP)

For the Year Ended June 30, 2025

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Sewer charges (net):			
Domestic users	\$ 38,825,740	\$ 41,334,124	\$ 2,508,384
Industrial users	3,536,962	4,051,632	514,670
Billings and collections	1,203,773	1,099,178	(104,595)
	<u>43,566,475</u>	<u>46,484,934</u>	<u>2,918,459</u>
Facility and tap fees	3,300,000	7,597,834	4,297,834
Rental income	96,000	99,936	3,936
Miscellaneous	426,643	1,447,407	1,020,764
Total operating revenues	<u>47,389,118</u>	<u>55,630,111</u>	<u>8,240,993</u>
Nonoperating revenues:			
Investment income	3,495,667	4,289,383	793,716
Total nonoperating revenues	<u>3,495,667</u>	<u>4,289,383</u>	<u>793,716</u>
Total revenues	<u>50,884,785</u>	<u>59,919,494</u>	<u>9,034,709</u>
Expenditures:			
Operating expenditures:			
Salaries and employee benefits		10,457,205	
Contractual services		2,057,203	
Utilities		2,036,484	
Repairs and maintenance		1,097,008	
Other supplies and expenses		2,505,159	
Insurance claims and expenses		2,841,265	
Total operating expenditures	<u>24,082,860</u>	<u>20,994,324</u>	<u>3,088,536</u>
Capital Projects:			
Equipment		909,581	
Infrastructure		29,228,107	
Total capital projects	<u>38,076,119</u>	<u>30,137,688</u>	<u>7,938,431</u>
Debt service			
Principal		5,631,824	
Interest		2,728,401	
Total debt service	<u>8,696,737</u>	<u>8,360,225</u>	<u>336,512</u>
Total Expenditures	<u>70,855,716</u>	<u>59,492,237</u>	<u>11,363,479</u>
Revenues over (under) expenditures	<u>(19,970,931)</u>	<u>427,257</u>	<u>20,398,188</u>
Other Financing Sources:			
Use of available funds	19,970,931	-	(19,970,931)
	<u>19,970,931</u>	<u>-</u>	<u>(19,970,931)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (0)</u>	<u>\$ 427,257</u>	<u>\$ 427,257</u>

Schedule of Revenues and Expenditures

Budget to Actual (Non-GAAP)

For the Year Ended June 30, 2025 (continued)

	<u>Actual</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:	
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 427,257</u>
Reconciling items:	
Unamortized discount recognized in interest expense	287,165
Debt principal payments	5,631,824
Capital project transfers	29,670,626
Change in allowance for doubtful accounts	(681,836)
Change in health insurance IBNR	(394,392)
Deferred outflows of resources for contributions made in current fiscal year:	
Pension plan	1,552,062
OPEB plan	159,000
Compensated absences expense	(2,381,199)
Pension expense	(1,636,101)
OPEB expense	(354,000)
Contributed assets	10,523,414
Depreciation	(13,169,966)
Loss on disposal of surplus property	(9,435)
Total reconciling items	<u>29,197,162</u>
Change in net position	<u><u>\$ 29,624,419</u></u>

Combining Schedule of Net Position, All Funds (Non-GAAP)
As of June 30, 2025

	Enterprise Account	Capital Reserve Account
Assets:		
Current assets:		
Cash and cash equivalents	\$ 65,641,034	\$ -
Investments	20,920,058	
Restricted cash and cash equivalents	-	-
Receivables (net):		
Accounts	9,294,481	-
Sales tax	345,207	-
Employee	9,724	-
Interest	97,035	-
Inventories	502,814	-
Prepaid expenses	2,950	-
Total current assets	96,813,303	-
Noncurrent assets:		
Restricted cash and cash equivalents	-	1,365,403
Capital assets:		
Land	-	-
Easements	-	-
Plant and equipment	-	-
Construction in progress	-	-
Less accumulated depreciation	-	-
Total property and equipment	-	-
Total noncurrent assets	-	1,365,403
Total assets	96,813,303	1,365,403
Deferred outflow of resources:	3,420,885	-

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2025 (continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
\$ -	\$ 4,018,276	\$ 1,212	323,338	\$ 69,983,860
	1,280,640	-	103,049	22,303,747
7,205,134	-		-	7,205,134
-	248,498	-		9,542,979
-	483,430	-	9,365	838,002
-	-	-	-	9,724
-	-	-	-	97,035
-	-	-	-	502,814
-	-	-	-	2,950
7,205,134	6,030,844	1,212	435,752	110,486,245
-	-	-	-	1,365,403
-	-	-	2,811,065	2,811,065
-	-	-	12,848,034	12,848,034
-	-	-	762,438,735	762,438,735
-	-	-	28,692,101	28,692,101
-	-	-	(250,812,392)	(250,812,392)
-	-	-	555,977,543	555,977,543
-	-	-	555,977,543	557,342,946
7,205,134	6,030,844	1,212	556,413,295	667,829,191
-	989,258	-	989,441	5,399,584

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2025 (continued)

	Enterprise Account	Capital Reserve Account
Liabilities		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	1,274,295	-
Current portion of compensated absences payable	1,251,533	-
Payments from restricted cash and cash equivalents:		
Bond interest payable	-	-
Current portion of long-term obligation	-	-
Total current liabilities	<u>2,525,828</u>	<u>-</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	2,227,398	-
Other post-employment benefits	3,479,000	-
Net pension liability	5,520,659	-
Derivative liability	-	-
Long-term obligations, net of current maturities	-	-
Total noncurrent liabilities	<u>11,227,057</u>	<u>-</u>
Total liabilities	<u>13,752,885</u>	<u>-</u>
Deferred inflows of resources	<u>840,560</u>	<u>-</u>
Net position	<u>\$ 85,640,743</u>	<u>\$ 1,365,403</u>

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2025 (continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
-	5,186,122	1,212	-	6,461,629
-	-	-	-	1,251,533
1,146,244	-	-	-	1,146,244
-	-	-	6,051,824	6,051,824
1,146,244	5,186,122	1,212	6,051,824	14,911,230
-	-	-	-	2,227,398
-	-	-	-	3,479,000
-	1,800,174	-	-	7,320,833
-	-	-	261,766	261,766
-	-	-	66,140,024	66,140,024
-	1,800,174	-	66,401,790	79,429,021
1,146,244	6,986,296	1,212	72,453,614	94,340,251
-	31,015	-	-	871,575
\$ 6,058,890	\$ 2,791	\$ -	\$ 484,949,122	\$ 578,016,949

**Combining Schedule of Revenues, Expenses, and
Changes in Net Position, All Funds (Non-GAAP)
For the Year Ended June 30, 2025**

	Enterprise Account	Capital Reserve Account
Operating revenues:		
Sewer charges (refunds)	\$ 45,803,098	\$ -
Facility and tap fees	-	-
Miscellaneous	743,401	-
Total operating revenues	<u>46,546,499</u>	<u>-</u>
Operating expenses:		
Operations	23,948,991	-
Depreciation	-	-
Total operating expenses	<u>23,948,991</u>	<u>-</u>
Operating income (loss)	<u>22,597,508</u>	<u>-</u>
Nonoperating revenues (expenses):		
Investment income	4,187,610	60,828
Interest expense	-	-
Gain (Loss) on disposal of surplus property	146,399	-
Total nonoperating revenues (expenses)	<u>4,334,009</u>	<u>60,828</u>
Income (loss) before other transactions	<u>26,931,517</u>	<u>60,828</u>
Capital contribution	-	-
Operating transfers	(30,184,201)	-
Purchase of and transfer capital assets	(909,581)	-
Payment of debt and other long-term obligation:		
Principal	<u>-</u>	<u>-</u>
Change in net position	<u>(4,162,265)</u>	<u>60,828</u>
Total net position, beginning of year	89,803,008	1,304,575
Total net position, end of year	<u>\$ 85,640,743</u>	<u>\$ 1,365,403</u>

**Combining Schedule of Revenues, Expenses, and
Changes in Net Position, All Funds (Non-GAAP)
For the Year Ended June 30, 2025** (continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
\$ -	\$ -	\$ -	\$ -	\$ 45,803,098
-	-	7,597,834	-	7,597,834
-	730,391	73,551	-	1,547,343
-	730,391	7,671,385	-	54,948,275
-	526,671	-	40,354	24,516,016
-	-	-	13,169,966	13,169,966
-	526,671	-	13,210,320	37,685,982
-	203,720	7,671,385	(13,210,320)	17,262,293
9,056	-	13,648	18,241	4,289,383
(2,441,236)	-	-	-	(2,441,236)
-	-	-	(155,834)	(9,435)
(2,432,180)	-	13,648	(137,593)	1,838,712
(2,432,180)	203,720	7,685,033	(13,347,913)	19,101,005
-	-	10,523,414	-	10,523,414
8,446,024	28,886,045	(7,685,033)	537,165	-
-	(29,186,526)	(10,523,414)	40,619,521	-
(5,826,824)	-	-	5,826,824	-
187,020	(96,761)	-	33,635,597	29,624,419
5,871,870	99,552	-	451,313,525	548,392,530
\$ 6,058,890	\$ 2,791	\$ -	\$ 484,949,122	\$ 578,016,949

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Statistical Section

Introduction

This part of the District's Annual Comprehensive Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

- [Net Position by Component](#)
- [Changes in Net Position](#)
- [General Revenue by Source](#)
- [Expenses by Function](#)

Revenue Capacity

These schedules contain information to help the reader assess the District's most significant revenue sources.

- [Sewer Charge Revenue by Customer Type](#)
- [Residential Sewer Rates](#)
- [Principal Commercial Users](#)
- [Customer Accounts by Member Agency](#)

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

- [Ratio of Outstanding Debt](#)
- [Revenue Bond Coverage](#)

Introduction (continued)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

- [Demographic & Economic Statistics](#)
- [Personal Income by Industry](#)
- [Principal Employers](#)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

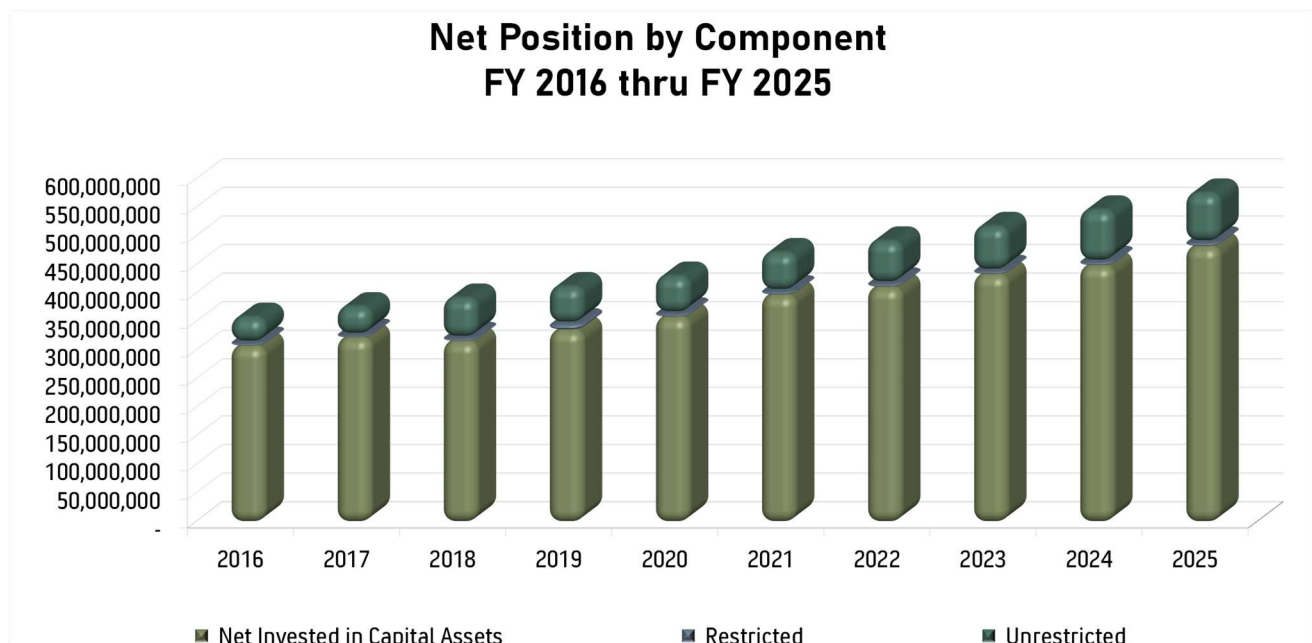
- [Employees by Division](#)
- [Operating Indicators by Division](#)

Source: Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Report for the relevant year.

Net Position by Component

FY 2016-FY 2025

Fiscal Year Ended June 30	Net Invested in Capital Assets	Restricted	Unrestricted	Total Net Position
2016	310,277,965	6,087,649	44,227,370	360,592,984
2017	324,826,191	5,169,667	48,827,214	378,823,072
2018	318,591,132	6,045,516	69,374,003	394,010,651
2019	337,729,290	11,860,481	64,530,210	414,119,981
2020	360,881,071	6,747,582	64,850,064	432,478,717
2021	399,621,901	7,016,964	67,107,474	473,746,339
2022	412,955,363	7,288,272	73,822,362	494,065,997
2023	435,348,021	6,857,214	77,297,995	519,503,230
2024	450,946,524	7,176,445	90,269,561	548,392,530
2025	484,513,370	7,424,293	86,079,286	578,016,949



Changes in Net Position

FY 2016-FY 2025

(Accrual Basis of Accounting)

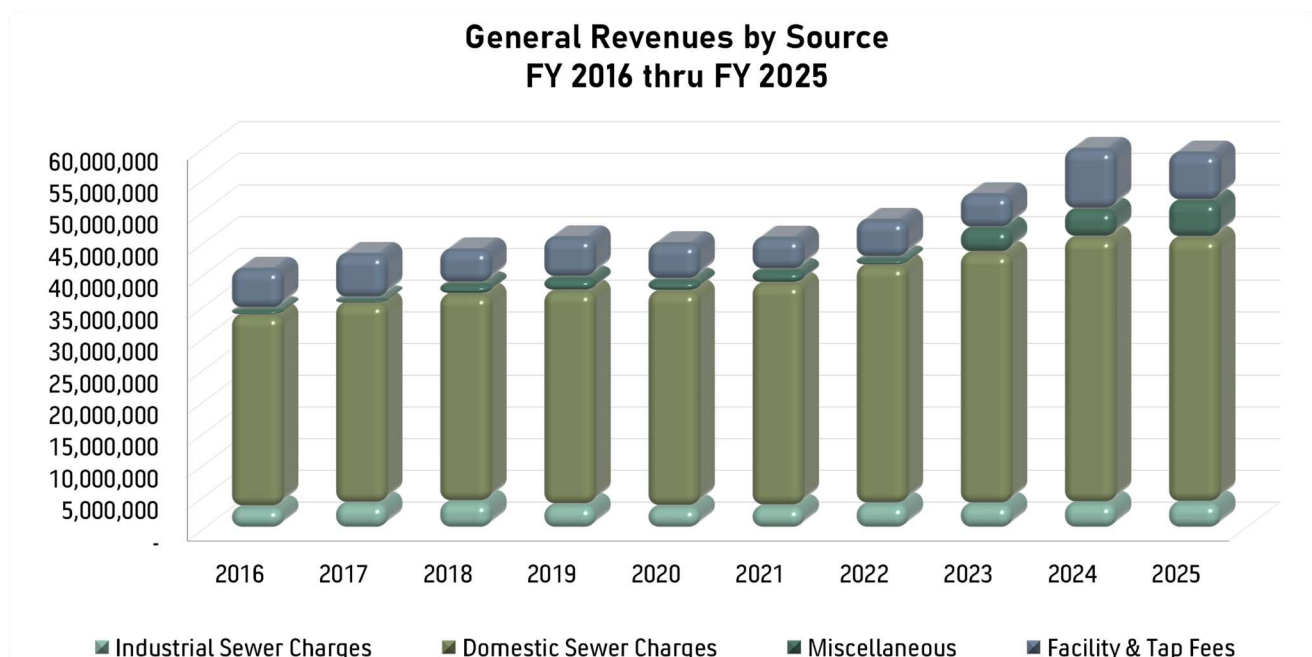
	FISCAL YEAR									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating revenues:										
Sewer charges	\$ 33,679,560	\$ 35,521,220	\$ 36,891,000	\$ 37,393,609	\$ 37,371,562	\$ 38,591,901	\$ 41,484,740	\$ 43,422,124	\$ 45,847,633	\$ 45,803,098
Facility and tap fees	6,324,596	6,977,097	5,357,008	6,343,842	5,737,611	5,092,060	5,966,012	5,343,261	9,541,237	7,597,834
Miscellaneous	764,928	681,243	745,022	716,441	731,965	1,770,022	660,754	1,045,841	649,346	1,547,343
Total operating revenues	40,769,084	43,179,560	42,993,030	44,453,892	43,841,138	45,453,983	48,111,506	49,811,226	56,038,216	54,948,275
Operating expenses:										
Salaries & employee benefits	7,183,043	7,656,858	7,846,038	8,043,728	8,762,073	8,640,936	8,427,033	9,664,071	10,534,254	13,584,505
Contractual services	1,472,795	1,653,918	1,598,381	1,657,789	1,619,078	1,810,481	1,798,794	1,958,008	1,980,153	2,057,203
Utilities	1,058,299	1,234,029	1,295,636	1,170,937	1,205,899	1,105,110	1,446,493	1,625,793	1,516,015	2,036,484
Repairs and maintenance	998,758	1,019,150	985,838	919,882	975,618	998,183	1,026,018	1,094,839	1,112,775	1,097,008
Other supplies and expenses	1,500,249	1,736,302	1,886,837	1,728,385	1,559,480	1,623,222	1,325,837	1,881,508	2,059,229	2,505,159
Insurance claims and expenses	2,990,973	2,467,567	2,765,151	2,528,122	2,106,989	2,351,485	2,332,926	2,231,016	2,694,889	3,235,657
Depreciation	9,332,957	9,929,559	10,393,126	10,659,346	11,337,087	12,394,875	12,339,044	12,395,591	12,984,129	13,169,966
Total operating expenses	24,537,074	25,697,383	26,771,007	26,708,189	27,566,224	28,924,292	28,696,145	30,850,826	32,881,444	37,685,982
Operating income	16,232,010	17,482,177	16,222,023	17,745,703	16,274,914	16,529,691	19,415,361	18,960,400	23,156,772	17,262,293
Nonoperating revenues (expenses):										
Investment Income	237,604	343,988	960,222	1,844,280	1,215,565	30,582	87,001	2,737,273	4,621,789	4,289,383
Interest Expense	(2,586,670)	(2,794,077)	(3,515,801)	(3,399,735)	(3,292,282)	(3,110,487)	(2,949,509)	(2,765,372)	(2,601,012)	(2,441,236)
Amortization of bond issuance costs	-	-	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	(355,583)	-	-	-	-	-	-	-
Gain (loss) on sale of surplus property	(106,997)	(280,337)	10,187	(434,989)	(121,183)	322,770	418,696	105,027	(854,386)	(9,435)
Total nonoperating revenues (expenses)	(2,456,063)	(2,730,426)	(2,900,975)	(1,990,444)	(2,197,900)	(2,757,135)	(2,443,812)	76,928	1,166,391	1,838,712
Income before contributions & special items	13,775,947	14,751,751	13,321,048	15,755,259	14,077,014	13,772,556	16,971,549	19,037,328	24,323,163	19,101,005
Capital contribution	2,392,781	3,478,337	3,222,031	4,354,071	4,281,722	7,558,647	3,348,109	6,399,905	4,566,137	10,523,414
Special Item - Cane Creek Water and Sewer District asset contribution from Henderson County	-	-	-	-	-	19,936,419	-	-	-	-
Change in Net Position	\$ 16,168,728	\$ 18,230,088	\$ 16,543,079	\$ 20,109,330	\$ 18,358,736	\$ 41,267,622	\$ 20,319,658	\$ 25,437,233	\$ 28,889,300	\$ 29,624,419

General Revenues by Source

FY 2016-FY 2025

Fiscal Year Ended June 30	Industrial Sewer Charges	Domestic Sewer Charges	Facility & Tap Fees	Miscellaneous	Total
2016	3,344,074	30,335,486	6,324,596	895,535	40,899,691
2017	3,909,925	31,611,295	6,977,097	744,894	43,243,211
2018	4,159,767	32,731,233	5,357,008	1,715,431	43,963,439
2019	3,687,703	33,705,906	6,343,842	2,125,732	45,863,183
2020	3,426,103	33,945,459	5,737,611	1,826,347	44,935,520
2021	3,497,070	35,094,831	5,092,060	2,123,374	45,807,335
2022	3,816,103	37,668,637	5,966,012	1,166,451	48,617,203
2023	3,805,064	39,617,060	5,343,261	3,888,141	52,653,526
2024	3,987,537	41,860,096	9,541,237	4,416,749	59,805,619
2025	4,051,632	41,751,466	7,597,834	5,827,291	59,228,223

Note: Does not include Capital Contributions.



Expenses by Function (Non-GAAP)

FY 2016-FY 2025

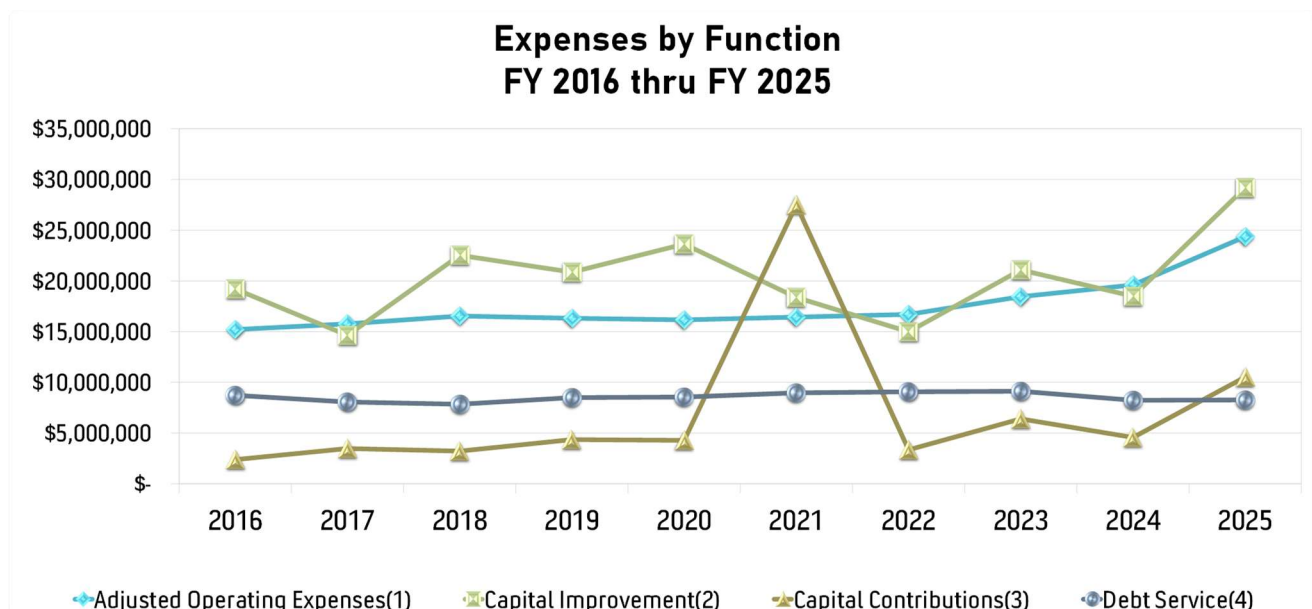
Fiscal Year Ended June 30	Adjusted Operating Expenses ⁽¹⁾	Capital Improvement ⁽²⁾	Capital Contributions ⁽³⁾	Debt Service ⁽⁴⁾	Total
2016	15,204,117	19,201,501	2,392,781	8,722,495	45,520,894
2017	15,767,824	14,631,155	3,478,337	8,069,902	41,947,218
2018	16,536,830	22,528,740	3,222,031	7,841,626	50,129,227
2019	16,315,760	20,860,363	4,354,071	8,505,560	50,035,754
2020	16,158,239	23,629,714	4,281,722	8,558,107	52,627,782
2021	16,441,116	18,377,093	27,495,566	8,966,312	71,280,087
2022	16,698,185	14,984,686	3,348,109	9,070,334	44,101,314
2023	18,451,226	21,084,827	6,399,905	9,126,197	55,062,155
2024	19,605,152	18,490,137	4,566,137	8,232,837	50,894,263
2025	24,357,992	29,186,526	10,523,414	8,268,061	72,335,993

¹ See Note 10

² Excludes depreciation expense

³ This includes collection system infrastructure contributed by developers and Cane Creek Water and Sewer District asset contribution from Henderson County

⁴ Includes Bond Principal Expense and Bond Interest Less Capitalized Interest Portion and excludes early retirement of long-term debt



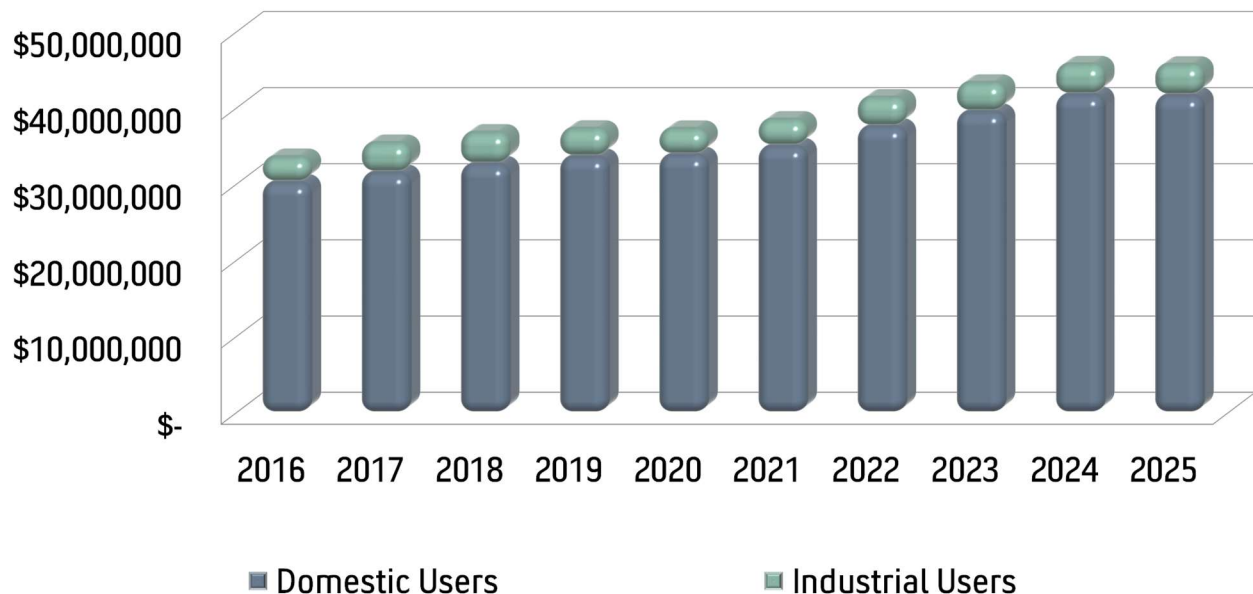
Sewer Charge Revenue by Customer Type

FY 2016-FY 2025

	FISCAL YEAR									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Domestic Users										
Asheville	\$ 23,494,692	\$ 24,518,045	\$ 25,487,028	\$ 26,164,545	\$ 26,484,060	\$ 26,860,749	\$ 28,377,007	\$ 29,911,818	\$ 31,656,408	\$ 31,166,244
Biltmore Forest	366,135	348,323	322,377	326,587	346,937	317,195	356,509	391,433	404,838	487,968
Black Mountain	1,069,901	1,096,604	1,169,878	1,195,893	1,244,835	1,256,334	1,364,224	1,426,055	1,578,635	1,499,276
Henderson County	1,250,146	1,447,613	1,493,912	1,535,675	1,431,015	1,403,908	1,743,209	1,831,291	1,916,707	2,171,834
Montreat	260,871	268,045	244,133	290,989	278,707	247,890	247,366	266,184	259,081	273,615
Weaverville	814,691	887,368	932,060	1,007,833	1,030,505	1,007,754	1,143,222	1,246,228	1,339,912	1,339,575
Woodfin Sanitary Water & Sewer District	1,084,717	1,120,014	1,171,111	1,198,467	1,201,332	1,251,937	1,204,637	1,303,739	1,329,896	1,430,951
Other	1,994,333	1,925,283	1,910,734	1,985,917	1,928,068	2,749,064	3,232,463	3,240,312	3,374,619	3,382,003
Industrial Users	3,344,074	3,909,925	4,159,767	3,687,703	3,426,103	3,497,070	3,816,103	3,805,064	3,987,537	4,051,632
Total	\$ 33,679,560	\$ 35,521,220	\$ 36,891,000	\$ 37,393,609	\$ 37,371,562	\$ 38,591,901	\$ 41,484,740	\$ 43,422,124	\$ 45,847,633	\$ 45,803,098

Note: Municipalities include sewer charges on water bills. "Other" represents sewer charges billed directly by the District to domestic users.

**Sewer Revenue by Customer Type
FY 2016 - FY 2025**

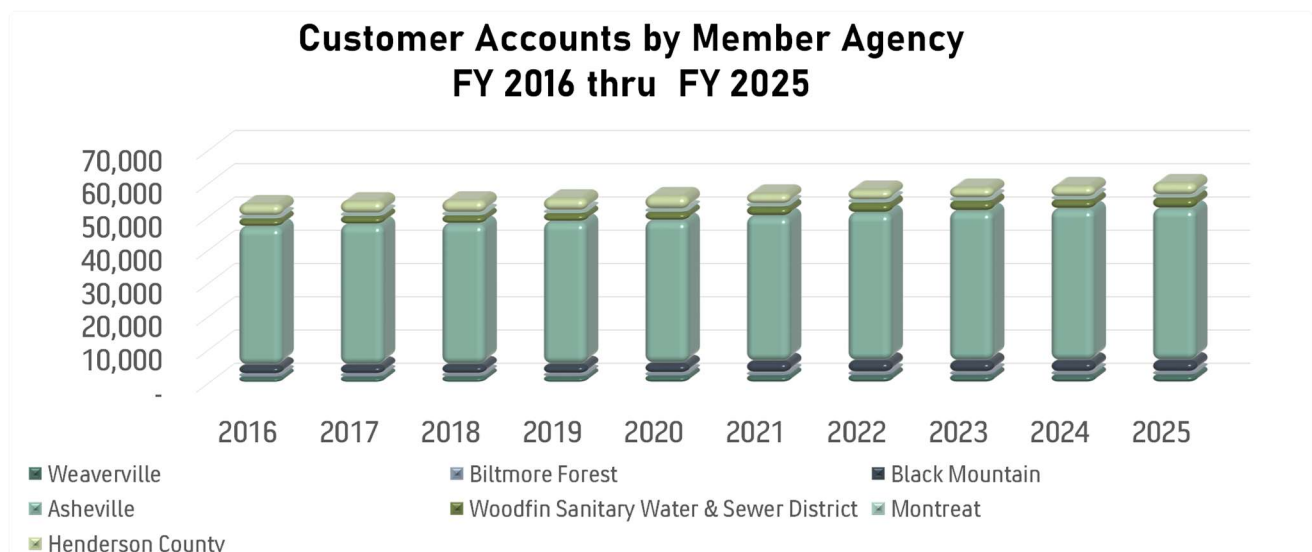


Customer Accounts by Member Agency

FY 2016-FY 2025

	FISCAL YEAR									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Asheville	41,634	42,242	42,298	42,842	42,866	43,587	44,376	44,990	45,615	45,663
Biltmore Forest	662	649	649	653	658	658	662	667	671	670
Black Mountain	2,729	2,788	2,854	2,908	2,981	3,505	3,587	3,485	3,475	3,504
Henderson County	3,774	3,898	3,964	3,911	4,201	3,345	3,374	3,394	3,503	3,830
Montreat	666	669	669	674	677	678	680	679	683	679
Weaverville	1,779	1,830	1,901	1,901	2,126	2,224	2,309	2,353	2,389	2,418
Woodfin Sanitary Water & Sewer District	<u>2,527</u>	<u>2,557</u>	<u>2,567</u>	<u>2,616</u>	<u>2,686</u>	<u>2,969</u>	<u>3,151</u>	<u>3,156</u>	<u>2,879</u>	<u>3,345</u>
Total	<u>53,771</u>	<u>54,633</u>	<u>54,902</u>	<u>55,505</u>	<u>56,195</u>	<u>56,966</u>	<u>58,139</u>	<u>58,724</u>	<u>59,215</u>	<u>60,109</u>

Source: Member Agencies



Residential Sewer Rates

FY 2016-FY 2025

Fiscal Year Ended June 30	Monthly Base Rate	Rate Per 1,000 Gallons	Average Monthly Billing
2016	6.60	5.72	29.15
2017	6.77	5.87	29.88
2018	6.94	6.02	30.62
2019	7.11	6.16	31.36
2020	7.29	6.32	32.17
2021	7.29	6.32	32.17
2022	7.49	6.50	33.04
2023	7.72	6.70	34.10
2024	8.11	7.03	35.83
2025	8.52	7.38	37.59

Note: Rates are based on 5/8" meter, which is the standard household meter size. The District charges a higher base rate for larger meters. Each municipality will set its own water rates.

Principal Commercial Users

FY 2016 & FY 2025

Commercial User	Type of Business	2016			2025		
		Total Charges	Rank	Percentage of Total Charges	Total Charges	Rank	Percentage of Total Charges
Milkco, Inc.	Dairy Products & Juices	\$ 574,628	1	1.90%	\$ 890,254	1	2.05%
Sierra Nevada	Micro-Brewery Manufacturer	195,717	5	0.65%	405,221	2	0.93%
Glatfelter Industries	Textile Manufacturer	287,323	3	0.95%	355,304	3	0.82%
- formerly Jacob Holm Industries							
New Belgium Brewing	Micro-Brewery Manufacturer	158,595	6	0.52%	304,229	4	0.70%
Meritor Heavy Vehicle Systems	Automotive Parts Manufacturer	-----			227,965	5	0.52%
Royal George Water Authority	Christian Conference Center/Community Water	226,062	4	0.75%	221,300	6	0.51%
- (formerly Ridgecrest Baptist Conference Center)							
Mission Health System	Health & Emergency Services	422,769	2	1.40%	215,294	7	0.50%
University of North Carolina - Asheville	University	-----			199,221	8	0.46%
Arcadia Beverage	Beverage Supplier for local/global retailers	-----			192,618	9	0.44%
VA Medical Center	Veterans Hospital	128,858	9	0.43%	173,720	10	0.40%
- Asheville Department of Veterans Affairs							
The Biltmore Company	Tourist Attraction/Winery/Resort Services	-----			-----		
Givens Estates, Inc.	Continuing Care Retirement Community	147,296	7	0.49%	-----		
Bonar	Chemical Manufacturer	141,997	8	0.47%	-----		
- (formerly Colbond)							
Mission Hospital Laundry	Hospital Laundry Services	121,513	10	0.40%	-----		
TOTAL		\$ 2,404,758		7.94%	\$ 3,185,127		7.34%

Source: District Billing Records

Ratio of Outstanding Debt

FY 2016-FY 2025

Fiscal Year Ended June 30	Total Outstanding Debt ¹	Debt Per Capita ²	Per Capita Income ³	Percentage of Personal Income
2016	97,627,539	789	44,478	1.77%
2017	91,896,562	731	46,297	1.58%
2018	115,148,090	912	48,936	1.86%
2019	109,315,483	856	50,690	1.69%
2020	103,385,018	800	53,309	1.50%
2021	96,960,999	740	57,895	1.28%
2022	90,356,267	676	61,560	1.10%
2023	83,560,867	619	66,288	0.93%
2024	77,578,162	570	Unavailable	Unavailable
2025	71,464,173	517	Unavailable	Unavailable

¹ Calculations derived from the balance of outstanding debt in Note 3 less the unamortized bond refunding charges in Note 11

² This ratio was calculated by using the number of domestic accounts and multiplying by Buncombe County census average of 2.3 persons per household to get the number of users in the District.

³ Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

See Personal Income by Industry on page 100 to assess economic base of the County.

Revenue Bond Coverage

FY 2016-FY 2025

From 1985 to 2002, the District was subject to Section 501 of the 1985 Bond Order which covenants that the District will set rates to produce sufficient revenues, together with any other available funds, including the amounts transferred by the District from the General Fund to the Revenue Fund, to permit the deposit and transfer to the credit of the Revenue Fund in the then current fiscal year of a sum at least equal to the total of the following:

1. the current expenses of the Sewerage System for the current fiscal year, and
2. to provide for the higher of either:
 - a. the amounts needed for making the required cash deposits in each fiscal year to the credit of the several accounts in the Bond Service Fund and to the credit of the Subordinated Indebtedness Service Fund, the Debt Service Reserve Fund, and the Maintenance Reserve Fund, or
 - b. one hundred twenty per centum (120%) of the amount of the principal and interest requirements for the current fiscal year on account of the indebtedness then outstanding excluding principal and interest requirements on account of indebtedness incurred to finance improvements or additional improvements which have not been completed as of the beginning of such fiscal year.

However, with the issuance of refunding bonds on April 3, 2003, a sufficient amount of debt subject to the 1985 bond order was defeased allowing application of the 1999 Amended Bond Order whose rate covenant is summarized in the following paragraph.

The District covenants to set rates and charges so that the Income Available for Debt Service (defined as the excess of "Revenues" over "Current Expenses") will not be less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year. The definition of revenues for this purpose does not include grants, contributions, investment income credited to non-operating funds, or tap and connection fees. Current expenditures include operating expenses other than additions to reserve funds, depreciation or amortization, or debt service payments.

Revenue Bond Coverage (continued)

FY 2016-FY 2025

The District does not currently have any subordinated indebtedness, so the computation of the current fiscal year's compliance with this covenant is based solely on 120% of the debt service requirement.

Long-Term Debt Service Requirement is defined as interest and principal required to be remitted to the Trustee, except that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness. The coverage ratio is computed on the basis of 100% of required debt service.

Fiscal Year Ended June 30	Adjusted Revenues (B)	Adjusted Current Expenses (A)	Income Available for Debt Service	Long-Term Debt Service Requirement	120% of Long- Term Debt Service Requirement	Excess of Income Available for Debt over Debt Service	Coverage Ratio
2016	34,529,568	15,688,258	18,841,310	9,003,519	10,804,223	9,837,791	2.09
2017	36,402,135	16,280,644	20,121,491	7,918,557	9,502,268	12,202,934	2.54
2018	38,102,682	16,536,830	21,565,852	9,423,689	11,308,427	12,142,163	2.29
2019	39,379,533	16,315,760	23,063,773	9,412,540	11,295,048	13,651,233	2.45
2020	39,022,654	16,158,239	22,864,415	9,826,547	11,791,856	13,037,868	2.33
2021	40,325,772	16,441,116	23,884,656	9,811,696	11,774,035	14,072,960	2.43
2022	42,157,737	16,698,185	25,459,552	9,797,850	11,757,420	15,661,702	2.60
2023	47,070,105	18,451,226	28,618,879	8,829,772	10,595,726	19,789,107	3.24
2024	50,866,989	19,605,152	31,261,837	8,801,718	10,538,062	22,460,119	3.55
2025	51,464,500	24,357,992	27,106,508	8,780,245	10,536,294	18,326,263	3.09

(A) Includes all operation and maintenance expenses, except depreciation.

(B) Does not include tap and connection fees, grants, contributions, investment income allocated to non-operating funds.

Demographic & Economic Statistics

FY 2016-FY 2025

Fiscal Year Ended June 30	Population Estimates ¹	Per Capita Income ²	Median Age ¹	Civilian Labor Force ³		
				Employed	Unemployed	Unemployment Rate
2015	252,160	42,996	41.1	125,355	6,131	4.7%
2016	255,222	44,403	41.7	129,324	5,412	4.0%
2017	257,408	46,323	41.9	130,418	4,801	3.6%
2018	259,726	48,819	42.1	133,710	4,501	3.3%
2019	262,049	50,804	42.2	135,749	4,554	3.2%
2020	263,477	53,309	42.3	116,658	16,817	12.6%
2021	271,534	57,895	42.2	129,655	6,648	4.9%
2022	273,589	61,560	42.3	136,819	4,682	3.3%
2023	275,901	66,288	42.4	141,046	4,025	2.8%
2024	Unavailable	Unavailable	Unavailable	139,191	4,630	3.2%
2025	Unavailable	Unavailable	Unavailable	136,025	6,442	4.5%

Note: The information above is for Buncombe County, North Carolina. The District believes that the above information is representative of the service area, which extends over approximately 80% of the county.

Statistical data for population estimate/per capita personal income/median age for calendar years 2024 & 2025 were not available at the time of this report.

Sources:

¹ United States Census Bureau

² Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce;
Last updated: November 16, 2024

³ U.S. Department of Labor - Bureau of Labor Statistics; Local Area Unemployment Statistics

Personal Income by Industry

CY 2016-CY 2025

	Calendar Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Personal Income	8,065,982	8,400,972	8,939,875	9,453,923	9,337,100	10,405,983	11,494,311	12,169,164	Unavailable	Unavailable
Farm earnings	25,504	28,661	17,224	24,586	34,299	20,078	19,877	24,428	-	-
Nonfarm earnings	8,040,478	8,372,311	8,922,651	9,429,337	9,302,801	10,385,905	11,474,434	12,144,736	-	-
Private earnings	6,952,063	7,233,928	7,712,694	8,166,411	7,961,678	9,040,466	10,054,487	10,621,737	-	-
Agricultural services, forestry, fishing	6,627	7,036	7,380	5,928	8,288	8,442	10,728	14,193	-	-
Mining	4,914	6,141	5,441	6,032	5,982	8,964	11,045	13,895	-	-
Construction	477,954	529,089	623,861	692,455	636,325	682,024	783,017	816,842	-	-
Manufacturing:	836,339	862,114	912,148	983,570	966,205	1,052,461	1,072,361	1,151,169	-	-
Durable goods	530,183	553,542	596,298	645,581	638,867	684,049	724,639	781,592	-	-
Nondurable goods	306,156	308,572	315,850	337,989	327,338	368,412	347,722	369,577	-	-
Wholesale trade	255,030	265,004	269,683	278,843	273,254	298,338	368,953	428,613	-	-
Retail Trade	631,294	652,947	678,692	692,068	708,733	797,993	846,195	890,081	-	-
Transportation and public utilities	267,878	295,011	303,259	322,035	324,524	351,936	407,935	449,488	-	-
Services	4,472,027	4,616,586	4,912,230	5,183,749	5,038,367	5,840,308	6,554,253	6,857,456	-	-
Government and government enterprises:	1,088,415	1,138,383	1,209,957	1,262,926	1,341,123	1,345,439	1,419,947	1,522,999	-	-
Federal, civilian	323,143	336,206	361,488	394,451	454,291	467,748	504,365	570,522	-	-
Military	24,235	24,652	27,932	29,184	30,608	29,753	26,890	29,627	-	-
State and local	741,037	777,525	820,537	839,291	856,224	847,938	888,692	922,850	-	-

Note: The above data is for Buncombe County, North Carolina. MSD believes the data is representative of the entire service area. Growth in personal income over time may be compared to average monthly billing to evaluate the affordability of sewer rates for customers.

Source:

Regional Economic Accounts, Bureau of Economic Analysis, US Department of Commerce;
Last updated: November 16, 2024

Principal Employers

FY 2016 & FY 2025

Employer	FY 2016		FY 2025	
	Employees	Rank	Employees	Rank
Mission Health System & Hospitals	3,000+	1	1,000+	1
Ingles Markets, Inc.	1,000-2,999	7	1,000+	2
Buncombe County Board of Education	3,000+	2	1,000+	3
VA Medical Center - Asheville	1,000-2,999	9	1,000+	4
Buncombe County Government	1,000-2,999	5	1,000+	5
City of Asheville	1,000-2,999	6	1,000+	6
Wal-Mart Associates, Inc.	-	-	1,000+	7
Eaton Corporation	705-999	10	1,000+	8
The Biltmore Company	1,000-2,999	4	1,000+	9
Mountain Area Health Education Center	-	-	1,000+	10
Asheville-Buncombe Technical College	1,000-2,999	3	-	-
Omni Grove Park Inn	1,000-2,999	8	-	-

Note: The information above is for Buncombe County, North Carolina. The District believes that the above information is representative of the entire service area, which extends over approximately 80% of the County.

Source: North Carolina Department of Commerce

Employees by Division (FTE's)

FY 2016-FY 2025

Department	FISCAL YEAR									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Office of the General Manager										
Office Support	1	1	0	0	0	0	0	0	0	0
Human Resources Department										
Human Resource	3	3	3	3	4	4	4	3	3	3
Environmental, Health & Safety	2	2	2	2	2	2	2	2	2	2
Information Technology Department										
IT & MIS	5	5	5	5	5	5	5	5	5	5
Geographic Information Systems	4	4	4	4	4	4	4	4	4	4
Financial Services Department										
Finance & Budget	1	1	1	1	1	1	1	1	1	1
Accounting, Investments & Cash Flow Mgmt.	4	3	3	3	3	3	3	3	3	3
Purchasing & Warehouse	3	3	2	2	2	2	2	2	2	2
Fleet Maintenance	4	4	4	4	4	4	4	4	4	4
Water Reclamation Facility										
Office Support	1	1	1	1	1	1	1	1	1	1
Plant Operations	11	12	12	12	13	13	13	14	14	14
Industrial Waste	5	5	5	5	3	4	4	4	4	5
Structural Maintenance	6	6	6	6	6	6	6	6	6	6
System Services Department										
Office Support	4	4	4	4	4	4	4	4	4	4
Pump Station Maintenance	0	3	3	4	5	5	5	5	4	4
Mechanical Maintenance	7	7	7	7	8	8	8	8	9	9
Electrical Maintenance/Hydro	7	4	4	4	4	4	4	4	4	4
Construction Administration	5	5	6	6	6	6	6	6	6	6
System Services	51	54	54	54	54	54	54	54	54	54
Engineering Services Department										
Office Support	1	0	0	0	0	0	0	0	0	0
Right of Way	3	3	3	3	3	3	3	3	3	3
Planning and Development	4	3	4	4	4	4	4	4	4	4
Design and Drafting	3	3	3	3	3	3	3	3	3	3
Engineers	4	4	4	4	4	4	4	4	4	4
Management										
Division Heads	7	7	7	7	7	7	7	7	7	7
General Manager	1	1	1	1	1	1	1	1	1	1
Total	147	148	148	149	151	152	152	152	152	153

Note: All employees are considered full time based on 2080 hours worked per year. Above numbers represent budgeted positions and may include vacancies at year-end.

Source: District Personnel Records.

Operating Indicators by Division

FY 2016-FY 2025

DEPARTMENT	FISCAL YEAR									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Engineering Services Department										
Sewer Tap Applications	1,177	1,631	1,443	1,169	1,004	1,204	1,123	1,039	1,184	1,094
Plans Reviewed	66	76	78	68	69	60	63	60	67	55
Linear Feet of rehabilitated Sewer Systems	42,675	49,782	49,918	44,790	30,041	34,506	22,627	31,015	32,897	25,818
Linear Feet of Accepted Sewer Systems	43,616	32,945	39,888	48,455	23,699	34,000	27,308	46,206	28,731	55,787
Human Resources Department										
Number of workforce injuries	5	5	5	5	2	1	2	2	2	0
Lost Work Rate per 100 employees	3.48	3.48	3.46	3.46	0.00	0.00	1.28	1.32	0.00	0.00
System Services Department										
Average Response Time to sewer problem (hours)	0.52	0.52	0.51	0.51	0.51	0.52	0.57	0.57	0.68	0.40
Lines Washed (lineal feet) - in-house only	730,000	885,687	1,124,220	900,249	905,778	917,978	874,899	898,177	1,318,230	901,163
Construction Repairs to Sewer Lines	500	555	508	493	380	466	433	409	425	553
Taps Installed	234	358	351	324	294	285	317	273	261	231
Manhole Repairs	294	330	323	286	217	183	178	173	168	332
Sanitary Sewer Overflows	53	30	25	40	19	11	26	25	10	30
Pump Stations	31	30	30	30	31	41	40	40	38	38
Water Reclamation Facility										
Sanitary Sewers (approximate miles)	1,000	1,020	1,027	1,043	1,041	1,130	1,140	1,140	1,157	1,168
Treatment Provided (millions of gallons)	7,884.00	7,117.50	7,592.00	9,453.50	8,541.00	7,993.50	7,884.00	7,621.20	7,343.80	7,774.50
Daily (average) flow treated (millions of gallons daily)	21.6	19.5	20.8	25.9	23.4	21.9	21.6	20.9	20.1	21.3
Maximum daily flow treated (millions of gallons daily)	67.1	53.0	64.8	67.5	67.2	67.3	53.7	60.0	71.7	76.8
Percentage of plant capacity used	54.0%	48.8%	52.0%	64.8%	58.5%	54.8%	54.0%	52.2%	50.3%	53.3%
Cost per millions of gallons treated	\$ 735	\$ 767	\$ 718	\$ 554	\$ 729	\$ 708	\$ 588	\$ 730	\$ 793	\$ 808
Energy cost per millions of gallons treated	\$ 96	\$ 117	\$ 121	\$ 107	\$ 111	\$ 91	\$ 140	\$ 139	\$ 141	\$ 177
Total suspended solids (TSS) removal efficiency (%)	97%	97%	97%	95%	94%	93%	94%	95%	95%	94%

Source: District Operational Records

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**DEFINITIONS OF CERTAIN TERMS
AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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**DEFINITIONS OF CERTAIN TERMS AND
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

DEFINITIONS OF CERTAIN TERMS

The following is a summary of certain definitions set forth in the Bond Order and in the 2026 Series Resolution.

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

“Additional Project” means any addition, acquisition, improvement, betterment or extension of or related to the System. The term “Additional Project” shall not include the Project or any Special Purpose Facilities unless the indebtedness incurred to finance the Special Purpose Facilities has been retired or provision has been made for the payment thereof, and the District has determined by resolution to include the Special Purpose Facilities as an Additional Project.

“Additional Projects Account” means the account in the Construction Fund created and so designated by the Bond Order.

“Annual Budget” means the District’s budget for a Fiscal Year adopted or in effect pursuant to certain provisions of the Bond Order.

“Appropriate Consultant” means one or more independent public accountants or firms or corporations of independent public accountants, or architects or architectural firms or corporations, or engineers or engineering firms or corporations, or professional management consultants or firms or corporations of professional management consultants, or such other independent Persons each of which has a favorable reputation at the time employed for skill and experience in its respective area of work for which it is employed by the District to perform and carry out the duties imposed on an Appropriate Consultant by the Bond Order.

“Authorized Officer” means the Chairman of the Board, the General Manager, and any other person authorized by resolution of the Board to perform the duties imposed on an Authorized Officer by the Bond Order whose name is filed pursuant to an Officer’s Certificate with the Trustee for such purpose.

“Balloon Long-Term Indebtedness” means fixed or variable rate Long-Term Indebtedness twenty-five percent (25%) or more of the principal payments of which are due in a single twelve-month period, which portion of the principal is not required by the documents pursuant to which such Indebtedness is incurred to be amortized by redemption or prepayment prior to the expiration of such period.

“Bond” or “Bonds” means the Series 2008A Bonds, the Series 2013 Bonds, the Series 2014 Bonds, the Series 2017 Bonds, the Series 2026 Bonds and any other bonds issued under the Bond Order and secured on a parity with each other and any Parity Debt by the Bond Order.

“Bond Fund” means the fund created and designated the Metropolitan Sewerage District of Buncombe County Sewerage System Revenue Bond Fund by the Bond Order.

“Bond Insurance Policy” means a municipal bond insurance policy or similar arrangement permitted by the Act and obtained or established in connection with the incurrence of any Parity Indebtedness or Subordinated Indebtedness.

“Bond Insurer” means the Person providing a Bond Insurance Policy, as designated in the Series Resolution providing for the issuance of Bonds or in the Parity Debt Resolution providing for the incurrence of Parity Debt.

“Bond Registrar” means, with respect to any Series of Bonds, the Bond Registrar at the time serving as such under the Series Resolution relating to such Series, whether the original or a successor Bond Registrar. The Bank of New York Mellon Trust Company, N.A., is designated as the Bond Registrar by the Series Resolution authorizing the Series 2026 Bonds.

“Bond Year” means the period commencing on July 1 of any year and ending on June 30 of the following year; provided; however, that the initial Bond Year with respect to the Series 2026 Bonds shall commence on the delivery date of the Series 2026 Bonds and end on June 30, 2027.

“Business Day” means a day on which the Trustee, the applicable Bond Registrar and the New York Stock Exchange are open for the purpose of conducting their businesses.

“Capital Improvements Budget” means for any Fiscal Year the budget for capital improvements adopted by the District in accordance with the Bond Order.

“Capitalized Interest Account” means the account in the Bond Fund created and so designated by the Bond Order.

“Capital Reserve Fund” means the fund created and designated Metropolitan Sewerage District of Buncombe County Sewerage System Capital Reserve Fund by the Bond Order.

“Capital Reserve Fund Requirement” means six percent (6%) or such greater percentage, as may be determined from time to time by the Board, of the amount shown by the Annual Budget to be necessary for Current Expenses for the current Fiscal Year.

“Clean Water Revolving Loan and Grant Act” means Chapter 159G of the General Statutes of North Carolina.

“Completion Indebtedness” means any Long-Term Indebtedness incurred for the purpose of financing the completion of the Project or any Additional Project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Bond Order, to the extent necessary to complete the Project or Additional Project, in the manner and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such Project or Additional Project, as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness theretofore incurred was originally incurred.

“Construction Fund” means the fund created and designated the Metropolitan Sewerage District of Buncombe County Sewerage System Construction Fund by the Bond Order.

“Cost”, as applied to the Project or any Additional Project, means, without intending thereby to limit or restrict any proper definition of such word under the provisions of the Act or the Bond Order, all items of cost which are set forth in the Bond Order.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement, or similar liquidity or credit facility permitted by the Act (but excluding a Bond Insurance Policy) and established or obtained in connection with the incurrence of any Parity Indebtedness or Subordinated Indebtedness.

“Credit Provider” means the Person providing a Credit Facility, as designated in a Series Resolution providing for the issuance of Bonds or in the Parity Debt Resolution providing for the incurrence of Parity Debt or in the Subordinated Indebtedness Resolution providing for the incurrence of Subordinated Indebtedness; provided, however, that the Credit Provider may not be the Trustee without the prior approval of the Local Government Commission. If and to the extent permitted by law, the District may, subject to the prior approval of the Local Government Commission, be a Credit Provider for the sole purpose of providing liquidity support.

“Current Expenses” means the District’s current expenses for the operation, maintenance and repair of the System as determined in accordance with generally accepted accounting principles, except as modified by this definition, including, without limiting the generality of the foregoing,

(a) all ordinary and usual expenses of operation, maintenance and repair, whether or not annually recurring,

(b) administrative expenses,

(c) salaries and other compensation,

(d) operating lease payments,

(e) payments to any pension or retirement plan or plans properly chargeable to the System,

(f) insurance premiums and expenses,

(g) engineering, architectural and other professional expenses relating to the operation, maintenance or repair of the System,

(h) fees and expenses of the Trustee, any Bond Registrar, Depositary, tender agent or paying agent, legal expenses, Credit Facility fees, remarketing fees and fees of consultants,

(i) penalty fees and fees or interest on late payments, and

(j) any other similar-type current expenses required to be paid by the District under the Bond Order or by law;

but Current Expenses shall not include:

(a) any reserves for extraordinary replacements or repairs,

(b) any allowance for depreciation or any amortization of financing expense,

(c) any deposits to any fund, account and subaccount created under the Bond Order or any Series Resolution and payments of principal, premium, if any, and interest from such funds, accounts and subaccounts, and

(d) any debt service payments or reserves or deposits for debt service payments in respect of Parity Debt, Subordinated Indebtedness or System G O. Indebtedness.

“Defaulted Interest” means any interest on any Bond of any Series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

“Defeasance Obligations” means, with respect to the Bond Order, (a) noncallable Government Obligations and (b) Defeased Municipal Obligations.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers which are rated in the highest rating category by S&P and Moody’s, respectively, provision for the payment of the principal of, premium, if any, and interest on which shall have been made by deposit with a trustee or escrow agent of Government Obligations, the maturing principal of and interest on which, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers. References in this definition to state or local government bond issuers shall mean the State of North Carolina and, subject to such restrictions as the Secretary of the Local Government Commission may impose, North Carolina local government bond issuers, and, to the extent permitted by law, states other than the State of North Carolina and local government bond issuers other than North Carolina local government bond issuers.

“Depository” means one or more banks or trust companies or other institutions, including the Trustee, duly authorized by law to engage in the banking business and designated by the District as a depository of moneys under the Bond Order.

“Derivative Agreement” means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the District determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Derivative Indebtedness” means Indebtedness for which the District shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness.

“Derivative Period” means the period during which a Derivative Agreement is in effect.

“Eminent Domain” means the eminent domain or condemnation power by which all or any part of the System may be taken for another public use or any agreement that is reached in lieu of proceedings to exercise such power.

“Event of Default” means each of those events of default set forth in the Bond Order and described under the caption “Events of Default” herein.

“Existing Facilities” means all of the sewerage system facilities owned and operated by the District as of the date of issuance of the Series 1999 Bonds.

“Fiscal Year” means the period commencing on the first day of July of any year and ending on the last day of June of the following year or any other twelve-month period designated by the Board.

“General Fund” means the fund created and designated the Metropolitan Sewerage District of Buncombe County General Fund by the Bond Order.

“General Manager” means the person employed by the District to supervise and manage the operation of the System and to perform the duties imposed upon the General Manager by the Board, the Bond Order and any Series Resolution, which person shall be a registered professional engineer in the State who is trained and experienced in the field of sewage, including industrial waste, collection and treatment.

“Government Obligations” means direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America in either certificated or book-entry form, including (1) stripped Government Obligations stripped by the United States Treasury itself and (ii) interest only portions of obligations issued by Resolution Funding Corporation.

“Grant Anticipation Notes” means any grant anticipation notes issued by the District in compliance with the provisions of the Bond Order.

“Gross Receipts” means all receipts, revenues, income, proceeds and money received in any period by or for the District in respect of the System, including, but without limiting the generality of the foregoing,

(a) all payments, proceeds, fees, charges, rents and all other income derived by or for the District for the use of and for the services and facilities furnished by or from the operation or ownership of the System, and all other income derived by the District from the operation or ownership of the System; and

(b) any proceeds of use and occupancy or business interruption insurance;

but there shall not be included in “Gross Receipts”

(a) all rights to receive the payments, proceeds, fees, charges, rents and other income described above, whether in the form of accounts receivable, contract rights or other rights,

(b) the proceeds of any gifts, grants, bequests, contributions or donations,

(c) the proceeds from the sale or disposition of all or any part of the System,

(d) reimbursements received by the District of advances made by it in respect of (i) the Project, (ii) any Additional Project, (iii) any refinancing of Indebtedness and (iv) any capital improvements,

(e) the investment income realized on, and the income and gains realized upon the maturity or sale of, securities held by or on behalf of the District in any funds, accounts and subaccounts established by or pursuant to the Bond Order, but only to the extent such income and gains as so realized are required to be deposited to some fund, account or subaccount other than the Revenue Account as may be provided in the Bond Order or in any Parity Resolution,

(f) to the extent and for so long as such payments are pledged to secure the financing of the same, debt service or other payments made to the District in respect of Special Purpose Facilities, except to the extent otherwise provided by the District in respect of any such payments,

(g) Net Insurance Proceeds or Net Eminent Domain Proceeds or the proceeds of any other insurance other than any use and occupancy or business interruption insurance,

(h) the proceeds of any appropriation made by any political subdivision in the State or by the State or any State Agency unless the proceeds of any such appropriation are designated, in whole or in part, as Gross Receipts by the District,

(i) the income from the investment of Qualified Escrow Funds to the extent such income is applied to the payment of the principal of or the interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement,

(j) the proceeds of any security deposits or moneys received to make refunds to users,

(k) the proceeds of any Indebtedness,

(l) the proceeds of any taxes levied by the District, and

(m) any acreage, tap, connection, developer, plant capacity, sampling and monitoring fees, impact fees and special assessments, unless an Officer's Certificate filed with the Trustee states that, pursuant to a resolution adopted by the Board, such impact fees or special assessments are to be deemed Gross Receipts.

"Holder" means the holder or owner of Parity Debt or Subordinated Indebtedness.

"Income Available for Debt Service" means for any period the District's excess of Revenues over Current Expenses.

"Indebtedness" means all obligations incurred or assumed by the District in connection with the ownership or operation of the System:

(a) for payments of principal and interest with respect to borrowed money, including any obligation to repay a Credit Provider for moneys drawn to pay and retire or purchase Indebtedness; and

(b) for payments under leases which are required to be capitalized in accordance with generally accepted accounting principles and under installment or lease purchase or conditional sale contracts;

provided, however, that (i) Indebtedness shall include only such obligations as are payable from Net Receipts, (ii) any obligation to pay a Credit Provider for moneys drawn to purchase, but not pay and retire, Indebtedness shall constitute Indebtedness only to the extent such payments are in excess of any scheduled payments of principal and interest required to be made to such Credit Provider as an Owner or Holder of such Indebtedness and (iii) Indebtedness shall not include System G.O. Indebtedness.

"Insurance and Condemnation Award Account" means the account created and designated the Metropolitan Sewerage District of Buncombe County Sewerage System Insurance and Condemnation Award Account by the Bond Order.

"Insurance Consultant" means a Person having a favorable reputation in the State for skill and experience in dealing with the insurance requirements of enterprises similar to the System and in performing the duties to be imposed upon the Insurance Consultant by the Bond Order, including a consultant employed by the North Carolina League of Municipalities meeting such requirements.

"Interest Account" means the account in the Bond Fund created and so designated by the Bond Order.

“Interest Payment Date” means, with respect to any Series of Bonds, each of the interest payment dates provided for in the Series Resolution relating to such Series.

“Interest Payment Date” means, with respect to the Series 2026 Bonds, July 1, 2027, and each January 1 and July 1 thereafter, to and including July 1, 2051.

“Investment Obligations” means, with respect to the Bond Order, to the extent permitted by law,

- (a) Government Obligations;
- (b) Obligations of the Federal Financing Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts), the Federal National Mortgage Association (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts), the Government National Mortgage Association, the Federal Housing Administration and the Farmers Home Administration;
- (c) Direct general obligations of the State secured by the full faith and credit and taxing power of the State rated in one of the two highest rating categories by Moody’s and S&P;
- (d) Bonds and notes of any North Carolina local government or public authority (other than the District), subject to such restrictions as the Secretary of the Local Government Commission may impose, provided such bonds or notes are rated in one of the two highest rating categories by Moody’s and S&P;
- (e) Savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State or by any federal bank or savings and loan association having its principal office in the State; provided, however, that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, must be fully collateralized by obligations described in (a) or (b) above;
- (f) Prime quality commercial paper (having original maturities of not more than 270 days) bearing the highest rating of Moody’s and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation;
- (g) Participating shares in the cash portfolio of North Carolina Capital Management Trust, provided that the investments of such fund are limited to those qualifying for investment under this definition and that said fund is certified by the Local Government Commission;
- (h) A commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3;
- (i) Repurchase agreements with respect to Government Obligations if entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, which is a dealer recognized as a primary dealer by a Federal Reserve Bank with a long-term rating of not less than “A2” from Moody’s and “A” from S&P, or any domestic commercial bank, domestic trust company or domestic national banking association (or a domestic branch of a foreign commercial bank, trust company or national banking association) with a long-term rating of not less than “A2” from Moody’s and “A” from S&P, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof, if:

a. such obligations that are subject to such repurchase agreement are delivered (in physical or in book entry form) to the District, or any financial institution serving either as trustee for the District or as fiscal agent for the District or are supported by a safekeeping receipt issued by a depository satisfactory to the District, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price, and, provided further, that the financial institution serving either as trustee or as fiscal agent for the District holding the obligations subject to the repurchase agreement under the Bond Order or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;

b. a valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the District or its assignee or book entry procedures conforming, to the extent practicable, with federal regulations and satisfactory to the District have been established for the benefit of the District or its assignee;

c. such securities are free and clear of any adverse third party claims;

d. such repurchase agreement is in a form satisfactory to the District; and

e. such repurchase agreement shall state and an opinion of counsel shall be rendered at the time the obligations which are the subject of such reimbursement agreement are delivered that the holder of the collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof; and

(j) any other investment now or hereafter permitted for investment of funds by the District by the General Statutes of North Carolina, including, without limitation, Section 159-30 of the General Statutes of North Carolina.

“Investment Obligations” means, with respect to the Series 2026 Bonds, any investment permitted by Section 159-30 of the North Carolina General Statutes, as amended from time to time, or any successor statute.

“Local Government Commission” means the Local Government Commission of North Carolina, a division of the Department of State Treasurer, established by Section 159-3 of the General Statutes of North Carolina, and any successor or successors thereto. Except as otherwise set forth in the Bond Order, when the consent or approval of the Local Government Commission is required by the terms of the Bond Order, such consent or approval may be obtained from the Local Government Commission, the Executive Committee of the Local Government Commission or any authorized representative of the Local Government Commission.

“Long-Term Debt Service Requirement” means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the required deposits to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness during such period, also taking into account:

(a) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to the current market rate for a 30-year obligation set forth in an opinion of a banking

institution or an investment banking institution knowledgeable in municipal utility finance delivered to the Trustee as the interest rate at which the District could reasonably expect to borrow the same by issuing Indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity date of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation unless a binding commitment by an institutional lender or municipal underwriting firm exists, which binding commitment may contain typical and customary conditions, to provide financing to refinance such Indebtedness and such commitment provides for the refinancing of such Indebtedness on terms which would, if such commitment was implemented, constitute Long-Term Indebtedness, then in such case the payment terms contained in such commitment shall be utilized for purposes of calculating the Long-Term Debt Service Requirement with respect to such Balloon Long-Term Indebtedness;

(b) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to Variable Rate Indebtedness proposed to be incurred the interest rate for such Indebtedness for the initial interest rate period shall be the lower of (i) the rate (as certified by a financial institution or investment banking firm acceptable to the District) which is equal to the average of the actual interest rates which would have been in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve (12) month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve (12) month period) and (ii) the initial rate to be borne by such Indebtedness and thereafter shall be calculated as set forth above;

(c) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement; and

(d) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period, for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's and S&P and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the District on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the District under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's and S&P or is in default thereunder, the amount of interest payable by the District shall be the interest calculated as if such Derivative Agreement had not been executed;

provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness or otherwise provided so as to be available for deposit into an account for capitalized interest or similar account not later than the date of delivery of and payment for such Long-Term Indebtedness; and provided further that, notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal and interest on Outstanding Long-Term Indebtedness shall not include principal or interest payable from Qualified Escrow Funds.

“Long-Term Indebtedness” means all Indebtedness, including Short-Term Indebtedness if a Credit Facility by a Credit Provider exists to provide financing to retire such Short-Term Indebtedness and such Credit Facility provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and the current portion of Long-Term Indebtedness, for any of the following:

(a) money borrowed for an original term, or renewable at the option of the District for a period from the date originally incurred, of longer than one year;

(b) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the District for a period from the date originally incurred, of longer than one year; and

(c) installment purchase, installment financing or conditional sale contracts having an original term in excess of one year.

“Maximum Long-Term Debt Service Requirement” means the highest Long-Term Debt Service Requirement for the present and any succeeding Fiscal Year.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District by notice to the Trustee.

“Net Eminent Domain Proceeds” means the gross proceeds paid to the District as a final award for the taking by Eminent Domain of any of the System less payment of attorneys’ and other fees and expenses properly incurred in the collection of such gross proceeds.

“Net Insurance Proceeds” means the gross proceeds paid to the District as a result of any casualty insurance policy with respect to the System or as a result of any liability insurance policy less payment of attorneys’ and other fees and expenses properly incurred in the collection of such gross proceeds.

“Net Receipts” for any particular period means the excess, if any, of Gross Receipts after the payment of Current Expenses for such period.

“Officer’s Certificate” means a certificate signed by an Authorized Officer.

“Outstanding”, when used with reference to Bonds, means, as of a particular date, all Bonds theretofore authenticated and delivered under the Bond Order, except:

(a) Bonds theretofore cancelled by any Bond Registrar or delivered to any Bond Registrar or the Trustee for cancellation;

(b) Bonds deemed to be no longer Outstanding pursuant to the provisions of the Bond Order relating to redemption;

(c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Bond Order;

(d) Bonds deemed to have been paid in accordance with the provisions of the Bond Order relating to defeasance; and

(e) Bonds constituting Put Indebtedness deemed to have been purchased in accordance with the provisions of the applicable Series Resolution in lieu of which other Bonds have been delivered under such Series Resolution.

When used with reference to Parity Debt, “Outstanding” means, as of a particular date, all Parity Debt except:

(a) Parity Debt theretofore cancelled by the District;

(b) Parity Debt for the payment or redemption of which money, Defeasance Obligations, or a combination of both, in an amount sufficient to pay on the date when such Parity Debt is to be paid or redeemed the principal amount of or Redemption Price of, and the interest accruing to such date on, the Parity Debt to be paid or redeemed, has been deposited with an escrow agent in trust for the Holders of such Parity Debt; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Parity Debt on a specified date if the principal and the interest on such Defeasance Obligations, when due, together with any money left uninvested, will be sufficient to pay on such date the principal amount of or Redemption Price of, and the interest accruing on, such Parity Debt to such date;

(c) Parity Debt in exchange for or in lieu of which other Parity Debt has been delivered under the documentation securing such Parity Debt;

(d) Parity Debt deemed to have been paid in accordance with the defeasance or like provisions of the Parity Debt Resolution providing for the issuance of the Parity Debt; and

(e) Parity Debt constituting Put Indebtedness deemed to have been purchased in accordance with the provisions of the applicable Parity Debt Resolution in lieu of which other Parity Debt has been incurred under the Parity Debt Resolution.

When used with reference to Indebtedness other than Bonds and Parity Debt, “Outstanding” means, as of a particular date, all Indebtedness deemed to be outstanding under the documents pursuant to which it was incurred.

“Owner” means a Person in whose name a Bond is registered in the registration books provided for in the Bond Order.

“Parity Debt” means all Indebtedness incurred by the District in respect of the System and not evidenced by Bonds which is secured on a parity (as so designated in the Parity Debt Resolution) with the Bonds by a pledge, charge and lien upon the Net Receipts as provided in the Bond Order.

“Parity Debt Resolution” means the resolution and any other documentation adopted or executed by the District providing for the incurrence of Parity Debt. If Parity Indebtedness is to be the subject of a Credit Facility providing for repayments for draws under the Credit Facility on a parity basis, then the term Parity Debt Resolution shall include any reimbursement agreement or similar repayment agreement executed and delivered by the District in connection with the provision of a Credit Facility for any Series of Bonds or any Parity Debt.

“Parity Indebtedness” means the Bonds and Parity Debt.

“Parity Reserve Account” means the account in the Bond Fund created and so designated by the Bond Order.

“Parity Reserve Account Requirement” means the least of (i) the Maximum Long-Term Debt Service Requirement for all Parity Indebtedness secured by the Parity Reserve Account, (ii) one hundred twenty-five percent (125%) of the average annual Long-Term Debt Service Requirement for all Parity Indebtedness secured by the Parity Reserve Account and (iii) ten percent (10%) of the stated principal amount of all Parity Indebtedness secured by the Parity Reserve Account; provided, however, that if any Series of Bonds or Parity Debt secured by the Parity Reserve Account has original issue discount or premium that exceeds two percent (2%) of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriter’s compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the ten percent (10%) limitation. The Parity Reserve Account Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments, or any combination of the foregoing, as the District may determine.

“Parity Resolution” means a Series Resolution or a Parity Debt Resolution, or both, as the case may be, authorizing the issuance of a Series of Bonds or the incurrence of Parity Debt.

“Permitted Encumbrances” means, in addition to any charge created or permitted by the Bond Order upon the System or any part thereof or on the Net Receipts:

(a) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith, by appropriate proceedings, by the District;

(b) covenants, easements, encumbrances, defects of title, reservations, restrictions, and conditions existing at the time of delivery of the Series 1999 Bonds and defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations, and clouds on title, none of which in the written opinion of counsel to the District, a copy of which is filed with the Trustee, materially impairs the use of the property affected thereby for its intended purposes;

(c) mechanics’, workers’, repairmen’s, architects’, engineers’, surveyors’, or carriers’ liens or other similar liens provided that the same shall be discharged in the ordinary course of business and without undue delay or the validity of the same shall be contested in good faith, by appropriate proceedings with any pending execution thereof appropriately stayed;

(d) liens upon the property, plant and equipment of the System securing indebtedness of the District; provided, however, that the principal amount of indebtedness so secured shall not exceed ten percent (10%) of the net property, plant and equipment of the System as shown on the audited financial statements of the District for the most recent Fiscal Year for which such audited financial statements are available; and

(e) other liens, charges and encumbrances that, in the written opinion of counsel to the District, a copy of which is filed with the Trustee, do not prevent or materially impair the use of the System (counsel to the District may rely upon a certificate of any engineer or any architect as to whether such liens, charges and encumbrances prevent or materially impair the use of the System).

“Person” includes corporations, firms, associations, partnerships, joint ventures, joint stock companies, trusts, unincorporated organizations, and public bodies, as well as natural persons.

“Principal Account” means the account in the Bond Fund created and so designated by the Bond Order.

“Project” means the improvements to the System acquired and constructed from the proceeds of the Series 1999 Bonds as more particularly described in the Series Resolution for the Series 1999 Bonds.

“Project Account” means the account in the Construction Fund created and so designated by the Bond Order.

“Property” means any and all rights, titles and interests in and to any and all property of the District, whether real or personal, tangible or intangible and wherever situated.

“Property, Plant and Equipment” means all Property of the District which is property, plant and equipment under generally accepted accounting principles.

“Put Indebtedness” means fixed or variable rate Long-Term Indebtedness twenty-five percent (25%) or more of the principal of which may, at the option of the Owner or Holder thereof, be tendered to the District, the Trustee, a Depositary or a paying agent or other fiduciary, or an agent of any of the foregoing, for payment or purchase at one time.

“Qualified Escrow Funds” means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the District’s payment obligations with respect to principal or interest on (a) the Long-Term Indebtedness which is incurred under the documents establishing such fund or account or (b) Long-Term Indebtedness which is incurred prior to the establishment of such fund or account.

“Rating Agency” means Fitch Ratings, Moody’s and S&P.

“Redemption Account” means the account in the Bond Fund created and so designated by the Bond Order.

“Redemption Price” means, with respect to any Indebtedness or portion thereof, the principal amount of such Indebtedness or portion called for redemption plus the applicable premium, if any, payable upon redemption thereof.

“Regular Record Date” means the fifteenth (15th) day of the month preceding any Interest Payment Date, whether or not a Business Day.

“Reserve Alternative Instrument” means an unconditional insurance policy or surety bond or irrevocable letter of credit or guaranty deposited in the Parity Reserve Account or a Special Reserve Account in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Parity Reserve Account Requirement or a Special Reserve Account Requirement. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account in order to provide for the timely payment of interest and principal (whether at maturity or pursuant to Sinking Fund Requirements therefor). Subject to the provisions of any Parity Resolution, the provider of a Reserve Alternative Instrument shall be (a) an insurer that has been assigned either (i)(A) one of the two highest policyholder ratings accorded insurers by A.M. Best & Co. or any comparable service or (B) for bonds insured by the provider of the Reserve Alternative Instrument, a rating by Moody’s and S&P in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus” or

numerical qualifiers, within such categories) or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which have been assigned a rating by either Moody's and S&P in one of the two highest rating categories (without regard to gradations such as "plus" or "minus" or numerical qualifiers, within such categories).

"Revenue Bond Anticipation Notes" means any revenue bond anticipation notes issued by the District in compliance with the provisions of the Bond Order.

"Revenue Account" means the account created and designated the Metropolitan Sewerage District of Buncombe County Sewerage System Revenue Account by the Bond Order.

"Revenues" means revenues of the System, as determined in accordance with generally accepted accounting principles; provided, however, that no determination of revenues shall take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets; and provided further that Revenues shall not include:

- (a) any gifts, grants, bequests, contributions or donations,
- (b) reimbursements to the District of advances made by it in respect of (i) the Project, (ii) any Additional Project, (iii) any refinancing of Indebtedness and (iv) any capital improvements,
- (c) the investment income on, and the income and gains upon the maturity or sale of, securities held by or on behalf of the District in any funds, accounts and subaccounts established by, or pursuant to the Bond Order, but only to the extent such income and gains are required to be deposited to some fund, account or subaccount other than the Revenue Account as may be provided in the Bond Order or in any Parity Resolution,
- (d) to the extent and for so long as such payments are pledged to secure the financing of the same, debt service or other payments made to the District in respect of Special Purpose Facilities,
- (e) Net Insurance Proceeds or Net Eminent Domain Proceeds or the proceeds of any other insurance other than any use and occupancy or business interruption insurance,
- (f) the proceeds of any appropriation made by any political subdivision in the State or by the State or any State Agency to the District unless the proceeds of any such appropriation are designated by the District, in whole or in part, as Gross Receipts and as Revenues within the meaning of this definition,
- (g) the income from the investment of Qualified Escrow Funds to the extent such income is applied to the payment of the principal of or the interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement,
- (h) the proceeds of any security deposits or moneys received to make refunds to users,
- (i) the proceeds of any Indebtedness, the proceeds of any Derivative Agreement,
- (k) the proceeds of any taxes levied by the District, and
- (l) any acreage, tap, connection, developer, plant capacity, sampling and monitoring fees, impact fees and special assessments unless an Officer's Certificate filed with the Trustee states that, pursuant to a resolution adopted by the Board, such impact fees or special assessments are to be deemed Revenues.

“S&P” means S&P Global Ratings, its successors and assigns, and if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District by notice to the Trustee.

“Securities Depository” means The Depository Trust Company, Jersey City, New Jersey, or other recognized securities depository selected by the District, which maintains a book-entry system in respect of a Series of Bonds, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

“Securities Depository Nominee” means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name shall be registered on the registration books maintained by the Bond Registrar the Series 2026 Bond certificates to be deposited with the Bond Registrar during the continuation with such Securities Depository of participation in its book-entry system.

“Security Deposits Account” means the Metropolitan Sewerage District of Buncombe County Security Deposits Account, a special account created and designated by the provisions of the Bond Order.

“Serial Bonds” means, with respect to the Bond Order, the Bonds of any Series that are stated to mature in consecutive annual installments.

“Serial Bonds” means, with respect to the Series 2026 Bonds, the Series 2026 Bonds that are designated as such and mature on July 1 in the years and amounts set forth in the Series Certificate.

“Series”, whenever used in the Bond Order with respect to Bonds, means all of the Bonds designated as being of the same series.

“Series Certificate” means, with respect to the Series 2026 Bonds, a certificate executed by the General Manager of the District evidencing the determination of other actions taken by him in the 2026 Series Resolution.

“Series 2008A Bonds” means the District’s Sewerage System Revenue Refunding Bonds, Series 2008A.

“Series 2013 Bonds” means the District’s Sewerage System Revenue Refunding Bonds, Series 2013.

“Series 2014 Bonds” means the District’s Sewerage System Revenue Bonds, Series 2014.

“Series 2017 Bonds” means the District’s Sewerage System Revenue and Revenue Refunding Bonds, Series 2017.

“Series 2026 Bonds” means the District’s Sewerage System Revenue Bonds, Series 2026.

“Series 2026 Project” or “2026 Project” means the Additional Project described in Appendix A to the 2026 Series Resolution.

“Series 2026 Project Account” means the account in the Construction Fund created and so designated by the 2026 Series Resolution.

“Series 2026 Subaccount of the Interest Account” means the subaccount in the Interest Account of the Bond Fund created and so designated by the 2026 Series Resolution.

“Series 2026 Subaccount of the Principal Account” means the subaccount in the Principal Account of the Bond Fund created and so designated by the 2026 Series Resolution.

“Series 2026 Subaccount of the Redemption Account” means the subaccount in the Redemption Account of the Bond Fund created and so designated by the 2026 Series Resolution.

“Series 2026 Subaccount of the Sinking Fund Account” means the subaccount in the Sinking Fund Account of the Bond Fund created and so designated by the 2026 Series Resolution.

“Series Resolution” means a resolution of the Board authorizing any particular Series of Bonds.

“Short-Term Indebtedness” means all Indebtedness incurred for borrowed money other than the current portion of Long-Term Indebtedness for any of the following:

(a) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(b) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(c) installment purchase, installment financing or conditional sale contracts having an original term of one year or less.

“Sinking Fund Account” means the account in the Bond Fund created and so designated by the provisions of the Bond Order.

“Sinking Fund Requirement” means, with respect to any Series of Bonds, the Sinking Fund Requirement provided in the Series Resolution relating to such Series.

“Special Purpose Facilities” means any additions, acquisitions, improvements, betterments, land, buildings, structures or other facilities, including equipment, acquired or constructed, and the preparation and grading of land, relating to the System which are financed by the issuance of obligations which are issued in compliance with the provisions of the Bond Order but are not, directly or indirectly, secured by or payable from Gross Receipts or Net Receipts or issued under or secured by the provisions of the Bond Order, nor is the operation and maintenance of such Special Purpose Facilities payable as a Current Expense.

“Special Reserve Account” means a special debt service reserve account, if any, created by a Parity Resolution as a debt service reserve account only for the particular Parity Indebtedness authorized thereby.

“Special Reserve Account Requirement” means the amount required to be placed or maintained in a Special Reserve Account as may be required by the Parity Resolution creating such Account. The Special Reserve Account Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments or any combination of the foregoing, as the District may determine.

“State” means the State of North Carolina.

“State Clean Water Bond Program” means the program established by the State for the purpose of providing loans, from proceeds of general obligation bonds of the State, to municipalities for water and wastewater capital projects.

“State Revolving Loan Fund Program” means the program established by the Clean Water Revolving Loan and Grant Act providing a source of funding for loans to municipalities for water and wastewater capital projects.

“State Treasurer” means the State Treasurer of the State.

“Subordinated Indebtedness” means Indebtedness the terms of which shall provide that it shall be subordinate and junior in right of payment to the prior payment in full of Parity Indebtedness to the extent and in the manner set forth below:

In the event (a) of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the District or to the System, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the District whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred; or (c) any Event of Default under the Bond Order shall occur and be continuing and (1) written notice of such default shall have been given to the District and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on Parity Indebtedness and within 90 days in the case of any other default after the giving of such notice, then, for so long as any action described in clause (a), (b) or (c) hereof shall not have been remedied or cured in the opinion of the Trustee, the owners of Parity Indebtedness shall be entitled to receive payment in full of all principal, premium and interest on all Parity Indebtedness before the owners of the Subordinated Indebtedness are entitled to receive any payment on account of principal or interest on the Subordinated Indebtedness, and to that end the owners of Parity Indebtedness shall be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect to such Parity Indebtedness.

“Subordinated Indebtedness Resolution” means the resolution and any other documentation adopted or executed by the District providing for the issuance of Subordinated Indebtedness. If the Subordinated Indebtedness is to be the subject of a Credit Facility, the Credit Facility must provide for repayments on a subordinated basis and the term “Subordinated Indebtedness Resolution” shall include any reimbursement agreement or similar repayment agreement executed and delivered by the District in connection with the provision of a Credit Facility for any Subordinated Indebtedness.

“System” means the Existing Facilities, the Project and any Additional Projects.

“System G.O. Indebtedness” means general obligation indebtedness heretofore and hereafter issued or assumed by the District to finance all or any part of the System or to refinance Indebtedness issued to finance all or any part of the System.

“Term Bonds” means, with respect to the Bond Order, the Bonds of any Series, other than Serial Bonds, that are designated as such in the Series Resolution for such Series.

“Term Bonds” means, with respect to the Series 2026 Bonds, the Series 2026 Bonds that are designated as such and mature on July 1 in the year set forth in the Series Certificate,

“Total Operating Revenues” means, as to any period of time, total operating revenues of the System as determined in accordance with generally accepted accounting principles.

“2026 Series Resolution” means the Series Resolution with respect to the Series 2026 Bonds.

“Trustee” means the Trustee serving as such under the Bond Order, whether original or successor.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER

The following statements are brief summaries of certain provisions of the Bond Order. Such statements do not purport to be complete and reference is made to the Bond Order for a complete recital of its terms.

Construction Fund

A special fund is established with the Trustee and designated the “Metropolitan Sewerage District of Buncombe County Sewerage System Construction Fund” and within the Construction Fund there are established two special accounts designated the “Project Account” and the “Additional Projects Account,” respectively. The proceeds of any Series of Bonds to be used for providing any Additional Project will be deposited upon the delivery of such Series of Bonds in a separate subaccount in the Additional Projects Account to be created by the Series Resolution providing for the issuance of the Bonds financing such Additional Project.

The money in the Construction Fund will be held by the Trustee in trust and, pending application to the payment of the Cost of the Project or any Additional Project, as the case may be, or transfer as provided in the Bond Order or in the Series Resolution, will, to the extent permitted by law, be subject to a lien and charge in favor of the Owners of Bonds issued with respect to the Project or Additional Project and Outstanding under the Bond Order and will be held for the security of such Owners.

Establishment of Funds and Accounts

In addition to the Construction Fund, there are established the following funds and accounts:

- (a) Metropolitan Sewerage District of Buncombe County Sewerage System Revenue Account;
- (b) Metropolitan Sewerage District of Buncombe County Sewerage System Revenue Bond Fund, in which there are established six special accounts to be known as the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account and the Parity Reserve Account;
- (c) Metropolitan Sewerage District of Buncombe County Insurance and Condemnation Award Account;

- (d) Metropolitan Sewerage District of Buncombe County Capital Reserve Fund; and
- (e) Metropolitan Sewerage District of Buncombe County General Fund.

The Bond Fund and the accounts and subaccounts therein and the Insurance and Condemnation Award Account will be established with and held by the Trustee. The Revenue Account, the Capital Reserve Fund and the General Fund will be established with and held by a Depositary selected by the District.

A Parity Resolution may provide for the creation of a Special Reserve Account for the Parity Indebtedness authorized by such Parity Resolution and for the deposit of moneys to and withdrawal from such Account. A Special Reserve Account created for any Series of Bonds will be held and maintained by the Trustee; provided, however, that if a Series of Bonds is placed with the purchaser thereof and not publicly offered, then such purchaser or a Depositary may hold the Special Reserve Account created for such Series of Bonds as provided for in the Series Resolution authorizing the issuance of such Series of Bonds.

A Special Reserve Account created for any Parity Debt may be held and maintained by the Trustee or by a Depositary as the District may determine, provided that such Depositary must be acting in the capacity of trustee or fiduciary with respect to the Holder of such Parity Debt.

A Parity Resolution may also provide for the creation of such other funds and accounts as the District may determine for the Parity Indebtedness authorized by such Parity Resolution.

The money in the Bond Fund and all of the accounts and subaccounts therein established pursuant to the Bond Order and in the Insurance and Condemnation Award Account will be held in trust and applied as provided in the Bond Order and, pending such application, the money in the Bond Fund and the accounts and subaccounts therein will be subject to a pledge, charge and lien in favor of the Owners of the respective Series of Bonds issued and Outstanding under the Bond Order and for the further security of such Owners, except as otherwise provided in the Bond Order or in any Series Resolution.

Each Series Resolution will provide, to the extent applicable, for the creation of a separate subaccount within the Capitalized Interest Account, the Interest Account, the Principal Account, the Redemption Account and the Sinking Fund Account with respect to each Series of Bonds, which subaccounts will bear the designation of such Series of Bonds. A Series Resolution may provide that the Bonds authorized thereby may be additionally secured by the Parity Reserve Account or a Special Reserve Account or it may provide that there will not be any debt service reserve account in respect of such Series of Bonds. If a Series of Bonds is additionally secured by a Special Reserve Account or is not additionally secured by any debt service reserve account, such Series of Bonds will have no claim on the Parity Reserve Account.

Application of Money in Revenue Account

(a) Moneys in the Revenue Account will be expended and used by the District only in the manner and order specified in the Bond Order.

(b) Current Expenses will be paid by the District from and will be a first charge against the Revenue Account; provided, however, that nothing in the Bond Order will prevent the District from paying any Current Expenses from any other funds legally available to the District for such purpose. The Current Expenses will be paid as the same become due and payable in conformity with the applicable budgetary and payment procedures of the District.

(c) At such time or times as are specifically provided for in the Bond Order or in any Parity Resolution or Derivative Agreement, the District will withdraw from the Revenue Account the amount necessary to make the deposits required by the Bond Order as set forth under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" below.

(d) Except during the continuation of an Event of Default, the District may, in its discretion, after making the deposits required by the Bond Order, transfer in each month any balance remaining in the Revenue Account, in whole or in part, to the General Fund or any other fund or account designated by the District, provided that (i) an Authorized Officer first certifies to the Trustee in an Officer's Certificate that, in his or her opinion, the transfer of such amount will not have a material adverse effect on the District's ability over the next twelve (12) calendar months to pay the Current Expenses, to make all deposits required under the Bond Order and to meet all other financial obligations imposed by the Bond Order or any Parity Resolution, (ii) the total amount transferred in any month does not exceed one-twelfth (1/12) of the total amount budgeted to be transferred from the Revenue Account in such Fiscal Year as shown in the Annual Budget multiplied by the number of full months elapsed in such Fiscal Year less any amounts previously transferred from the Revenue Account in such Fiscal Year and (iii) any amounts owing to a Bond Insurer have been paid in full.

Any funds transferred from the Revenue Account in accordance with the provisions of the Bond Order described in the preceding paragraph, other than transfers made to any account or subaccount of the Bond Fund, will no longer be subject to the pledge, charge and lien upon the Net Receipts created by the Bond Order.

Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits

The amount withdrawn from the Revenue Account in accordance with the Bond Order will be applied by the District in the following manner and order:

(a) (i) At such time or times as provided in the Parity Resolutions, the District will deliver to the Trustee (1) the amounts required by any Series Resolution for deposit in the appropriate subaccounts in the Interest Account, and (2) the amounts required by any Parity Debt Resolution for the payment of interest on such Parity Debt for deposit with or payment to the appropriate parties designated in such Parity Debt Resolution and (ii) if a Derivative Agreement provides for any payments thereunder by the District relating to interest on Parity Indebtedness constituting Derivative Indebtedness, then, at such time or times as provided in the Derivative Agreement, the District will deliver to the Trustee for deposit with or payment to the Person designated in the Derivative Agreement the amount required by such Derivative Agreement to be paid thereunder by the District, provided that if there are not sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments will be made to each such subaccount of the Interest Account and to each appropriate Person designated in such Parity Debt Resolution or Derivative Agreement ratably according to the amount so required to be deposited or paid.

(b) At such time or times as provided in the Parity Resolutions, the District will deliver to the Trustee (1) the amounts required by any Series Resolution for deposit in the appropriate subaccounts of the Principal Account and the Sinking Fund Account and (2) the amounts, if any, required by any Parity Debt Resolution for the payment of principal on Parity Debt, whether at maturity or pursuant to an amortization requirement, for deposit with or payment to the appropriate parties designated in such Parity Debt Resolution, provided that if there are not sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments will be made to each such subaccount of the Principal Account and the Sinking Fund Account and to each appropriate Person designated in such Parity Debt Resolution ratably according to the amount so required to be deposited or paid.

(c) At such time or times as provided in the Parity Resolutions, if the amount in the Parity Reserve Account is less than the Parity Reserve Account Requirement or the amount in any Special Reserve Account is less than the applicable Special Reserve Account Requirement, the District will deliver to the Trustee (1) the amounts required by the Bond Order to make up such deficiency in the Parity Reserve Account and (2) the amounts required by any Series Resolution or Parity Debt Resolution to make up any deficiencies in any Special Reserve Account for deposit in such Special Reserve Accounts or payment to the appropriate parties designated in such Series Resolution or Parity Debt Resolutions, provided that if there are not sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments will be made to the Parity Reserve Account and each Special Reserve Account ratably according to the amount so required to be deposited or paid. If a deficiency exists in the Parity Reserve Account, it will be made-up under the provisions of the Bond Order described under this subparagraph (c) in accordance with the provisions of the Bond Order described under the caption "Deposit and Application of Money in Parity Reserve Account and any Special Reserve Account; Determination of Deficiencies" below. If a deficiency exists in any Special Reserve Account, it will be made-up under the provisions of the Bond Order described under this subparagraph (c) in accordance with the provisions of the Parity Resolution creating such Special Reserve Account.

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

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

(f) Beginning on July 25 of each Fiscal Year, and thereafter on the 25th day of each month, the District will deposit to the credit of the Capital Reserve Fund one-twelfth (1/12) of the difference between (i) the amount on deposit therein at the close of business on the immediately preceding July 24 and (ii) the Capital Reserve Fund Requirement.

Notwithstanding anything in the Bond Order to the contrary, failure by the District to make any deposits required by the provisions of the Bond Order described in subparagraphs (d), (e) and (f) above will not in and of itself be an Event of Default.

On or before the forty-fifth (45th) day next preceding any date on which Serial Bonds are to mature or Term Bonds are to be redeemed pursuant to Sinking Fund Requirements therefor or are to mature, the District may satisfy all or a portion of its obligation to make the payments required by the provisions of the Bond Order described in subparagraphs (a)(i) and (b) above by delivering to the Trustee Serial Bonds maturing or Term Bonds maturing or required to be redeemed on such date. If purchased, the price paid to purchase any such Bond, including accrued interest to the date of purchase, may not exceed the principal or Redemption Price plus accrued interest to such maturity or redemption date. Upon such delivery, the District will receive a credit against amounts required to be deposited into the Interest Account and the Principal Account or Sinking Fund Account, as the case may be, on account of such Bonds with respect to all interest payments for the remainder of the Fiscal Year and in the amount of 100% of the principal amount of any such Serial Bonds or Term Bonds so delivered.

On or before the forty-fifth (45th) day next preceding any date on which Parity Debt is to mature or is to be redeemed pursuant to an amortization requirement, the District may satisfy all or a portion of its obligation to make the payments required by the provisions of the Bond Order described in subparagraphs (a)(i) and (b) above by delivering to the Trustee Parity Debt maturing or required to be so redeemed on such date. If purchased, the price paid to purchase any such Parity Debt, including accrued interest to the

date of purchase, may not exceed the principal or Redemption Price plus accrued interest to such maturity or redemption date. Upon such delivery, the District will receive a credit against amounts required to be deposited on account of such Parity Debt with respect to all interest payments for the remainder of the Fiscal Year and in the amount of 100% of the principal amount of any such Parity Debt so delivered.

The District may provide in a Subordinated Indebtedness Resolution for a disposition of Net Receipts for the purpose of paying the interest on or principal of Subordinated Indebtedness or in a Derivative Agreement for the making of payments or repayments thereunder on a subordinated basis prior to the deposits required by the provisions of the Bond Order described in subparagraph (d), (e) or (f) above, but only after the making of the deposits or payments required by the provisions of the Bond Order described in subparagraphs (a), (b) and (c) above.

The District may provide in a Parity Resolution for a disposition of Net Receipts for the purpose of paying amounts owing to a Bond Insurer prior to the deposits required by the provisions of the Bond Order described in subparagraph (d), (e) or (f) above, but only after the making of the deposits or payments required by the provisions of the Bond Order described in subparagraphs (a), (b) and (c) above.

Application of Money in Interest Account and Capitalized Interest Account

Not later than 10:00 A.M. on each Interest Payment Date, date for the payment of Defaulted Interest or date upon which Bonds are to be redeemed, or on such other date as may be specified in the applicable Series Resolution, the Trustee will withdraw from the applicable subaccount in the Interest Account and remit by wire transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the amounts required for paying interest on the respective Bonds on such Interest Payment Date. The Bond Registrar will remit or set aside the amount due and payable to the Owners as provided in the Series Resolutions.

Unless otherwise provided by a Series Resolution, on the date of issuance of any Series of Bonds, an Authorized Officer is required to deliver to the Trustee a schedule of transfers to be made from the applicable subaccount of the Capitalized Interest Account to the applicable subaccount of the Interest Account. The Trustee will make such transfers as required by the schedule prepared by an Authorized Officer and filed with the Trustee.

Unless otherwise provided by a Series Resolution, if the District fails to deposit with the Trustee the amounts required to be deposited in the Interest Account as provided by the provisions of the Bond Order described under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above, or if the balance in the Interest Account on the Business Day next preceding an Interest Payment Date is insufficient to pay interest becoming due on the Bonds on such Interest Payment Date, the Trustee will notify the District of the amount of the deficiency and request the District to immediately cure such deficiency. Upon failure of the District to cure such deficiency and in any event not later than such Interest Payment Date, the Trustee will transfer an amount sufficient to cure the same, drawing upon funds in the Parity Reserve Account, if any, securing such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

Application of Money in Principal Account

Not later than 10:00 A.M. on each principal payment date, the Trustee will withdraw from the applicable subaccount in the Principal Account and remit by wire transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the amount necessary to pay the principal of the related Serial Bonds at their respective maturities. The Bond Registrar will remit or set aside the amount due and payable to the Owners as provided in the Series Resolution.

If on any date there is money in the Principal Account and no Serial Bonds are then Outstanding or if on any principal payment date money remains therein after the payment of the principal of Serial Bonds then due, the Trustee will withdraw such money therefrom and will apply the same in the following order: (a) deposit into the Sinking Fund Account the amount then required to be paid thereto by the District pursuant to the provisions of the Bond Order described under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above, (b) deposit, if and to the extent determined by the District, in the Parity Reserve Account or in one or more Special Reserve Accounts such amounts as may be determined by the District in order to make the amounts on deposit therein equal to the Parity Reserve Account Requirement or the Special Reserve Account Requirement, as the case may be, and (c) deliver all remaining amounts to the District.

Unless otherwise provided in a Series Resolution, if the District fails to deposit with the Trustee the amounts required to be deposited in the Principal Account pursuant to the provisions of the Bond Order described under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above, or if the balance in the Principal Account on the Business Day next preceding a principal payment date is insufficient to pay principal coming due on the Serial Bonds on such principal payment date, the Trustee will notify the District of the amount of the deficiency and request the District to immediately cure such deficiency. Upon failure of the District to cure such deficiency and in any event not later than such principal payment date, the Trustee will transfer an amount sufficient to cure the same, drawing upon funds in the Parity Reserve Account, if any, securing such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

Application of Money in Sinking Fund Account

Money held for the credit of the subaccounts in the Sinking Fund Account will be applied to the retirement, purchase, redemption or payment of Term Bonds in the manner provided in the applicable Series Resolution. Unless otherwise provided in a Series Resolution, if the District fails to deposit with the Trustee the amount required to be deposited in the Sinking Fund Account pursuant to the provisions of the Bond Order described under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above, or if the balance in the Sinking Fund Account on the Business Day next preceding a sinking fund payment date is insufficient to retire Term Bonds on such date as required by a Series Resolution, the Trustee will notify the District of the amount of the deficiency and request the District to immediately cure such deficiency. Upon failure of the District to cure such deficiency and in any event not later than such sinking fund payment date, the Trustee will transfer an amount sufficient to cure the same, drawing upon funds in the Parity Reserve Account, if any, securing such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

Deposit and Application of Money in Parity Reserve Account and any Special Reserve Account; Determination of Deficiencies

(a) If a Parity Resolution provides that the Parity Indebtedness incurred thereunder is to be additionally secured by the Parity Reserve Account, the District must fund, from the proceeds of such Parity Indebtedness or from any other available sources, concurrently with the delivery of and payment for such Parity Indebtedness the Parity Reserve Account in an amount equal to the Parity Reserve Account Requirement. If a Parity Resolution provides that Parity Indebtedness incurred thereunder is to be secured by a Special Reserve Account, the District must fund, from the proceeds of such Parity Indebtedness or from any other available sources, at the time or times and in the manner specified in the applicable Parity Resolution, such Special Reserve Account in an amount equal to the Special Reserve Account Requirement for such Parity Indebtedness.

(b) The District may substitute a Reserve Alternative Instrument for any cash and Investment Obligations already on deposit in the Parity Reserve Account or a Special Reserve Account in satisfaction of the Parity Reserve Account Requirement or a Special Reserve Account Requirement, respectively; provided, however, that the District must obtain the prior written consent of the Local Government Commission or the Executive Committee of the Local Government Commission before so acting.

(c) The Trustee will use amounts in the Parity Reserve Account to make transfers, or use moneys provided under a Reserve Alternative Instrument to make deposits, in the following order, in respect of all Parity Indebtedness additionally secured by the Parity Reserve Account, to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account to remedy any deficiency therein as of any Interest Payment Date, principal payment date or sinking fund payment date (or any earlier date as set forth in a Parity Resolution), or to pay the interest on or the principal of or amortization requirements in respect of any Parity Debt when due, whenever and to the extent the money on deposit for such purposes is insufficient.

(d) The Trustee will use amounts in any Special Reserve Account held by it to make transfers or use moneys provided under a Reserve Alternative Instrument to make deposits, in the following order, in respect of the particular Parity Indebtedness secured by said Account to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account to remedy any deficiency therein as of any Interest Payment Date, principal payment date or sinking fund payment date (or any earlier date as set forth in a Parity Resolution), or to pay the interest on or the principal of or amortization requirement in respect thereof on Parity Debt when due, whenever and to the extent the money on deposit for such purposes is insufficient.

(e) Any deficiency in the Parity Reserve Account resulting from the withdrawal of moneys therein will be made up over the twelve-month period immediately following the month in which such withdrawal is made by monthly deposits of one-twelfth (1/12) of the amount of such deficiency, such deposits to be made pursuant to subparagraph (c) under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above. Any deficiency in the Parity Reserve Account resulting from a draw on a Reserve Alternative Instrument will be made up as provided in such Reserve Alternative Instrument or documentation relating thereto, but any such deficiency must be made up by not later than the final date when such deficiency would have been required to be made up if there had been a withdrawal of moneys from the Parity Reserve Account rather than a draw on a Reserve Alternative Instrument. Deficiencies, whether resulting from withdrawals or draws, may be satisfied through the deposit of additional moneys or the providing of an additional, or increase in a, Reserve Alternative Instrument. Moneys or Investment Obligations on deposit in the Parity Reserve Account will be used to satisfy deficiencies, as provided in paragraph (b) above, prior to any draw on a Reserve Alternative Instrument.

(f) Unless a Reserve Alternative Instrument is in effect, if on any date of valuation pursuant to the provisions of the Bond Order described under the caption "Valuation" below, the amount on deposit in the Parity Reserve Account is less than ninety percent (90%) of the Parity Reserve Account Requirement, the District will deposit into the Parity Reserve Account monthly one-twelfth (1/12) of the amount required as of such date to cause the amount then on deposit in the Parity Reserve Account to be equal to the Parity Reserve Account Requirement. Any such deficiency may be satisfied through the deposit of additional moneys or the providing of an additional, or increase in a, Reserve Alternative Instrument.

(g) Any deficiency in a Special Reserve Account resulting from the withdrawal of moneys therein or a draw on a Reserve Alternative Instrument or resulting from a valuation of the Investment Obligations therein pursuant to the provisions of the Bond Order described under the caption "Valuation" below will be made up as provided in the relevant Parity Resolution.

Application of Money in Redemption Account

The Trustee will apply money in the Redemption Account to the purchase or redemption of Bonds as provided in the Bond Order.

Deposit and Application of Money in Capital Reserve Fund and General Fund

Money held for the credit of the Capital Reserve Fund will be used only for the following:

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

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

Moneys held for the credit of the General Fund, less (i) the costs of providing the capital improvements in connection with which acreage, tap, connection, developer, plant capacity, sampling and monitoring fees, impact fees, special assessments and similar fees and charges and grants are collected and deposited to the credit of the General Fund unless such fees and charges and grants or a portion thereof are to be Gross Receipts in accordance with an Officer's Certificate filed with the Trustee pursuant to a resolution adopted by the Board and (ii) the amounts of such fees and charges which are otherwise obligated pursuant to contracts with developers or other Persons or otherwise, may be used for any lawful purpose of the District.

Security Deposits Account

Money received by the District as security deposits on account of estimated rates, fees or charges for sewer service to assure the payment of such rates, fees or charges will be deposited as received in a Depository or Depositaries, in the name of the District, to the credit of the Security Deposits Account. Any such moneys will not be deemed to constitute Revenues unless and until withdrawn from said account and deposited to the credit of the Revenue Account. Moneys deposited to the credit of said account will be invested as provided by the provisions of the Bond Order described under the caption "Investment of Money" below.

Insurance and Condemnation Award Account

The Trustee will deposit Net Insurance Proceeds or Net Eminent Domain Proceeds into the Insurance and Condemnation Award Account when and as received by the Trustee from the District, and they will be disbursed pursuant to the provisions of the Bond Order described below.

If, as a result of any casualty occurring to at least ten percent (10%) of the Property, Plant and Equipment (net of accumulated depreciation) of the System or as a result of any taking by Eminent Domain of at least ten percent (10%) of the Property, Plant and Equipment (net of accumulated depreciation) of the System, the revenue-producing capabilities of the System will, in the opinion of the General Manager, be materially impaired, for a period in excess of one hundred twenty (120) consecutive days, all Net Insurance Proceeds received by the District and all Net Eminent Domain Proceeds received by the District, as the case may be, will be delivered to the Trustee for deposit in the Insurance and Condemnation Award Account and will be applied, to the extent permitted by law, at the election of the District:

(1) to replace, repair, rebuild or restore the System to substantially the same condition as that which existed prior to such damage, destruction or taking, with such alterations and additions as the District may determine and as will not impair or otherwise adversely affect the revenue-producing capability of the System, provided that prior to the commencement of such replacement, repair, rebuilding or restoration, the District will deliver to the Trustee a report of a licensed architect or engineer employed by the District setting forth (A) an estimate of the total cost of the same, (B) the estimated date upon which such replacement, repair, rebuilding or restoration will be substantially completed, and (C) a statement to the effect that Net Insurance Proceeds or Net Eminent Domain Proceeds, as the case may be, together with other funds made available or to be made available by the District, are projected to be sufficient to pay the costs of the replacement, repair, rebuilding or restoration of the System; or

(2) to the redemption of Bonds or Parity Debt as provided in the Parity Resolutions, provided that Bonds or Parity Debt may be redeemed only if (A) the System has not been restored to substantially the same condition as prior to such damage, destruction or taking or (B) the licensed architect or engineer employed by the District has been unable to make the statement described in subparagraph (1)(C) above; or

(3) to transfer to the General Fund or any other fund or account designated by the District if the System has been restored to substantially the same condition as prior to such damage, destruction or taking with other funds of the District or made available to the District which were not subject to the lien in favor of the Owners and Holders.

All Net Insurance Proceeds and all Net Eminent Domain Proceeds which the District is not required to pay to the Trustee pursuant to the provisions of the Bond Order described above under this caption will be applied in such manner as the District believes to be in the best interests of the District.

If the District elects to apply Net Insurance Proceeds or Net Eminent Domain Proceeds, or cause them to be applied, to replace, repair, rebuild, or restore the System, as described in subparagraph (1) above, the District will make disbursements from the Insurance and Condemnation Award Account, to the extent practicable, in accordance with the procedures and requirements set forth in the Bond Order for requisitions from the Construction Fund. However, to the extent such Net Insurance Proceeds or Net Eminent Domain Proceeds exceed the cost of such replacement, repair, rebuilding or restoration, the same will be transferred to the General Fund or any other fund or account designated by the District.

If the District elects to redeem Bonds, the District will direct the Trustee to redeem Bonds in accordance with the Bond Order and the Series Resolution for any such Bonds and to transfer from the Insurance and Condemnation Award Account to the Redemption Account an amount sufficient to pay the Redemption Price of the Bonds to be redeemed and to the Interest Account an amount that, together with amounts then on deposit therein, is sufficient to pay interest accruing on the Bonds to be redeemed to the date of redemption. If the District elects to redeem Parity Debt, the District will follow the requirements for such redemption as set forth in the Parity Debt Resolution for such Parity Debt.

The provisions of the Bond Order described above under this caption are subject to the provisions of the Bond Order relating to allocation of Net Insurance Proceeds or Net Eminent Domain Proceeds if Parity Debt is outstanding.

Security for Deposits

Any and all money received by the District under the provisions of the Bond Order will be deposited as received with the Trustee or one or more other Depositaries as provided in the Bond Order and will, in

the case of deposits with the Trustee, be trust funds under the terms thereof, and, to the extent permitted by law in the case of the Construction Fund, will not be subject to any lien or attachment by any creditor of the District.

All money deposited with the Trustee or any Depository will be credited to the particular fund, account or subaccount to which such money belongs.

Investment of Money

Money held for the credit of all funds, accounts and subaccounts will be continuously invested and reinvested by the Trustee or the Depositories, whichever is applicable, in Investment Obligations to the extent practicable. Except as provided in the Bond Order with respect to the disposition of investment income, the particular investments to be made and other related matters in respect of investments will, as to each Series of Bonds, be provided in the applicable Series Resolution. Except as provided in the Bond Order with respect to the Parity Reserve Account, Investment Obligations will mature or be redeemable at the option of the holder thereof not later than the respective dates when the money held for the credit of such funds, accounts and subaccounts will be required for the purposes intended.

At the time that the Parity Reserve Account is first funded in connection with the issuance of a Series of Bonds or the incurrence of Parity Debt, the District is required to determine in the Parity Resolution the maximum number of years of the average life of the Investment Obligations in the Parity Reserve Account, and thereafter such Investment Obligations in the Parity Reserve Account will mature or be redeemable at the option of the Trustee so that all such Investment Obligations in the Parity Reserve Account will have an average life from the date of such investment of not more than the amount of years so determined by the District.

Investment Obligations acquired with money in or credited to any fund, account or subaccount established under the Bond Order will be deemed at all times to be part of such fund, account or subaccount. Any loss realized upon the disposition or maturity of such Investment Obligations will be charged against such funds, accounts or subaccounts. The interest accruing on any such Investment Obligations and any profit realized upon the disposition or maturity of such Investment Obligations will be credited to such funds, accounts or subaccounts as follows:

<u>Funds, Accounts or Subaccounts</u>	<u>Credited to</u>
Project Account of Construction Fund	Project Account of Construction Fund
Revenue Account	Revenue Account
All other funds, accounts and subaccounts	Revenue Account unless otherwise directed by the related Series Resolution

The Trustee will sell or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary so to do to provide money to make any payment from any such fund, account or subaccount. The Trustee will not be liable or responsible for any loss resulting from any such action.

Whenever a transfer of money between two or more of the funds, accounts or subaccounts established under the Bond Order is permitted or required, such transfer may be made as a whole or in part by transfer of one or more Investment Obligations at a value determined at the time of such transfer in accordance with the Bond Order, provided that the Investment Obligations transferred are those in which money of the receiving fund, account or subaccount could be invested at the date of such transfer.

For purposes of making any investment under the Bond Order, the Trustee or any Depositary may consolidate money held by it in any fund, account or subaccount with money in any other fund, account or subaccount. Transfers from any fund, account or subaccount to the credit of any other fund, account or subaccount provided for in the Bond Order may be effectuated on the books and records of the Trustee, the District or any Depositary without any actual transfer of funds or liquidation of investments. Investment Obligations purchased with consolidated funds will be allocated to each fund, account or subaccount on a pro rata basis in accordance with the initial amount so invested from each such fund, account or subaccount.

Valuation

For the purpose of determining the amount on deposit in any fund, account or subaccount, Investment Obligations in which money in such fund, account or subaccount is invested will be valued (a) at face value if such Investment Obligations mature within six (6) months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six (6) months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option, if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon, and (ii) the market value of such Investment Obligations.

All Investment Obligations in all of the funds, accounts and subaccounts created under the Bond Order, except the Revenue Account, the Capital Reserve Fund, the General Fund and the Security Deposits Account, will be valued as of December 31 and the last day of each Fiscal Year. If a valuation is made by the Trustee, the Trustee will report the result of such valuation to the District within thirty (30) days following such valuation. In addition, Investment Obligations will be valued at any time requested by the District on reasonable notice to the Trustee (which period of notice may be waived or reduced by the Trustee); provided, however, that the Trustee will not be required to value Investment Obligations more than once in any calendar month.

Security for the Bonds and Parity Debt

As security for the payment of the Bonds and any Parity Debt and the interest thereon and as authorized by the Act, the District grants to the Trustee a pledge, charge and lien upon the Net Receipts subject to the release of said lien as described in paragraph (d) under the caption "Application of Money in Revenue Account" above.

In addition, as further security for the payment of each Series of Bonds and the interest thereon, the District grants to the Trustee a pledge, charge and lien upon the money and Investment Obligations in any and all of the related accounts and subaccounts of the Bond Fund and accounts established under the Series Resolutions relating to their issuance.

Payment of Principal, Interest and Premium

The District will cause to be paid, when due, the principal of (whether at maturity, by acceleration, by call for redemption or otherwise) and the premium, if any, and interest on the Bonds and any Parity Debt at the places, on the dates and in the manner provided in the Bond Order and in the Bonds and any Parity Debt and the documentation securing such Bonds and Parity Debt, according to the true intent and meaning thereof.

The Bonds are special obligations payable from Net Receipts and money, Investment Obligations and Reserve Alternative Instruments held in the funds, accounts and subaccounts created under the Bond Order and the income from such Investment Obligations and the investment of such money.

Rate Covenant

(a) The District covenants to fix and charge rates, fees, rentals and charges for the use of, and for the services furnished or to be furnished by, the System, and that from time to time and as often as it appears necessary, it will revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for the Fiscal Year ending June 30, 1999, and for each Fiscal Year thereafter, the Income Available for Debt Service for such Fiscal Year will be not less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year.

(b) The District also covenants, beginning on the date of issuance of the Series 1999 Bonds, to fix and charge rates, fees, rentals and charges for the use of, and for the services furnished or to be furnished by, the System, and that from time to time and as often as it appears necessary, it will revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Gross Receipts will be sufficient in each Fiscal Year thereafter to (i) pay Current Expenses, (ii) make the cash deposits in each Fiscal Year required by the provisions of the Bond Order described in subparagraphs (a), (b) and (c) under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above and (iii) make the cash deposits in each Fiscal Year required by any Subordinated Indebtedness Resolutions with respect to the payment of interest on and principal of Subordinated Indebtedness.

(c) The District covenants that there will be no free services rendered by the System and that all users, including political subdivisions and public bodies (state and federal), will pay therefor at the established rates, fees and charges; provided, however that the District may make adjustments to accounts consistent with established business practices for correction of errors, settlement of disputes and credits for prior payments.

(d) The District covenants that if it fails to comply with the covenants described above in paragraphs (a) and (b) under this caption, it will, within thirty (30) days of the receipt by the District of the audit report required by the Bond Order, request an Appropriate Consultant to make recommendations, if any, as to a revision of the District's rates, fees, rentals and charges, its Current Expenses or the method of operation of the System in order to satisfy the requirements of the Bond Order described above under this caption. Copies of such request and of the recommendations of the Appropriate Consultant, if any, will be filed by the District with the Trustee and the Local Government Commission. Promptly upon its receipt of the recommendations of the Appropriate Consultant, the District will, after giving due consideration to the recommendations, revise its rates, fees, rentals and charges or its Current Expenses or alter its methods of operation, which revisions or alterations need not comply with the Appropriate Consultant's recommendations but which are projected by the District to result in compliance with the covenants described in paragraphs (a) and (b) above. If the District complies with all of the recommendations of the Appropriate Consultant, failure to comply with the provisions of the Bond Order described in paragraphs (a) and (b) above will not constitute an Event of Default under the provisions of the Bond Order described in paragraph (g) under the caption "Events of Default" below. Compliance with all of the recommendations of the Appropriate Consultant will have no effect on any Event of Default other than an Event of Default under the provisions of the Bond Order described in paragraph (g) under the caption "Events of Default" below. In the event of any failure to comply with the provisions of the Bond Order described in paragraphs (a) and (b) above and the failure of the District to comply with all of the recommendations of the Appropriate Consultant, and in addition to the remedies elsewhere provided in the Bond Order, the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Parity Indebtedness then Outstanding may, and the Trustee will, upon the request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Parity Indebtedness then Outstanding and upon being indemnified to its satisfaction, institute and prosecute in a court of competent jurisdiction an

appropriate action to compel the District to comply with all of the recommendations of the Appropriate Consultant in order to satisfy the requirements of the Bond Order described under this caption. The District covenants that it will adopt and charge rates, fees, rentals and charges and revise its Current Expenses or the method of operation of the System in compliance with any final order, decree or judgment entered in any such proceeding or modification thereof.

(e) Notwithstanding the provisions of the Bond Order described under this caption, contracts and agreements for the use of the System, or any component thereof, in effect on the date of the issuance of the Series 1999 Bonds are not subject to revision for purposes of compliance with the covenants described in paragraphs (a) and (b) above except in accordance with their terms. Subject to the provisions of the Bond Order, the District may enter into new contracts or agreements or amend or rescind existing contracts or agreements for the use of the System on such terms and for such periods of time as the District determines to be proper.

(f) The District also covenants to fix and charge rates, fees, rentals and charges for each component of the System which rates, fees, rentals and charges are required to be reasonable and non-discriminatory.

Insurance

The District covenants that it will maintain, or cause to be maintained, a practical insurance program, with reasonable terms, conditions, provisions and costs, which the District determines (a) will afford adequate protection against loss caused by damage to or destruction of the System or any part thereof and (b) will include reasonable liability insurance on all of the System for bodily injury and property damage resulting from the construction or operation of the System. All such insurance policies will be carried in a responsible insurance company or companies authorized and qualified to assume the risks thereof.

If the District obtains an opinion of an Insurance Consultant, who does not sell, directly or indirectly, any insurance to the District, stating that:

(a) the insurance, or any part or parts thereof, the District proposes to obtain in order to comply with its covenant described in the first paragraph under this caption is not available at a reasonable cost, and

(b) the amounts and types of insurance which the District has obtained or the provision for Qualified Self Insurance (as hereinafter defined) which the District has made provide protection against the risk or risks described above equivalent to the protection then being relied upon by utilities of similar size and type or the protection determined by the District in its reasonable judgment to be adequate for the System,

(c) then the maintenance of such amounts and types of insurance or the provision for Qualified Self Insurance will constitute compliance with the provisions of the Bond Order described under this caption. The term "Qualified Self Insurance," as used in the Bond Order, means any program of self insurance or use of an insurance company or association controlled by the District, either singly or with others, or in which the District has a material interest (a "captive insurance company"), regarding which the District has received a written evaluation of an Insurance Consultant or an independent actuarial consultant having a favorable reputation for skill and experience for such work, which evaluation will include an opinion of such consultant that the use of such self insurance or captive insurance company program will not diminish substantially the Gross Receipts and that adequate reserves for such program are either maintained with an independent corporate trustee or otherwise held with appropriate safeguards to ensure

their availability. Any self-insurance program of the District carried to comply with the above-mentioned insurance requirements will be in written form and, together with the written evaluation regarding self insurance mentioned above, filed with the Trustee. Such program will (a) provide actuarially sound reserves, (b) be reviewed annually by an insurance advisor, who may sell insurance to the District, or a registered actuary in light of claims made in order to determine the adequacy of any such reserves and (c) provide upon the termination of such program for adequate reserves for, or insurance coverage of, any potential retained liability in respect of the period of self insurance.

All such policies will be for the benefit of the District, will be made payable to the District and will remain with the District, and the District will have the sole right to receive the proceeds of such insurance and to collect and receive claims thereunder. Net Insurance Proceeds will be applied in accordance with the Bond Order.

Notwithstanding any of the provisions of the Bond Order described under this caption, the District will not be required to amend or otherwise change any of the insurance provisions of its contracts, leases and other agreements in effect on the date of the issuance of the Series 1999 Bonds for the purpose of complying with the provisions of the Bond Order described under this caption and, with respect to any contract, lease or other agreement entered into by the District after the date of the issuance of the Series 1999 Bonds, the District may provide for policies which are payable to the parties of such contract, lease or other agreement as their interests may appear and may provide that the proceeds be applied in such manner as the District, in its opinion, believes to be in the best interest of the District. The District may require evidence of the existence of such policies and notice of cancellation in lieu of the possession of such policies.

Records, Accounts and Audits

The District will keep the funds, accounts, subaccounts, money and investments of the System separate from all other funds, accounts, money and investments, if any, of the District and will keep accurate records and accounts of all items of costs and of all expenditures relating to the System and of the revenues collected and the application of such revenues. Such records and accounts will be open to the inspection of the Trustee.

The District will cause its accountant to prepare and deliver to the District within 120 days after the close of such Fiscal Year an audit of the District's books and accounts. Reports of each such audit will be filed with the Local Government Commission and the Trustee, and copies of each such report will be mailed to each Owner or Holder requesting the same in writing and will be made available for inspection at the office of the District. Each such audit report will be accompanied by an opinion of the accountant stating that the examination of the financial statements was conducted in accordance with generally accepted auditing standards and stating whether such financial statements present fairly the financial position of the District and the results of its operations and a statement of cash flows for the period covered by such audit report in conformity with generally accepted accounting principles applied on a consistent basis.

If for any reason beyond its control, the District is unable to obtain the foregoing opinion as to compliance with generally accepted accounting principles, the District will be deemed to be in compliance with the provisions of the Bond Order described under this caption if it is taking all reasonable and feasible action to obtain such opinion in subsequent Fiscal Years, and if, in lieu of a statement as to compliance and conformity, such opinion states the reasons for such noncompliance or non-conformity.

Each audit report will be accompanied by a special report of the District's accountant or contain additional data setting forth in respect of said Fiscal Year the following:

a. a separate income and expense account of the System, showing the Revenues and Current Expenses for such Fiscal Year and

b. a calculation to determine compliance with the provisions of the Bond Order described under the caption "Rate Covenant" above.

There will also be filed with the Local Government Commission and the Trustee within sixty (60) days after the end of each Fiscal Year an Officer's Certificate stating whether, to the best of such person's knowledge (i) there existed at the end of the Fiscal Year, any violation of any covenants or agreements contained in the Bond Order and (ii) at any time during the Fiscal Year, any Event of Default occurred, and if so, the nature of such Event of Default.

Payment of Charges and Covenant Against Encumbrances

Except as provided in the Bond Order, the District will not create or suffer to be created any lien or charge upon the System or any part thereof, or on the Net Receipts, except for Permitted Encumbrances. The District will discharge or cause to be discharged, or will make adequate provision to satisfy and discharge, within sixty (60) days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the properties constituting the System and the operation of the System and lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the System or Net Receipts if unpaid. Nothing contained in the Bond Order as described under this caption requires the District to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings.

Covenants Against Sale and Exceptions Thereto

The District covenants that, except as permitted by the Bond Order, it will not sell, exchange or otherwise dispose of the System or any part thereof.

The District may from time to time sell, exchange or otherwise dispose of any equipment, motor vehicles, machinery, fixtures, apparatus, tools, instruments or other movable property if it determines that such articles are no longer needed or are no longer useful in connection with the System, and the proceeds thereof will be applied to the replacement of the properties so sold, exchanged or disposed of or will be deposited to the credit of such subaccount or subaccounts in the Bond Fund or to pay interest on or principal of Parity Debt as the District may determine.

The District may from time to time sell, exchange or otherwise dispose of (but not lease, contract or agree for the use thereof except as permitted under the Bond Order) any other property of the System if, in addition to obtaining an opinion of nationally recognized bond counsel to the effect that such sale, exchange or disposition of property of the System will not adversely affect the tax status of interest on Bonds, if it determines by resolution:

(a) that such property is no longer needed or is no longer useful in connection with the System,
or

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

(c) that the sale, exchange or other disposition thereof would not materially adversely affect the ability of the District to comply with the rate covenant described under the caption "Rate Covenant" above for the current and next succeeding Fiscal Year and there is delivered to the Trustee evidence (including, but not limited to, an Officer's Certificate) reasonably satisfactory to the Trustee that such sale, exchange or disposition would not result in the ratings of any Parity Indebtedness being suspended or downgraded below "investment grade" by Moody's or S&P, and provided further that such sale, exchange or disposition would be for a consideration of not less than fair market value;

and the proceeds, if any, of any such sale, exchange or disposition will be applied to the replacement of the properties so sold, exchanged or disposed of or will be deposited to the credit of the subaccount or subaccounts of the Bond Fund or to pay interest on or principal of Parity Debt as the District may determine.

If the fair market value of any item of real or personal property to be sold, exchanged or otherwise disposed of in any Fiscal Year in accordance with the provisions of the Bond Order described under this caption is in excess of 3% of net property, plant and equipment of the System calculated in accordance with generally accepted accounting principles, or if the fair market value of any such item together with the fair market value of all other such items so disposed of in such Fiscal Year aggregates in excess of 3% of net property, plant and equipment of the System calculated in accordance with generally accepted accounting principles, then no such disposal will be effected without first obtaining the written approval of an Appropriate Consultant of the determinations to be made by the District with respect to such disposition under the provisions of the Bond Order described under this caption.

Additional Projects; Additions to the System

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

Notwithstanding the foregoing, the District covenants that it will not acquire any sewerage system facilities owned by one or more of its constituent political subdivisions or any other person unless the following conditions are satisfied:

(a) The Board has determined that the acquisition of such facilities and the related responsibility to operate, maintain, improve, reconstruct or extend such facilities would preserve and promote the public health and welfare within the District.

(b) Such facilities are not subject to any lien or other encumbrances which is determined by the Board to be materially adverse.

(c) Appropriate instruments will transfer complete ownership of such facilities to the District, delegate to the District the responsibility for the operation, maintenance, improvement, reconstruction or extension of such facilities and authorize the District to establish rates, fees and charges for the use of and for the services and facilities provided or to be provided by the District without supervision or regulation by any political subdivision or other person transferring the ownership of such facilities to the District.

(d) Appropriate instruments to indicate such transfer of ownership will be duly recorded and the District will be guaranteed reasonable access to and over related public rights-of-way and easements necessary for the operation, maintenance, improvement, reconstruction or extension of such facilities.

(e) The Board has determined that adequate funding for the acquisition, operation, maintenance, improvement, reconstruction or extension of such facilities will be available from available funds of the District, from rates, fees and charges established by the District, from grants or other funds provided by the United States of America, the State or any other source, from the issuance of revenue bonds or general obligations bonds of the District, from taxes levied and collected by the District or from any combination of such sources, as appropriate. The decision as to which sources of funding will be utilized will be in the sole discretion of the Board, subject to the provisions of the Bond Order and applicable law.

(f) The Board, in its sole discretion, determines the need and priority for the operation, maintenance, improvement, reconstruction or extension of such facilities, taking into consideration, among other factors, the capacity of the System and available funding.

Financing of Special Purpose Facilities

Nothing in the Bond Order express or implied will be construed as prohibiting the District, if then authorized or permitted by law, from financing the acquisition or construction of any Special Purpose Facilities.

No Special Purpose Facilities may be financed by the District unless there is filed with the District:

(a) an opinion of counsel to the District to the effect that the Special Purpose Facilities or the indebtedness or other obligations incurred to finance such Special Purpose Facilities are not, directly or indirectly, secured by or payable from Net Receipts or issued under or secured by the provisions of the Bond Order and that the financing of the Special Purpose Facilities will not conflict with or constitute on the part of the District a breach of or default under any of the covenants or provisions of the Bond Order,

(b) a statement, signed by an Appropriate Consultant, to the effect that in its opinion the acquisition or construction of such Special Purpose Facilities will not materially adversely affect the Income Available for Debt Service or impair the operating efficiency of the System, and

(c) a statement, signed by an Appropriate Consultant, to the effect that in its opinion the estimated gross revenues to be received from the operation of the Special Purpose Facilities will be sufficient to pay the estimated operating and maintenance expenses of such Special Purpose Facilities, any debt service or reserve requirements with respect thereto and any other necessary related costs and expenses.

If Special Purpose Facilities are financed by the District, the District will put in place necessary measures in order to account for, and keep separate and apart from Gross Receipts and Current Expenses, the gross revenues received from the operation of such Special Purpose Facilities as well as the operating and maintenance expenses of such Special Purpose Facilities, any debt service or reserve requirements with respect thereto and any other necessary related costs and expenses.

Limitation on Parity Indebtedness

Subject to the conditions provided by the Bond Order, the District will have the right to incur Parity Indebtedness for any purpose for which Bonds may be issued under the Bond Order, as follows:

(a) Long-Term Indebtedness constituting Parity Indebtedness may be incurred if prior to incurrence, one of the following conditions is met:

(i) there is delivered to the Trustee an Officer's Certificate to the effect that, taking into account all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding

any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness to be incurred), all Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness (excluding any Long-Term Indebtedness constituting Subordinated Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) and the Long-Term Indebtedness constituting Parity Indebtedness then to be incurred as if it had been incurred at the beginning of the most recent Fiscal Year for which audited financial statements are available preceding the date of incurrence of such Long-Term Indebtedness, the Income Available for Debt Service for such Fiscal Year was not less than the greater of (a) 1.20 times the Maximum Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and the Long-Term Indebtedness to be incurred and (b) 1.00 times the Maximum Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and the Long-Term Indebtedness to be incurred and all Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness; provided, however, that if the rates, fees and charges for the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of the Long-Term Indebtedness constituting Parity Indebtedness then to be incurred, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; or

(ii) there is delivered to the Trustee both of the following:

(A) an Officer's Certificate to the effect that the Income Available for Debt Service for the most recent Fiscal Year preceding the date of incurrence of such proposed Long-Term Indebtedness constituting Parity Indebtedness for which audited financial statements are available was not less than the greater of (1) 1.20 times the Long-Term Debt Service Requirement for such Fiscal Year with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness excluding the Long-Term Indebtedness to be incurred, and (2) 1.00 times the Long-Term Debt Service Requirement for such Fiscal Year with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness, excluding the Long-Term Indebtedness to be incurred, and all Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness; provided, however, that if the rates, fees and charges for the use of the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; and

(B) an Officer's Certificate showing that the forecasted Income Available for Debt Service, which forecast may take into consideration rates to become effective prior to or during such period, estimates of usage, inflation factors and any other factors deemed by the signer to be relevant, for the first two Fiscal Years next succeeding (1) the date on which capitalized interest, if any, provided from the proceeds of the Long-Term Indebtedness to be incurred or any other source to pay interest on such Long-Term Indebtedness is expended, in the case of acquisition or construction of any Additional Project or (2) the date on which such Long-Term Indebtedness is incurred, in any other

case, is at least the greater of (a) 1.20 times the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness constituting Parity Indebtedness to be incurred) and the Long-Term Indebtedness constituting Parity Indebtedness to be incurred for each of such Fiscal Years and (b) 1.00 times the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness constituting Parity Indebtedness to be incurred) and the Long-Term Indebtedness to be incurred for each of such Fiscal Years and all Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness (excluding any Long-Term Indebtedness constituting Subordinated Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) for each of such Fiscal Years; or

(iii) there is delivered to the Trustee an Officer's Certificate to the effect that for the most recent Fiscal Year preceding the incurrence of such proposed Long-Term Indebtedness constituting Parity Indebtedness for which audited financial statements are available, the proposed Long-Term Indebtedness to be incurred under the Bond Order as described in this clause (iii), together with any other Long-Term Indebtedness constituting Parity Indebtedness incurred under the Bond Order as described in this clause (iii) and then Outstanding, does not exceed ten percent (10%) of Total Operating Revenues for such Fiscal Year.

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

(c) Long-Term Indebtedness constituting Parity Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Parity Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof an Officer's Certificate is delivered to the Trustee (i) determining that the proceeds of such Long-Term Indebtedness, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Maximum Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Parity Indebtedness to be Outstanding after the issuance of such Long-Term Indebtedness to accomplish the refunding and after the refunding of such Long-Term Indebtedness will not exceed by more than ten percent (10%) the Maximum Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Parity Indebtedness Outstanding immediately prior to the issuance of such Long-Term Indebtedness to accomplish such refunding, including the Long-Term Indebtedness to be refunded, or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of the Bond Order as described in paragraph (a) above.

(d) Short-Term Indebtedness constituting Parity Indebtedness may be incurred if, immediately after the issuance of such Short-Term Indebtedness, the Outstanding principal amount of all Short-Term Indebtedness constituting Parity Indebtedness does not exceed twenty percent (20%) of the Revenue Account balance for the most recent Fiscal Year preceding the date of issuance of such Short-Term

Indebtedness for which audited financial statements are available; provided, however, that for a period of not less than twenty (20) consecutive calendar days in each Fiscal Year, no such Short-Term Indebtedness will be Outstanding,

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

Whenever the provisions of the Bond Order described in paragraph (a) or (d) above requires a certification for the most recent Fiscal Year preceding the date of incurrence of the Parity Indebtedness in question for which audited financial statements are available, the District may, in its discretion, provide for a special audit and a certification based upon such special audit, in lieu of the audit for such Fiscal Year, provided such special audit covers twelve (12) consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of incurrence of the Indebtedness in question.

Limitation on Subordinated Indebtedness

Subject to the conditions provided in the Bond Order, the District will have the right to incur Subordinated Indebtedness for any purpose for which Bonds may be issued under the Bond Order, as follows:

(a) Long-Term Indebtedness constituting Subordinated Indebtedness may be incurred if prior to incurrence, one of the following conditions is met:

(i) there is delivered to the Trustee an Officer's Certificate certifying that, taking into account all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness (excluding any Long-Term Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) and the Long-Term Indebtedness constituting Subordinated Indebtedness to be incurred as if it had been incurred at the beginning of the most recent Fiscal Year for which audited financial statements are available preceding the date of incurrence of such Long-Term Indebtedness, the Income Available for Debt Service for such Fiscal Year was not less than 1.00 times the Maximum Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness and the Long-Term Indebtedness to be incurred; provided, however, that if the rates, fees and charges for the use of the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the issuance of such Long-Term Indebtedness, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; or

(ii) there is delivered to the Trustee both of the following;

(A) an Officer's Certificate to the effect that the Income Available for Debt Service for the most recent Fiscal Year preceding the date of incurrence of the Long-Term Indebtedness constituting Subordinated Indebtedness to be

incurred for which audited financial statements are available was at least 1.00 times the Long-Term Debt Service Requirement for such Fiscal Year with respect to all Outstanding Long-Term Indebtedness constituting Parity and Subordinated Indebtedness, excluding the Long-Term Indebtedness to be incurred; provided, however, that if the rates, fees and charges for the use of the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; and

(B) an Officer's Certificate showing that the forecasted Income Available for Debt Service, which forecast may take into consideration rates to become effective prior to or during such period, estimates of usage, inflation factors and any other factors deemed by the signer to be relevant, for the first two Fiscal Years next succeeding (1) the date on which capitalized interest, if any, provided from the proceeds of the proposed Long-Term Indebtedness to be incurred or any other source to pay interest on the proposed Long-Term Indebtedness is expended, in the case of the acquisition or construction of any Additional Project, or (2) the date on which the proposed Long-Term Indebtedness is incurred, in any other case, is at least 1.00 times the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness (excluding any Long-Term Indebtedness to be refunded by the proposed Long-Term Indebtedness) and the proposed Long-Term Indebtedness for each of such Fiscal Years; or

(iii) there is delivered to the Trustee an Officer's Certificate to the effect that for the most recent Fiscal Year preceding the incurrence of such proposed Long-Term Indebtedness constituting Subordinated Indebtedness for which audited financial statements are available, the proposed Long-Term Indebtedness to be incurred under the Bond Order as described in this clause (iii), together with any other Long-Term Indebtedness constituting Subordinated Indebtedness incurred under the Bond Order as described in this clause (iii) and then Outstanding, does not exceed ten percent (10%) of Total Operating Revenues for such Fiscal Year.

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

(c) Long-Term Indebtedness constituting Subordinated Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof, an Officer's Certificate is delivered to the Trustee (i) determining that the proceeds of such Long-Term Indebtedness, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient

to pay the principal of and interest and any redemption premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Maximum Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Subordinated Indebtedness to be Outstanding after the issuance of such Long-Term Indebtedness to accomplish the refunding and after the refunding of such Long-Term Indebtedness will not exceed by more than ten percent (10%) the Maximum Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Subordinated Indebtedness Outstanding immediately prior to the issuance of such Long-Term Indebtedness to accomplish such refunding, including the Long-Term Indebtedness to be refunded or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of the Bond Order described in paragraph (a) above.

(d) Long-Term Indebtedness constituting Subordinated Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Parity Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof an Officer's Certificate is delivered to the Trustee determining (i) that the proceeds of such Long-Term Indebtedness, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any redemption premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Maximum Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness to be Outstanding after the issuance of such Long-Term Indebtedness to accomplish the refunding and the refunding of such Long-Term Indebtedness will not be greater by more than ten percent (10%) than the Maximum Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness Outstanding immediately prior to the issuance of such Long-Term Indebtedness to accomplish such refunding, including the Long-Term Indebtedness to be refunded or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of the Bond Order described in paragraph (a) above.

(e) Short-Term Indebtedness constituting Subordinated Indebtedness may be incurred if, immediately after the issuance of such Short-Term Indebtedness, the Outstanding principal amount of all Short-Term Indebtedness constituting Subordinated Indebtedness does not exceed twenty percent (20%) of the Revenue Account balance for the most recent Fiscal Year preceding the date of issuance of such Short-Term Indebtedness for which audited financial statements are available; provided, however, that for a period of not less than twenty (20) consecutive calendar days in each Fiscal Year, no such Short-Term Indebtedness will be Outstanding.

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

Whenever the provisions of the Bond Order described in paragraph (a) or (e) above require a certification for the most recent Fiscal Year preceding the dates of incurrence of the Subordinated Indebtedness in question for which audited financial statements are available, the District may, in its discretion, provide for a special audit and a certification based upon such special audit, in lieu of the audit for such Fiscal Year, provided such special audit covers twelve (12) full consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of incurrence of the Subordinated Indebtedness in question.

Events of Default

Each of the following events is an “Event of Default” under the Bond Order with respect to Bonds and Parity Debt:

(a) payment of the principal of and the redemption premium, if any, on any of the Bonds or any Parity Debt is not made when the same are due and payable, either at maturity or by redemption or otherwise;

(b) payment of the interest on any of the Bonds or any Parity Debt is not made when the same is due and payable;

(c) final judgment for the payment of money in excess of \$500,000 is rendered against the District as a result of the ownership, control or operation of the System, and any such judgment is not discharged within one hundred twenty (120) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment will have been granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof;

(d) the District (i) becomes insolvent or the subject of insolvency proceedings; or (ii) is unable, or admits in writing its inability, to pay its debts as they mature; or (iii) makes a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) files a petition or other pleading seeking reorganization, composition, readjustment, or liquidation of assets, or requesting similar relief; or (v) applies to a court for the appointment of a receiver for it or for the whole or any part of the System other than Special Purpose Facilities; or (vi) except as described under the caption “Remedies” has a receiver or liquidator appointed for it or for the whole or any part of the System other than Special Purpose Facilities (with or without the consent of the District) and such receiver is not discharged within ninety (90) consecutive days after his appointment; or (vii) becomes the subject of an “order for relief” within the meaning of the United States Bankruptcy Code; or (viii) files an answer to a creditor’s petition admitting the material allegations thereof for liquidation, reorganization, readjustment or composition or to effect a plan or other arrangement with creditors or fail to have such petition dismissed within sixty (60) consecutive days after the same is filed against the District;

(e) a court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not terminated within ninety (90) days from the date of assumption of such custody or control;

(f) receipt by a trust officer of the Trustee of written notice from the Holder of any Parity Debt that any other event of default has occurred and is continuing under such Parity Debt or the Parity Debt Resolution relating to such Parity Debt; and

(g) the District defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bond Order, and such default continues for thirty (30) days after receipt by the District of a written notice from the Trustee specifying such default and requesting that it be corrected, provided that if prior to the expiration of such 30-day period the District institutes action reasonably designed to cure such default, no “Event of Default” will be deemed to have occurred upon the expiration of such 30-day period for so long as the District pursues such curative action with reasonable diligence.

Acceleration of Maturities

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may, and upon the written request of the Owners or Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding shall, by a notice in writing to the District, declare the principal of all the Bonds and Parity Debt then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds, any Parity Debt, the Bond Order or any Parity Resolution to the contrary notwithstanding; provided, however, that if at any time after the principal of the Bonds and Parity Debt shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Order, moneys are accumulated sufficient to pay the principal of all matured Bonds and Parity Debt and all arrears of interest, if any, upon all the Bonds and Parity Debt then Outstanding (except the principal of any Bonds and Parity Debt not then due and payable by their terms and the interest accrued on such Bonds and Parity Debt since the last interest payment date) and sufficient to satisfy the sinking fund requirement, if any, for any Term Bonds and Parity Debt then Outstanding, for the then current Fiscal Year, and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the District shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee or the Bond Registrar and every other default known to the Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds, any Parity Debt, the Bond Order or any Parity Resolution (other than a default in the payment of the principal of such Bonds and Parity Debt then due and payable only because of a declaration under the provisions of the Bond Order described under this caption) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt not then due and payable by their terms and then Outstanding shall, by written notice to the District, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Remedies

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may proceed, and upon the written request of the Owners or Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding shall proceed, subject to the requirement under the Bond Order of indemnification of the Trustee as a condition for remedial action, to protect and enforce its rights and the rights of the Owners or Holders of the Bonds and Parity Debt under applicable laws and under the Bond Order by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Bond Order or in aid or execution of any power granted in the Bond Order or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, chosen by the Trustee, shall deem most effectual to protect and enforce such rights. If the Trustee receives a request from the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding that is contrary to the request made of the Trustee as described in the first sentence of this paragraph, the Trustee shall not be required to pursue such remedial action until requested to do so by the Owners or Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding.

In addition to any remedies available to the Trustee under the Bond Order and under State and federal law, upon the occurrence of an Event of Default, the Trustee may, and upon the written request of

the Owners and Holders of not less than a majority in aggregate principal amount of Parity Indebtedness then Outstanding shall:

(a) require the District to endorse all checks and other negotiable instruments representing Gross Receipts to the order of the Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Trustee,

(b) notify any or all account debtors of the District to pay any amounts representing Gross Receipts, when due and owing, directly to the Trustee, as Trustee, at the address set forth in the Bond Order, and

(c) require the District to deliver to the Trustee all money and Investment Obligations held by the District or any Depositary in the Revenue Account.

The endorsement and delivery requirements and the payment of Gross Receipts directly to the Trustee as described above will continue until the Event of Default has been cured to the satisfaction of the Trustee.

The disposition of Gross Receipts held by the Trustee pursuant to the provisions of the Bond Order described under this caption is subject to the provisions of the Bond Order described under the caption "Application of Money in Revenue Account" above governing the disposition of Gross Receipts to the same extent as if the District had deposited such Gross Receipts in the Revenue Account. Notwithstanding anything contained in the Bond Order to the contrary, the disposition of Gross Receipts held by the Trustee pursuant to the provisions of the Bond Order described under this caption for the payment of Current Expenses will be in the Trustee's sole discretion. The provisions of the Bond Order described under this caption are also subject to the provisions of the Bond Order described under the caption "Allocations if Parity Debt Outstanding" below.

Pro Rata Application of Funds

Anything in the Bond Order to the contrary notwithstanding, if at any time the money deposited with the Trustee pursuant to the provisions of the Bond Order described under the caption "Use of Money for Debt Service Accounts and Reserve Accounts; Other Deposits" above or pursuant to any remedial action is not sufficient to pay the interest on or the principal of the Bonds and Parity Debt as the same become due and payable (either by their terms or by acceleration of maturities under the Bond Order as described under the caption "Acceleration of Maturities" above), such money, together with any money then available or thereafter becoming available for such purposes, whether through the exercise of the remedies provided for in the Bond Order or otherwise, shall be applied as follows:

(a) if the principal of all Bonds and Parity Debt shall not have become or shall not have been declared due and payable, all such money shall be applied as follows:

first: to the payment to the persons entitled thereto of all installments of interest on the Bonds and Parity Debt then due and payable in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds and Parity Debt;

second: to the payment to the persons entitled thereto of the unpaid principal of any Bonds and Parity Debt that shall have become due and payable (other than Bonds and Parity Debt deemed to have been paid pursuant to the provisions of the Bond Order), in the order of their due dates,

with interest on the overdue principal at a rate equal to the rate on such Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full the principal of Bonds and Parity Debt due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

third: to the payment of the interest on and the principal of Bonds and Parity Debt, to the purchase and retirement of Bonds and Parity Debt, and to the redemption of Bonds and Parity Debt, all in accordance with the provisions of the Bond Order and any Parity Resolution.

(b) If the principal of all Bonds and Parity Debt shall have become or shall have been declared due and payable, all such money shall be applied to the payment of principal and interest then due upon such Bonds and Parity Debt, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond or Parity Debt over any other Bond or Parity Debt, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all Bonds and Parity Debt have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Bond Order described under the caption "Acceleration of Maturities" above, then, subject to the provisions of the Bond Order described in paragraph (b) above in the event that the principal of all Bonds and Parity Debt shall later become due and payable or be declared due and payable, the money then remaining on deposit with the Trustee and thereafter accruing shall be applied in accordance with the provisions of the Bond Order described in paragraph (a) above.

The provisions of the Bond Order described under this caption are subject to certain other provisions of the Bond Order.

Control of Proceedings; Restrictions Upon Action; Notice of Event of Default

Anything in the Bond Order to the contrary notwithstanding, the Owners or Holders of a majority in aggregate principal amount of Bonds and Parity Debt at any time Outstanding shall have the right, subject to prior indemnification of the Trustee, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Bond Order, provided that such direction shall be in accordance with law and the provisions of the Bond Order.

Except as described under the caption "Right to Enforce Payment of Bonds and Parity Debt Unimpaired" below, no Owner or Holder shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or Parity Debt or for the execution of any trust under the Bond Order or for any other remedy under the Bond Order unless such Owner or Holder previously (a) has given to the Trustee written notice of the Event of Default on account of which suit, action or proceeding is to be instituted, (b) has requested the Trustee to take action after the right to exercise such powers or right of action, as the case may be, has accrued, (c) has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Bond Order to institute such action, suit or proceedings in its or their name, and (d) has offered to the Trustee reasonable security and satisfactory indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Notwithstanding the provisions of the Bond Order described above under this caption and without complying therewith, the Owners or Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds and Parity Debt then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Owners or Holders. It is understood

and intended that, except as otherwise above described, no one or more Owners or Holders shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Bond Order or to enforce any right thereunder except in the manner provided, that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Bond Order and for the benefit of all Owners and Holders and that any individual rights of action or other right given to one or more of such Owners or Holders by law are restricted by the Bond Order to the rights and remedies provided in the Bond Order.

The Trustee shall mail to (a) the Local Government Commission, (b) all Owners at their addresses as they appear on the registration books and (c) all Holders who have filed their names with the Trustee for such purpose, written notice of the occurrence of any Event of Default within thirty (30) days after the Trustee has notice, pursuant to certain provisions of the Bond Order, that any such Event of Default shall have occurred; provided, however that, except upon the happening of an Event of Default described in subparagraphs (a) and (b) under the caption "Events of Default" above, the Trustee may withhold such notice to the Owners and Holders if in its opinion such withholding is in the interest of the Owners and Holders. The Trustee will not be subject to any liability to the Local Government Commission or any Owner or Holder by reason of its failure to mail any such notice.

Right to Enforce Payment of Bonds and Parity Debt Unimpaired

Nothing in the Bond Order will affect or impair the right of any Owner or Holder to enforce the payment of the principal of and interest on his Bonds or Parity Debt or the obligation of the District to pay the principal of and interest on each Bond and Parity Debt to the Owner or Holder thereof at the time and place specified in said Bond or Parity Debt.

Allocations if Parity Debt Outstanding

Notwithstanding any provision of the Bond Order or any Series Resolution to the contrary, if at any time there are both Bonds Outstanding under the terms of the Bond Order and Parity Debt Outstanding under the terms of one or more Parity Debt Resolutions and (a) the District or the Trustee receives Net Insurance Proceeds or Net Eminent Domain Proceeds and the District elects to redeem Bonds with the same pursuant to the Bond Order, (b) the Trustee is receiving Gross Receipts on a daily basis pursuant to the provisions of the Bond Order described under the caption "Remedies" above or (c) an Event of Default has occurred under the Bond Order and the Trustee is required to apply funds in its possession in accordance with the provisions of the Bond Order described under the caption "Pro Rata Application of Funds" above, then all such Net Insurance Proceeds or Net Eminent Domain Proceeds, Gross Receipts or other funds to be distributed under the terms of the Bond Order to Owners will be allocated among, and distributed by the Trustee to, the Owners of Bonds in the proportion that the principal amount of all Bonds then Outstanding bears to the principal amount of all Parity Indebtedness then Outstanding and to each Holder of Parity Debt (or to the trustee or any other party on behalf of the Holder of such Parity Debt as will be specified to the Trustee) in the proportion that the principal amount of such Parity Debt then Outstanding bears to the principal amount of all Parity Indebtedness then Outstanding, unless such an allocation and distribution has been made prior to the receipt by the Trustee of such Net Insurance Proceeds, Net Eminent Domain Proceeds, Gross Receipts or other funds; provided, however, that moneys maintained in funds, accounts, and subaccounts established by a particular Series Resolution which are pledged solely for the payment of a particular Series of Bonds will not be subject to such allocation and will instead be applied as provided in such applicable Series Resolution.

Bond Insurer or Credit Provider as Owner

Notwithstanding any provision of the Bond Order to the contrary, a Series Resolution may provide that a Bond Insurer or a Credit Provider providing credit substitution for the payment of principal and interest with respect to all or any portion of the Bonds of a Series shall be deemed to be the Owner of such Bonds, to the exclusion and in lieu of the persons in whose names such Bonds are registered, for all purposes of the Bond Order.

Concerning the Trustee

Prior to the occurrence of any Event of Default and after the curing of all such Events of Default that may have occurred, the Trustee will perform such duties and only such duties of the Trustee as are specifically set forth in the Bond Order. Upon the occurrence and during the continuation of any Event of Default, the Trustee will use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

No provision of the Bond Order or any Parity Resolution will be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(a) prior to any such Event of Default under the Bond Order, and after the curing of any Event of Default that may have occurred:

(i) the duties and obligations of the Trustee will be determined solely by the express provisions of the Bond Order, and the Trustee will not be liable except for the performance of such duties and obligations of the Trustee as are specifically set forth in the Bond Order, and no implied covenants or obligations, will be read into the Bond Order against the Trustee, and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the accuracy of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to it conforming to the requirements of the Bond Order; and

(b) at all times, regardless of whether or not any such Event of Default will exist:

(i) the Trustee will not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it is proved that the Trustee was negligent in ascertaining the pertinent facts, and

(ii) the Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners and Holders of not less than twenty-five percent (25%) or a majority, as the Bond Order requires, in aggregate principal amount of Bonds and Parity Debt then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any power conferred upon the Trustee under the Bond Order.

The Trustee will be under no obligation to institute any suit or to take any remedial proceeding (including, but not limited to, the appointment of a receiver or the acceleration of the maturity date of all Bonds and Parity Debt under the Bond Order) or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of any of the trusts created by the Bond Order or in the enforcement of any rights and powers under the Bond Order, until it is indemnified to

its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability.

Except upon the happening of any Event of Default specified in clauses (a), (b) and (f) under the caption "Events of Default" above or the report of an Event of Default as described under the final paragraph under the caption "Records, Accounts and Audits" above, the Trustee will not be obliged to take notice or be deemed to have notice of any Event of Default under the Bond Order, unless specifically notified in writing of such Event of Default by the District or the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds and Parity Debt then Outstanding.

Subject to the provisions of the Bond Order, the Trustee may resign and thereby become discharged from the trusts created by the Bond Order, by notice in writing given to the District, and mailed, postage prepaid, at the Trustee's expense, to each Owner and Holder, not less than sixty (60) days before such resignation is to take effect, but such resignation will take effect immediately upon the appointment of a new Trustee under the Bond Order if such new Trustee shall be appointed before the time limited by such notice and shall then accept the trusts under the Bond Order.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, (i) executed by the Owners and Holders of not less than a majority in aggregate principal amount of Bonds and Parity Debt then Outstanding and filed with the District, or (ii) so long as no Event of Default shall have occurred and be continuing and subject to the prior written consent of the Local Government Commission, an order adopted or an instrument executed by the District, not less than sixty (60) days before such removal is to take effect as stated in said instrument or instruments.

Supplemental Orders

The Board may, from time to time and at any time, adopt orders supplemental to the Bond Order (which supplemental orders will thereafter form a part of the Bond Order) as shall be substantially consistent with the terms and provisions of the Bond Order and, in the opinion of the Trustee, who may rely upon a written opinion of counsel, shall not materially and adversely affect the interest of the Owners and Holders:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision in the Bond Order that may be inconsistent with any other provision therein, to make any other provisions with respect to matters or questions arising under the Bond Order, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Bond Order, or

(b) to grant or to confer upon the Trustee, for the benefit of the Owners or Holders, any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners, the Holders or the Trustee, or

(c) to add to the provisions of the Bond Order other conditions, limitations and restrictions thereafter to be observed, or

(d) to add to the covenants and agreements of the District in the Bond Order other covenants and agreements thereafter to be observed by the District or to surrender any right or power reserved to or conferred upon the District in the Bond Order, or

(e) to permit the qualification of the Bond Order under any federal statute now or thereafter in effect or under any state Blue Sky law, and, in connection therewith, if the District so determines, to add to the Bond Order or any supplemental order such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law, or

- (f) to provide for the issuance of Bonds in bearer form, or
- (g) to provide for the issuance of Bonds under a hook-entry system.

Subject to the terms and provisions of the Bond Order, and not otherwise, the Owners and Holders of not less than a majority in aggregate principal amount of the Bonds and Parity Debt then Outstanding will have the right, from time to time, anything contained in the Bond Order to the contrary notwithstanding, to consent to and approve the adoption of such supplemental orders as are deemed necessary or desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Order or in any supplemental order; provided, however, that nothing contained in the Bond Order will permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond or Parity Debt without the consent of the Owner of such Bond or the Holder of such Parity Debt, (b) a reduction in the principal amount of any Bond or Parity Debt or the redemption premium or the rate of interest thereon without the consent of the Owner of such Bond or the Holder of such Parity Debt, (c) the creation of a lien upon or a pledge of Net Receipts other than the lien and pledge created by the Bond Order without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding, (d) a preference or priority of any Bond or Parity Debt over any other Bond or Parity Debt without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding or (e) a reduction in the aggregate principal amount of the Bonds and Parity Debt required for consent to such supplemental order without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding, or (f) the modification of the rights of the Local Government Commission under the Bond Order or the provisions relating to appointment of a successor Trustee without the consent of the Local Government Commission. Nothing contained in the Bond Order, however, may be construed as making necessary the approval by Owners or Holders of the adoption of any supplemental order as authorized in the Bond Order and described in the first paragraph under this caption.

If at any time the Board determines that it is necessary or desirable to adopt any supplemental order for any of the purposes described under this caption, the Trustee will cause notice of the proposed adoption of the supplemental order to be mailed, postage prepaid, to all Owners at their addresses as they appear on the registration books and to all Holders in accordance with the related Parity Debt Resolution. Such notice will briefly set forth the nature of the proposed supplemental order and will state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all Owners and Holders. The Trustee will not, however, be subject to any liability to any Owner or Holder by reason of its failure to cause the notice described in this paragraph to be mailed, and any such failure to cause the notice described in this paragraph to be mailed and any such failure will not affect the validity of such supplemental order when consented to and approved as described in this paragraph.

Whenever, at any time within three (3) years after the date of the mailing of such notice, the District delivers to the Trustee an instrument or instruments in writing purporting to be executed by the Owners or Holders of not less than a majority in aggregate principal amount of Bonds and Parity Debt then Outstanding, which instrument or instruments shall refer to the supplemental order described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, such supplemental order may be adopted by the Board, or, if theretofore adopted by the Board, take effect, in substantially such form, without liability or responsibility to any Owner or Holder whether or not such Owner or Holder has consented thereto.

Defeasance

When:

(a) the Bonds and any Parity Debt shall have become due and payable in accordance with their terms or otherwise as provided in the Bond Order, and the whole amount of the principal and the interest and premium, if any, so due and payable upon all Bonds and Parity Debt shall be paid, or

(b) if the Bonds and any Parity Debt shall not have become due and payable in accordance with their terms, the Trustee or the Bond Registrar shall hold, sufficient (i) money or (ii) Defeasance Obligations or a combination of (i) and (ii) of this subparagraph (b), the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest and redemption premium, if any, on all Bonds and Parity Debt then Outstanding to the maturity date or dates of such Bonds and Parity Debt or to the date or dates specified for the redemption thereof, as verified by a nationally recognized independent certified public accountant or other Appropriate Consultant, and, if Bonds or any Parity Debt are to be called for redemption, irrevocable instructions to call the Bonds or Parity Debt for redemption shall have been given by the District to the Trustee, and

(c) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Bond Order by the District;

then and in that case the right, title and interest of the Trustee in the funds, accounts and subaccounts mentioned in the Bond Order shall thereupon cease, determine and become void and, upon being furnished with an opinion, in form and substance satisfactory to the Trustee, of counsel approved by the Trustee, to the effect that all conditions precedent to the release of the Bond Order have been satisfied, the Bond Order shall be discharged and the Trustee shall execute such documents to evidence such discharge as may be required by such counsel and shall turn over to the District any surplus in, and all balances remaining in, all funds, accounts and subaccounts other than money held for the redemption or payment of Bonds and Parity Debt. Otherwise, the Bond Order will be, continue and remain in full force and effect; provided, however, that in the event Defeasance Obligations are deposited with and held by the Trustee or the Bond Registrar as provided in the Bond Order, (i) in addition to certain requirements set forth in the Bond Order, the Trustee, within thirty (30) days after such Defeasance Obligations have been deposited with it, will cause a notice signed by the Trustee to be mailed, postage prepaid, to all Owners of Bonds and to all Holders of Parity Debt, setting forth (a) the date or dates, if any, designated for the redemption of the Bonds and Parity Debt, (b) a description of the Defeasance Obligations so held by it, and (c) that the Bond Order has been discharged in accordance with the provisions of the Bond Order described under this caption, and (ii) (a) the Trustee shall nevertheless retain such rights, powers and privileges under the Bond Order as may be necessary and convenient in respect of the Bonds and any Parity Debt for the payment of the principal, interest and any premium for which such Defeasance Obligations have been deposited and (b) each Bond Registrar shall retain such rights, powers and privileges under the Bond Order as may be necessary and convenient for the registration, transfer and exchange of Bonds; provided, however, that failure to mail such notice to any Owner or to the Owners, or to any such Holder or to such Holders, or any defect in such notice so mailed, shall not affect the validity of the proceedings for the discharge of the Bond Order.

All money and Defeasance Obligations held by the Trustee (or the Bond Registrar) pursuant to the provisions of the Bond Order described under this caption will be held in trust and applied to the payment, when due, of the obligations payable therewith.

SUMMARY OF CERTAIN PROVISIONS OF THE 2026 SERIES RESOLUTION

The following statements are brief summaries of certain provisions of the 2026 Series Resolution. Such statements do not purport to be complete and reference is made to the 2026 Series Resolution for a complete recital of its terms.

Establishment of Series 2026 Project Account and Subaccounts in Other Accounts

The 2026 Series Resolution establishes with the Trustee within the Construction Fund, an account designated “Metropolitan Sewerage District of Buncombe County Sewerage System Revenue Bonds, Series 2026 Project Account.” Money will be disbursed from the Series 2026 Project Account, upon requisition of the District, for the purpose of paying the costs of the Series 2026 Project and costs of issuance of the Series 2026 Bonds and, pending such disbursement, will be held solely for the security of the Owners of the Series 2026 Bonds.

The following subaccounts have been established:

- (a) Series 2026 Subaccount of the Interest Account of the Bond Fund;
- (b) Series 2026 Subaccount of the Principal Account of the Bond Fund;
- (c) Series 2026 Subaccount of the Sinking Fund Account of the Bond Fund; and
- (d) Series 2026 Subaccount of the Redemption Account of the Bond Fund.

The subaccounts mentioned above will be established with and held by the Trustee pursuant to the Bond Order and the 2026 Series Resolution.

Application of Net Receipts

On or before the dates set forth below, the District will, subject to the provisions of the Bond Order, deposit or cause to be deposited, from Net Receipts held in the Revenue Account, with the Trustee the following amounts, and the Trustee will apply such amounts to the various subaccounts specified in the 2026 Series Resolution in the following order:

- (a) into the Series 2026 Subaccount of the Interest Account, two Business Days prior to the next ensuing Interest Payment Date, an amount equal to the interest payable on the Series 2026 Bonds on such Interest Payment Date;
- (b) into the Series 2026 Subaccount of the Principal Account, two Business Days prior to July 1 of each year, an amount equal to the principal of all Serial Bonds due on such July 1;
- (c) into the Series 2026 Subaccount of the Sinking Fund Account, two Business Days prior to July 1 of each year, the amount required to retire the Term Bonds to be called by mandatory redemption or to be paid at maturity on such July 1, in accordance with the Sinking Fund Requirements therefor.

In addition, the Trustee will deposit to the Series 2026 Subaccount of the Redemption Account all amounts as shall be delivered to the Trustee by the District from time to time with instructions that such amounts be so deposited.

Investment of Money

Money held for the credit of the Series 2026 Project Account and the subaccounts in the Bond Fund established by the 2026 Series Resolution will be continuously invested and reinvested by the Trustee at the written direction of the District in Investment Obligations to the extent practicable. Absent written instructions from the District, the Trustee shall not invest any money held for the credit of the Series 2026 Project Account and the subaccounts in the Bond Fund established by the 2026 Series Resolution. Any such

Investment Obligations must mature not later than the respective dates when the money held for the credit of such accounts and subaccounts will be required for the purposes intended. No Investment Obligations in any such account or subaccount may mature beyond the latest maturity date of any Series 2026 Bonds Outstanding at the time such Investment Obligations are deposited.

Investment Obligations acquired with money in or credited to any account or any subaccount established under the 2026 Series Resolution will be deemed at all times to be part of such account or such subaccount. Any loss realized upon the disposition or maturity of such Investment Obligations will be charged against such account or subaccount. The interest accruing on any such Investment Obligations and any profit realized upon the disposition or maturity of such Investment Obligations will be credited to such account or such subaccounts as follows:

Accounts or Subaccounts

Credit to

Series 2026 Project Account

Series 2026 Project Account

All Subaccounts

Respective Subaccounts

Any such interest accruing and any such profit realized will be transferred upon the receipt thereof by the District or the Trustee, as the case may be, pursuant to the provisions of the Bond Order and the 2026 Series Resolution.

An Authorized Officer will give to the Trustee written directions respecting the investment of any money required to be invested under the 2026 Series Resolution, subject, however, to the provisions of the 2026 Series Resolution described under this caption, and the Trustee will then invest such money as so directed. The Trustee shall conclusively rely upon such written instructions as to both the suitability and legality of all directed investments. The Trustee may request in writing additional direction or authorization from the Authorized Officer with respect to the proposed investment of money. Upon receipt of such directions, the Trustee will invest, subject to the provisions of the 2026 Series Resolution described under this caption, such money in accordance with such written directions. The Trustee will not be liable to the District for any loss suffered by the District as a result of or in connection with any investment in Investment Obligations made by the Trustee in good faith as instructed by or approved by an Authorized Officer.

The Trustee will sell or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to do so in order to provide money to make any payment from any such account or subaccount. The Trustee will not be liable or responsible for any loss resulting from any such investment.

Whenever a transfer of money between two or more of the accounts or subaccounts is permitted or required, such transfer may be made as a whole or value determined at the time of such transfer in accordance with the Bond Order, provided that the Investment Obligations transferred are those in which money of the receiving account or subaccount could be invested at the date of such transfer.

**PROPOSED FORM OF
OPINION OF BOND COUNSEL**

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October __, 2026

District Board of the
Metropolitan Sewerage District of Buncombe County, North Carolina

[\$[Par Amount]
Metropolitan Sewerage District of Buncombe County, North Carolina,
Sewerage System Revenue Bonds, Series 2026

Ladies and Gentlemen:

We have served as bond counsel in connection with the issuance by the Metropolitan Sewerage District of Buncombe County, North Carolina (the “District”) of its \$[Par Amount] Sewerage System Revenue Bonds, Series 2026 (the “Bonds”), dated the date hereof. The Bonds are being issued pursuant to an Amended and Restated Bond Order adopted on April 21, 1999 (the “Bond Order”), and a Series Resolution adopted on September 16, 2026 (the “Series Resolution”). Unless otherwise defined, each capitalized term used in this opinion letter has the meaning given it in the Bond Order.

In connection with this opinion, we have examined (i) the Constitution of the State of North Carolina (the “State”), (ii) applicable laws of (A) the State, including without limitation Article 5 of Chapter 162A of the North Carolina General Statutes and Article 5 of Chapter 159 of the North Carolina General Statutes (collectively, the “Act”), and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended (the “Code”), and (iii) copies of proceedings and other documents relating to the issuance and sale of the Bonds by the District, including the Bond Order and the Series Resolution, as we have deemed necessary to render this opinion.

The Bonds will be dated the date of their delivery. We refer you to the Bonds, the Bond Order and the Series Resolution for a description of the purposes for which the Bonds are being issued, their terms and the security for the Bonds.

As to questions of fact material to our opinions, we have relied upon and are assuming the accuracy of certifications and representations of the District, and other public officials and certain other third parties and others contained in certificates and other documents delivered at closing, including, without limitation, certifications as to the use of proceeds of the Bonds, without undertaking to verify them by independent investigation.

We have assumed that all signatures on documents, certificates and instruments examined by us are genuine, all documents, certificates and instruments submitted to us as originals are authentic and all documents, certificates and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all parties other than the District, and we have further assumed the due organization, existence and powers of such other parties other than the District.

Based on the foregoing, we are of the opinion that, under current law:

1. The District has the requisite authority and power to issue and sell the Bonds, and to apply the proceeds from the issuance and sale of the Bonds as set forth in the Series Resolution. Neither the faith and credit of the State nor the faith and credit of the District or any other political subdivision of the State are pledged to the payment of the principal of or premium, if any, or interest on the Bonds.

2. The Bonds have been duly authorized, executed, and delivered in accordance with the Act, the Bond Order and the Series Resolution, and constitute a valid and binding limited obligation of the District. The Bonds are secured by a pledge, charge, and lien upon the Net Receipts, as defined in the Bond Order. The Bonds are being issued on a parity with the bonds currently outstanding under the Bond Order (the "Outstanding Bonds"), and any additional bonds to be issued in the future under the Bond Order ("Additional Bonds").

3. Interest on the Bonds (i) is excludable from gross income for purposes of federal income taxation under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax on individuals. However, such interest is included in the "adjusted financial statement income" (as defined in Section 56A of the Code) of certain corporations in determining the applicability and amount of the federal corporate alternative minimum tax imposed under Section 55(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bond.

In delivering this opinion letter, we are assuming continuing compliance with the Covenants (as defined below) by the District, so that interest on the Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Bonds and the use of the property financed by the Bonds, limitations on the source of the payment of and the security for the Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Bonds to the United States Treasury. The tax certificate and agreement for the Bonds (the "Tax Certificate") delivered at closing by the District contain covenants (the "Covenants") with which the District has agreed to comply. Failure by the District to comply with the Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issuance of the Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Bonds from gross income for federal income tax purposes under Section 103 of the Code of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

4. Interest on the Bonds is exempt from State of North Carolina income taxes. We express no opinion regarding (i) other tax consequences arising with respect to the Bonds under the laws of the State

or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than the State.

The obligations of the District under the Bonds, the Bond Order and the Series Resolution are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations are also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of the obligations.

Additional Bonds may be issued from time to time under the conditions, limitations, and restrictions set forth in the Bond Order, and any such Additional Bonds will be secured equally and ratably as to the pledge of Net Receipts with the Outstanding Bonds and the Bonds, as provided in the Bond Order.

Our services as bond counsel have been limited to rendering the foregoing opinions based on our review of such legal proceedings and other documents as we deem necessary to approve the validity of the Bonds and the income tax status of the interest on it. We express no opinion as to the accuracy, completeness or sufficiency of any information that may have been relied upon by any owner of the Bonds in making the decision to purchase the Bonds.

The opinions set forth herein are being furnished to the addressee hereof, and this opinion letter is not to be furnished to any other person or entity or used or relied upon for any other purpose without our prior written consent. A copy of this opinion letter may be included in the transcript of proceedings prepared with respect to the Bonds.

The opinions set forth herein are made as of the date hereof, and we assume no obligation to supplement this opinion letter if any applicable laws change after the date hereof or if we become aware after the date hereof of any facts that might change the opinions expressed herein.

Very truly yours,

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**THE NORTH CAROLINA
LOCAL GOVERNMENT COMMISSION**

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THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

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

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

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit’s debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act and its ability to service the proposed debt. All general obligation issues are customarily sold on the basis of formal sealed bids submitted at the Commission’s offices in Raleigh and are subsequently delivered to the successful bidder by the Commission. The Commission maintains records for all units of local government of principal and interest payments coming due on bonded indebtedness in the current and future years and monitors the payment by the units of local government of debt service through a system of monthly reports.

As a part of its role in assisting and monitoring the fiscal programs of units of local government, the Commission attempts to ensure that the units of local government follow generally accepted accounting principles, systems and practices. The Commission’s staff also counsels the units of local government in treasury and cash management, budget preparation and investment policies and procedures. Educational programs, in the form of seminars or classes, are also provided by the Commission in order to accomplish these tasks. The monitoring of the financial systems of units of local government is accomplished through the examination and analysis of the annual audited financial statements and other required reports. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A written contract must be submitted to the Secretary of the Commission for his approval prior to the commencement of the audit.

The Commission has the statutory authority to impound the books and records of any unit of local government and assume full control of all its financial affairs (a) when the unit defaults on any debt service payment or, in the opinion of the Commission, will default on a future debt service payment if the financial policies and practices of the unit are not improved or (b) when the unit persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply with the provisions of The Local Government Budget and Fiscal Control Act. When the Commission takes action under this authority, the Commission is vested with all of the powers of the governing board of the unit of local government as to the levy of taxes, expenditure of money, adoption of budgets and all other financial powers conferred upon such governing board by law.

In addition, if a unit of local government fails to pay any installment of principal or interest on its outstanding debt on or before its due date and remains in default for 90 days, the Commission may take such action as it deems advisable to investigate the unit’s fiscal affairs, consult with its governing board

and negotiate with its creditors in order to assist the unit in working out a plan for refinancing, adjusting or compromising such debt. When a plan is developed that the Commission finds to be fair and equitable and reasonably within the ability of the unit of local government to meet, the Commission will enter an order finding that the plan is fair, equitable and within the ability of the unit to meet and will advise the unit to take the necessary steps to implement such plan. If the governing board of the unit declines or refuses to do so within 90 days after receiving the Commission's advice, the Commission may enter an order directing the unit to implement such plan and may apply for a court order to enforce such order. When a refinancing plan has been put into effect, the Commission has the authority (a) to require any periodic financial reports on the unit's financial affairs that the Secretary deems necessary and (b) to approve or reject the unit's annual budget ordinance. The governing board of the unit of local government must also obtain the approval of the Secretary of the Commission before adopting any annual budget ordinance. The power and authority granted to the Commission as described in this paragraph will continue with respect to a defaulting unit of local government until the Commission is satisfied that the unit has performed or will perform the duties required of it in the refinancing plan and until agreements made with the unit's creditors have been performed in accordance with such plan.

**THE DEPOSITORY TRUST COMPANY AND
THE BOOK-ENTRY SYSTEM**

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THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY SYSTEM

Beneficial ownership interests in the Series 2026 Bonds will be available only in a book-entry system. The actual purchasers of the Series 2026 Bonds (the “Beneficial Owners”) will not receive physical bonds representing their interests in the Series 2026 Bonds purchased. So long as The Depository Trust Company (“DTC”), or its nominee is the registered owner of the Series 2026 Bonds, references in this Official Statement to the Owners of the Series 2026 Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners.

THE FOLLOWING DESCRIPTION OF DTC, ITS PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2026 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE SERIES 2026 BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2026 BONDS AND/OR OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

DTC will act as securities depository for the Series 2026 Bonds. The Series 2026 Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond in the aggregate principal amount of each maturity of the Series 2026 Bonds will be issued and deposited with DTC or its designee. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2026 BONDS, AS DTC’S PARTNERSHIP NOMINEE, REFERENCE HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE SERIES 2026 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2026 BONDS.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of the Series 2026 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 (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2026 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2026 Bonds on DTC’s records. The ownership interest of each actual purchaser of the Series 2026 Bonds is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Series 2026 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical bonds representing their ownership interests in Series 2026 Bonds, except in the event that use of the book-entry system for the Series 2026 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2026 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 Series 2026 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the identities of the actual Beneficial Owners of the Series 2026 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2026 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2026 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2026 Bonds, such as redemptions, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the Series 2026 Bonds may wish to ascertain that the nominee holding the Series 2026 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 Series 2026 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2026 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts the Series 2026 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Because DTC is treated as the owner of the Series 2026 Bonds for substantially all purposes under the Bond Order and the 2026 Series Resolution, Beneficial Owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of Beneficial Owners is unknown to the District or to DTC, it may be difficult to transmit information of potential interest to Beneficial Owners in an effective and timely manner. **Beneficial Owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the Series 2026 Bonds that may be transmitted by or through DTC.**

Principal and interest payments on the Series 2026 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on each payable date in accordance with their respective holdings shown on DTC's records.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participants and not of DTC (nor its nominee) or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the District’s responsibility, disbursement of such payments to Direct Participants is DTC’s responsibility, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. **The District cannot and does not give assurance that Direct and Indirect Participants will promptly transfer payments to Beneficial Owners.**

DTC may discontinue providing its services as securities depository with respect to the Series 2026 Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, physical bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical bonds will be printed and delivered to DTC.

THE DISTRICT HAS NO RESPONSIBILITY OR OBLIGATION TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE SERIES 2026 BONDS, THE SENDING OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE SERIES 2026 BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE BOND ORDER OR THE 2026 SERIES RESOLUTION; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL REDEMPTION OF THE SERIES 2026 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE SERIES 2026 BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this Appendix concerning DTC and DTC’s book-entry system has been obtained from sources the District believes to be reliable, but the District takes no responsibility for accuracy thereof.

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