



The Arbitrage Group, Inc.

\$2,119,000

**Town of Knightdale, North Carolina
General Obligation Refunding Bond,
Series 2011**



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November 15, 2011

Town of Knightdale, North Carolina
Knightdale, North Carolina

Robinson, Bradshaw & Hinson P.A.
White Plains, New York

Davenport & Company LLC
Richmond, Virginia

\$2,119,000
Town of Knightdale, North Carolina
General Obligation Refunding Bond,
Series 2011

The Town of Knightdale, North Carolina (the "Town") proposes to issue the above referenced bond (the "Bonds") which is dated November 15, 2011 and will be issued on November 15, 2011.

A portion of the proceeds of the Bonds will be used to purchase United States Treasury Securities -- State and Local Government Series (the "Restricted Acquired Obligations") which will be placed in an irrevocable trust together with an initial cash deposit to be used solely to refund that portion of the Town's General Obligation Public Improvement Bonds, Series 2002 (the "Refunded Bonds") described below:

<u>Series</u>	<u>Original Amount Issued</u>	<u>Dated Date</u>	<u>Amount to be Refunded</u>	<u>Maturities to be Refunded</u>	<u>Maturities to be Optionally Redeemed</u>	<u>Optional Redemption Date and Price</u>
2002	\$3,800,000	12-01-2002	\$2,000,000	06-01-2013 - 06-01-2022, Inclusive	06-01-2013 - 06-01-2022, Inclusive	06-01-2012 @ 101%

Town of Knightdale, North Carolina

November 15, 2011

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At your request, we have independently verified the arithmetical accuracy of the computations provided to us by Davenport & Company LLC which indicate: (1) the sufficiency of the receipts from the Restricted Acquired Obligations together with an initial cash deposit to pay to and at early redemption the principal, interest and early redemption premium on the Refunded Bonds; and, (2) the "yields" to be considered by bond counsel in its determination that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended. The term "yield," as used herein, means that discount rate which, when used in computing the present value of all payments of principal, interest and early redemption premium on an obligation compounded semiannually using a 30/360-day year basis, produces an amount equal to: in the case of the Restricted Acquired Obligations, the purchase price of such securities; and, in the case of the Bonds, the Issue Price to the Public.

The original computations, along with certain assumptions and information, were furnished to us by Davenport & Company LLC on behalf of the Town. We have relied solely on the assumptions and information provided to us and have not made any study or evaluation of them, except as noted below. We express no opinion on the reasonableness of the assumptions, or the likelihood that the debt service requirements of the Refunded Bonds will be paid as described in the accompanying Exhibits.

In the course of our engagement, we were furnished by Davenport & Company LLC with excerpts from the Official Statement for the Refunded Bonds, the form of the Bond for the Bonds and copies of the initial and final subscription forms for the purchase of the Restricted Acquired Obligations. We understand that the initial subscription form was filed on November 4, 2011. We compared the information contained in the schedules provided by Davenport & Company LLC with certain information set forth in such documents with respect to prices, principal payment dates and amounts, interest payment dates and rates, yields, and redemption dates and prices. We found that the information contained in such schedules provided to us by Davenport & Company LLC was in agreement with the above-mentioned information set forth in such documents. In addition, we have verified that, based upon the table of interest rates payable on United States Treasury Securities -- State and Local Government Series for use on November 4, 2011, the interest rates payable on the Restricted Acquired Obligations are at or below the maximum allowable interest rate for each maturity date.

In our opinion, based on the assumptions and information provided by Davenport & Company LLC on behalf of the Town, the computations in the schedules provided to us are arithmetically accurate. The computations in the accompanying Exhibits prepared by us and the comparable schedules provided to us indicate that:

- (1) the receipts from the Restricted Acquired Obligations together with an initial cash deposit of \$0.01 will be sufficient to pay to and at early redemption the principal, interest and early redemption premium on the Refunded Bonds; and,
- (2) the yield of the Bonds is 2.269886% and the yield of the Restricted Acquired Obligations is 0.029912%.



The Arbitrage Group, Inc.

Town of Knightdale, North Carolina

November 15, 2011

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The terms of our engagement are such that we have no obligation to update this report or to verify any revised computation because of events and transactions occurring subsequent to the date of this report. This report is issued solely for your information and assistance in connection with the issuance of the Bonds. This report is not to be quoted or referred to without our prior written consent.

Very truly yours,

The Arbitrage Group, Inc.

Exhibits

- A. Sources and Uses of Funds
- B. Escrow Cash Flow
- C-1. Debt Service Requirements of the Refunded Bonds to Maturity
- C-2. Debt Service Requirements of the Refunded Bonds to Early Redemption
- D. Receipts from Restricted Acquired Obligations and Proof of Yield
- E. Debt Service Requirements and Proof of Yield on the Bonds

Sources and Uses of Funds

Town of Knightdale, North Carolina

SOURCES

Principal Amount of the Bonds	\$2,119,000.00
Accrued Interest	36,626.67
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	\$2,155,626.67
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USES

Purchase Price of Restricted Acquired Obligations	\$2,100,064.00
Initial Cash Deposit	0.01
Costs of Issuance	55,000.00
Contingency	562.66
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	\$2,155,626.67
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Escrow Cash Flow

Town of Knightdale, North Carolina

<u>Date</u>	<u>Beginning Cash Balance</u>	<u>Receipts from Restricted Acquired Obligations</u>	<u>Debt Service Requirements of the Refunded Bonds to Early Redemption</u>	<u>Ending Cash Balance</u>
11/15/11	\$0.01			\$0.01
12/01/11	\$0.01	\$40,200.00	\$40,200.00	\$0.01
06/01/12	\$0.01	2,060,199.99	2,060,200.00	\$0.00
		<u>\$2,100,399.99</u>	<u>\$2,100,400.00</u>	
		<u><u>\$2,100,399.99</u></u>	<u><u>\$2,100,400.00</u></u>	

Debt Service Requirements of the Refunded Bonds to Maturity

Town of Knightdale, North Carolina

Date	Principal	Coupon Rate	Early Redemption Premium	Interest	Debt Service Requirements of the Refunded Bonds to Maturity
12/01/11				\$40,200.00	\$40,200.00
06/01/12				40,200.00	40,200.00
12/01/12				40,200.00	40,200.00
06/01/13	\$200,000.00	4.000%	1.000%	40,200.00	240,200.00
12/01/13				36,200.00	36,200.00
06/01/14	200,000.00	4.000%	1.000%	36,200.00	236,200.00
12/01/14				32,200.00	32,200.00
06/01/15	200,000.00	4.000%	1.000%	32,200.00	232,200.00
12/01/15				28,200.00	28,200.00
06/01/16	200,000.00	4.000%	1.000%	28,200.00	228,200.00
12/01/16				24,200.00	24,200.00
06/01/17	200,000.00	4.000%	1.000%	24,200.00	224,200.00
12/01/17				20,200.00	20,200.00
06/01/18	200,000.00	4.000%	1.000%	20,200.00	220,200.00
12/01/18				16,200.00	16,200.00
06/01/19	200,000.00	4.000%	1.000%	16,200.00	216,200.00
12/01/19				12,200.00	12,200.00
06/01/20	200,000.00	4.000%	1.000%	12,200.00	212,200.00
12/01/20				8,200.00	8,200.00
06/01/21	200,000.00	4.100%	1.000%	8,200.00	208,200.00
12/01/21				4,100.00	4,100.00
06/01/22	200,000.00	4.100%	1.000%	4,100.00	204,100.00
	<u>\$2,000,000.00</u>			<u>\$524,200.00</u>	<u>\$2,524,200.00</u>

Receipts from Restricted Acquired Obligations and Proof of Yield

Town of Knightdale, North Carolina

Date	Principal	Coupon Rate	Interest	Receipts from Restricted Acquired Obligations	Present Value of Future Receipts at 11/15/11 Using a Rate of 0.029912%
12/01/11	\$40,200.00	0.000%		\$40,200.00	\$40,199.47
06/01/12	2,059,864.00	0.030%	\$335.99	2,060,199.99	2,059,864.53
	<u>\$2,100,064.00</u>		<u>\$335.99</u>	<u>\$2,100,399.99</u>	<u>\$2,100,064.00</u>
				Purchase Price of Restricted Acquired Obligations	<u>\$2,100,064.00</u>

Debt Service Requirements and Proof of Yield on the Bonds

Town of Knightdale, North Carolina

Date	\$2,119,000 Serial Bonds			Debt Service Requirements of the Bonds	Present Value of Future Payments at 11/15/11 Using a Rate of 2.269886%
	Principal	Coupon Rate	Interest		
06/01/12	\$13,000.00	2.270%	\$26,188.49	\$39,188.49	\$38,709.86
12/01/12			23,903.10	23,903.10	23,346.19
06/01/13	224,000.00	2.270%	23,903.10	247,903.10	239,410.17
12/01/13			21,360.70	21,360.70	20,397.40
06/01/14	222,000.00	2.270%	21,360.70	243,360.70	229,778.09
12/01/14			18,841.00	18,841.00	17,589.80
06/01/15	219,000.00	2.270%	18,841.00	237,841.00	219,554.54
12/01/15			16,355.35	16,355.35	14,928.44
06/01/16	216,000.00	2.270%	16,355.35	232,355.35	209,703.61
12/01/16			13,903.75	13,903.75	12,407.49
06/01/17	212,000.00	2.270%	13,903.75	225,903.75	199,330.70
12/01/17			11,497.55	11,497.55	10,031.24
06/01/18	209,000.00	2.270%	11,497.55	220,497.55	190,218.19
12/01/18			9,125.40	9,125.40	7,783.93
06/01/19	206,000.00	2.270%	9,125.40	215,125.40	181,441.86
12/01/19			6,787.30	6,787.30	5,660.33
06/01/20	203,000.00	2.270%	6,787.30	209,787.30	172,990.61
12/01/20			4,483.25	4,483.25	3,655.40
06/01/21	199,000.00	2.270%	4,483.25	203,483.25	164,047.47
12/01/21			2,224.60	2,224.60	1,773.34
06/01/22	196,000.00	2.270%	2,224.60	198,224.60	156,241.34
	<u>\$2,119,000.00</u>		<u>\$283,152.49</u>	<u>\$2,402,152.49</u>	<u>\$2,119,000.00</u>
			Principal Amount of the Bonds		<u>\$2,119,000.00</u>