Cape Fear
Public Utility Authority
Stewardship. Sustainability. Service.

2009
Comprehensive Annual Financial Report
Cape Fear Public Utility Authority
Wilmington, North Carolina

For the Fiscal Year Ended June 30, 2009

Contents

Introductory Section (Unaudited)

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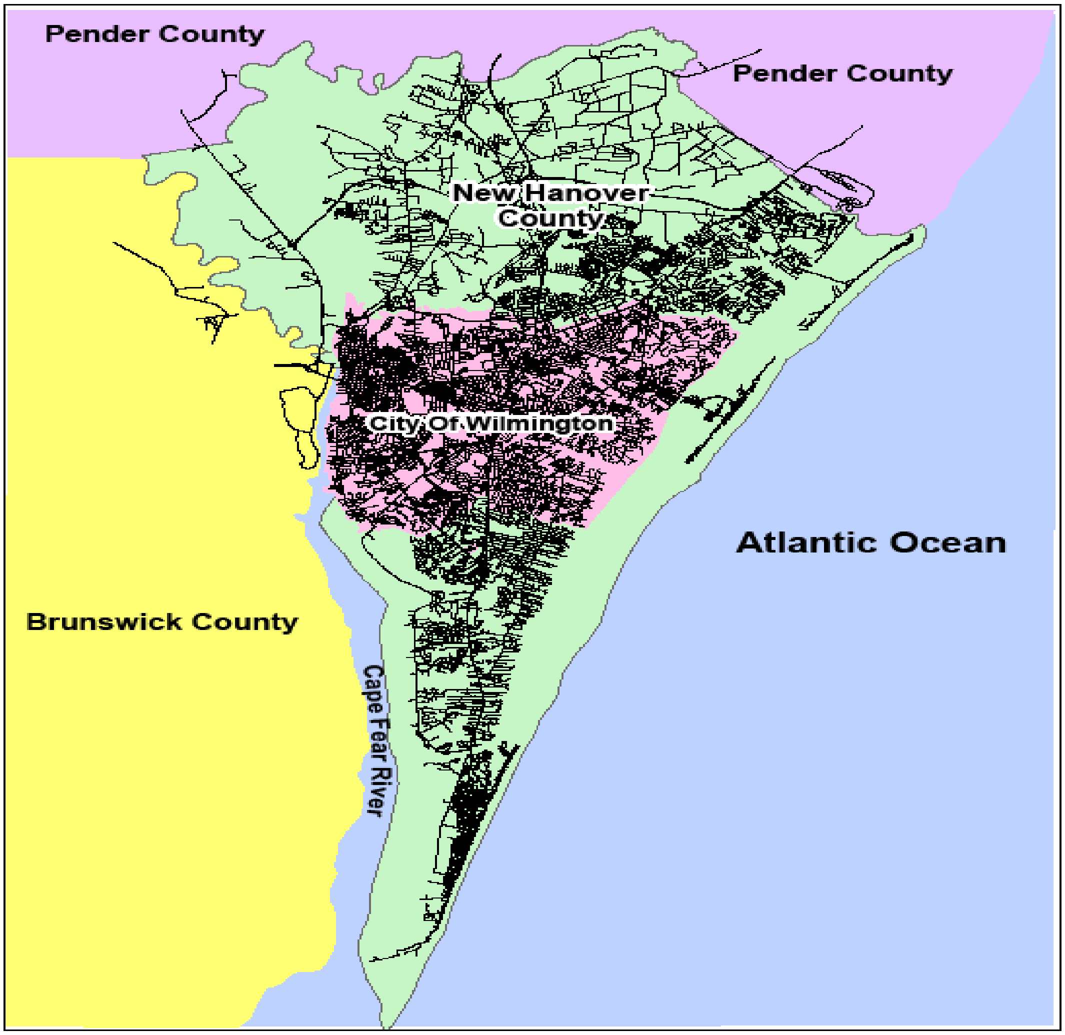
We are pleased to submit the Comprehensive Annual Report (CAFR) of the Cape Fear Public Utility Authority (CFPUA) for the fiscal year ended June 30, 2009. This report conforms to the reporting and accounting standards of the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board, and the Government Finance Officers Association's (GFOA). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with Authority management. To the best of our knowledge and belief, the enclosed financial data is accurate in all material aspects and fairly presents the financial position of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The basic financial statements have been audited by our independent auditors, McGladrey & Pullen, LLP, who issued an unqualified opinion on the financial statements of the Authority for the year ended June 30, 2009. Their audit was performed in accordance with generally accepted auditing standards and government auditing standards, and accordingly, included such tests of the accounting records and other such auditing procedures as they considered necessary. The independent auditor's report is presented as the first component of the financial section of this report.

This report has four sections:

- The Introductory Section (unaudited) contains this letter of transmittal and information about CFPUA's organizational structure, principal officers, major initiatives, accomplishments, and future projects.
- The Financial Section includes the independent auditor's report, management's discussion and analysis, the basic financial statements, and required and other supplementary schedules.
- The Statistical Section (unaudited) presents fiscal, demographic, and other data to provide a more complete understanding of the CFPUA and our service area.
- The Compliance Section includes the independent auditor's report on compliance and on internal control over financial reporting.

The Authority was formed by the City of Wilmington and New Hanover County to combine the water and sewer operations of the two entities on July 1, 2008. The Cape Fear Public Utility Authority was established pursuant to Chapter 162A, Article 1 of the North Carolina General Statutes, known as the North Carolina Water and Sewer Authorities Act. The Authority's service area consists of the City of Wilmington and areas of New Hanover County formerly served by the New Hanover County Water and Sewer District (District). It does not include the municipalities of Carolina Beach, Kure Beach, and the Town of Wrightsville Beach. The population in the service area is approximately 183,000 in an area encompassing approximately 184 square miles. New Hanover County is the second smallest county in North Carolina by land area and is also the second most densely populated of the 100 counties.



An eleven-member board governs the Authority. The City and County appoint five members each, with two of those appointments coming from their respective governing boards. The eleventh member is jointly appointed. The Authority board is responsible for the adoption of the annual budget, setting water and sewer rates, making policy decisions; and appoints the Executive Director, Clerk to the Board, and Authority's General Counsel.

The annual budget serves as the foundation for the Authority's financial planning and control. The annual operating budget is adopted by the Authority board at a functional level with capital projects ordinances adopted on a multi-year basis. The Authority's operations are accounted for and reported as an enterprise fund, as provided services are funded by user fees and charges. Budget-to-actual comparisons are provided as supplementary information in this report for the annually appropriated operating fund. Multi-year capital projects are presented on a separate schedule with year to date and project to date information.

System Description

The water system is comprised of the City's surface water system and the District's groundwater system. Although there are currently no interconnects between the systems, the Capital Improvement Program (CIP) includes several interconnects to integrate the two systems. There are a total of 65,508 water services at June 30, 2009.

The surface water system is served by the Sweeney treatment plant with a current permitted capacity of 25.9 million gallons per day (MGD). Raw water for the plant comes from an intake on the Cape Fear River in Bladen County and is transported 24 miles by pipeline to the plant. The Sweeney plant is currently under construction to replace the 1943 section of the plant with improved treatment processes and to increase capacity to 35 MGD initially and eventually to 44MGD without any additional capital expense. The surface water system consists of 500 miles of distribution lines.

The groundwater system is currently served by 29 wells and over 139 miles of distribution lines. The system has a capacity approximately 7.1 MGD. Water treatment is minimal prior to distribution. In the fall of 2009 a large portion of the groundwater system will be served by a new water treatment plant. This plant will continue to utilize groundwater but will provide high quality water through a new nano-filtration system.

The wastewater system consists of 978 miles of sewer mains and 140 pump stations to collect and carry the communities' wastewater to two treatment plants. A third wastewater package plant serves a very small portion of the service area. The plants currently can treat up to 28 MGD and both discharge treated affluent to the Cape Fear River. There were a total of 64,564 wastewater services at June 30, 2009. The Authority also treats the discharge from the Town of Wrightsville Beach collection system.

Economic Condition and Outlook

The service area of the Authority, comprising most of New Hanover County, continues to be the economic, medical, and educational hub for the surrounding counties that comprise southeastern North Carolina. The area has been one the fastest growing in the nation with a population increase of over 25% since 2000. The unemployment rate has consistently been less than state and federal levels in part due to the diversity of the local economy. Tourism is the area's largest economic component in terms of employment and revenues. New Hanover County was ranked eight out of 100 counties in the state with over $422 million in travel-related expenditures in calendar year 2008. Tourism provided over 5,500 jobs with an annual payroll of almost $100 million in New Hanover County.

Major employers in New Hanover County with 1,000 or more employees include New Hanover Regional Medical Center, New Hanover County Board of Education, General Electric Company, University of North Carolina at Wilmington, New Hanover County, Verizon Wireless, and PPD, Inc.

The area has however been significantly affected by the current economic crisis. Sales tax receipts in New Hanover County are down approximately 18% for the year ended June 30, 2009 with room occupancy tax receipts down over 10%. The building industry has been impacted with building permits down 23% from the prior year. The unemployment rate has increased to 9.0% from the prior year rate of 5.1%. The effect of the economic downturn on the Authority has been felt both in water and sewer consumption and in the drop in development-related revenues such as impact fees and tap-on charges. Fortunately, the annual economic forecast prepared by the University of North Carolina at Wilmington's Cameron School estimates the area's economy will grow at a rate of 4.0% in 2010, more than that forecasted for the state of North Carolina, 1.5% and the nation, 2.1%.

Major Initiatives and Accomplishments for FY 2009

In the Authority's first year of operations a number of initiatives, both operational and capital in nature, need to be mentioned. These initiatives embrace the Authority's guiding principles of Stewardship, Sustainability, and Service.

Environmental Performance: Implementation was begun on an Environmental Management System (EMS) with the documentation of the ISO 14001 standards required to minimize environmental impact, drive improved performance, and to gain efficiencies in operations. Certification on this program is expected by early 2010 with the initial scope of CFPUA's EMS focusing on the sewer collection system. An area already showing improvement is the occurrence of sanitary sewer overflows (SSO's). The volume of SSO's was reduced by more than 28,000 gallons or 60% from the prior year.

Capital Projects: The Authority currently has in excess of fifty active capital projects. During the year ended June 30, 2009 over $66 million in expenditures on capital projects were incurred. A number of the projects were underway by the City and County when CFPUA began operations. The Capital Improvement Plan (CIP) for the five-year period from FY 2010 to FY 2014 totals over $217 million. Significant projects completed in FY 2009 or underway include:

- Northside Wastewater Treatment Plant –project to expand the plant from 8 to 16 MGD was completed at a four-year cost of $84.6 million.
- Nano Water Treatment Plant and Well Field – project to construct a new 6 MGD treatment plant and supporting well field at a cost of $43.5 million on schedule to be completed in November 2009.
- Sweeney Water Treatment – four-year $79.3 million project begun to replace the 1943 section of the plant and increase capacity from 25.9 MGD to 35 MGD.
- Repair existing infrastructure – Burnt Mill Creek sewer outfall repaired at a cost of $3.2 million with a second phase scheduled in FY 2010 estimated at $2.7 million. Emergency repairs totaling $5.2 million were carried out on the raw water line that supplies the Sweeney Treatment plant.

Interlocal Agreements – the Authority entered into an interlocal agreement with the City of Wilmington to expand the water and sewer system in an area the City is annexing. Among the larger elements is a project to increase capacity at two critical pump stations that are currently at or over their permitted limits. The City is investing $9.9 million in the project, with the Authority committed to $7.7 million. The project is to be completed by April 2012.

Cash Management

The Authority's investment policy is designed to minimize credit and market risk while maintaining a competitive yield on its portfolio. Available cash is invested in interest bearing demand deposits, certificates of deposit, obligations of the U.S Treasury, and the North Carolina Capital Management Trust (an SEC registered money market fund), in accordance with North Carolina General Statute 159-30. Deposits are either insured by federal depository insurance or are collateralized by securities held by the State Treasurer's agent in the name of the State Treasurer. Note 2 of the Notes to the Financial Statements provides additional information on Cash and Investments.

Risk Management

The Authority has a self-insured medical insurance program with administration of the program by Blue Cross and Blue Shield of North Carolina. The Authority contracts with Blue Cross for stop-loss pooling of claims on an individual basis once a claim reaches $75,000 during a contract period. The Authority has established a reserve for existing claims as of June 30, 2009 of $202,884.

The Authority is also a self-insurer for workers' compensation claims up to a maximum of $350,000 per claim with an aggregate annual limit of $1,785,772. The Authority has established a reserve for existing claims as of June 30, 2009 of $20,768.

For other risk the Authority maintains insurance coverage for property damage and general liability (including liability for vehicles and public officials). The coverages are placed by New Hanover County Risk Management pursuant to an interlocal agreement with the Authority.

Acknowledgements

Preparation of this report was accomplished through the dedicated efforts of the entire staff of the Finance department. I would like to especially express my appreciation to Julie McLawhon and Melinda Hoggard for their contribution to the preparation of this report. Appreciation is also expressed for the support of the Authority members for their policy guidance in financial matters.

Respectfully submitted,

Brent McAbee

Brent McAbee
Chief Financial Officer

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Public Utility Authority
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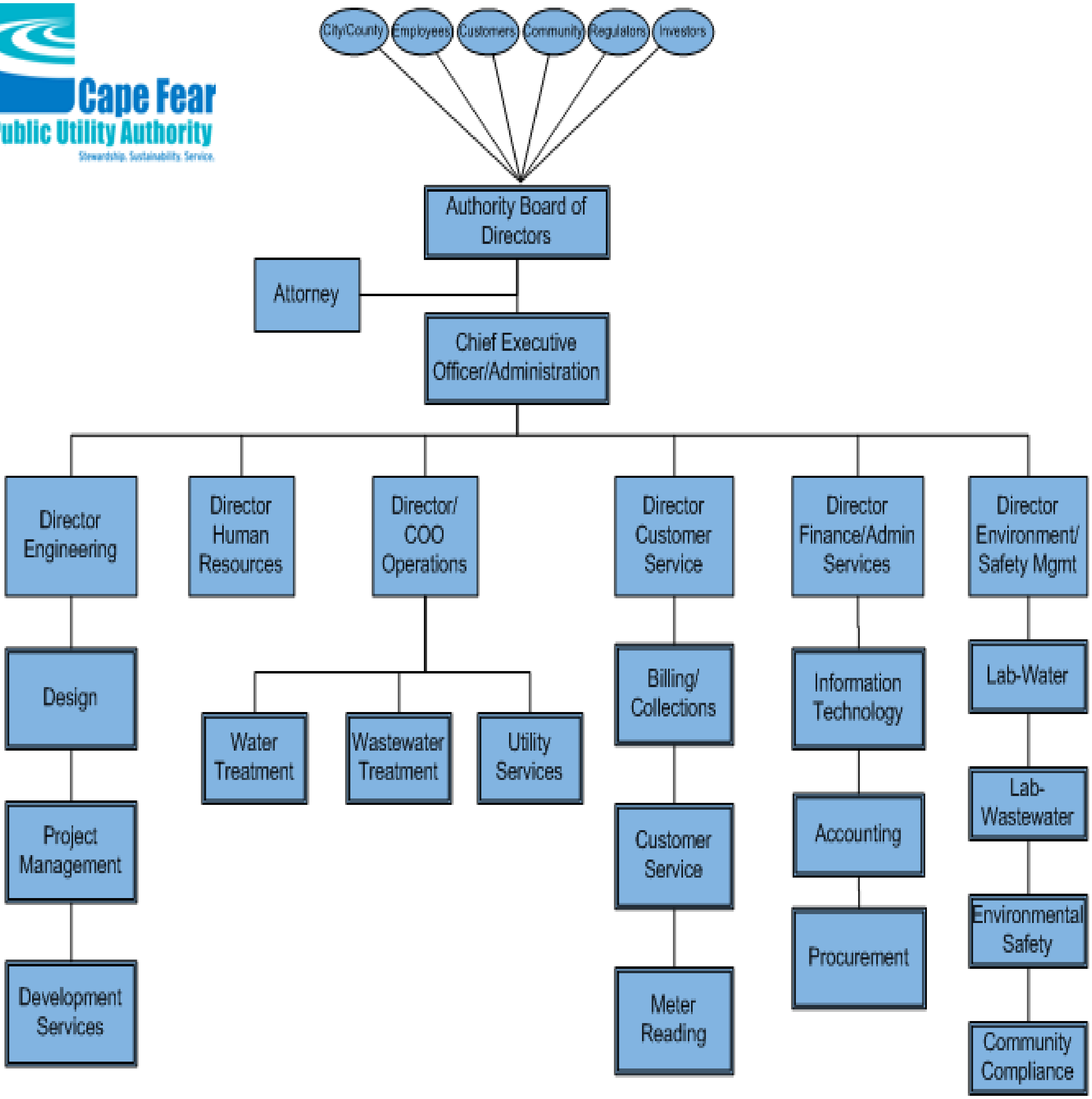

Financial Section

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Chairman and
Members of the Board of Directors
Cape Fear Public Utility Authority, North Carolina
Wilmington, North Carolina

We have audited the accompanying basic financial statements of Cape Fear Public Utility Authority as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Fear Public Utility Authority as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009 on our consideration of Cape Fear Public Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 11 through 15 and the other post-employment benefit information on page 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Cape Fear Public Utility Authority. The supplementary schedules listed in the table of contents on pages 41 through 44 and the introductory section and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of Cape Fear Public Utility Authority. The supplementary schedules listed in the table of contents on pages 41 through 44 have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Wilmington, North Carolina
December 7, 2009

Management's Discussion and Analysis - Unaudited

(Cape Fear Public Utility Authority)

The management of Cape Fear Public Utility Authority, (the "Authority"), offers readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 7 of this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by $353,712,985. Of this amount, $60,460,682 is unrestricted net assets that may be used to meet the Authority's ongoing obligations to customers and creditors
- On July 1, 2008 the City of Wilmington and New Hanover County contributed their respective water and sewer assets, totaling $350,501,478 to put the Authority into operation.
- The billing functions of the City and County were combined resulting in a common standard of meter identification and customer billing methodology. The Authority implemented a new rate structure on July 1, 2008 with the same rates for all customers.
- The Authority received a credit rating of AA3 from Moody's and AA from Standard & Poor's for the Series 2008 Revenue Bonds that were issued in August 2008.

Overview of the Financial Statements

The Authority's primary mission is to provide water and sewer services to the City of Wilmington and to the unincorporated areas of New Hanover County. The Authority does not provide other general purpose government services or programs. The Authority's operations, capital expansion program and debt payments are funded almost entirely through rates, fees and other charges for these water and sewer services. As such, the Authority is considered to be, and therefore presents the Authority's financial report, as a stand-alone enterprise fund.

Enterprise fund financial statements. As a stand-alone enterprise find, the Authority's basic financial statements consist of a *Statement of Net Assets*, a *Statement of Revenues*, *Expenses and Changes in Net Assets* (Equity) and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short-term and long-term financial information about, and implications for the Authority's financial position. To provide a better understanding of the information contained in these statements, *Notes to the Financial Statements* and a *Statement of Revenues and Expenditures – Budget and Actual*, appear immediately following the basic financial statements. In addition to this discussion and analysis, other required supplementary information, generally statistical and demographic in nature, is presented.

The *Statement of Net Assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic enterprise fund financial statements can be found on pages 17 through 20 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 21 through 39 of this report.

Financial Analysis

Table A presents the Condensed Statement of Net Assets for the year ended June 30, 2009. Since this was the first year of operations, a historical comparison is not available.

The Cape Fear Public Utility Authority's Condensed Statement of Net Assets

Table A

	June 30, 2009
Current assets and other assets	$ 215,274,936
Capital assets	487,683,203
Total assets	702,958,139
Current liabilities	29,681,252
Noncurrent liabilities	319,563,902
Total liabilities	349,245,154
Net Assets	
Invested in capital assets, net of related debt	293,252,303
Unrestricted	60,460,682
Total net assets	$ 353,712,985

As noted earlier, net assets may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets exceeded liabilities by $353,712,985 at the close of this financial year.

Capital assets net of related debt comprised 83% of total net assets at June 30, 2009. These capital assets are essential in providing water and sewer services to our customers and consequently, these assets are not available for future spending. The resources needed to repay the associated debt must be provided by other sources. At June 30, 2009, these other resources totaled $60.4 million.

Management's Discussion and Analysis - Unaudited

(Cape Fear Public Utility Authority)

Table B presents for the reader the Condensed Statement of Revenues, Expenses and Changes in Net Fund Assets for the year ended June 30, 2009. No historical comparison is available for the first year of operations. Contributions from other governments reflect the transfer of assets from the City of Wilmington and New Hanover County at the formation of the Authority.

Condensed Statement of Revenues, Expenses and Change in Net Assets

Table B

	Year Ended June 30, 2009
Revenue	
Operating revenue	
Charges for services	$ 42,726,268
Other operating revenue	139,595
Nonoperating revenue	
Investment earnings	5,970,732
Contributions from the City of Wilmington and New Hanover County	64,627,498
Capital contributions	
Capital contributions from the City of Wilmington and New Hanover County	285,873,980
Capital contributions	9,333,073
Total revenue	408,671,146
Expenses	
Operating expenses	32,561,580
Depreciation	12,400,153
Nonoperating expense	
Interest expense	9,674,421
Amortization expense	322,007
Total expenses	54,958,161
Increase in net assets	353,712,985
Net assets, July 1	-
Net assets, June 30	$ 353,712,985

The condensed three-year comparison of Revenues, Expenses and Changes in Net Assets, combined with the following discussion provides insight as to the causes affecting net assets.

- **Operating Revenues:** The Authority is not empowered to levy or collect taxes, nor does the Authority receive funding from the taxing authorities within our service area. The Authority's operations, capital expansion program, and debt service are funded almost entirely from fees charged to our customers for water and sewer services and other related services. As such, the Authority's revenue stream is impacted by fluctuations in demand for our services and other economic factors.

Revenues in the first year of operation were below budgeted levels. Water production at the Authority's surface water plant and well system was over 8% below the FY 2006 and FY 2007 base years from which initial rates were developed. Loss was even higher due to lower consumption at the highest rate tier and on irrigation meters which are billed at the highest rate.

- **Nonoperating Revenues:** Impact fees have been significantly affected by the economic downturn. Revenues from this source were approximately 43% or $2.1 million below budget.
- **Operating Expenses:** Operating expenses for the various departments of the Authority were approximately 13% below budget and offset some of the revenue shortfall. The Schedule of Revenues and Expenditures section of this report provides a comparison of budget to actual revenues and expenditures for the fiscal year.

Capital Assets and Debt Administration

Capital Assets. The Authority's investment in capital assets totals $487,683,203 (net of accumulated depreciation and amortization) at June 30, 2009. Table C presents the Changes in Net Capital Assets for the year ended June 30, 2009. As this is the first year of operation the beginning balances represent contributions of capital assets by the City of Wilmington and New Hanover County.

Cape Fear Public Utility Authority's Capital Assets
Net of Depreciation and Amortization

Table C

	Contributed by NHC and COW on July 1, 2008	Increases	Transfers	Ending Balances
Capital assets not being depreciated:				
Land	$ 7,020,112	$ 16,170	$ 145,963	$ 7,182,245
Construction in progress	109,063,452	47,856,118	(84,982,587)	71,936,983
Capital assets being depreciated or amortized:				
Plant, Structures and Improvements	154,907,478	6,274,062	79,890,416	241,071,956
Water and Sewer Lines	146,980,225	22,469,761	4,946,208	174,396,194
Furniture, Fixtures and Machinery	2,377,269	1,217,033	-	3,594,302
Water Availability Rights	1,988,116	-	-	1,988,116
Less:				
Accumulated Depreciation	-	(12,400,153)	-	(12,400,153)
Accumulated Amortization	-	(86,440)	-	(86,440)
Net Depreciable Assets	306,253,088	17,474,263	84,836,624	408,563,975
Total Capital Assets, net	$ 422,336,652			$ 487,683,203

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

- Construction on two water plant projects (Nano plant and Sweeney Treatment Plant) combined for $36.6 million of the increase in construction in progress.
- The Northside Waste Water Treatment Plant expansion was put into service, representing $79.1 million of the increase in plant and structures.
- Developer contributions of $6.4 million are included in the increases in capital assets.

Additional information on the Authority's capital assets can be found in Note 4.

Debt Administration The Authority assumed the long term obligations of the City of Wilmington and New Hanover County on July 1, 2008 for water and sewer related debt. The total debt assumed was $184.6 million with $67.2 million of that amount in outstanding revenue bonds.

The Authority issued $187,765,000 in revenue bonds in August 2008 to pay for water and sewer capital improvements and to refund $42 million in New Hanover County Certificates of Participation that the Authority had assumed on July 1, 2008. Principal payments are due on an annual basis beginning August 2012 with a final maturity in August 2035.

The Authority's long term debt totaled $328.5 million at June 30, 2009, net of applicable premiums, discounts and deferred refunding charges. The Authority's bond coverage on pledged revenue debt was 2.64 at June 30, 2009, with a minimum 1.2 coverage required.

Requests for Information

This report is designed to provide an overview of the Authority'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 addressed to the Cape Fear Public Utility Authority, Finance Department, 235 Government Center Drive, Wilmington, NC 28403.

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Cape Fear Public Utility Authority

Statement of Net Assets
June 30, 2009

ASSETS	
Current assets	
Cash and cash equivalents	$ 53,356,390
Receivables, net	15,133,434
Due from other governments	5,721,583
Restricted cash and cash equivalents	7,296,335
Restricted receivables	2,009,655
Prepaids	47,476
Inventories	1,515,014
Total current assets	85,079,887
Noncurrent assets	
Restricted cash and cash equivalents	125,775,340
Unamortized bond issuance costs	4,419,709
Capital assets:	
Land and construction in progress	79,119,228
Other capital assets, net	408,563,975
Total capital assets	487,683,203
Total noncurrent assets	617,878,252
Total assets	702,958,139
LIABILITIES	
Current liabilities	
Current maturities of long-term obligations	10,380,283
Accrued interest payable	4,610,023
Customer deposits	277,375
Due to other governments	4,022,982
Accounts payable and accrued liabilities	2,456,010
Compensated absences	590,377
Unearned revenue	47,867
Accounts payable from restricted assets	7,296,335
Total current liabilities	29,681,252
Noncurrent Liabilities	
Compensated absences	397,829
Other postemployment benefits (OPEB)	1,043,781
Long-term obligations, net of current maturities	318,122,292
Total noncurrent liabilities	319,563,902
Total liabilities	349,245,154
NET ASSETS	
Invested in capital assets, net of related debt	293,252,303
Unrestricted:	
Designated for post employment benefits	4,200,000
Undesignated	56,260,682
Total net assets	$ 353,712,985

See Notes to Financial Statements.

Cape Fear Public Utility Authority

Statement of Revenue, Expenses and Changes in Net Assets
For the Year Ended June 30, 2009

Operating revenue	
Charges for services	$ 42,726,268
Other operating revenue	139,595
Total operating revenue	42,865,863
Operating expenses	
Personnel and benefits	17,714,505
Services and utilities	11,582,781
Materials	3,264,294
Depreciation	12,400,153
Total operating expenses	44,961,733
Operating (loss)	(2,095,870)
Nonoperating revenue (expense)	
Investment earnings	5,970,732
Interest expense	(9,674,421)
Amortization	(322,007)
Contributions from the City of Wilmington and New Hanover County	64,627,498
Total nonoperating (expense)	60,601,802
Income before capital contributions	58,505,932
Capital contributions from the City of Wilmington and New Hanover County	285,873,980
Capital contributions - other	9,333,073
Total capital contributions	295,207,053
Increase in net assets	353,712,985
Net assets	
Beginning	-
Ending	$ 353,712,985

See Notes to Financial Statements.

Cape Fear Public Utility Authority

Statement of Cash Flows
For the Year Ended June 30, 2009

Cash Flows From Operating Activities	
Cash received from customers and users	**$ 42,258,094**
Cash paid to suppliers	**(16,873,514)**
Cash paid to or on behalf of employees	**(16,431,610)**
Other operating income	**99,254**
Net cash provided by operating activities	**9,052,224**
Cash Flows from Noncapital Financing Activities	
Contributions from other governments	**60,710,391**
Net cash provided by noncapital financing activities	**60,710,391**
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	**(71,589,039)**
Principal paid on long-term obligations	**(49,987,738)**
Proceeds from long-term obligations	
Principal	**187,765,000**
Premium	**7,027,913**
Bond issuance costs	**(2,262,976)**
Interest paid on long-term obligations	**(10,368,983)**
Capital contributions	**52,312,756**
Net cash provided by capital and related financing activities	**112,896,933**
Cash Flows From Investing Activities	
Investment earnings	**3,768,517**
Net cash provided by investing activities	**3,768,517**
Net increase in cash and cash equivalents	**186,428,065**
Balances, beginning	**-**
Balances, ending	**$ 186,428,065**
Reconciliation of statement of fund net assets:	
Cash and cash equivalents (current and noncurrent)	**$ 53,356,390**
Restricted cash and cash equivalents (current and noncurrent)	**133,071,675**
Total cash and cash equivalents	**$ 186,428,065**

(Continued)

Cape Fear Public Utility Authority

Statement of Cash Flows (Continued)
For the Year Ended June 30, 2009

Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating (loss)	$	(2,095,870)
Adjustments to reconcile operating loss to net cash		
provided by operating activities:		
Depreciation		12,400,153
Changes in assets and liabilities:		
(Increase) in accounts and sales tax receivable		(5,047,213)
(Increase) in inventory		(77,779)
(Increase) in prepaids		(47,476)
Increase in accounts payable and accrued liabilities		3,944,296
(Decrease) in customer deposits		(23,887)
Total adjustments		11,148,094
Net cash provided by operating activities	$	9,052,224
Supplemental Schedule of Noncash Activities		
Contributions of capital assets from the City of Wilmington and New Hanover County	$	233,561,224
Contributions of noncapital assets from the City of Wilmington and		
New Hanover County	$	3,917,107
Contributions of capital assets from developers	$	6,445,570
Debt payment reduction from New Hanover County	$	1,900,000

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

The financial statements of the Cape Fear Public Utility Authority ("Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity:

Cape Fear Public Utility Authority (the "Authority") was created in 2007 pursuant to Chapter 162A of the North Carolina General Statutes, by the governing bodies of New Hanover County and the City of Wilmington, for the purpose of providing water and sewer services to all residents of New Hanover County. The Authority is empowered to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency. The Governing Board consists of eleven directors who hold office for staggered terms. The directors are appointed by the governing bodies of New Hanover County and the City of Wilmington. Each of the governing bodies appoints five members and they jointly appoint the eleventh member. The five appointed members from each governing bodies include two current members from those governing bodies.

The Authority completed its first year of operations. The assets and related liabilities of the City of Wilmington and New Hanover County water and sewer systems were transferred to the Authority on July 1, 2008.

Accounting principles generally accepted in the United States require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the Authority. Also, the Authority is not included in any other reporting entity. The Authority is a jointly governed organization, i.e. an entity governed primarily by representatives from other governments. The participants do not retain any ongoing financial interest in or financial responsibility for the Authority.

Basis of Presentation:

All activities of the Authority are accounted for within a single business-type activity and within a single proprietary (enterprise) fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the 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. An Enterprise Fund is required to be used when an activity is financed with debt that is secured solely by pledges of the net revenues from fees and charges of the activity.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Concurrent with the commencement of providing water/sewer services on July 1, 2008, the Authority elected to be treated as a "special-purpose government engaged only in business–type activities" as described in generally accepted accounting principles. The Authority's business-type activities are considered to be undertaken in a single enterprise fund. Enterprise activities are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives or (receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

As permitted by accounting principles generally accepted in the United States, the Authority has elected to apply only applicable Financial Accounting Standards Board ("FASB") statements and interpretations issued before November 30, 1989 in its accounting and reporting practices, to the extent that those standards do not conflict with or contradict guidance of the GASB.

Budgets

Budgets are adopted utilizing the modified accrual basis of accounting as required by State statute. An annual budget ordinance is adopted for the operating subfunds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for capital projects subfunds, which are consolidated with the operating funds for reporting purposes.

Expenditures may not legally exceed appropriations at the functional level for the operating subfund and at the project level for the capital projects subfunds. The budget may be amended as necessary by the governing board. A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30	Each department head will transmit to the budget officer the budget requests as estimates for their department for the budget year.
June 1	The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.
July 1	The budget ordinance shall be adopted by the governing board.

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets

Deposits and Investments

All deposits of the Authority are made in board-designated official depositories and are collateralized as required by State law (G.S. 159-31). The Authority may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Authority 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 Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC registered (2a-7) money market mutual fund. The securities of the NCCMT cash portfolio are valued at fair value, which is the NCCMT's share price.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Assets

The unexpended bond proceeds of revenue bonds, certificates of participation and other long-term obligations issued by the Authority are classified as restricted assets under Restricted cash and cash equivalents because their use is restricted to the purpose for which the bonds were originally issued. These funds are budgeted to be expended during the fiscal year ending June 30, 2010.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the aging of account balances.

Inventories

Inventories of materials and supplies are maintained for major items used by the Authority. Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories are recorded as an asset and materials and supplies are not charged to operations until consumed.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and estimated useful life in excess of one year. Purchased capital assets are valued at original cost at the time of acquisition. The cost of normal maintenance and repairs which do not add to the value of the asset or materially extend assets' lives are not capitalized. Donated capital assets are recorded at their estimated fair value at the time of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The construction interest capitalized during the year ended June 30, 2009 totaled $4,835,970.

Capital assets, which include buildings, plant, furniture, fixtures, equipment and infrastructure assets, are depreciated using the straight-line method by groups or classes of property over the following expected service lives:

	Years
Plant, Structures and Improvements	20-40
Water and Sewer Lines	50
Furniture, Fixtures and Machinery	5

The Authority may consider capital assets impaired if both; (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired assets will be appropriately reduced in value or discarded if idle. The Authority owns no significant assets that would be considered impaired.

Intangible Assets

Intangible assets consist of water availability rights under an agreement the City of Wilmington entered into with a regional public authority. The agreement makes available fifteen million gallons per day of raw water. The availability rights are being amortized over forty years, the life of the agreement.

Use of Estimates

The preparation of financial statements 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. Significant estimates to the financial statements include the unbilled receivables, allowance for doubtful accounts, the estimated useful lives of capital assets, other post employment benefits, medical IBNR reserve, workers' compensation self-insurance, unamortized bond issuance costs, and interest rate swaps.

Note 1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

Long-term debt is reported as a liability in the statement of net assets, net of applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the life of the bonds using the straight-line method.

Compensated Absences

The vacation policy of the Authority provides for the accumulation of up to 320 hours earned vacation leave with such leave being fully vested when earned. Accrued vacation at year end totaled $988,206 and is included as compensated absences.

The Authority has adopted a first-in first-out method of using accumulated compensated time. An expense and a liability for compensated absences and the salary related payments are recorded as the personal leave is earned. The portion of the accumulated vacation pay which is expected to be liquidated during the next fiscal year is recorded as a current liability on the statement of net assets.

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

Medical Self-Insurance

The Authority is self-insured for group medical insurance and has contracted with Blue Cross and Blue Shield of North Carolina to administer the program. The Authority's program provides for individual stop-loss and aggregate stop-loss and partial pooling of claims above a specified amount. The individual stop-loss and aggregate stop-loss provides a method by which the group limits claims charged to its account to 125% of expected claims. The partial pooling-specific loss pooling provides that during any one contract period the total accumulated claims expense paid for any one participant above $75,000 will not be charged to the group during the remainder of that contract period for that participant. In addition, aggregate excess reinsurance would provide protection against cumulative retained losses during the year, capping retained losses at $1,785,772. A provision of $202,884 for estimated claims incurred but not reported as of June 30, 2009 has been accrued.

Workers' Compensation Self-Insurance

The Authority is self-insured for workers' compensation insurance. The Authority has contracted with PMA, Inc., a provider of claims administrative services, to administer the program. The program provides that the Authority would be responsible for the first $350,000 of cost and benefits payable to employees resulting from any one accident or event, regardless of the number of persons injured. Specific excess reinsurance would provide coverage above this limit up to the maximum limits provided under the North Carolina Workers' Compensation Act. In addition, aggregate excess reinsurance would provide protection against cumulative retained losses during the year, capping retained losses at $1,000,000. A provision of $20,768 for estimated claims incurred as of June 30, 2009 has been accrued.

Note 1. Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are classified as invested in capital assets, net of related debt, restricted, or unrestricted. Unrestricted net assets are designated for post-employment benefits and undesignated. Invested in capital assets, net of related debt represents the amounts invested in capital asset less any outstanding debt used in the acquisition of those assets. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets" or "restricted". Designated for post-employment benefits, unrestricted represents the amount of fund balance available for appropriation that has been designated by the governing board to fund a trust to be established in the next fiscal year for future costs of post-employment benefits.

Note 2. Cash, Cash Equivalents, Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, a government's deposit may not be returned to it. The Authority has no policy on custodial credit risk, but all of the Authority's deposits are to be either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are separately collateralized with securities held by the governments' agents in the governments' names. Under the Pooling Method, which is a statewide 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 governments, these deposits are considered to be held by the governments' agents in their 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 governments or the escrow agents. Because of the inability to measure the exact amounts of collateral pledged for governments under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling method. The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions.

At June 30, 2009, the carrying amount of the Authority deposits, including certificates of deposit, was $164,737,956 and the bank balance was $165,714,985. Of the bank balance, $250,000 was covered by FDIC insurance and $165,464,985 was collateralized using the Pooling Method. Cash on hand at June 30, 2009 was $1,900.

Investments

At June 30, 2009, the Authority had the following investments:

	Fair Value	Maturity Less Than 3 Months
US Government Agencies	$ 13,456,194	$ 13,456,194
NC Capital Management Trust - Cash Portfolio	8,232,015	N/A
	$ 21,688,209	$ 13,456,194

Note 2. Cash, Cash Equivalents, Deposits and Investments (Continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the weighted average maturity of the investment portfolio to no more than one year. Also, the investment policy requires purchases of securities to have staggered maturities and limits all securities to a final maturity of no more than five years.

Credit Risk and Concentration of Credit Risk

The Authority's investment policy limits investments to the provisions of North Carolina G.S. 159-30(c) and requires the investment security types to be no more that 25% of the total portfolio in a single security type. As of June 30, 2009 the Authority's investments in the NCCMT Cash Portfolio carried a credit rating of AAAm by Standard & Poor's.

None of the Authority's investments are subject to custodial credit risk or foreign currency risk.

Note 3. Receivables

The Authority estimates the revenue value of water consumed by its customers near year end but not billed by the last day of the fiscal year. This is done by multiplying the estimated unbilled water usage by the appropriate rates. As of June 30, 2009, the Authority had approximately $4,500,000 of unbilled receivables included in Accounts receivable – customers, below.

The amounts presented in the Statement of Net Assets are as follows:

Accounts receivable - customers	$ 18,326,777
Receivable - other	5,377
Total receivables	**18,332,154**
Allowance for doubtful accounts	(3,198,720)
Total receivables, net of allowance	**$ 15,133,434**

The amounts due from other governments consist of the following:

Refund of sales and use tax paid	$ 1,079,873
New Hanover County	4,570,245
City of Wilmington	14,449
Other grants and reimbursements	57,016
	$ 5,721,583

Note 4. Capital Assets

Capital assets activity consists of the following for the year ended June 30, 2009. Current depreciation and amortization expense was $12,400,153 and $86,440, respectively.

	Contributed by NHC and COW on July 1, 2008	Increases	Decreases	Transfers	Ending Balances
Capital assets not being depreciated:					
Land	$ 7,020,112	$ 16,170	$ -	$ 145,963	$ 7,182,245
Construction in progress	109,063,452	47,856,118	-	(84,982,587)	71,936,983
Total capital assets not being depreciated or amortized	116,083,564	47,872,288	-	(84,836,624)	79,119,228
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	154,907,478	6,274,062	-	79,890,416	241,071,956
Water and Sewer Lines	146,980,225	22,469,761	-	4,946,208	174,396,194
Furniture, Fixtures and Machinery	2,377,269	1,217,033	-	-	3,594,302
Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being depreciated or amortized	306,253,088	29,960,856	-	84,836,624	421,050,568
Less accumulated depreciation or amortization for:					
Plant, Structures and Improvements	-	2,719,417	-	-	2,719,417
Water and Sewer Lines	-	8,623,715	-	-	8,623,715
Furniture, Fixtures and Machinery	-	1,057,021	-	-	1,057,021
Water Availability Rights	-	86,440	-	-	86,440
Total accumulated depreciation and amortization	-	12,486,593	-	-	12,486,593
Total capital assets being depreciated or amortized, net	-				408,563,975
Capital assets, net	$ 422,336,652				$ 487,683,203

Note 5. Operating Lease

The Authority leases building and office facilities and land under an operating lease arrangement for a period of 120 months, with the option to extend the lease two additional five year periods. Total costs for such lease was $595,226 for the year ended June 30, 2009. The Authority leases equipment under an operating lease arrangement for a period of 48 months. Total cost for such lease was $107,968 for the year ended June 30, 2009. The future minimum lease payments as of June 30, 2009 are as follows:

Year Ending June 30	Amount
2010	$ 775,379
2011	793,782
2012	812,737
2013	670,308
2014	690,417
Thereafter	2,908,571
Total	$ 6,651,194

Note 6. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan description: The Authority contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR 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 Center Service, Raleigh, North Carolina 27699 - 1410, or by calling (919) 981-5454.

Funding policy: Plan members are required to contribute 6% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 4.80% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's total contributions to LGERS for the year ended June 30, 2009 was $627,104. The contributions made by the Authority equaled the required contributions for the year.

Supplemental Retirement Income Plan and Deferred Compensation Plan

Plan Descriptions. The Authority offers its employees to participate in the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to employees of the Authority. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Authority also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

Note 6. Pension Plan Obligations (Continued)

Funding Policy. The Authority has elected to make contributions on behalf of all employees to the Supplemental Retirement Income Plan or the 457 Deferred Compensation Plan. The Authority's contribution is 2% of covered payroll and contributions are made to the plan selected by the employee. The Authority also matches the contributions made by employees up to 2% of covered payroll. If the employee does not elect either plan, the Authority's contribution is placed into the Supplemental Retirement Income Plan on behalf of the employee.

Employer contributions to the Supplemental Retirement Income Plan totaled $343,216 and employee contributions were $79,959 for the year ended June 30, 2009.

Employer contributions to the 457 Deferred Compensation Plan totaled $146,265 and employee contributions were $31,820 for the year ended June 30, 2009.

Other Post-employment Benefits

Plan Description. According to the Authority's personnel policy, the Authority provides post-employment health care benefits to retirees of the Authority, provided they participate in the North Carolina Local Government Employees' Retirement System and were employed by the City or County prior to July 1, 2008 as the years of service were transferred from participating member governments during the initial transition phase of the Authority. Employees transferred from the City of Wilmington must have at least five years of creditable service. Employees transferred from New Hanover County must have at least fifteen years of creditable service. The Authority shares the cost of coverage for these benefits through private insurers with the retiree by paying claims under its medical self-insurance program and charging participants a co-payment amount. Also, the Authority's retirees can purchase coverage for their dependents at the Authority's group rates. A separate report was not issued for the plan.

Membership consisted of 266 active plan members at December 31, 2008, the date of the latest actuarial valuation.

Funding Policy. The Authority's contribution towards the plan is based on a set amount or percentage of the cost of the individual insurance coverage. The Authority is not required to fully fund the annual required contribution (ARC); however, the Authority will be required to disclose the unfunded ARC, which must be amortized over future periods.

The current ARC is 9.04% of annual covered payroll. No contributions were made by the Authority or employees for the current year.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the Authority's operating fund. Assets have been accumulated for OPEB purposes but have not yet been placed in an irrevocable trust fund.

Note 6. Pension Plan Obligations (Continued)

Annual OPEB Cost and Net OPEB Obligation. The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for the healthcare benefits:

Annual required contribution	$	1,043,781
Contributions made		-
Increase in net OPEB obligation		1,043,781
Net OPEB obligation, beginning of year		-
Net OPEB obligation, end of year	$	1,043,781

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

For The Year Ended June 30		Annual Annual OPEB	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligations
2009	$	1,043,781	0.00%	$	1,043,781

Funded Status and Funding Progress. As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was $7,167,107. The covered payroll (annual payroll of active employees covered by the plan) was $11,551,913, and the ratio of the UAAL to the covered payroll was -62.04%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 6. Pension Plan Obligations (Continued)

In the December 31, 2008 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return, medical cost trend rate varied between 10.5% and 5.0%, and a 3.75% inflation assumption. The UAAL is being amortized as a level percentage of projected unit credit on a level dollar amount, open basis. The remaining amortization period at December 31, 2008 was 30 years.

Note 7. Risk Management

The Authority 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 Authority has chosen to establish a risk financing fund for risks associated with the employee's health insurance program and workers' compensation coverage. The Authority carries commercial coverage for all other risks of loss including property and general liability coverage. Claims did not exceed coverage for any category for the fiscal year ending June 30, 2009.

The Authority also carries flood insurance coverage for its facilities with a blanket limit of $1,000,000 and a deductible of $100,000 on properties not located within a 100-year flood plain.

The Authority's finance officer is individually bonded for $250,000. The remaining employees that have access to funds are bonded under a blanket bond for $1,000,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including the frequency and amount of payouts.

Changes in claims liability for the year ended June 30, 2009 are as follows:

Medical Self-Insurance Program		
Unpaid Claims, July 1, 2008	$	-
Incurred Claims (including IBNR)		2,092,061
Claim payments (including fees)		(1,889,177)
Unpaid Claims, June 30, 2009	$	202,884
Workers' Compensation Self-Insurance Program		
Unpaid Claims, July 1, 2008	$	-
Incurred Claims (including IBNR)		98,663
Claim payments		(77,895)
Unpaid Claims, June 30, 2009	$	20,768

Note 8. Long-Term Obligations

Changes in Long-Term Obligations

	Assumed from NHC or COW on July 1, 2008 (1)	Additions	Retirements	(Charges) Premiums (Discounts) Unamortized	Balance June 30, 2009	Current Portion of Balance
Revenue Bonds	**$ 67,208,688**	**$ 187,765,000**	**$ 2,232,043**	**$ 9,147,251**	**$ 261,888,896**	**$ 2,320,562**
General Obligation Bonds:						
Locality compensation payment	**27,650,147**	**-**	**5,088,615**	**(955,823)**	**21,605,709**	**3,521,532**
Installment Obligations						
Locality compensation payment	**89,769,268**	**-**	**44,567,080**	**(194,218)**	**45,007,970**	**4,538,189**
Totals	**$ 184,628,103**	**$ 187,765,000**	**$ 51,887,738**	**$ 7,997,210**	**$ 328,502,575**	**$ 10,380,283**

(1) Balance at July 1, 2008 is not net of unamortized charges, premiums, and discounts of $758,523.

The payments of the revenue bonds for the future years are as follows:

Year Ending	Bonded Debt		Installment Debt		Total	
June, 30	Principal	Interest	Principal	Interest	Principal (1)	Interest
2010	$ 7,742,093	$ 13,045,710	$ 2,638,190	$ 1,985,470	$ 10,380,283	$ 15,031,180
2011	8,159,580	12,743,562	2,654,000	1,894,738	10,813,580	14,638,300
2012	11,029,113	12,397,844	2,712,400	1,799,976	13,741,513	14,197,820
2013	10,124,182	11,987,622	2,781,000	1,701,510	12,905,182	13,689,132
2014	9,149,806	11,589,996	2,847,000	1,598,120	11,996,806	13,188,116
2015-2019	37,758,403	52,914,669	14,494,598	5,960,737	52,253,001	58,875,406
2020-2024	42,285,000	42,830,550	12,635,000	2,791,331	54,920,000	45,621,881
2025-2029	54,125,000	30,993,678	4,440,000	513,376	58,565,000	31,507,054
2030-2034	69,320,000	15,796,245	-	-	69,320,000	15,796,245
2035-2036	25,610,000	1,296,500	-	-	25,610,000	1,296,500
Total	275,303,177	$ 205,596,376	45,202,188	$ 18,245,258	320,505,365	$ 223,841,634
Unamortized charges	(1,669,873)		(1,200,689)		(2,870,562)	
Unamortized premiums	9,866,394		1,006,471		10,872,865	
Unamortized discounts	(5,093)		-		(5,093)	
Net carrying value	$ 283,494,605		$ 45,007,970		$ 328,502,575	

(1) Principal balances do not reflect reduction of debt payments to New Hanover County, as described in the following paragraph.

Note 8. Long-Term Obligations (Continued)

Pursuant to the inter-local agreement transferring New Hanover County's water and sewer system to the Authority, the Authority assumed responsibility for all of the related debt. However, certain debt instruments could not be transferred to the Authority or refinanced due to the nature of the agreements. Accordingly, the County has retained and is servicing those obligations with the Authority making payments to the County equal to the principal and interest payments required under those debt instruments. Under Section 2.10 of the inter-local agreement, the County agreed to a reduction in the amount of the debt service payments made by the Authority to the County (debt payments reduction amounts) for a period of 10 years, starting with the year ended June 30, 2009. The debt payment reduction amount which reduces the debt service payments to be paid to the County by the Authority was $1.9 million in the current year and an additional $1.9 million each year for the next four years. Beginning in the sixth year (2014), the debt payment reduction amounts will consist of $1.577 million for the sixth year, $1.254 million for the seventh year, $950,000 for the eighth year, $627,000 for the ninth year, and $304,000 for the tenth year. If at any time the debt payments reduction amounts in a given year are greater than the amounts required to be paid by the Authority to the County, the County will pay the Authority the difference.

Note 8. Long-Term Obligations (Continued)

Details of the Authority's outstanding long-term obligations at June 30, 2009 are as follows:

Revenue Bonds	
$15,615,000 Water and Sewer Revenue Bonds, Series 1999 issued for water and sewer system improvements; due in one final principal installment of $780,000 on June 1, 2010; semiannual interest payments due June 1 and December 1 at fixed rates from 4.80 to 5.10 percent; $9,235,000 of this issue was refunded in conjunction with the issue of Water and Sewer Bonds, Series 2005.	**$ 780,000**
$6,508,316 Refunding Water and Sewer Revenue Bonds, Series 2003 issued to refund Water and Sewer Revenue bonds, the proceeds of which were used for water and sewer system improvements; principal installments due semiannually on June 1 and December 1 in varying amounts from $151,774 to $261,107 plus interest through December 1, 2018; interest at a fixed rate of 3.65 percent.	**4,236,645**
$62,400,000 Water and Sewer Revenue and Refunding Revenue Bonds, Series 2005 issued for a wastewater plant expansion, other water and sewer system improvements and to refund $9,235,000 of Water and Sewer Revenue Bonds, the proceeds of which were used for like improvements; principal installments due semiannually on June 1 in varying amounts of $30,000 to $3,400,000 plus interest through June 1, 2034; interest at fixed rates from 3.00 to 5.00 percent.	**59,960,000**
$187,765,000 Water and Sewer Revenue bonds, Series 2008 issued for water and sewer improvements and to refund $42 million of New Hanover County Certificates of Participation; principal payments due annually on August 1 in varying amounts of $1,120,000 to $3,400,000 plus interest through August 1, 2035; interest at rates ranging from 3.5% to 5.0%.	**187,765,000**
Total Revenue Bonds	**252,741,645**
General Obligation Bonds	
Locality compensation payment payable to City of Wilmington due in one final principal payment on April 1, 2010 of $541,532; semiannual interest payments due April 1 and October 1 from 4.0% to 5.0%.	**541,532**
Locality compensation payment payable to City of Wilmington due in annual principal payments on June 1 in varying amounts from $2,355,000 to $3,065,000 through June 1, 2015; variable rate semiannual interest payments due June 1 and December 1.	**17,275,000**
Locality compensation payment payable to New Hanover County due in annual principal payments on June 1 in varying amounts from $1,125,000 to $1,815,000 through June 1, 2012; semiannual interest payments due June 1 and December 1 from 2.625% to 3%.	**4,745,000**
Total General Obligation Bonds	**22,561,532**

(Continued)

Note 8. Long-Term Obligations (Continued)

Installment Obligations	
Locality compensation payment to City of Wilmington due in annual principal payments on June 1 ranging from $820,000 to $1,550,000 through June 1, 2024; semiannual interest payments due June 1 and December 1 at fixed rates from 4.0% to 5.0%.	**$ 17,085,000**
Locality compensation payment to New Hanover County due in annual principal payments on February 23 ranging from $1,110,000 to $1,115,000 through February 23, 2023; semiannual interest payments due August 26 and February 23 at rates ranging from 4.625% to 5.0%.	**21,135,000**
Locality compensation payment to New Hanover County due in annual principal payments on August 25 ranging from $668,200 to $891,800 through August 26, 2018; semiannual interest payments due September 1 at fixed rate.	**6,947,200**
Locality compensation payment to New Hanover County due in one final principal payment on July 1, 2009 of $34,988; annual interest payment due July 1, 2009 at rate of 6.0%.	**34,988**
Total Installment Obligations	**45,202,188**
Total Long-Term Obligations	**320,505,365**
Plus Unamortized Charges, Premiums and Discounts	**7,997,210**
Net Carrying Value of Long-Term Obligations	**$ 328,502,575**

Unexpended proceeds from the issuance of revenue bonds and certificates of participation are currently held by an escrow agent in the name of the Authority. The proceeds held in the escrow account have been classified as restricted assets because their use is restricted to the purpose for which they were originally issued. The unexpended proceeds will be used for various water and sewer improvement capital projects.

Certain covenants are contained in the revenue bond orders, among the most restrictive of which provides that the Authority maintain a long-term debt service coverage ratio, as defined, of not less than 1.20. The Authority was in compliance with the covenants during the fiscal year ended June 30, 2009.

Interest Rate Swap Agreement

The Interlocal Transition and Operating Agreement established the terms and conditions of the transfer of water and sewer assets of the City and County to the Authority on July 1, 2008. Under that Agreement, the Authority is responsible for reimbursement of payments on water and sewer-related long-term debt that could not be assumed by the Authority. Included in those long-term debt obligations retained by the City was the outstanding balance on Variable Rate General Obligation Bonds, Series 2002, for which the City entered into an interest rate swap agreement (the “swap agreement”). Based on the agreement with the City, after July 1, 2008, the Authority is responsible for payments made and received under this swap agreement. Details on the swap agreement are presented below.

Note 8. Long-Term Obligations (Continued)

Objective of the interest rate swap. The swap agreement was entered into as a means to lower borrowing costs and increase savings, when compared against fixed-rate refunding bonds at the time of issuance of, $28,825,000 Variable Rate General Obligation Refunding Bonds, Series 2002. The intention of the swap agreement was to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 3.815%.

Terms. The bonds and the related swap agreement mature on June 1, 2015 and the swap agreement's notional amount of $17,275,000 matches the face amount of the variable-rate bonds. The swap agreement was entered into at the same time the bonds were issued (February 2002). The notional value of the swap agreement declines with the principal amount of the associated debt. Under the swap agreement, the City (as assumed by the Authority) pays the counterparty a fixed payment of 3.815% and receives a variable payment computed at 67% of the LIBOR. Conversely, the bonds' variable-rate coupons are based on the actual floating rate coupons, which are marketed weekly.

Fair value. Because interest rates have declined since execution of the swap agreement, the swap agreement has a negative fair value of $1,225,469 as of June 30, 2009 which is not recorded as liability in these financial statements. The swap agreement's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate bonds are adjusted every seven days to changing interest rates, the bonds do not have a corresponding fair value increase. The mark-to-market valuations were established by market quotations from the counterparty representing estimates of the amounts that would be paid for replacement transactions.

Credit risk. As of June 30, 2009, the Authority 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 agreement become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A3 by Moody's Investors Service (Moody's), A by Standard and Poor's (S&P) and A+ by Fitch Ratings (Fitch). To mitigate the potential for credit risk, if the counterparty's credit quality falls to A1 by Moody's or A+ by either S&P or Fitch and its exposure exceeds $5,000,000 the fair value of the swap agreement will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third party custodian.

Basis risk. The swap agreement exposes the Authority to basis risk should the relationship between LIBOR and the average rate paid on the floating rate coupon converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.815% and the synthetic rate as of June 30, 2009 of 3.93%. As of June 30, 2009, the rate on the variable rate was .33%, whereas 67% of LIBOR was .212%.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. An additional termination event occurs if the counterparty's credit rating falls below Baa1 (Moody's) or BBB+ (S&P and Fitch) by at least two of the rating agencies, at which time the City may terminate the swap agreement with 30 days' notice. The counterparty may only terminate the swap agreement if the City falls below BBB- with any of the three major rating services. Also, if at the time of termination the swap agreement has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap agreement's fair value.

Swap payments and associated debt. Using rates as of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for the term of the bonds, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Note 8. Long-Term Obligations (Continued)

Year Ending June 30		Principal		Interest		Interest Rate Swap, Net		Total
2010	$	3,065,000	$	57,008	$	622,435	$	3,744,443
2011		3,025,000		46,893		512,001		3,583,894
2012		2,985,000		36,911		403,007		3,424,918
2013		2,945,000		27,060		295,454		3,267,514
2014		2,900,000		17,342		189,343		3,106,685
2015		2,355,000		7,772		84,853		2,447,625
Total	$	17,275,000	$	192,986	$	2,107,093	$	19,575,079

Note 9. Contributions From Other Governments

Contributions from other governments consist of the following contributions from the City of Wilmington and New Hanover County on July 1, 2008:

Capital contributions:		
Restricted cash and cash equivalents	$	52,312,756
Capital assets		422,336,652
Restricted receivables		131,049
Less liabilities assumed:		
Restricted accounts payable and accrued expenses		(3,519,851)
Long-term debt, net premium		(185,386,626)
Total capital contributions		285,873,980
Noncapital contributions:		
Cash and cash equivalents		60,710,391
Receivables		9,930,784
Due from other governments		882,390
Inventory		1,437,235
Unamortized bond costs		2,392,300
Less liabilities assumed:		
Accounts payable and accrued expenses		(10,357,419)
Customer deposits		(301,262)
Unearned revenue		(66,921)
Total noncapital contributions		64,627,498
Total contributions from other governments	$	350,501,478

Note 10. Pending GASB Statements

The GASB has issued several pronouncements prior to June 30, 2009 that has effective dates that may impact future financial presentations.

GASB Statement Number 51, *Accounting and Financial Reporting for Intangible Assets* will be effective for the Authority beginning with its year ending June 30, 2010.

GASB Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments* will be effective for the Authority beginning with its year ending June 30, 2010.

Management has not currently determined what, if any, impact implementation of the above statements may have on the financial statements of the Authority.

Note 11. Litigation

The Authority is a party to a number of civil lawsuits and other legal actions. There are also several claims for damages that have not yet resulted in litigation. In the opinion of the Authority attorney and management, the ultimate outcome of these claims is not expected to have a significant impact on the Authority's financial position.

The City of Wilmington (City) and the New Hanover County Water and Sewer District (District) were notified by the Environmental Protection Agency (EPA) prior to the transfer of assets to the Authority on July 1, 2008 that the City and District were in violation of the Clean Water Act (Act). The EPA contention is that the City and District experienced numerous Sanitary Sewer Overflows (SSO's) that violated state and federal regulations. As the owner and operator of the wastewater system formerly operated by the City and District, the Authority has been included in the EPA action.

A tolling agreement was entered into with the EPA on June 25, 2009 that extended the time to settle the claim. No admission of violation has been made by the City, District, or the Authority. The City and District have retained a total of $3.0 million for payment of any fine that may eventually be levied. In the opinion of the Authority attorney any fine that may be levied will be substantially less than the amount retained and the final agreement with the EPA will not have a material effect on the Authority's financial position.

Note 12. Commitments and Contingencies

The Authority has active water and sewer capital projects as of June 30, 2009. The Authority's remaining commitments with contractors, developer and professional firms related to these projects is $83,757,648. The remaining commitments will be funded from the proceeds of revenue bonds and funds generated from operations.

The Authority and the City of Wilmington entered into an interlocal agreement on May 6, 2009 to share jointly in the cost of providing water and sewer services to an area that the City is annexing pursuant to North Carolina General Statutes. The agreement calls for the City to install water distribution lines and sewer collection lines to unserved properties in the annexation area. The City and the Authority are going to share in the upgrade of water distribution mains and sewer pump stations that serve the area. The City's share is estimated at $9.9 million with the Authority's share estimated at $7.7 million.

The City will transfer ownership for all installed improvements to the Authority upon completion. In addition the City has agreed to the payment of $393,500 in impact fees for the 88 water and sewer connections. All water and sewer improvements are to be completed by April 2012. The Authority's share of the cost is included in the total construction commitments disclosed above.

Cape Fear Public Utility Authority

Required Supplementary Information
Other Post-Employment Benefits
Schedule of Funding Progress
2009

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Projected Unit Credit	Excess (Deficit) of Assets over AAL	Funded Ratio	Covered Payroll for Year Ending on Valuation Date	Excess (Deficit) as a Percentage of Covered Payroll
12/31/08	$0	$7,167,107	($7,167,107)	0.00%	$11,551,913	-62.04%

Required Supplementary Information
Schedule of Employer Contributions
2009

Fiscal Years Ended	Annual Required Contribution	Percentage Contributed
2009	$1,043,781	0.0%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/08
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	4.0%
Medical cost trend rate	10.5%-5.0%
* Includes inflation at	3.75%

Cape Fear Public Utility Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) -
Operating Fund
For Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues			
Water charges	$ 24,307,324	$ 21,968,709	$ (2,338,615)
Sewer charges	26,414,260	20,723,200	(5,691,060)
Connection fees	1,085,000	400,383	(684,617)
Miscellaneous revenue	1,299,350	734,030	(565,320)
Total operating revenues	53,105,934	43,826,322	(9,279,612)
Nonoperating revenues			
Customer impact fees	4,800,000	2,727,848	(2,072,152)
Investment earnings	1,315,000	1,352,943	37,943
Total nonoperating revenues	6,115,000	4,080,791	(2,034,209)
Total revenues	59,220,934	47,907,113	(11,313,821)
Operating expenditures			
General-administrative and engineering	5,480,476	4,951,638	528,838
Operations - water and sewer	22,623,970	19,313,266	3,310,704
Environment & safety management	2,256,474	1,943,604	312,870
Customer service	2,722,321	2,861,598	(139,277)
Nondepartmental	1,450,500	1,447,952	2,548
Debt service and fees	68,304,517	62,737,580	5,566,937
Capital outlay	1,959,314	1,042,696	916,618
Contingency	500,000	-	500,000
Total operating expenditures	105,297,572	94,298,334	10,999,238

(Continued)

Cape Fear Public Utility Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund (Continued)
For Year Ended June 30, 2009

	Final Budget	Actual	Variance With Final Budget
Other financing sources			
Long-term obligations issued	$ 17,741,298	$ 42,768,181	$ 25,026,883
Capital contributions	28,335,340	28,527,235	191,895
Total financing sources	46,076,638	71,295,416	25,218,778
Revenue and other financing sources over expenditures	$ -	24,904,195	$ 24,904,195
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other financing sources over expendiures - capital projects funds water and sewer		88,654,091	
Contributions from other governments		320,087,718	
Capital contributions		6,226,316	
Depreciation		(12,400,153)	
Amortization of bond issuance costs		(322,007)	
Capital outlay		71,387,571	
Adjust for unbilled services		(960,459)	
Proceeds from long-term obligations:			
Principal		(187,765,000)	
Premium		(7,027,913)	
Accrued interest income		2,202,215	
Accrued interest expense		(4,141,408)	
Other postemployment benefits (OPEB)		(1,043,781)	
Accrued vacation		(239,114)	
Bond issuance costs		2,262,976	
Principal payment on long-term debt		51,887,738	
Increase in net assets		$ 353,712,985	

Cape Fear Public Utility Authority

Schedule of Revenue and Expenditures - Budget and Actual (Modified Accrual Basis) -
Capital Projects Funds - Water and Sewer
From Inception and For the Fiscal Year Ended June 30, 2009

	Project Ordinance	Actual Prior Years	Actual Current Year	Actual Total to Date
Revenue				
Investment earnings	$ 1,419,230	$ -	$ **2,415,574**	$ **2,415,574**
Total revenue	1,419,230	-	**2,415,574**	**2,415,574**
Expenditures				
Capacity Mgmt Ops Maintenance	250,000	-	**94,451**	**94,451**
Northern School Site	5,067,377	-	**1,585,435**	**1,585,435**
Barnards Creek Outfall	2,000,780	-	**10,340**	**10,340**
Heritage Park - Airport	2,280,000	-	-	-
Dystor Structure Fabric	257,000	-	-	-
PS 3-6-13-14-15 Interceptor	130,000	-	-	-
Hydraulic Model/Cap Study	400,000	-	**187,586**	**187,586**
Burnt Mill Creek Outfall	4,188,919	-	**3,232,943**	**3,232,943**
Infiltration Inflow I&E	500,000	-	-	-
GIS Asbuilt Entry/Mapping	200,000	-	**10,706**	**10,706**
Ogden Interceptor Manhole	750,000	-	-	-
NSWWTP Force Main	4,250,000	-	**8,750**	**8,750**
Northern Route Force Main	9,980,000	-	**149,377**	**149,377**
SSWWTP Rehab & Upgrade	8,000,000	-	**918,187**	**918,187**
GIS & CMMS Updates	169,456	-	**30,785**	**30,785**
Asset Mgmt Implementation Study	280,544	-	**203,911**	**203,911**
WW Pump Station Replacement	226,068	-	**76,067**	**76,067**
Sewer Emergency Repair	1,747,348	-	**28,704**	**28,704**
Northside Heat Exchanger	184,350	-	**184,350**	**184,350**
System Wide Flow Monitor	44,106	-	**44,106**	**44,106**
Downtown Sewer Rehab/Assessment	944,918	-	**683,791**	**683,791**
General W&S Projects-NHC	863,161	-	**596,811**	**596,811**
Middle Sound Sewer-NHC	1,540,117	-	**15,665**	**15,665**
Equipment Purchases-Sewer Maint	1,428,118	-	**401,878**	**401,878**
PS 2 Improvements	1,160,505	-	**84,261**	**84,261**
Pump Renewal Project	178,014	-	-	-
Relocate Utility Lines Per DOT	2,300,039	-	**1,389,508**	**1,389,508**
Annex 98-Sewer Extensions	189,110	-	**35,425**	**35,425**
NSWWTP Expansion//Upgrade	7,331,205	-	**5,400,511**	**5,400,511**
NEI Rehab Project-PS 34-35	6,369,113	-	**1,540,656**	**1,540,656**
Murrayville Rd Sewer Line	716,320	-	**681,970**	**681,970**
River Road Force Main	654,167	-	**145,772**	**145,772**
PS 10 Exhaust Fan	59,000	-	**59,000**	**59,000**

(Continued)

Cape Fear Public Utility Authority

Schedule of Revenue and Expenditures - Budget and Actual (Modified Accrual Basis) -
Capital Projects Funds - Water and Sewer
From Inception and For the Fiscal Year Ended June 30, 2009
(Continued)

		Actual		
	Project Ordinance	Prior Years	Current Year	Total to Date
Woodlake Developer Payment	$ 219,230	$ -	$ **219,230**	$ **219,230**
System Wide OCCP Facility	1,270,000	-	**38,298**	**38,298**
Country Haven PS Upgrade	236,998	-	**11,599**	**11,599**
PS 34 Barscreen Replacement	773,932	-	**36,805**	**36,805**
PS 10-12	598,000	-	**-**	**-**
N Front St Streetscape	625,000	-	**-**	**-**
Downtown Water Line Rehab	1,040,000	-	**752,638**	**752,638**
Water Valve Replacement	100,000	-	**-**	**-**
Water Laterals & Services	75,000	-	**-**	**-**
Phase I CB Rd Trans Main	650,500	-	**94,558**	**94,558**
Murrayville Rd Water Line	480,400	-	**359,338**	**359,338**
COW-NHC Water System Study	645,001	-	**172,654**	**172,654**
GIS Asbuilt Integration	195,000	-	**34,011**	**34,011**
Kerr Ave Waterline	1,800,000	-	**69,245**	**69,245**
Market & Futch Waterline	417,810	-	**417,810**	**417,810**
CFPUA Building Upfit & Equipment	605,000	-	**605,923**	**605,923**
Heritage Park Water	770,625	-	**-**	**-**
Northern School Site	2,000,000	-	**1,620,501**	**1,620,501**
Water Emergency Repair	414,732	-	**12,709**	**12,709**
Alum Sludge Line Relocate	17,670	-	**17,670**	**17,670**
Annex 95 & 98 Water Lines	206,574	-	**5,286**	**5,286**
Water System Enhancements-NHC	1,630,415	-	**671,184**	**671,184**
Wellfield & Water Treatment Plant-NHC	27,930,000	-	**24,526,869**	**24,526,869**
Sweeney WTP Exp To 40 MGD	73,227,029	-	**12,107,741**	**12,107,741**
Environmental Services Building	4,275,000	-	**668,646**	**668,646**
30" Raw Water Main Assessment	307,220	-	**293,524**	**293,524**
30" Raw Water Main Rehab	5,464,909	-	**5,170,438**	**5,170,438**
Meter Replacement Program	245,000	-	**6,092**	**6,092**
Aquifer Storage Retrieval	1,792,591	-	**27,183**	**27,183**
Annex 1195 Area Water System	135,381	-	**37,259**	**37,259**
Kings Grant Rehab-H2O Line	444,648	-	**373,492**	**373,492**
N Front St Streetscape	625,000	-	**-**	**-**
Total expenditures	193,858,400	-	**66,151,649**	**66,151,649**
Revenue under expenditures	(192,439,170)	-	**(63,736,075)**	**(63,736,075)**
Other financing sources				
Long-term obligations issued	145,081,075	-	**152,024,732**	**152,024,732**
Capital contributions revenue	47,358,095	-	**365,434**	**365,434**
Total other financing sources	192,439,170	-	**152,390,166**	**152,390,166**
Revenue and other financing sources over expenditures	$ -	$ -	$ **88,654,091**	$ **88,654,091**

Statistical Section

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Statistical Section Overview

Financial Trends:
These charts and schedules identify the trends in changes over time of Cape Fear Public Utility Authority's financial functional effectiveness and financial strength.

Net Assets by Component
Change in Net Assets

Revenue Capacity:
These schedules contain information to help the reader assess the Authority's revenue sources.

Schedule of User Rates
Principal Customers
Consumption by Customer Group
Schedule of New Connections

Debt Capacity:
The schedule represents the ratio of debt to revenue.

Pledged-Revenue Coverage

Demographic and Economic Information:
These schedules show the demographic and economic picture of the environment in which Cape Fear Public Utility Authority provides its services.

New Hanover County, NC Demographic Statistics
CFPUA Full Time Equivalent Employees

Operating Information:
These schedules contain operating and capital asset data to show how operations and assets have changed as CFPUA grows.

Water Production and Wastewater Treatment
Operating Statistics

Sources:
Unless otherwise noted, the information included in these schedules and charts is derived for the comprehensive annual financial reports (CAFR) for GASB 34 in the fiscal year ending June 30, 2009 and is provided for additional analysis purposes only and has not been verified by audit as presented.

Cape Fear Public Utility Authority

Net Assets By Component
Fiscal Year Ended June 30, 2009 (1)
(Accrual Basis of Accounting)

	Fiscal Year 2009
Invested in capital assets net of related debt	$ 293,252,303
Restricted by bond order	-
Unrestricted:	
Designated for post employment benefits	4,200,000
Undesignated	56,260,682
Total net assets	$ 353,712,985

Source: Cape Fear Public Utility Authority's Accounting Records.

(1) Fiscal year 2009 was the first year of operations for the Authority

Cape Fear Public Utility Authority

Change in Net Assets
Fiscal Year Ended June 30, 2009 (1)
(Accrual Basis of Accounting)

	Fiscal Year
	2009
Operating revenue	
Charges for services	**$ 42,726,268**
Other operating revenue	**139,595**
Total operating revenue	**42,865,863**
Operating expenses	
Personnel and benefits	**17,714,505**
Services and utilities	**11,582,781**
Materials	**3,264,294**
Depreciation	**12,400,153**
Total operating expenses	**44,961,733**
Operating (loss)	**(2,095,870)**
Nonoperating revenue (expense)	
Investment earnings	**5,970,732**
Interest expense	**(9,674,421)**
Amortization	**(322,007)**
Contributions from the City of Wilmington and New Hanover County	**64,627,498**
Total nonoperating (expense)	**60,601,802**
Income before capital contributions	**58,505,932**
Capital contributions from the City of Wilmington and New Hanover County	**285,873,980**
Capital contributions - other	**9,333,073**
Total contributions	**295,207,053**
Increase in net assets	**353,712,985**
Net assets	
Beginning	**-**
Ending	**$ 353,712,985**

Source: CFPUA Water and Sewer Authority's Accounting Records.

(1) Fiscal year 2009 was the first year of operations for the Authority

Cape Fear Public Utility Authority

Schedule of User Rates (1)
For the Year Ended June 30, 2009 (1)

Water Rates	
Water Fixed Rate (bi-monthly)	$ 15.20
Water Variable Rate:	
0 - 9,000 gallons	$ 1.95
9,001 - 18,000 gallons	$ 2.95
18,001+ gallons	$ 3.95
Non-residential	$ 2.95
Average bi-monthly residential bill (4)	$ 35.70
Sewer Rates	
Sewer Fixed Rate (bi-monthly)	$ 16.50
Sewer Variable Rate (2)	$ 2.75
Sewer Flat Rate (3)	$ 82.50
Average bi-monthly residential bill (4)	$ 44.00

(1) Rates effective July 1, 2008.
(2) Sewer volume charges are capped at 30,000 gallons for residential customers.
(3) Sewer flat rate charge when Authority water is not available.
(4) Average bi-monthly bill calculated at usage of 10,000 gallons

Cape Fear Public Utiltiy Authority

Principal Customers
Fiscal Year Ended June 30, 2009 (1)

	Gallons	System
Ten Largest Users of the Water System Annual Consumption		
1 UNC Wilmington	135,005	2.31%
2 New Hanover County	82,514	1.41%
3 New Hanover Regional Medical Center	71,800	1.23%
4 Mayfaire Complex	54,872	0.94%
5 Wilmington Housing Authority	40,961	0.70%
6 Lake Forest, Inc.	30,109	0.52%
7 New Hanover County Schools	24,755	0.42%
8 College Manor Apartments	23,411	0.40%
9 Elementis Chromium	22,469	0.39%
10 Wilmington Hilton	18,194	0.31%
Total Consumption	504,090	8.63%
Total system annual consumption	5,839,019	
Ten Largest Users of the Sewer System Annual Consumption		
1 Town of Wrightsville Beach	214,743	4.42%
2 UNC Wilmington	87,395	1.80%
3 New Hanover Regional Medical Center	69,080	1.42%
4 Mayfaire Complex	54,999	1.13%
5 New Hanover County	54,426	1.12%
6 Wilmington Housing Authority	40,657	0.84%
7 Lake Forest, Inc.	30,101	0.62%
8 New Hanover County Schools	25,655	0.53%
9 College Manor Apartments	23,411	0.48%
10 Wilmington Hilton	17,935	0.37%
Total Consumption	618,402	12.73%
Total system annual consumption	4,856,146	

(1) Fiscal year 2009 was the first year of operations for the Authority

Cape Fear Public Utility Authority

Consumption by Customer Group
Fiscal Year Ended June 30, 2009 (1)

	Thousand Gallons	% of Consumption
Water Customers		
Residential	4,138,087	70.87%
Commercial	1,206,217	20.66%
Governmental	51,599	0.88%
Industrial	136,616	2.34%
Institutional	306,500	5.25%
Total	5,839,019	100.00%
Sewer Customers		
Residential	3,525,741	72.60%
Commercial	802,531	16.53%
Governmental	260,164	5.36%
Industrial	26,019	0.54%
Institutional	241,691	4.97%
Total	4,856,146	100.00%

(1) Fiscal year 2009 was the first year of operations for the Authority

Cape Fear Public Utility Authority

Schedule of New Connections
For the Year Ended June 30, 2009 (1)

Fiscal Year Ended June 30	Water Connections	Cumulative Connections	% Water Growth	Sewer Connections	Cumulative Connections	% Sewer Growth	Total Services
2009	1,069	65,538	1.7%	1001	64,564	1.6%	130,102

(1) Fiscal year 2009 was the first year of operations for the Authority

Cape Fear Public Utility Authority

Pledged-Revenue Coverage
For the Year Ended June 30, 2009

Fiscal Year Ended June 30,	Gross Revenues (1)	Less Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
Water and Sewer Revenue Bonds						
2009	**$ 48,106,795**	**$ 31,517,799**	**$ 16,588,996**	**$ 2,232,043**	**$ 4,040,420**	**$ 2.64**
Total Coverage				**$ 7,987,738**	**$ 7,508,261**	**$ 1.07**

(1) Gross revenues include all fees (including impact and connection fees), other charges and investment income.

(2) Operating expenses do not include interest, OPEB, depreciation and amortization expenses.

Cape Fear Public Utility Authority

Demographic Statistics
Fiscal Year Ended June 30, 2009 (1)

Fiscal Year Ended June 30,	City of Wilmington Population (2)	New Hanover County Population (3)	Median Age (4)	Public School Enrollment (5)	Local Unemployment Rate % (6)	Personal Income(7)	Per Capita Income(7)
2009	101,526	192,235	38	23,614	9.0%	N/A	N/A

(1) Fiscal year 2009 was the first year of operations for the Authority
(2) City of Wilmington Planning Department
(3) New Hanover County Planning Department
(4) N. C. State Demograhics.
(5) Figures are provided by the NHC Public Schools.
(6) North Carolina Employment Security Commission.
(7) Income information not available for year ending June 30, 2009

Cape Fear Public Utility Authority

Full Time Equivalent Employees
For Fiscal Year Ended June 30, 2009

Department	Fiscal Year 2009
General and Administrative	
Administration	**6**
Human Resources	**4**
Finance/Information Technology	**15**
Engineering	**25**
Operations	
Administration/Warehouse	**9**
Utility Services - Lines and Meters	**55**
Water Treatment	**31**
Wastewater Treatment	**41**
Sewer Collections	**49**
Enviornmental/Safety Management	**32**
Billings&Collections	**42**
Total FTE's	**309**

Cape Fear Public Utility Authority

Water Production and Wastewater Treatment
(thousands of gallons)
For the Past Four Fiscal Years

Fiscal Year Ended June 30,	Water Processed and Pumped to System (1)	Wastewater Treated (1)
2009	6,375,455	5,696,412
2008	6,590,075	5,429,210
2007	6,906,195	6,132,272
2006	6,940,475	6,004,330

(1) Information for fiscal years ended June 30, 2006, 2007, 2008 provided by City of Wilmington and New Hanover County.

Cape Fear Public Utility Authority

Operating Statistics
For the Year Ended June 30, 2009 (1)

Year Founded and Incorporated	2008
Water System	
Number of service connections	65,538
Number of treatment plants - surface water system	1
Treatment capacity (mgd) - surface water	25.9
Average production (mgd) - surface water	14.3
Number of wells - groundwater system	29
Treatment capacity (mgd) - groundwater	6.3
Average production (mgd) - groundwater	3.2
Miles of water mains	639
Wastewater System	
Number of service connections	64,564
Number of treatment plants	3
WPC plant permit (mgd)	28.25
Average annual daily flow (mgd)	15.6
Number of lift stations	140
Miles of sewer mains	978

Source: Cape Fear Public Utility Authority Records

(1) Fiscal year 2009 was the first year of operations for the Authority

Compliance Section

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report
On Internal Control Over Financial Reporting and
On Compliance and Other Matters Based
On an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

To the Board of Directors
Cape Fear Public Utility Authority
Wilmington, North Carolina

We have audited the financial statements of Cape Fear Public Utility Authority (the "Authority") as of and for the year ended June 30, 2009, and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described as Finding 2009-1 and Finding 2009-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above as Finding 2009-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 7, 2009.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Wilmington, North Carolina
December 7, 2009

Cape Fear Public Utility Authority

Schedule of Findings and Responses
For the Year Ended June 30, 2009

Finding 2009-1

Material Weakness
Calculation of Depreciation Expense

Criteria: The Authority should have control activities in place to ensure that the information and calculations performed automatically by its accounting software, Sungard, are appropriate applications of Generally Accepted Accounting Principles in the circumstances.

Condition: Depreciation expense on assets placed into service during the year ended June 30, 2009 was recorded at an amount equal to a full year of depreciation, despite the fact that assets had not been in service for a full year.

Context: The Authority's accounting software is designed to calculate depreciation only on either a Half-Year Convention, whereby depreciation for all assets placed in service during the year would be expensed as if they were placed in service on January 1 of the fiscal year, or a Full-Year Convention, whereby depreciation for all assets placed in service during the year would be expensed as if they were placed in service on July 1 of the fiscal year.

Cause: The Authority has elected to use the Full-Year Convention so that assets contributed by New Hanover County and the City of Wilmington on July 1, 2008 would receive a full year's worth of depreciation in fiscal year 2009. However, this election meant that the significant asset additions late in the year were also depreciated for a full year.

Effect: Depreciation expense and related accumulated depreciation were materially overstated.

Recommendation: The Authority should perform a reasonableness check on depreciation expense if it continues to utilize the Full Year Convention. The reasonableness check should focus primarily on significant assets placed in service and on assets placed in service late in the year.

Views of Responsible Officials: In subsequent reporting periods the fixed asset software will apply the half-year convention to all additions in that fiscal year. That feature could not be used in this first year of financial reporting by the Authority in that a half-year convention would have been erroneously applied to the assets transferred by the City of Wilmington and New Hanover County to the Authority on July 1, 2008.

Finding 2009-2

Significant Deficiency
Evaluation of Leases

Criteria: The Authority should have control activities in place to ensure that all leases are evaluated in order to determine classification as a capital lease or operating lease.

Condition: A lease was recorded as an operating lease when it met the criteria for a capital lease.

Context: The Authority does not have procedures in place to evaluate new leases in order to determine if the lease is a capital lease or operating lease.

Cause: The Authority relied upon a lessor's statement that a lease met the criteria for an operating lease, when in fact the lease met the criteria for a capital lease.

Effect: A lease was not recorded in accordance with Generally Accepted Accounting Principles.

Recommendation: The Authority should evaluate all leases in order to determine if a lease meets the criteria for a capital lease or operating lease in accordance with Generally Accepted Accounting Principles.

Views of Responsible Officials: In subsequent reporting periods the Authority will strictly apply the criteria for evaluation of all leases to determine if they meet a capital lease or operating lease in accordance with Generally Accepted Accounting Principles.