CAPE FEAR PUBLIC UTILITY AUTHORITY WILMINGTON, NORTH CAROLINA



COMPREHENSIVE ANNUAL FINANCIAL REPORT For the Fiscal Year Ended June 30, 2013

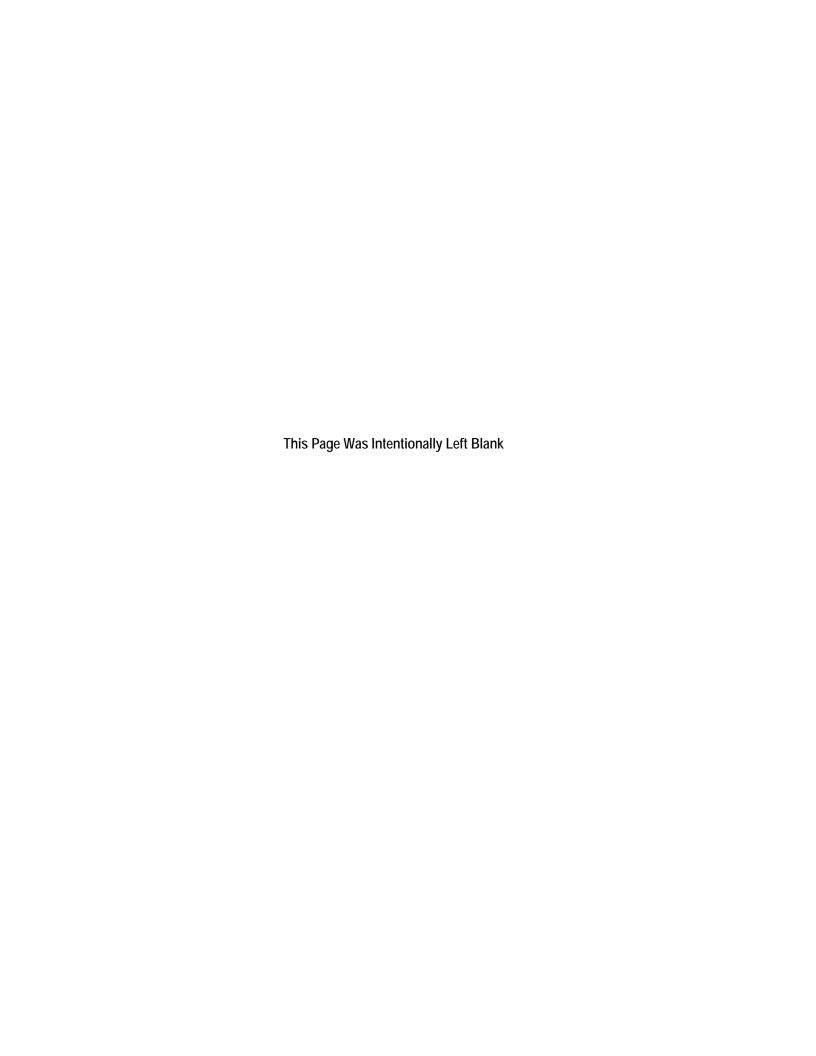


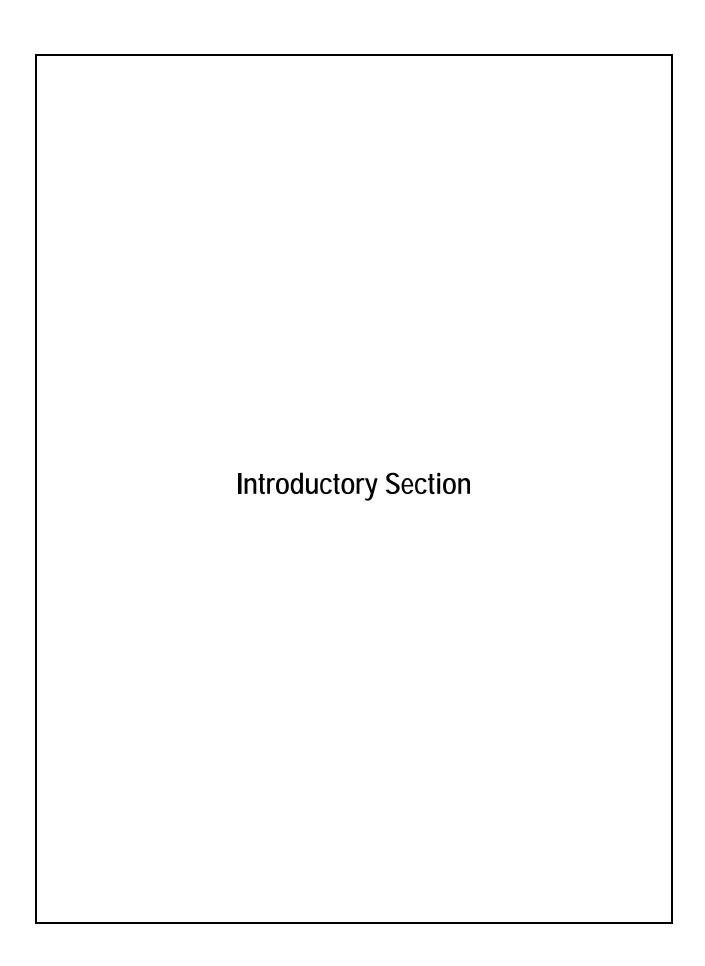


COMPREHENSIVE ANNUAL FINANCIAL REPORT

CAPE FEAR PUBLIC UTILITY AUTHORITY WILMINGTON, NORTH CAROLINA For The Fiscal Year Ended June 30, 2013

Prepared by Finance Department Cheryl J. Spivey, CPA, CFO Julianne M. McLawhon, CPA Ramona Burns, CPA Melinda E. Hoggard, CPA Julia C. Vosnock Sherri W. Alexander Tymekia T. Askew Kristi E. Simpson-Harden Teresa A. Horsboll





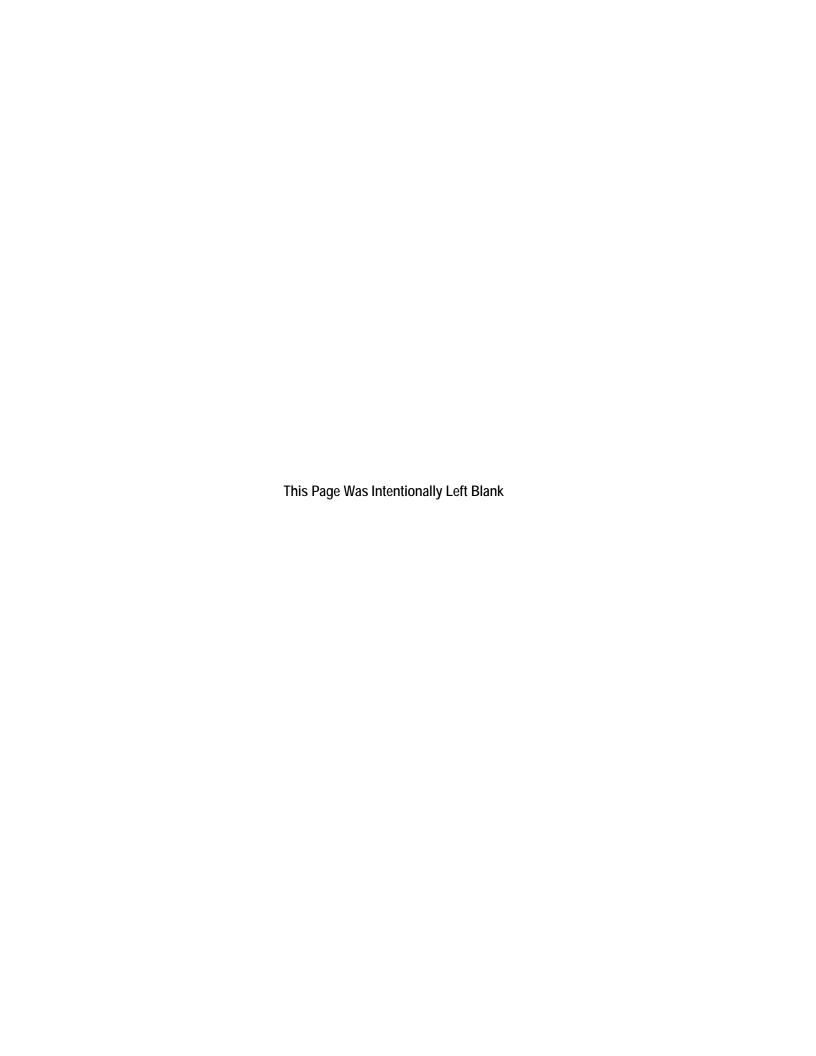


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James L. Quinn III Chairman



Patricia O. Kusek Vice Chair



James Brumit Secretary



Michael C. Brown III
Treasurer

Cape Fear Public Utility Authority Board Members For the Fiscal Year Ended June 30, 2013



Neil Anderson Councilman



Keith Betts Member



Charlie Rivenbark
Councilman



C. Lawrence Sneeden, Jr. Member



Woody White Commissioner



Cindee Wolf Member

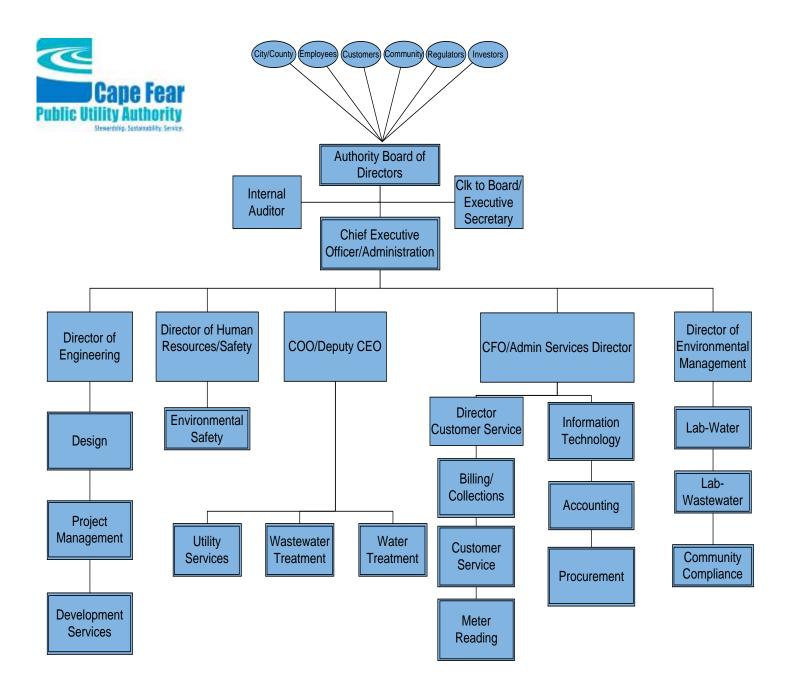


Thomas Wolfe Commissioner

Other Principal Officials

Matthew W. Jordan, PE Chief Executive Officer * James R. Flechtner, PE Chief Operations Officer ** Cheryl J. Spivey, CPA Chief Financial Officer

^{*} Retired 6/30/2013





October 11, 2013

To the Cape Fear Public Utility Authority Board, Customers, and Bondholders:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Cape Fear Public Utility Authority (the Authority) for the fiscal year ended June 30, 2013. The Authority, like all other local governments and public authorities in the State, is required by state law to publish a complete set of financial statements within four months of the end of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is published to fulfill that requirement for the fiscal year ended June 30, 2013, and to provide further accountability to customers, bondholders and other interested parties by providing a more comprehensive report in lieu of the minimum basic financial statement requirements.

The Authority's management is responsible for the accounting system and for establishing and maintaining internal financial controls. The internal control system is designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and the evaluation of costs and benefits requires estimates and judgments by management.

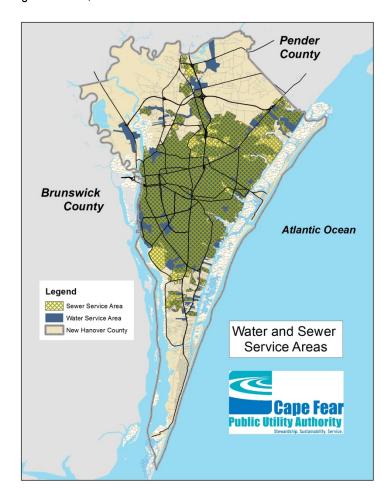
Management assumes full responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed financial data is accurate in all material aspects and fairly presents the financial position of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

As noted earlier, the Authority is required by state law to have an annual independent financial audit. Thompson, Price, Scott, Adams & Co PA (Certified Public Accountants) conducted the audit and concluded in an unqualified ("clean") opinion that the financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2013, and changes in financial position and its cash flows in conformity with GAAP. The independent auditors' report on the basic financial statements is located at the beginning of the financial section of this report on page 16.

Please refer to the Management's Discussion and Analysis (MD&A) and the basic financial statements for detailed information on the Authority's financial performance in FY 2013. This transmittal letter and the MD&A are intended to complement one another.

Authority Profile

The Authority was formed by the City of Wilmington and New Hanover County to combine the water and sewer operations, and began operations on July 1, 2008. The Authority was established pursuant to the 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 previously served by the New Hanover County Water and Sewer District (District). It does not include the municipalities of Carolina Beach, Kure Beach, and Wrightsville Beach; although by agreement, Wrightsville Beach and a portion of Pender County wastewater flows are treated by the Authority. New Hanover County's population is approximately 209,000 in an area encompassing approximately 220 square miles. Of this total, 21 square miles consist of water and wetlands. 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. The County's beaches provide miles of unspoiled natural beauty and are the area's most popular tourist attractions. The County is the eastern terminus of Interstate Highway 40, a transcontinental route ending in Barstow, California.



An eleven-member board governs the Authority. The City and County appoint five members each, with four of those appointments (two each) 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 appointing the Chief Executive Officer, Clerk to the Board, Internal Auditor, and Legal 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 has a 10-year Capital Improvement Plan (CIP). The first year of the CIP is adopted annually. Other years are programmed and are subject to change as priorities are considered. 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 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

The water system is composed of a surface water system and three groundwater systems. There are 66,503 customer accounts, an increase of 964. Also an additional 3,993 locations have services available (vacant lots). The water system has 1,078 miles of distribution lines at June 30, 2013. The Authority also keeps six wells on standby to supplement the water supply during emergencies or peak demand periods. Metered water consumption for the fiscal year June 30, 2013 decreased 6.7%, compared to a 1.5% decrease the previous year.

The Authority has a needs-based contract to purchase up to 23.0 MGD of raw water from the Lower Cape Fear Water and Sewer Authority (LCFWSA) with a term ending in 2030. Raw surface water is either drawn from the Cape Fear River through the Authority's 15.0 million gallon per day (MGD) raw water intake at King's Bluff or purchased through a connection with the LCFWSA at U.S. Highway 421. The raw surface water is pumped to the Sweeney Water Treatment Plant (SWTP), which provides potable water to the majority of the Authority's service area. The SWTP has a rated capacity of 35 MGD. Average production during the fiscal year ended June 30, 2013 was 13.2 MGD. The surface water distribution system has been providing water service for more than 50 years and includes 16.0 million gallons of covered ground storage of finished water and 5 million gallons of storage in three elevated tanks.

In October 2009, the Authority placed a Nano-Filtration Groundwater Membrane Plant (the Nano Plant) into operation to serve the northeast section of the distribution system. The source of raw water is from 25 wells drawing from two different aquifers. The plant softens the groundwater and removes organic and inorganic contaminants to produce a blended groundwater that is followed by disinfection, fluoridation, corrosion control and pH adjustment. The Nano Plant has a rated capacity of 6.0 MGD. The Nano Plant had a daily average production during the fiscal year ended June 30, 2013 of 2.95 MGD. The distribution system provides water service to customers and includes 2.0 million gallons of covered ground storage and 2.75 million gallons of elevated storage in six elevated tanks. In addition, the Authority operates two smaller groundwater systems providing groundwater directly to customers from seven wells and two elevated storage tanks. The groundwater receives disinfection and pH adjustment before being pumped to the distribution system and the storage tanks.

The Wastewater System

There are 63,878 wastewater accounts, an increase of 450. Also, an additional 2,181 locations have services available (vacant lots). The Authority also provides wholesale wastewater treatment services to the Town of Wrightsville Beach and provides wastewater services to a portion of Pender County. The Authority's collection

system consists of approximately 850 miles of gravity lines, 20,300 manholes, 141 pump stations and 110 miles of pressurized sewage force main. Wastewater consumption, based on metered water (excluding irrigation) for the fiscal year June 30, 2013 decreased 4.6%, compared to a 2.0% decrease the previous year.

The Authority currently owns and operates the James A. Loughlin, or Northside Wastewater Treatment Plant (NSWWTP), the M'Kean Maffitt, or Southside Wastewater Treatment Plant (SSWWTP) and the Walnut Hills Wastewater Treatment Plant (Walnut Hills Plant). Although the NSWWTP is currently permitted to treat up to 10.0 MGD, the permitted capacity will increase to 16 MGD coincident of a second effluent force main, which will convey treated wastewater from the plant to the Cape Fear River, with completion anticipated prior to summer of 2015. The SSWWTP is permitted to treat up to 12.0 MGD. The Walnut Hills Plant is a smaller facility permitted to treat up to 0.1 MGD. For the fiscal year ended June 30, 2013, the combined average daily flows were 16.165 MGD of the combined 22.1 MGD permitted. The NSWWTP, SSWWTP, and Walnut Hills Plant all use physical, chemical and biological processes to clean the wastewater. After the wastewater flows are collected and treated, the treated effluent from the SSWWTP and the NSWWTP is discharged into the Cape Fear River. The Walnut Hills Plant discharges to the Northeast Cape Fear River. The Authority also has a hauled waste program delivering septage and other non-hazardous wastes to NSWWTP for processing.

The Authority has a sewer use ordinance that is administered under the pretreatment program. Ordinance revisions were approved by the Board on October 10, 2012 to ensure compliance with state and federal requirements and incorporate federal streamlining revisions. The pretreatment program monitors and regulates significant wastewater dischargers that are either connected to the Authority's wastewater collection system or haul to the wastewater treatment plants. Currently, seven significant industrial users (SIU) are permitted under the program. SIU permits contain discharge limits for pollutants such as biochemical oxygen demand (BOD), total suspended solids (TSS), chemical oxygen demand (COD), oil and grease, chlorides, ammonia, total kjeldahl nitrogen (TKN), fluoride, certain metals, and organics. Four of these SIUs pre-treat wastewater prior to discharging to the Authority. All SIUs submit monthly monitoring reports. Authority staff conducts semi-annual monitoring. Surcharges are applied to waste that contains pollutants in excess of domestic strength waste. A NC Division of Water Quality approved enforcement response plan ensures permit violations are addressed timely and equitably. Additionally, the pretreatment program permits and monitors food service establishments and other dischargers of non-domestic wastewater that could be harmful to the treatment works, employees, bio-solids, public health, and receiving waters.

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. As discussed in the paragraphs below, most economic indicators in the service area during the year were positive. However, these positive signs have not resulted in increased water or sewer sales; conversely sales have continued to decline.

Taxable sales in New Hanover County were up 3% for the fiscal year ended June 30, 2013. New Hanover County reported a 5.4% increase in the number of building permits and a 28% increase in the cost of these permitted projects compared to the prior year. The County's unemployment rate at June 30, 2013 of 9.1% is lower than the 9.3% at June 30, 2012. It is also lower than North Carolina's 9.3% and higher than the United States' 7.6%.

Tourism is the area's largest economic component in terms of employment and revenues. New Hanover County was ranked nine out of 100 counties in the state with \$460 million in travel-related revenues in calendar year 2012, an 8% increase over 2011 revenues. Tourism provided over 5,300 jobs with an annual payroll of almost \$100 million in New

Hanover County. For fiscal year ended June 30, 2013, room occupancy tax receipts increased 7.2% over the prior year.

Major employers in New Hanover County with 1,000 or more employees include New Hanover Regional Medical Center, New Hanover County Schools, GE Wilmington, Wal-Mart Stores, the University of North Carolina at Wilmington, New Hanover County, PPD, Inc., Verizon Wireless, and Corning Inc.

Although management expects economic condition in the service area to be stable, we are implementing cost saving strategies to offset the declining sales.

Long-Term Financial Planning

The Authority utilizes a 5-year model to forecast revenue requirements based on anticipated operating expenditures, debt service, and capital needs.

Relevant Financial Policies

The Authority has established a comprehensive set of financial policies including the following:

Finance and Accounting Consistency of Budgeting and Financial Reporting

Investment Revenue

Budget Amendment and Transfer

Reserve Contract Approval

Debt Management Capital Improvements Program

Corporate Governance Travel

Purchasing Procurement Card
Post Issuance Monitoring of Tax Exempt Debt Uniform Policy
Food Purchase Local Preference
Surplus Personal Property Fuel Card

Inventory Management Internal Controls for Equipment

Payroll Cellular Telephone
System Development Charge Debt Recovery Allowance

The Authority's revenue bond covenants have a significant impact on the current fiscal year's financial statements due to requiring that revenues cover expenses and 120% of principal and interest on bonds. The rate setting process, required by the Revenue Policy, also has a significant impact on the current fiscal year's financial statements. This process ensures that the Authority remains financially healthy and complies with its revenue bond covenants by developing and maintaining reliable sources of revenue needed to operate and maintain the utility system.

Major Initiatives and Accomplishments for FY 2013

In the Authority's fifth year of operations a number of initiatives were undertaken. These initiatives support the Authority's guiding principles of Stewardship, Sustainability, and Service.

Capital Projects: During the year ending June 30, 2013, the Authority had 170 active capital projects with approximately \$19 million in expenditures. A number of the projects were underway by the City and County when the Authority began operations. The CIP for the ten-year period from FY 2014 to FY 2023 totals over \$384 million. The largest capital expenditures during the year were for the following projects:

- Burnt Mill Creek Outfall Repair Phase 2 \$4.0 million project. Gravity sewer that conveys wastewater from
 downtown Wilmington along the Burnt Mill Creek branch of Smith Creek was determined by assessment to
 be in critical need of improvement. Manhole and pipe degradation were contributing significant amounts of
 infiltration and inflow into Pump Station 10 and the Northside Wastewater Treatment Plant. Project, largely
 funded with a State Revolving Loan, includes new 48-inch gravity sewer and pipe liner. Ongoing.
- Raw Water Transmission \$1.8 million project. Project makes improvements to the Raw Water Transmission system, including Toomer's Creek pump station abandonment and pipe replacement, King's Bluff pump station flow meter and surge valve replacement, isolation valve and blow off valve replacement; and air relief valve. Ongoing.
- Aquifer Storage & Recovery \$3.0 million project. Funded with American Recovery and Reinvestment Act
 of 2009 program (ARRA), project will enable the Authority to store drinking water produced during months
 when demand is relatively low and recover this water during peak demand months. Ongoing.
- Sweeney Water Treatment \$71.8 million project to increase the SWTP treatment capacity from 27.5 mgd to 35 mgd, with an ultimate plant capacity of 44 mgd. Process upgrades and improvements are included. Complete.

Other Accomplishments – The Authority Maintained its AA2 bond rating with Moody's and AA bond rating with Standard & Poor's.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This Authority has received this prestigious award each of the 4 years since it began operations. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR). This report must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine eligibility for another certificate.

The Authority Board members have provided their unfailing support of the highest standards of professionalism in the management of the Authority's finances. This report is the work of the efficient and dedicated staff of the Finance and Customer Service Departments. We wish to express our appreciation to all members of those departments who assisted and contributed to the preparation of this report and the entire Authority staff for their cooperation and assistance.

Respectfully submitted,

James R. Flechtner, P.E.

Q-R. Fleth

Interim Executive Director

Cheryl J.Spirrey Cheryl J. Spivey, CPA

Chief Financial Officer



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

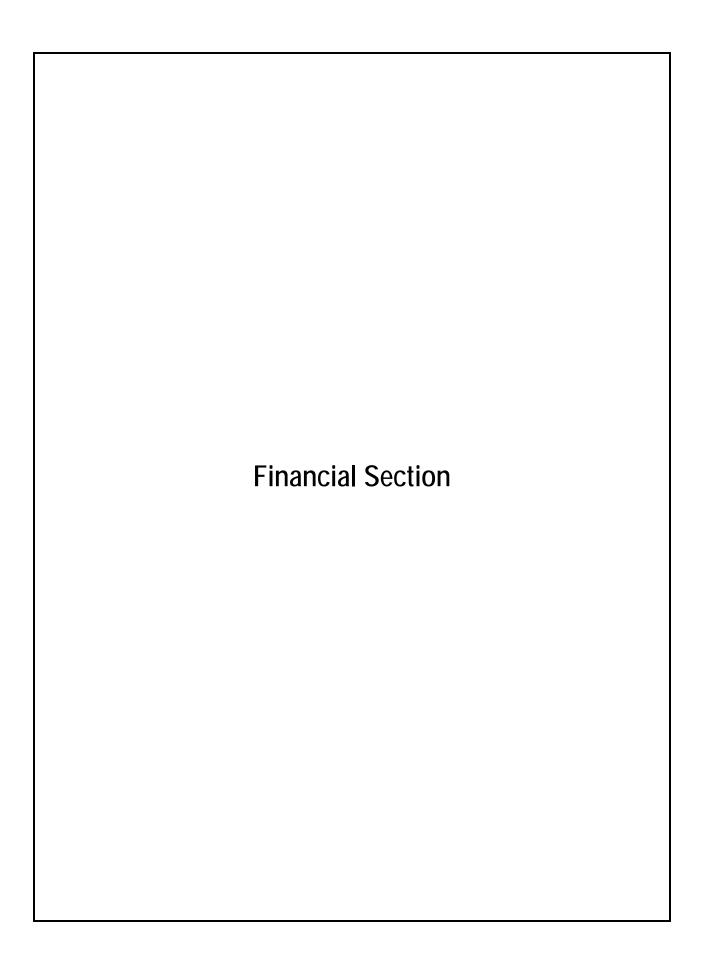
Presented to

Cape Fear Public Utility Authority North Carolina

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO





Thompson, Price, Scott, Adams & Co., P.A. 4024 Oleander Drive Suite 3
Wilmington, North Carolina 28403
Telephone (910) 791-4872
Fax (910) 395-4872

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cape Fear Public Utility Authority (the "Authority"), as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Cape Fear Public Utility Authority as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Cape Fear Public Utility Authority. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 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 the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cape Fear Public Utility Authority's internal control over financial reporting and compliance.

Thompson, Dice, Scott, adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A Wilmington, North Carolina October 11, 2013

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, 2013. 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 8 through 13 of this report.

FINANCIAL HIGHLIGHTS

- The overall financial condition of the Authority improved during the year ended June 30, 2013. Assets and
 deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at
 the close of the fiscal year by \$391 million (net position) which is an increase of \$18.6 million from the prior
 year. The increase in net position is primarily a result of the Authority's investment in infrastructure during
 the year.
- Nearly \$96 million of net position is unrestricted and may be used to meet the Authority's ongoing
 obligations to customers and creditors. Unrestricted net position increased \$11.8 million. The primary
 reasons for the increase in unrestricted assets is that operating expenses were significantly less than
 anticipated due to tighter spending constraints during the year to help offset declining consumption trends,
 increases in capital contributions, and non-borrowed (pay-go) funds intended for capital projects not yet
 spent.
- Total operating revenues were \$66.3 million, an increase of nearly \$2 million or 3% over the prior year. The
 increase in revenues reflects increases in water and sewer rates effective May 1, 2012 and May 1, 2013,
 which were primarily required to fund increased debt service expenditures, maintain a debt coverage ratio of
 1.20, and to cover declining water consumption.
- Total operating expenses (including depreciation and amortization) were approximately \$47.6 million, an increase of approximately \$1.7 million, or 3.6%, over the prior year.
- Operating income (operating revenue less operating expenses, depreciation and amortization) increased slightly to \$18.7 million from \$18.4 million in the prior year.
- Overall debt coverage decreased slightly to 1.54 for fiscal year 2013 from 1.55 in the prior year, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 1.89, also remaining above the 1.2 ratio required by revenue bond covenants.
- The Authority maintained a credit rating of AA from Standard & Poor's and AA2 from Moody's.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's primary mission is to provide water and sewer services to the City of Wilmington and 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 fund, the Authority's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues*, *Expenses and Changes in Fund Net Position* 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 and implications about the Authority's financial position. To provide a better understanding of the information contained in these statements, *Notes to Financial Statements* and a *Schedule of Revenues and Expenditures – Budget and Actual (NON-GAAP)*, appear immediately following the basic financial statements. In addition to this discussion and analysis, other required supplementary information, general statistical and demographic in nature, is presented.

The Statement of Net Position presents information on the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time,

increases or decreases in net position 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 Fund Net Position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 27 through 30 of this report.

<u>Notes to Financial Statements</u>. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to Financial Statements can be found on pages 31 through 52 of this report.

FINANCIAL ANALYSIS

Table A presents the Condensed Statement of Net Position for the fiscal years ended June 30, 2013 and June 30, 2012.

Condensed Statement of Net Position Table A

	June 30, 2013	June 30, 2012
Assets		2012
Current assets	\$ 121,240,476	\$ 114,004,396
Noncurrent assets-restricted	26,166,850	36,446,421
Noncurrent assets-capital	592,264,909	584,319,175
Total assets	739,672,235	734,769,992
Deferred Outflows of Resources	2,202,096	
Liabilities		
Current liabilities	30,089,406	34,219,278
Noncurrent liabilities	320,481,391	327,843,077
Total liabilities	350,570,797	362,062,355
Net Position Net investment capital assets	295,343,987	288,506,512
Unrestricted	95,959,547	84,201,125
Total net position	\$ 391,303,534	\$ 372,707,637

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$391 million at June 30, 2013, which is an increase of \$18.6 million over the prior year.

The increase in net position is primarily a result of the Authority's investment in infrastructure during the year which increased from \$584 million to \$592 million. Net investment in capital assets (land, buildings, machinery, and equipment less the associated debt on those assets) comprised 75.5% of total net assets at June 30, 2013. 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, 2013, these other resources totaled nearly \$96 million, an increase of 14%, or \$11.8 million over the prior year. The primary reasons for the increase in unrestricted assets is that operating expenses were significantly less than anticipated due to tighter spending constraints during the year to help offset declining consumption trends, increases in capital contributions, and non-borrowed (pay-go) funds intended for capital projects not yet spent.



Table B presents the Condensed Statement of Revenues, Expenses and Changes in Fund Net Position for the fiscal years ended June 30, 2013 and June 30, 2012.

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position Table B

Revenues Operating revenues \$ 63,061,317 \$ 61,115,2 Other operating revenues 3,218,814 3,233,2 Nonoperating revenues 66,280,131 64,348,4 Investment earnings 959,408 962,2	16
Charges for services \$ 63,061,317 \$ 61,115,2 Other operating revenues 3,218,814 3,233,2 Nonoperating revenues 66,280,131 64,348,4	16
Other operating revenues 3,218,814 3,233,2 66,280,131 64,348,4 Nonoperating revenues	16
66,280,131 64,348,4 Nonoperating revenues	
Nonoperating revenues	50
Investment earnings 959.408 962.2	
	60
Contributions from New Hanover County 1,900,000 1,900,00	00
Total revenues 69,139,539 67,210,7	10
Expenses	
Operating expenses 29,963,720 29,791,5	80
Depreciation and amortization 17,591,990 16,107,2	52
47,555,710 45,898,8	32
Nonoperating expenses	
Interest expense 13,213,771 10,500,3	30
Bond issuance costs and other debt service fees 316,120 625,3	83
Loss on disposal of capital assets 202,214	
Total expenses 61,287,815 57,024,5	45
Increase in net position before capital contributions 7,851,724 10,186,1	65
Capital contributions 10,744,173 6,395,3	59
Increase in net position 18,595,897 16,581,5	24
Net position, July 1, as restated (1) 372,707,637 356,126,1	13
Net position, June 30 \$ 391,303,534 \$ 372,707,6	

⁽¹⁾ As restated in accordance with GASB 65.

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

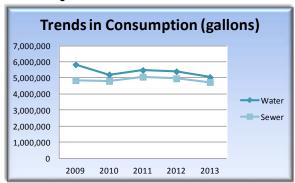
- Operating Revenues: The Authority is not empowered to levy or collect taxes. The Authority did receive a contribution of \$1.9 million from New Hanover County in fiscal year 2013. This contribution will gradually reduce over the next five years with a final contribution of \$304,000 in fiscal year 2018. Except for this contribution, which accounted for 2.7% of total revenues in fiscal year 2013, the Authority's operations, capital expansion program, and debt service are funded almost entirely from fees charged to our customers. As such, the Authority's revenue stream is impacted by fluctuations in demand for our services and other economic factors.
- Charges for services: Charges for services revenue increased by \$1.9 million from the prior year as a result of rate changes implemented in May 2012 and May 2013. The May 2012 rate changes increased the

fixed water charge by 3.3% and increased the wastewater volumetric charge by 12.5%. In May 2013, the Authority increased rates to produce an additional 4% in revenues and

	2013	2012
Average Bi-Monthly Residential Water Bill	\$ 60.01	\$ 52.21
Average Bi-Monthly Residential Sewer Bill	71.20	67.08
Total Average Bi-Monthly Residential Combined Bill	\$131.21	\$119.29

moved away from an inclining block rate structure for residential water customers to a uniform rate structure for all customers (both residential and nonresidential). The change in rate structure had varying effects on customers depending on the category of customer (residential, nonresidential, etc.) and the bimonthly consumption amount.

- Decreased demand: Due to declining consumption the Authority budgeted revenues for FY 13 assuming
 no customer growth. However, the Authority did experience modest growth in its customer base during FY
 2013, with an increase of 964 water customers and 450 sewer customers. Operating revenues were slightly
 above the adopted budget by \$869,000. This was in large part due to miscellaneous revenue (new service
 connections, penalties and other fees) coming in above budget. Also, the increase in new customers
 - contributed to sewer charges coming in above budget due to fixed charge revenue being higher than budgeted. Sewer volumetric charges came in below budget due to declining demand. Overall water consumption decreased by 6.7% from the prior year. Residential demand, which constituted 69.9% of water demand, decreased 7.4%, commercial demand decreased 3.2%, and institutional and governmental demand decreased 8.2%. Billed volumes for sewer service decreased by 4.6% from fiscal year 2012. Residential sewer



volumes decreased 5.2% from the prior fiscal year while non-residential decreased 3.3%.

- Operating expenses: Operating expenses increased by 3.6% from the prior year. Personnel and benefits increased less than \$4,000. Depreciation and amortization increased 9.2% from the prior year. Operating expenses, excluding depreciation and amortization, increased 0.6%. Services and utilities increased 3.2%, and materials decreased 7.5%. A significant factor in the decrease in materials expenses during FY 13 is due to tighter spending constraints as a result of declining demand for services.
- Other revenues: Investment earnings decreased slightly from \$962,000 to \$959,000 in fiscal year 2013.
 Capital contributions increased to \$10.7 million from \$6.4 million in fiscal year 2012. Cash contributions included in this category in the form of system development capacity charges were \$3.8 million in fiscal year 2013, a slight increase from \$3.7 million collected in 2012.

• Interest expense: Interest expense increased from \$10.5 million to \$13.2 million primarily due to a reduction in the amount of interest expense that was able to be capitalized for construction projects. Capitalized interest on assets being constructed (interest that is not immediately expensed, but instead considered an asset and amortized over time) reduced interest expense by \$3.2 million less in fiscal year 2013 than in fiscal year 2012. At the end of FY 2012, the Sweeney Water Treatment Plant Expansion was placed into service which is the primary reason for the decrease in capitalized interest for FY 2013. Interest paid and accrued during the year increased \$258,000 primarily related to having a full year of payments on the Series 2011 Water and Sewer Revenue Bonds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets totals \$592 million (net of accumulated depreciation and amortization) at June 30, 2013. Table C presents the Changes in Net Capital Assets for the fiscal year ended June 30, 2013. The major assets include water plants, wastewater treatment plants, pump stations, water distribution systems, and the wastewater collection system.

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

- Construction in progress increased by \$7 million. Of the \$14.5 million that was placed into service from construction in progress, \$4.2 million related to the Barnards Creek Pump Station project. Other projects completed during the year included \$4 million for the North Third Street Streetscape Project and an additional \$1.4 million for the Sweeney Water Treatment Plant upgrade.
- The largest increases in construction in progress, including all capitalized interest and other costs, were \$3
 million for the Burnt Mill Creek Outfall project, \$1.6 million for Raw Water Transmission and \$1.5 million for
 the Aquifer Storage and Recovery project.

Additional information on the Authority's capital assets can be found in Note 4 on page 37 of this report.

Capital Assets Net of Depreciation and Amortization Table C

	Beginning Balances, Reclassified July 1, 2012	Increases	Decreases	Completed Projects	Ending Balances June 30, 2013
Capital assets not being depreciated:	ф С 000 045	Φ.	^	c	ф / 000 04F
Land Intangible Asset-Easements	\$ 6,982,245 1,521,428	\$ - 7,057	\$ -	\$ - 59,511	\$ 6,982,245 1,587,996
Construction in progress	27,990,886	21,504,412	-	(14,500,979)	34,994,319
Total capital assets not being depreciated or amortized	36,494,559	21,511,469	-	(14,441,468)	43,564,560
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	282,207,081	20,676	(202,214)	6,565,025	288,590,568
Water and Sewer Lines	307,747,176	3,714,963	-	6,652,238	318,114,377
Furniture, Fixtures and Machinery	8,169,564	387,543	-	962,540	9,519,647
Intangible Asset-Computer Software	3,536,353	105,287	-	261,665	3,903,305
Intangible Asset-Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being depreciated or amortized	603,648,290	4,228,469	(202,214)	14,441,468	622,116,013
Less:					
Accumulated depreciation	(54,310,626)	(16,824,430)	-	-	(71,135,056)
Accumulated amortization	(1,513,048)	(767,560)	-	-	(2,280,608)
Total accumulated depreciation and amortization	(55,823,674)	(17,591,990)	-	-	(73,415,664)
Capital assets, net	\$ 584,319,175	ı			\$ 592,264,909

Debt Administration

The Authority's long term debt, presented in Table D below, totaled \$329.5 million at June 30, 2013, net of applicable premiums, discounts and deferred refunding charges. During the year ended June 30, 2010, the Authority was approved for a loan from the State of North Carolina Department of Environment and Natural Resources (DENR) up to a maximum of \$2.3 million. Half of this loan is subject to immediate principal forgiveness under the American Recovery and Reinvestment Act of 2009 (ARRA) program awarded by the Environmental Protection Agency (EPA) through the State Revolving Loan program administered by DENR. \$1.1 million from the ARRA loan has been drawn down as of June 30, 2013. This loan is funding the Aquifer Storage and Recovery project. During the year, the Authority was approved for an NC Clean Water State Revolving Loan to fund the Burnt Mill Creek Phase II capital project. As of June 30, 2013, \$2.4 million of a \$3 million loan has been drawn. The Authority has also received preliminary Promissory Notes for four capital projects that are eligible for funding from the Clean Water State Revolving Fund which is intended to fund the Smith Creek 'Alandale' Pump Station project, the Greenfield Lake Sewer Outfall Rehabilitation project, the 30th Street Sewer Rehabilitation project, and the Between the Creek Pump Station 28 Refurbishment project. The Authority's overall debt coverage for fiscal year 2013 was 1.54, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 1.89, remaining above the 1.2 ratio required by revenue bond covenants.

Outstanding Long-Term Obligations Table D

	2013	2012
Revenue Bonds	\$ 285,309,582	\$ 293,217,535
General Obligation Bonds:		
Locality compensation payment	5,255,000	7,759,279
Installment Obligations:		
Locality compensation payment	35,410,732	37,297,244
ARRA Revolving Loan	1,131,523	444,323
NC Clean Water State Revolving Loan	2,442,453	-
Capital Lease	-	14,171
Totals	\$ 329,549,290	\$ 338,732,552

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. At that time, 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. The capital improvements funded by this debt issuance included the Sweeney plant expansion, NANO water treatment facility, and improvements to the Northeast Interceptor sewer force main. The City and County had either started construction or were in final design on these projects when the Authority began operations on July 1, 2008.

The Authority issued \$44.1 million of revenue bonds on September 28, 2011, primarily to fund replacement and rehabilitation of wastewater and water lines, construction and installation of new water and wastewater lines, pump

station and force main improvements, and programs expected to be required by the Environmental Protection Agency.

Additional information on the Authority's long term debt can be found in Note 9, Long-Term Obligations beginning on page 43 and Note 15, Subsequent Events beginning on page 51 of this report.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2014

The Board approved a \$72.8 million annual budget for fiscal year 2014. The adopted budget reflects a 4% increase, or \$2.5 million, over fiscal year 2013. Budgeted operating expenditures excluding debt service and transfers increased to \$37.5 million for FY 2014 as compared to \$36.5 million for FY 13, or 3%.

Revenues are budgeted to increase to \$72 million in fiscal year 2014 from \$69.5 million in the adopted fiscal year 2013 budget, or 4%. This increase in revenues is primarily related to an increase in water and wastewater rates which were increased in May 2013. This increase was necessary to fund increased operating and debt service expenditures while maintaining a 1.20 debt coverage ratio for a future bond issuance planned for FY 2014.

The residential water rate structure was also changed from an inclining block structure to a uniform rate. While Authority revenues are budgeted to increase only 4%, with this change in structure, the average residential customer will see a 10% increase in their bimonthly bill. The adopted budget includes no customer growth or consumption growth as the Authority has been experiencing a decline in consumption as noted earlier.

The 2013 irrigation season for the Wilmington area has been a very rainy season which has impacted the Authority's water sales. The Authority has taken measures to ensure that it ends fiscal year 2014 in a stable financial position by placing tighter spending constraints on discretionary items. The Authority will continue to closely monitor revenue and consumption patterns throughout the rest of fiscal year 2014 and will make adjustments to expenditure levels as needed.

REQUESTS FOR ADDITIONAL 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 Suite 201 (Second Floor), Wilmington, NC 28403. You can also call 910-332-6668, visit our website at www.cfpua.org or send an email to cheryl.spivey@cfpua.org.

Cape Fear Public Utility Authority Statement of Net Position June 30, 2013

ASSETS

Current assets	
Cash, cash equivalents and investments	\$ 95,319,958
Receivables, net	17,096,898
Due from other governments	1,803,991
Restricted cash and cash equivalents	4,543,596
Restricted receivables	1,133,053
Prepaids	100,983
Inventories	1,241,997
Total current assets	121,240,476
Noncurrent assets	
Restricted cash and cash equivalents	12,710,658
Restricted investments	13,456,192
Capital assets:	
Land, easements and construction in progress	43,564,560
Other capital assets, net	548,700,349
Total capital assets	592,264,909
Total noncurrent assets	618,431,759
Total assets	739,672,235
DEFENDED OUTELOWS OF DECOUDARS	
DEFERRED OUTFLOWS OF RESOURCES	204.174
Accumulated decrease in fair value of hedging derivative	284,174
Deferred charge on refunding of debt	1,917,922
Total deferred outflows of resources	2,202,096
LIABILITIES	
Current liabilities	
Long-term obligations, current maturities	11,652,876
Accrued interest payable	4,853,847
Customer and escrow deposits	1,192,446
Due to other governments	3,744,916
Accounts payable and accrued liabilities	3,055,364
Compensated absences, current maturities	714,320
Unearned revenue	47,867
Accounts payable from restricted assets	4,543,596
Derivative instrument - interest rate swap	284,174
Total current liabilities	30,089,406
Noncurrent liabilities	
Compensated absences	378,556
Other post-employment benefits (OPEB)	2,206,421
Long-term obligations, net of current maturities	317,896,414
Total noncurrent liabilities	320,481,391
Total liabilities	350,570,797
NET POSITION	
Net investment in capital assets	295,343,987
Unrestricted	95,959,547
Total net position	\$ 391,303,534

See Notes to Financial Statements.

Cape Fear Public Utility Authority Statement of Revenues, Expenses and Changes in Fund Net Position For the Fiscal Year Ended June 30, 2013

Operating revenues	
Charges for services	\$ 63,061,317
Other operating revenues	3,218,814
Total operating revenues	66,280,131
Operating expenses	
Personnel and benefits	15,320,702
Services and utilities	12,052,125
Materials	2,590,893
Depreciation and amortization	17,591,990
Total operating expenses	47,555,710
Operating income	18,724,421
Nonoperating revenues (expenses)	
Investment earnings	959,408
Interest expense	(13,213,771)
Bond issuance costs-New Hanover County	(220,902)
Other debt service fees	(95,218)
Loss on disposal of capital assets	(202,214)
Contributions from New Hanover County	1,900,000
Total nonoperating (expenses)	(10,872,697)
Income before capital contributions	7,851,724
Capital contributions	10,744,173
Total capital contributions	10,744,173
Change in net position	18,595,897
Net position	
Beginning of year	375,969,746
Prior period adjustment-change in accounting principle	(3,262,109)
Beginning, as restated	372,707,637
End of year	\$ 391,303,534

See Notes to Financial Statements.

Cape Fear Public Utility Authority Statement of Cash Flows

For the Fiscal Year Ended June 30, 2013

Cash Flows From Operating Activities	
Cash received from customers	\$ 62,383,095
Cash paid to suppliers	(14,614,956)
Cash paid to or on behalf of employees	(15,300,341)
Other operating income	 3,218,814
Net cash provided by operating activities	 35,686,612
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(22,105,903)
Principal paid on long-term obligations	(11,989,171)
Principal paid on New Hanover County refunded bonds	(17,790,000)
Proceeds from long-term obligations:	
Principal from other long-term obligations	3,129,653
Principal from New Hanover County refunding bonds	16,005,000
Premium from New Hanover County refunding bonds	1,865,325
Bond issuance costs-New Hanover County refunding bonds	(220,902)
Other debt service fees	(95,218)
Interest paid on long-term obligations	(15,586,048)
Capital contributions	 6,319,811
Net cash used for capital and related financing activities	 (40,467,453)
Cash Flows From Investing Activities	
Investment earnings	964,667
Net cash provided by investing activities	 964,667
Net decrease in cash and cash equivalents	(3,816,174)
Cash and cash equivalents, beginning of year	 116,390,386
Cash and cash equivalents, end of year	\$ 112,574,212
Reconciliation to statement of net position:	
Cash and cash equivalents	\$ 95,319,958
Restricted cash and cash equivalents (current and noncurrent)	 17,254,254
Total cash, cash equivalents and investments	\$ 112,574,212

(Continued)

Cape Fear Public Utility Authority Statement of Cash Flows (Continued) For the Fiscal Year Ended June 30, 2013

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 18,724,421
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	17,591,990
Changes in assets and liabilities:	
(Increase) in receivables and due from other governments	(809,963)
Decrease in inventories	393
(Increase) in prepaids	(64,457)
Increase in accounts payable, accrued liabilities and due to other governments	32,481
Increase in customer and escrow deposits	191,386
Increase in compensated absences and OPEB	20,361
Total adjustments	16,962,191
Net cash provided by operating activities	\$ 35,686,612
Supplemental Schedule of Noncash Activities	
Contributions of capital assets from developers	\$ 3,722,020
Debt payment reduction from New Hanover County	\$ 1,900,000

See Notes to Financial Statements.

Cape Fear Public Utility Authority Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

Note 1. Summary of Significant Accounting Policies

The accounting policies and financial statements of the Cape Fear Public Utility Authority (the 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 was created in 2007 pursuant to Chapter 162A of the North Carolina General Statutes, by the governing bodies of New Hanover County (County) and the City of Wilmington (City), for the purpose of providing water and sewer services to residents of New Hanover County. 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. The Authority is empowered to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency, but has no taxing authority. The Authority Board consists of eleven members who hold office for staggered terms. The members 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 body include two current members from those respective governing bodies.

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 Codification Section 2100 have been considered and the Authority has identified two blended component units, described below, which are in substance part of the Authority's operations, and so data from these units is combined with data of the Authority. 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.

Blended Component Units

Cape Fear Utilities, Inc. and Quality Water Supplies, Inc., North Carolina nonprofit corporations, exist to provide and maintain a ground water utility system for citizens of Wilmington, North Carolina and the surrounding community. The Authority is the sole shareholder of each corporation and each of the corporations is governed by a Board comprised of members of the Authority Board. The corporations have no other operations except for services provided to the Authority and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The rates for user charges and the annual budget of the ground water utility system are approved by the Authority Board. Therefore the operations of these corporations are combined and reported as a part of the Authority's operations. The corporations do not issue separate financial statements.

Basis of Presentation

All activities of the Authority and its blended component units 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.

Cape Fear Public Utility Authority Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

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 and 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 accounting principles generally accepted in the United States of America. 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 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 services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 fund. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for capital projects funds, which are consolidated with the operating fund for reporting purposes.

Expenditures may not legally exceed appropriations at the functional level for the operating fund and at the project level for the capital projects funds. 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 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.

Assets, Liabilities, Deferred Outflows and Inflows and Net Position

Cash, Cash Equivalents, 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

Cape Fear Public Utility Authority Notes to Financial Statements For the Fiscal Year Ended June 30, 2013

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.

The Authority pools monies from several funds to facilitate disbursement and investment and to maximize investment earnings. 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 and Liabilities

When capital projects are funded by debt issues or federal and state grants, the assets and liabilities related to those projects are reported as restricted assets and liabilities as their use is restricted to the purpose for which the obligations were originally issued.

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 revenue collection rates to determine the percentage uncollectible.

Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories

Inventories consist of materials and supplies maintained for major items used by the Authority. Inventories are valued at cost, which approximates market. The Authority's automated inventory system uses the average cost method. Non-automated inventory uses the first-in, first-out (FIFO) cost method. Inventories are recorded using the consumption method which means inventory is recorded as an asset and materials and supplies are not recorded as an expense until consumed.

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 repairs and maintenance 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, 2013 totaled \$1,598,593.

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.

Intangible assets consist of water availability rights, easements, and software. The water availability rights are available under an agreement the City of Wilmington entered into with a regional public authority. The agreement makes available 15 million gallons per day of raw water. The availability rights are being amortized over 40 years, the life of the agreement. Easements are recorded at fair value and are not amortized. In accordance with GASB Codification Section 1400, computer software is capitalized with a minimum capitalization cost of \$25,000 and is amortized over a period of three to eight years.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future reporting period. The Authority has two items that meet this criterion – a deferred charge on debt refunding (proceeds from refunding less the amount of refunded debt) that had previously been netted against Long-term Obligations and Accumulated decrease in fair value of hedging derivative. In addition to liabilities, the Statement of Net Position can also report a separate section for deferred inflows of resources. Deferred Inflows of Resources, represents an acquisition of net position that applies to a future reporting period. The Authority has no Deferred Inflows of Resources.

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 unbilled receivables, allowance for doubtful accounts, estimated useful lives of capital assets, compensated absences, other post-employment benefits, medical self-insurance, workers' compensation self-insurance and the valuation of derivative instrument - interest rate swap.

Long-Term Obligations

Long-term obligations are reported as a liability in the Statement of Net Position, net of applicable bond premiums and discounts, if applicable. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. The effective interest method accounts for the premium or discount at which a bond is sold as interest expense to be amortized over the life of the bond. The interest expense is calculated using the prevailing market interest rate at the time of the bond issue which is multiplied by the book value of the bond to find the amount of the premium or discount to be amortized as interest expense each reporting period.

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. All vacation leave is accrued when incurred. The accrued value is based on each employee's rate of pay as of June 30 of each fiscal year. Vacation leave accrued over the 320 hour limit is converted to sick leave annually. Accrued vacation at year end totaled \$1,092,876 and is included as compensated absences. The portion of the accrued vacation which is estimated to be used during the next fiscal year (based on current year usage) is recorded as a current liability of \$714,320 on the Statement of Net Position.

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 coverage for claims above a specific amount. The individual stop-loss insurance provides reimbursement to the group plan of all eligible claims paid above \$85,000 on behalf of any participant during the contract period. The stop-loss insurance policy was underwritten by Blue Cross and Blue Shield of North Carolina. A provision of \$640,000 has been accrued to fund estimated claims incurred but not reported as of June 30, 2013, and to fund a 20% reserve level over expected claims.

Workers' Compensation Self-Insurance

The Authority is self-insured for workers' compensation and employers' liability insurance, and purchases Specific and Aggregate Excess Workers Compensation and Employers Liability Indemnity insurance. The Authority contracted with PMA, Inc., a provider of claims administrative services, to administer the program. The program provides that the Authority is responsible for the first \$500,000 of cost and/or benefits payable to employees resulting from any one accident or event, regardless of the number of persons injured.

Specific and Aggregate Excess Workers Compensation and Employers Liability Indemnity insurance provides protection against compensable claims during the policy year above the self-insured specific retention of \$500,000, up to the maximum limits provided under the North Carolina Workers' Compensation Act and up to \$1,000,000 each accident or disease for Employer's Liability. In addition, the insurance would provide protection against cumulative retained losses after the Authority's aggregate costs reach a minimum of \$1,195,302 for claims occurring during the policy period and would then provide an additional \$1,000,000 of coverage, with any losses beyond the \$1,000,000 limit being retained by the Authority.

A provision of \$140,000 for estimated claims incurred as of June 30, 2013 has been accrued.

Net Position

Net position is classified as net investment capital assets, restricted, or unrestricted. Net investment in capital assets represents the amount invested in capital assets less any outstanding debt used in the acquisition of those assets. Restricted net position represents constraints on resources that is either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through state statute. Unrestricted net position does not meet the definition of "net investment in capital assets" or "restricted". Unrestricted net position of \$4,238,732 has been earmarked by the governing board for 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, 2013, the carrying amount of the Authority deposits was \$111,738,043 and the bank balance was \$112,135,895. Of the bank balance, \$851,305 was covered by FDIC insurance and \$111,284,590 was collateralized using the Pooling Method.

Investments

At June 30, 2013, the Authority had the following investments:

		Maturity Less Than	
	Fair Value	One Year	
US Government Agencies	\$ 13,456,192	\$ 13,456,192	•
NC Capital Management Trust - Cash Portfolio	833,969	N/A	
	\$ 14,290,161	\$ 13,456,192	-

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Cash, cash equivalents and investments of the Authority can be summarized as follows as of June 30, 2013. The restricted investments are 2008 Revenue Bond proceeds invested to fund a debt service reserve. On the Statement of Net Position, current restricted cash and cash equivalents are restricted to pay current liabilities classified as Accounts payable from restricted assets.

Cash on hand	\$	2,200
Deposits		111,738,043
Investments		14,290,161
	\$	126,030,404
Current Assets		
Cash,cash equivalents and investments	\$	95,319,958
Restricted cash and cash equivalents		4,543,596
Noncurrent Assets	•	
Restricted cash and cash equivalents		12,710,658
Restricted investments		13,456,192
	\$	126,030,404

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 has no formal policy on managing 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, 2013 the Authority's investments in the NCCMT Cash Portfolio carried a credit rating of AAAm by Standard & Poor's.

The Authority's investment in U.S. Government Agencies (Federal Home Loan Bank Discount Note) earned the highest credit ratings from Moody's and S&P (P-1/A-).

Custodial Credit Risk

The Authority has no policy on custodial credit risk. However, the Authority contracts with the trust department of a financial institution, as bond trustee, to hold its investments in the Authority's name.

The Authority has no policy on foreign currency risk.

Note 3. Receivables

At year end, the Authority estimates the revenue value of water consumed by its customers but not billed by the last day of the fiscal year. This is done by multiplying the estimated unbilled water usage by the approximate number of days unbilled at June 30. As of June 30, 2013, the Authority had approximately \$6,763,213 of unbilled receivables included in Receivables – Authority customers and Receivables – City customers, below.

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

Receivables - Authority customers	\$ 15,460,257
Receivables - City of Wilmington customers	3,487,247
Allowance for doubtful accounts	(1,850,606)
Total receivables, net	\$ 17,096,898
Refund of sales and use tax paid New Hanover County Town of Wrightsville Beach	\$ 609,622 1,000,000 194,369
Total due from other governments	\$ 1,803,991

Note 4. Capital Assets

The beginning balances as of July 1, 2012 were reclassified as follows: (1) a capital project was capitalized in FY12, but it was later determined that the capital asset was not ready for its intended use and (2) a portion of an asset previously classified as Land, was reclassified to Plant, Structures and Improvements, representing the value of a building located on the land, that was demolished in FY13.

	Beginning Balances				Beginning Balances, Reclassified		
		July 1, 2012	Recla	assification	J	July 1, 2012	
Land	\$	7,182,245	\$	(200,000)	\$	6,982,245	
Plant, Structures and Improvements		282,817,205		(610,124)		282,207,081	
Construction in progress		27,180,762		810,124		27,990,886	
	\$	317,180,212	\$	-	\$	317,180,212	

Capital assets activity consists of the following for the fiscal year ended June 30, 2013. Current depreciation and amortization expense was \$16,824,430 and \$767,560, respectively.

		Beginning Balances, Reclassified July 1, 2012		Increases		Decreases	Completed Projects	Ending Balances June 30, 2013
Capital assets not being depreciated:					_			
Land	\$	6,982,245	\$	-	\$	-	\$ -	\$ 6,982,245
Intangible Asset-Easements		1,521,428		7,057		-	59,511	1,587,996
Construction in progress		27,990,886		21,504,412		-	(14,500,979)	34,994,319
Total capital assets not being		0/ 40/ 550		04 544 470			(4.4.4.4.4.0)	40.5/4.5/0
depreciated or amortized		36,494,559		21,511,469		-	(14,441,468)	43,564,560
Capital assets being depreciated or amortized	1 :							
Plant, Structures and Improvements		282,207,081		20,676		(202,214)	6,565,025	288,590,568
Water and Sewer Lines		307,747,176		3,714,963		-	6,652,238	318,114,377
Furniture, Fixtures and Machinery		8,169,564		387,543		-	962,540	9,519,647
Intangible Asset-Computer Software		3,536,353		105,287		-	261,665	3,903,305
Intangible Asset-Water Availability Rights		1,988,116		-		-	-	1,988,116
Total capital assets being								
depreciated or amortized		603,648,290		4,228,469		(202,214)	14,441,468	622,116,013
Less accumulated depreciation or amortization for:								
Plant, Structures and Improvements		19,193,450		7,749,114		-		26,942,564
Water and Sewer Lines		30,207,822		7,676,735		-	-	37,884,557
Furniture, Fixtures and Machinery		4,909,354		1,398,581		-	-	6,307,935
Intangible Asset-Computer Software		1,167,288		681,120		-	-	1,848,408
Intangible Asset-Water Availability Rights		345,760		86,440		-	-	432,200
Total accumulated depreciation								
and amortization		55,823,674		17,591,990		-	-	73,415,664
Total capital assets being								
depreciated or amortized, net		547,824,616						548,700,349
Capital assets, net	\$	584,319,175	_					\$ 592,264,909

Capital asset disposals of \$202,214 are for obsolete buildings that were demolished in FY13.

Capital contributions as shown on the Statement of Revenues, Expenses and Changes in Fund Net Position consists of the following at June 30, 2013. Total capital contributions from cash varies from the Statement of Cash Flows due to year-end accruals recognized on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Capital Contributions:	
System Development Charges	\$ 3,832,586
Contributions from Developers-Cost Sharing	3,189,567
Total Capital Contributions from Cash	7,022,153
Contributions from Developers-Donated Capital (Non-Cash)	3,722,020
Total Capital Contributions	\$ 10,744,173

Note 5. Due to Other Governments

The amounts presented in the Statement of Net Position as Due to Other Governments as of June 30, 2013 are as follows:

Sales and Use Tax Paid-Due to State of North Carolina	\$ 9,523
City of Wilmington-Solid Waste and Stormwater Fees in Receivables, net	3,735,393
Total Due to Other Governments	\$ 3,744,916

Note 6. Operating Leases

The Authority leases building, office facilities and land under two operating lease arrangements. The original lease for the Administration Building commenced on June 1, 2008 and coved a period of 120 months. An amendment to that lease was effective July 26, 2012, with a new lease term of 120 months, expiring July 25, 2022, with the option to extend the lease for two additional five-year periods. A new lease for the Operations Center commenced August 1, 2011 and covers a period of 60 months, with the option to extend the lease for one additional two-year period. Total lease costs of \$787,135 for the fiscal year ended June 30, 2013, included the Administration Building and the Operations Center. The future minimum lease payments as of June 30, 2013 are as follows:

Year Ending June 30	Amount
2014	\$ 773,671
2015	778,275
2016	783,017
2017	645,184
2018	644,216
Thereafter	2,766,516
Total	\$ 6,390,879

Note 7. Benefit 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 6.74% 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 contributions to LGERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$850,874, \$860,792, and \$799,850, respectively. The contributions made by the Authority equaled the required contributions for the fiscal year.

Supplemental Retirement Income Plan and Deferred Compensation Plan

Plan Descriptions. The Authority offers its employees the opportunity 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.

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 \$332,572 and employee contributions and loan repayments were \$382,456 for the fiscal year ended June 30, 2013.

Employer contributions to the 457 Deferred Compensation Plan totaled \$115,889 and employee contributions and loan repayments were \$178,697 for the fiscal year ended June 30, 2013.

Other Post-Employment Benefits (OPEB)

Plan Description. According to the Authority's personnel policy, the Authority provides post-employment health care benefits to retirees of the Authority as a single-employer defined benefit plan, 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 15 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 189 active plan members and 11 retirees receiving benefits at December 31, 2012, the date of the latest actuarial valuation.

Funding Policy. The Authority's contribution to 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 is required to disclose the unfunded ARC, which must be amortized over future periods. To date, the Authority has chosen to fund these benefits on a pay-as-you-go basis.

The current ARC is 1.19% of annual covered payroll. Contributions of \$124,888 (.99% of annual covered payroll) were made by the Authority for the current year of which \$26,723 were made by retirees of the Authority.

Summary of Significant Accounting Policies. Post-employment benefits are paid as they come due from the Authority's operating fund. Assets have been accumulated for OPEB purposes but have not been placed in an irrevocable trust fund.

Annual OPEB Cost and Net OPEB Obligation. The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, 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 30 years. The following table shows the components of the Authority's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for the healthcare benefits:

Annual required contribution (ARC)	\$	150,386
Interest on net OPEB obligation		88,620
Adjustment to annual required contribution		(123,195)
Annual OPEB cost		115,811
Contributions made		(124,888)
Decrease in net OPEB obligation	•	(9,077)
Net OPEB obligation, beginning of year		2,215,498
Net OPEB obligation, end of year	\$	2,206,421

The Authority's three year trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation is as follows:

		Percentage of	
		Annual OPEB	
For The Year	Annual	Cost	Net OPEB
Ended June 30	OPEB Cost	Contributed	Obligation
2013	\$ 115,811	107.84%	\$ 2,206,421
2012	123,385	90.76%	2,215,498
2011	124,617	6.01%	2,204,102

Funded Status and Funding Progress. As of December 31, 2012, 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 \$2,459,288. The covered payroll (annual payroll of active employees covered by the plan) was \$12,632,605, and the ratio of the UAAL to the covered payroll was 19.5%.

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 Financial Statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. As an unfunded plan, there are no plan assets.

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.

In the December 31, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate, salary increases of 2.5%, medical trend rates between 7.0% and 4.5%, and a 2.50% inflation assumption. The UAAL is being amortized on a level dollar amount on a closed basis. The remaining amortization period at December 31, 2012 was 28 years.

Note 8. 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 years ended June 30, 2013, 2012, or 2011.

The Authority also carries flood insurance coverage for its facilities with a limit of \$1,000,000 and a deductible of \$50,000 on scheduled properties.

The Authority's Chief Financial Officer is individually bonded for \$250,000. Additional bonds of \$250,000 each were effective as of March, 2013 for three additional employees who handle the new in-house cash collections. The remaining employees that have access to funds are bonded under a blanket bond for \$1,000,000.

For liabilities funded under the risk financing fund, 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 and recent claim settlement trends including the frequency and amount of payouts.

Claims liabilities are reported as accounts payable and accrued liabilities. Changes in claims liability for the fiscal years ended June 30, 2013 and 2012 are as follows:

,	2013		2012
Medical Self-Insurance Program	 2013		2012
Unpaid claims, beginning of year	\$ 645,835	\$	437,091
Incurred claims (including IBNR)	2,047,118	2	2,204,571
Claim payments (including fees)	(2,052,953)	(1	1,995,827)
Unpaid claims, end of year	\$ 640,000	\$	645,835
Workers' Compensation Self-Insurance Program			
Unpaid claims, beginning of year	\$ 158,000	\$	115,000
Incurred claims (including IBNR)	108,849		99,944
Claim payments	(126,849)		(56,944)
Unpaid claims, end of year	\$ 140,000	\$	158,000

Note 9. Long-Term Obligations

Total Long-Term Obligations

Plus Unamortized Premiums

Net Carrying Value of Long-Term Obligations

Bonded Debt

Details of the Authority's outstanding bonded and installment long-term obligations at June 30, 2013 are as follows

Details of the Authority's outstanding bonded and installment long-term obligations at June 30, 2013 are	as follows:
Revenue Bonds \$62,400,000 Water and Sewer Revenue and Refunding Revenue Bonds, Series 2005 issued by the City of Wilmington 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 annually on June 1 in varying amounts of \$1,725,000 to \$2,875,000 plus interest through June 1, 2034; interest at fixed rates of 5.0%.	52,520,000
\$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 \$1,410,000 to \$13,125,000 plus interest through August 1, 2035; interest at rates ranging from 3.5% to 5.0%.	177,845,000
\$44,100,000 Water and Sewer Revenue bonds, Series 2011 issued for water and sewer improvements; principal payments due annually on August 1 in varying amounts of \$1,245,000 to \$2,740,000 plus interest through August 1, 2036; interest at rates ranging from 3.0% to 5.0%. Total Revenue Bonds	42,750,000 273,115,000
General Obligation Bonds Locality compensation payable to City of Wilmington due in annual principal payments on June 1 in varying amounts from \$2,355,000 to \$2,900,000 through June 1, 2015; variable rate semiannual interest payments due June 1 and December 1. Total General Obligation Bonds	5,255,000 5,255,000
Installment Obligations Locality compensation payable to City of Wilmington for Certificates of Participation due in annual principal payments on June 1 ranging from \$965,000 to \$1,550,000 through June 1, 2024; semiannual interest payments due June 1 and December 1 at rates ranging from 4.2% to 5.0%.	13,605,000
Locality compensation payable to New Hanover County for Certificates of Participation due in annual principal payments on August 26 ranging from \$767,000 to \$891,800 through August 26, 2017; semiannual interest payments due August 26 and February 23 at rates ranging from 3.625% to 4.0%.	4,136,600
Locality compensation payable to New Hanover County for Refunding Limited Obligation Bonds due in annual principal payments on December 1 ranging from \$945,000 to \$1,180,000 through December 1, 2027; semiannual interest payments due December 1 and June 1 at rates ranging from 1.0% to 5.0%. Total Installment Obligations	15,355,000 33,096,600
	011 111 100

311,466,600

14,508,714

\$ 325,975,314

Changes in Long-Term Obligations

										Current
	Balance					Unamortized		Balance		Portion
	July 1, 2012 (1)		Additions	F	Retirements	Premiums	Jı	une 30, 2013	(of Balance
Revenue Bonds	\$ 281,220,000	\$	-	\$	8,105,000	\$ 12,194,582	\$	285,309,582	\$	7,210,000
General Obligation Bonds:										
Locality compensation payment	8,200,000		-		2,945,000	-		5,255,000		2,900,000
Installment Obligations:										
Locality compensation payment	37,197,600	37,197,600 16,005,000			20,106,000	2,314,132		35,410,732		1,335,000
	326,617,600		16,005,000		31,156,000	14,508,714		325,975,314		11,445,000
ARRA Revolving Loan	444,323		687,200		-	-		1,131,523		56,576
Clean Water State Revolving Loan	-		2,442,453					2,442,453		151,300
Capital Lease	14,171		-		14,171	-		-		-
Compensated Absences	1,063,438		29,438		-	-		1,092,876		714,320
Other Post-Employment Benefits (OPEB)	2,215,498		115,811		124,888	-		2,206,421		-
Totals	\$ 330,355,030	\$	19,279,902	\$	31,295,059	\$ 14,508,714	\$	332,848,587	\$	12,367,196

⁽¹⁾ Balance at July 1, 2012 is <u>not</u> net of unamortized premiums and discounts of \$13,892,768.

The payments on the Authority's outstanding bonded and installment long-term obligations for the future years are as follows:

Year Ending	Parity Bonded Debt Subordinated Bonded & Installment Debt			& Installment Debt	Tota	al
June, 30	Principal	Interest	Principal	Interest	Principal (1)	Interest
2014	7,210,000	13,209,678	5,812,000	1,592,948	13,022,000	14,802,626
2015	6,480,000	12,919,741	5,300,600	1,393,618	11,780,600	14,313,359
2016	5,430,000	12,671,241	2,984,200	1,150,769	8,414,200	13,822,010
2017	9,290,000	12,336,903	3,043,000	1,038,734	12,333,000	13,375,637
2018	9,735,000	11,900,853	3,111,800	915,839	12,846,800	12,816,692
2019-2023	48,230,000	52,469,906	11,770,000	2,959,475	60,000,000	55,429,381
2024-2028	59,530,000	39,636,748	6,330,000	650,750	65,860,000	40,287,498
2029-2033	76,140,000	23,025,235	-	-	76,140,000	23,025,235
2034-2037	51,070,000	4,094,000	-	-	51,070,000	4,094,000
Total	273,115,000	\$182,264,305	38,351,600	\$9,702,133	311,466,600	\$191,966,438
Unamortized premiums	12,194,582		2,314,132		14,508,714	
Net carrying value	\$285,309,582	-	\$40,665,732	-	\$325,975,314	
_		=		-		

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

Pursuant to the inter-local agreement transferring the City's and the 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 City and the County have retained and are servicing those obligations with the Authority making payments to the City and the County equal to the principal and interest payments required under those debt instruments. Debt service payments made to the City and County for the fiscal year ended June 30, 2013 were \$5,021,028 and \$4,061,805, respectively.

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 for fiscal years ended June 30, 2013, 2012, 2011, 2010, and 2009. Beginning in the sixth year (fiscal year ending June 30, 2014), the debt payment reduction amounts will consist of \$1,577 million, \$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. This debt reduction is shown as Contributions from New Hanover County on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Unexpended proceeds from the issuance of revenue bonds 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, 2013.

Capital Lease

The Authority entered into an agreement to lease certain equipment. The lease agreement qualified as a capital lease for accounting purposes and, therefore, was recorded at the present value of the future minimum lease payments as of the date of its inception. The agreement was executed on April 23, 2008 for the lease of computer equipment for a period of 48 months and required a monthly payment of \$14,236. The final payment was made in August, 2012. At June 30, 2013 the Authority's leased equipment was valued at \$612,731, net of accumulated depreciation of \$612,731, for a net carrying value of \$0. The equipment is recorded as Furniture, Fixtures and Machinery.

ARRA Loan

During the year ended June 30, 2010, the Authority was approved for a loan from the State of North Carolina, Department of Environment and Natural Resources (DENR). The loan has been drawn down as expenditures are paid on the Aquifer Storage and Recovery capital project, to a maximum of \$2,263,046. Half of the loan amount is subject to immediate principal forgiveness under an American Recovery and Reinvestment Act of 2009 (ARRA) program awarded by the Environmental Protection Agency (EPA) through the State Revolving Fund program administered by DENR. The remaining \$1,131,523 will be due in 20 equal, annual installments of \$56,576, commencing on May 1 immediately following the completion of the project. The loan does not bear interest. At June 30, 2013, \$1,131,523 is recorded as an outstanding loan as of June 30, 2013.

The payments on the Authority's outstanding ARRA Loan for the future years are as follows:

Year Ending	ARRA Loan					
June, 30	Principal					
2014	56,576					
2015	56,576					
2016	56,576					
2017	56,576					
2018	56,576					
2019-2023	282,880					
2024-2028	282,880					
2029-2033	282,883					
Total	\$1,131,523					

Clean Water State Revolving Loan (CWSRL)

During the year ended June 30, 2013, the Authority was approved for a loan and executed the promissory note from the State of North Carolina, Department of Environment and Natural Resources (DENR). The loan has been drawn down as expenditures are paid on the Burnt Mill Creek Phase II capital project, to a maximum of \$3,025,992. The interest rate on the loan is 2.455% per annum, with a term of twenty years. Principal payments will be made annually on May 1, and interest payments will be made semiannually on May 1 and November 1 of each year. The first principal and interest payments are not due until six months after the original date of completion of the project. At June 30, 2013, \$2,442,453 is recorded as an outstanding loan.

The payments on the Authority's outstanding CWSRL for the future years are as follows:

Year Ending	Clean Water State	Revolving Loan
June, 30	Principal	Interest
2014	151,300	81,106
2015	151,300	70,574
2016	151,300	66,860
2017	151,300	63,144
2018	151,300	59,430
2019-2023	756,500	241,436
2024-2028	756,500	148,576
2029-2033	172,953	18,572
Total	2,442,453	\$749,698

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.

Objective of the interest rate swap. As a means to lower its borrowing costs and increase its savings, when compared against fixed-rate refunding bonds at the time of issuance in February 2002, the City entered into a pay-fixed, receive variable interest rate swap in connection with its \$28,825,000 Variable Rate General Obligation Refunding Bonds, Series 2002. The intention of the swap agreement was to effectively change the interest rate on the bonds to a synthetic fixed rate of 3.815%. The swap is accounted for as a cash flow hedge and is determined to be effective using the synthetic instrument method.

Terms. The bonds and the related swap agreement mature on June 1, 2015 and the swap's June 30, 2013 notional amount of \$5,255,000 matches the face amount of the variable-rate bonds. The swap was entered into at the same time the bonds were issued (February 2002). The notional value of the swap declines with the principal amount of the associated debt. Under the swap 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 float rate coupons marketed weekly.

Fair value. Because interest rates have declined since execution of the swap, the swap has an accumulated decrease in (negative) fair value of \$284,174 as of June 30, 2013 which is reported on the Statement of Net Position as a derivative

liability offset by a deferred outflow of resources. The swap'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, 2013 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 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 their exposure exceeds \$5,000,000, the fair value of the swap 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, 2013 of 3.75%. As of June 30, 2013, the rate on the variable rate Bonds was .06% whereas 67% of LIBOR was .13%.

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. The swap may be terminated by the City with 30 days' notice and the counterparty can only terminate the swap if the City falls below BBB- with any of the three major rating services. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2013, 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.

Fiscal Year	Interest Rate									
Ending June 30,	Principal		Interest		Swap, Net		Total			
2014	\$ 2,900,000	\$	3,153	\$	193,657	\$	3,096,810			
2015	2,355,000		1,413		86,786		2,443,199			
Total	\$ 5,255,000	\$	4,566	\$	280,443	\$	5,540,009			

In connection with the creation of the Authority on July 1, 2008, the interest rate swap agreement continues to be an obligation of the City and all payments required to be made by the City under the agreement are reimbursed to the City by the Authority.

The following is a summary of the derivative activity for the fiscal year ended June 30, 2013:

	ional Value ne 30, 2013	Fair Value July 1, 2012		A	dditions	Reductions			Fair Value June 30, 2013	
2002 pay-fixed, receive variable interest rate swap	\$ 5,255,000	\$	(555,134)	\$	270,960	\$	-	\$	(284,174)	

Debt Service Coverage

The Authority has been in compliance with the covenants as to the rates, fees, rentals, and charges in Article VI, Section 6.6 of the General Trust Indenture, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 1998. The General Trust Indenture dated as of December 1, 1998 and four series indentures under which the City of Wilmington had issued revenue bonds were assigned to the Authority on July 1, 2008 as provided for in Section 6.11(a) of the General Trust Indenture. The Authority has issued two series of revenue bonds under this General Trust Indenture. Section 6.6 of the General Trust Indenture requires the debt service coverage to be no less than 120% or 1.20 times on revenue bond indebtedness and to be no less than 100% or 1.00 times on total long-term indebtedness. The debt service coverage ratio calculation for the fiscal year ended June 30, 2013, is as follows:

Revenues	
Operating revenues (1)	\$ 66,280,131
System development charges	3,832,586
Investment earnings (2)	910,329
	71,023,046
Expenses	
Operating expenses and debt service fees (3)	47,650,928
Less depreciation and amortization (3)	(17,591,990)
Plus decrease in net OPEB obligation	 9,077
	30,068,015
Net Revenues Available for Debt Service	\$ 40,955,031
Debt Service on Parity Indebtedness	\$ 21,630,578
Debt Service on Subordinate Indebtedness	\$ 4,948,678
Total Debt Service on All Indebtedness (4)	\$ 26,579,256
Debt Service Coverage Ratio for Parity Indebtedness	1.89
Debt Service Coverage Ratio for All Indebtedness	1.54

- (1) Operating revenues come from the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- (2) Investment earnings exclude earnings on bond proceeds held in Bond Construction Fund Account.
- (3) Operating expenses and other debt service fees come from the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- (4) Total long term debt includes revenue bonds (parity indebtedness), and locality compensation payables for general obligation bonds and installment obligations (subordinate indebtedness).

Refunded Bonds

The County refunded the 2003 Certificates of Participation dated March 1, 2003 through the issuance of \$20,540,000 Refunding Limited Obligation Bonds, Series 2012, dated December 1, 2012. The interest rate on the refunding bonds range from 1% - 5% with final maturity on December 1, 2027. Debt service principal payments are scheduled semi-annually at amounts that range from \$650,000-\$1,180,000. The 2003 Certificates of Participation that were refunded included a portion of the County's installment debt that the Authority assumed responsibility for pursuant to the interlocal agreement transferring the County's water and sewer system to the Authority.

Note 10. Contributions From Other Governments

As disclosed in Note 8, the County agreed to a reduction in debt service payments made the Authority for a period of ten years. This annual reduction is shown as Contributions from New Hanover County on the Statement of Revenues, Expenses and Changes in Fund Net Position. The contribution for the fiscal year ended June 30, 2013 was \$1,900,000.

Note 11. Other Related Party Transactions

The Authority provides water and sewer services to the County which generated water revenues of \$230,450 and sewer revenues of \$227,115 for the fiscal year ended June 31, 2013 making the County one of the top 10 principal water and sewer customers of the Authority. The County has a receivable to the Authority of approximately \$52,800 as of June 30, 2013 which is included in Receivables, net on the Statement of Net Position.

The Authority provides water and sewer services to the City which generated water revenues of \$179,006 and sewer revenues of \$138,501 for the fiscal year ended June 31, 2013 making the City one of the top 10 principal water customers of the Authority. The City has a receivable to the Authority of approximately \$19,854 as of June 30, 2013 which is included in Receivables, net on the Statement of Net Position.

Refer to Notes 1, 8 and 9 for further disclosures on the relationship between the Authority, City and the County.

Note 12. Pending GASB Statements

The GASB has issued several pronouncements that have effective dates that may impact future financial presentations.

Statement No. 66 Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62 will be effective for the Authority with its year ending June 30, 2014.

Statement No. 67 Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25 will be effective for the Authority with its year ending June 30, 2014.

Statement No. 68 Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 will be effective for the Authority with its year ending June 30, 2015.

Statement No. 69 Government Combinations and Disposals of Government Operations will be effective for the Authority with its year ending June 30, 2015.

Statement No. 70 Accounting and Financial Reporting for Non-exchange Financial Guarantees will be effective for the Authority with its year ending June 30, 2014.

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

Note 13. 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.

Prior to the transfer of assets to the Authority on July 1, 2008, the City and the County were notified by the Environmental Protection Agency (EPA) that the City and County were in violation of the Clean Water Act. The EPA contends that the City and County experienced numerous sanitary sewer overflows that violated State and federal regulations. As the owner and operator of the wastewater system formerly operated by the City and County, the Authority was included in the EPA action. Since the Authority began operations, it has had ongoing projects to repair and upgrade the Northeast Interceptor. In addition, the Authority has implemented comprehensive programs to control

inflow and infiltration and other contributors to potential spills. Such significant progress has been made that, on September 25, 2009, the Director of the DENR Division of Water Quality notified the EPA that the State of North Carolina believes that actions taken by the Authority address most elements of the proposed consent decree with the EPA. No admission of violation has been made by the City, the County or the Authority. The City and the County have retained a total of \$3 million for payment of any fines that may eventually be levied.

On July 17, 2013 the United States Department of Justice issued a proposed Consent Decree with the United States District Court in the lawsuit. The Consent Decree requires the Authority to implement specific programs designed to ensure proper management, operation and maintenance of its sewer systems. In order to address the problem of wet weather overflows of raw sewage from the sewer lines, the Authority will develop and implement a comprehensive sewer system assessment and rehabilitation program. The Authority will also implement certain capital projects designed to remediate known defects in the sewer systems. In addition, the Consent Decree requires the payment of a civil penalty of \$300,000.

The Consent Decree was subject to a 30-day public comment period and final court approval before becoming effective. On September 20, 2013, the Court extended the public comment period an additional 30 days because no comments were received during the initial 30-day period. The Authority is waiting on final notification that the Consent Decree is effective.

Note 14. Commitments and Contingencies

The Authority has active water and sewer capital projects as of June 30, 2013. The Authority's remaining commitments with contractors, developers and professional firms related to these projects is approximately \$18 million. The remaining commitments will be funded from the proceeds from revenue bonds, federal and state grants and loans, 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 intended to be annexed by the City pursuant to North Carolina General Statutes. The agreement required the City to install water distribution lines and sewer collection lines, water trunk mains and sewer capacity related improvements in the proposed annexation area. The City's share was estimated at \$9.9 million with the Authority's share estimated at \$7.7 million. The Authority's share of the cost is included in the total construction commitments disclosed above. Due to changes in North Carolina annexation laws, the City no longer intends to annex this area. The Authority and City staff are in the process of developing an amendment to terminate the interlocal agreement related to this project.

The Authority is a defendant in pending litigation on an eminent domain action. The defendants are seeking \$930,000. The Authority's legal counsel estimates that the potential liability against the Authority could be from \$200,000 to \$400,000. A liability of \$200,000 has been recorded in Accounts payable from restricted assets on the Statement of Net Position.

The Authority and the County entered into an agreement on June 14, 2012 in which the County has agreed to assist the Authority in financing and construction of the Kirkland Sewer Project. The County provided economic development funding to construct the Kirkland Sewer Project in the amount of \$650,000. The Authority will reimburse the County with capacity fees for new development collected from developers requiring sewer capacity for new development. At June 30, 2013, a reimbursement of \$154,404 was remitted to the County.

The Authority and the County entered into an agreement on October 21, 2012 in order to expedite the extension of public water to areas of Bald Eagle Lane and Fazio Drive to Eagle Point, and to participate in the cost of fire protection. The County has agreed to fund the total project cost currently estimated at \$883,645. The County also agrees to pay \$256,000 for fire services towards the project cost. The Authority's share of the project cost is \$300,000. The County will reimburse the Authority on a monthly basis as expenditures are incurred on the project. At June 30, 2013, no reimbursable costs have been incurred.

Federal and State Assisted Programs

The Authority has been approved to receive proceeds from several federal grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Billing and Collection Procedures

For Authority customers that are also City stormwater and/or solid waste customers, the Authority includes charges for those services on the Authority bill to those customers. These stormwater and solid waste charges are set by the City. The amounts received from customers are wired to the City weekly.. In the event of partial payments of current charges, payments are applied to stormwater charges first, solid waste charges second, wastewater charges third and then to water charges. The Authority enforces collection procedures, including shutting off water service, on delinquent accounts. In compliance with the Interlocal Agreement, the Authority uses these same collection methods for delinquent stormwater and solid waste accounts. Payments are applied to the most delinquent billing period first with the proceeds satisfying the entire outstanding amount for that billing period to stormwater charges first, solid waste charges second, wastewater charges third and then to water charges. It is unclear whether the Authority has the legal authority to collect delinquent solid waste accounts on behalf of the City.

Note 15. Subsequent Events

The Authority has received preliminary maturity schedules and Promissory Notes for four capital projects that are eligible to receive funding from the Clean Water State Revolving Fund. The interest rate in the loans will be 2% per annum, with a term of twenty years. Principal payments will be made annually on May 1, and interest payments will be made semiannually on May 1 and November 1 of each year. The first principal and interest payments are not due until six months after the original date of completion of the projects.

\$429,000
\$1,151,607
\$2,565,380
\$2,201,480
\$6,347,467

Subsequent to June 30, 2013, it is anticipated that the Authority and the County will enter into an agreement to expedite the extension of sewer to areas of Marquis Hills and Heritage Park. The County will assist in the financing and construction of these projects and has secured funding from the North Carolina State Clean Water State Revolving Fund. The County's share of the project cost will be \$12,698,184. The Authority's share of the project cost is \$4,264,000, for a total project cost of \$16,962,184. The County will reimburse the Authority on a monthly basis as expenditures are incurred on the project. At June 30, 2013, no reimbursable costs have been incurred.

Note 16. Change in Accounting Principles/Prior Period Adjustment/Restatement

The Authority implemented GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously Reported as Assets and Liabilities in the fiscal year ended June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets,

Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources. Bond issuance costs, which were previously deferred and amortized, must be included in current expenditures. Previously deferred bond issuance costs totaling \$3,262,109 were recognized in the current year as a prior period adjustment. As a result, beginning net position, as restated decreased from \$375,969,746 to \$372,707,637.

Cape Fear Public Utility Authority Required Supplementary Information Other Post-Employment Benefits (OPEB) Schedule of Funding Progress 2009-2013

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) b-a	Funded Ratio a/b	Covered Payroll for Year Ending on Valuation C	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/12	\$0	\$2,459,288	\$2,459,288	0.00%	\$12,632,605	19.47%
12/31/10	\$0	\$2,351,870	\$2,351,870	0.00%	\$12,895,415	18.24%
12/31/08	\$0	\$7,167,107	\$7,167,107	0.00%	\$11,551,913	62.04%

Required Supplementary Information Schedule of Employer Contributions 2009-2013

	Annual	
Fiscal	Required	Percentage
Years Ended	inded Contribution	
2013	\$150,386	107.838%
2012	\$157,782	90.764%
2011	\$157,186	6.011%
2010	\$1,043,781	0.056%
2009	\$1,043,781	0.000%

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 12/31/12

Actuarial cost method (1) Entry Age Normal

Amortization method Level dollar amount, closed

Remaining amortization period 28 years
Asset valuation method Market value

Actuarial assumptions:

Discount rate 4.0%
Salary increases 2.5%
Medical trend rate * 4.5%-7.0%
* Includes inflation at 2.5%

(1) Projected Unit Credit method was used in the 12/31/08 valuation

Cape Fear Public Utility Authority Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Operating Fund For Year Ended June 30, 2013

			Variance
	Final	A . L . L	Positive
O	Budget	Actual	(Negative)
Operating revenues	22 552 222	00 070 000	(500,000)
Water charges	\$ 30,552,000	\$ 29,970,000	\$ (582,000)
Sewer charges	32,551,000	33,091,317	540,317
Connection fees	214,000	524,215	310,215
Miscellaneous revenue	2,097,700	2,698,385	600,685
Total operating revenues	65,414,700	66,283,917	869,217
Nonoperating revenues			
System development charges	3,363,274	3,832,586	469,312
Investment earnings	691,300	795,268	103,968
Total nonoperating revenues	4,054,574	4,627,854	573,280
Total revenues	69,469,274	70,911,771	1,442,497
Expenditures			
General - administrative	5,591,876	4,898,049	693,827
Operations - water and sewer	21,013,350	18,139,297	2,874,053
Environment management	2,212,047	1,978,303	233,744
Customer service	2,851,817	2,477,159	374,658
Nondepartmental	2,032,225	1,814,440	217,785
Debt service:			
Principal	12,759,709	12,691,800	67,909
Interest	15,522,665	15,009,759	512,906
Bond issuance costs	765,158	220,902	544,256
Other debt service fees	270,000	95,218	174,782
Repairs and maintenance	1,762,835	1,466,982	295,853
Capital outlay	588,046	513,507	74,539
Contingency	569,000	-	569,000
Total expenditures	65,938,728	59,305,416	6,633,312

Cape Fear Public Utility Authority Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Operating Fund (Continued) For Year Ended June 30, 2013

Other financing sources (uses) 780,320 - (780,320) Capital contributions - 612 612 612 Transfers out - Capital Projects Funds (5,099,867) (5,099,867) - - 612 Procceds from refunded bonds 16,005,000 16,005,000 - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -	Tot Tour Endo		nal dget		Actual	Variance Positive Negative)
Long-term obligations issued 780,320 - (780,320) Capital contributions - 612 612 Transfers out - Capital Projects Funds (5,099,867) (5,099,867) - Procceds from refunded bonds 16,005,000 16,005,000 - Procceds from refunded bondescrow agent (17,649,422) (17,649,422) - Appropriated fund balance 568,098 - (568,098) Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) - 6,728,003 6,728,003 Reconciliation of modified accrual basis - 6,728,003 6,728,003 Revenues and other financing sources over - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
Capital contributions 612 612 Transfers out - Capital Projects Funds (5,099,867) (5,099,867) - Procceds from refunded bonds 16,005,000 16,005,000 - Procceds from refunded bonds-Premium 1,865,325 1,865,325 - Payment to refunded bond escrow agent (17,649,422) (17,649,422) - Appropriated fund balance 568,098 - (568,098) Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) - 6,728,003 6,728,003 Reconcilitation of modified accrual basis - 6,728,003 6,728,003 Revenues and other financing sources over - expenditures - capital projects funds water and sewer (7,330,148) - Capital contributions 3,696,865 - - Depreciation and amortization on capital assets (17,591,990) - Capital and intangible assets (17,591,990) - Long-term obligations: (318,390) - Unamortized charge-interest expense (318,390) <td>Other financing sources (uses)</td> <td></td> <td></td> <td></td> <td></td> <td></td>	Other financing sources (uses)					
Transfers out - Capital Projects Funds (5,099,867) (5,099,867) - Procceds from refunded bonds 16,005,000 16,005,000 - Procceds from refunded bonds-Premium 1,865,325 1,865,325 - Payment to refunded bond escrow agent (17,649,422) (17,649,422) - Appropriated fund balance 568,098 - (568,098) Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) * 6,728,003 * 6,728,003 Reconciliation of modified accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer \$ (7,330,148) * Capital contributions 3,696,865 * Depreciation and amortization on capital assets (17,591,990) * Capital and intangible assets (17,591,990) * Long-term obligations: (318,390) * Unamortized bond discount/premium-interest expense (318,390) * Accrued interest expense (5,251) *	Long-term obligations issued		780,320		-	(780,320)
Proceeds from refunded bonds 16,005,000 16,005,000 - Proceeds from refunded bonds-Premium 1,865,325 1,865,325 - Payment to refunded bond escrow agent (17,649,422) (17,649,422) - Appropriated fund balance 568,098 - (568,098) Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) * 6,728,003 * 6,728,003 Reconciliation of modified accrual basis to full accrual basis: * * * 6,728,003 * 6,728,003 Revenues and other financing sources over expenditures - capital projects funds water and sewer \$ (7,330,148) * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *	Capital contributions		-		612	612
Proceeds from refunded bonds-Premium 1,865,325 1,865,325 - Payment to refunded bond escrow agent (17,649,422) (17,649,422) - Appropriated fund balance 568,098 - (568,098) Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) - 6,728,003 \$ 6,728,003 Reconciliation of modified accrual basis: - 6,728,003 \$ 6,728,003 Revenues and other financing sources over expenditures - capital projects funds water and sewer \$ (7,330,148) \$ (7,330,148) Capital contributions 3,696,865 \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) \$ (7,591,990) <td>Transfers out - Capital Projects Funds</td> <td>(5</td> <td>5,099,867)</td> <td></td> <td>(5,099,867)</td> <td>-</td>	Transfers out - Capital Projects Funds	(5	5,099,867)		(5,099,867)	-
Payment to refunded bond escrow agent (17,649,422) (17,649,422) - 658,098 Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) over expenditures \$ - \$ 6,728,003 \$ 6,728,003 Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer ex	Procceds from refunded bonds	16	,005,000		16,005,000	-
Appropriated fund balance 568,098 - (568,098) Total financing (uses) (3,530,546) (4,878,352) (1,347,806) Revenues and other financing (uses) over expenditures \$ - \$ 6,728,003 \$ 6,728,003 Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer \$ (7,330,148) Capital contributions 3,696,865 Depreciation and amortization on capital assets (17,591,990) Capital and intangible assets (17,591,990) Long-term obligations: Unamortized bond discount/premium-interest expense (318,390) Unamortized bond discount/premium-interest expense (5,251) Accrued interest income (5,251) Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Procceds from refunded bonds-Premium	1	,865,325		1,865,325	-
Revenues and other financing (uses) over expenditures Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations Principal on long-term obligations (1,347,806) (4,878,352) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806) (1,347,806)	Payment to refunded bond escrow agent	(17	,649,422)		(17,649,422)	-
Revenues and other financing (uses) over expenditures \$ - \$ 6,728,003 \$ 6,728,003 Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Septenditures - capital projects funds water and sewer Capital and intangible assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Accrued interest expense Other post-employment benefits (OPEB) Poort Compensated absences accrual Proceeds from long-term obligations Principal on long-term obligations 131,170,171	Appropriated fund balance		568,098		-	(568,098)
Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations Principal on long-term obligations 10,728,003 10,728,003 10,728,003 10,728,003 10,7330,148 10,7330,148 10,7330,148 10,7330,148 10,7330,148 10,7330,148 10,7330,148 10,7330,148 10,731,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990 10,7591,990	Total financing (uses)	(3	3,530,546)		(4,878,352)	(1,347,806)
Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations Principal on long-term obligations 10,728,003 10,728,003 10,728,003 10,7330,148 (7,330,148) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990) (17,591,990)						
Reconciliation of modified accrual basis to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions 3,696,865 Depreciation and amortization on capital assets (17,591,990) Capital and intangible assets 21,665,904 Long-term obligations: Unamortized charge-interest expense (318,390) Unamortized bond discount/premium-interest expense (615,946) Accrued interest income (5,251) Accrued interest expense Other post-employment benefits (OPEB) Other post-employment benefits (OPEB) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations	Revenues and other financing (uses)					
to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations (7,330,148) (7,330,148) (17,591,990) (17,591,990) (11,665,904) (21,665,904) (318,390) (615,946) (615,946) (615,946) (7,251) (7,330,148) (17,591,990) (18,390) (19,134,653) (19,134,653) (19,134,653) (19,134,653) (19,134,653)	over expenditures	\$	-	\$	6,728,003	\$ 6,728,003
to full accrual basis: Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations (7,330,148) (7,330,148) (17,591,990) (17,591,990) (11,665,904) (21,665,904) (318,390) (615,946) (615,946) (615,946) (7,251) (7,330,148) (17,591,990) (18,390) (19,134,653) (19,134,653) (19,134,653) (19,134,653) (19,134,653)				_	•	_
Revenues and other financing sources over expenditures - capital projects funds water and sewer Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Compensated absences accrual Proceeds from long-term obligations (7,330,148) (7,330,148) (17,591,990) (17,591,990) (18,390) (18,390) (18,390) (19,251) (19,077) (29,438) (19,134,653) (19,134,653) (19,134,653) (19,134,653)	Reconciliation of modified accrual basis					
expenditures - capital projects funds water and sewer Capital contributions 3,696,865 Depreciation and amortization on capital assets Capital and intangible assets Capital and intangible assets Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Cacrued interest income Accrued interest expense Other post-employment benefits (OPEB) Compensated absences accrual Proceeds from long-term obligations (7,330,148) (17,591,990) (17,591,990) (318,390) (615,946) (615,946) (615,946) (7,330,148) (19,134,655) (19,134,653) (19,134,653) (19,134,653) (19,134,653)	to full accrual basis:					
Capital contributions Depreciation and amortization on capital assets Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations 3,696,865 (17,591,990) 21,665,904 21,665,904 (318,390) (615,946) Accrued interest income (5,251) Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Revenues and other financing sources over					
Depreciation and amortization on capital assets (17,591,990) Capital and intangible assets 21,665,904 Long-term obligations: Unamortized charge-interest expense (318,390) Unamortized bond discount/premium-interest expense (615,946) Accrued interest income (5,251) Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	expenditures - capital projects funds water and sewer			\$	(7,330,148)	
Capital and intangible assets Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense Accrued interest income Accrued interest expense Other post-employment benefits (OPEB) Proceeds from long-term obligations Principal on long-term obligations 21,665,904 (318,390) (615,946) (5,251) 351,693 (5,251) 9,077 (29,438) (19,134,653) 31,170,171	Capital contributions				3,696,865	
Long-term obligations: Unamortized charge-interest expense Unamortized bond discount/premium-interest expense (615,946) Accrued interest income (5,251) Accrued interest expense Other post-employment benefits (OPEB) Compensated absences accrual Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Depreciation and amortization on capital assets				(17,591,990)	
Unamortized charge-interest expense (318,390) Unamortized bond discount/premium-interest expense (615,946) Accrued interest income (5,251) Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Capital and intangible assets				21,665,904	
Unamortized bond discount/premium-interest expense (615,946) Accrued interest income (5,251) Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Long-term obligations:					
Accrued interest income (5,251) Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Unamortized charge-interest expense				(318,390)	
Accrued interest expense 351,693 Other post-employment benefits (OPEB) 9,077 Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Unamortized bond discount/premium-interest expense	;			(615,946)	
Other post-employment benefits (OPEB) Compensated absences accrual Proceeds from long-term obligations Principal on long-term obligations 31,170,171	Accrued interest income				(5,251)	
Compensated absences accrual (29,438) Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Accrued interest expense				351,693	
Proceeds from long-term obligations (19,134,653) Principal on long-term obligations 31,170,171	Other post-employment benefits (OPEB)				9,077	
Principal on long-term obligations 31,170,171	Compensated absences accrual				(29,438)	
	Proceeds from long-term obligations				(19,134,653)	
Change in net position \$ 18,595,897	Principal on long-term obligations				31,170,171	
	Change in net position			\$	18,595,897	

Davarrus	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue	¢	¢ 6001115	\$ 169,391	¢ 6 170 506
Investment earnings Total revenue	\$ 5,554,449 S 5,554,449	\$ 6,001,115 6,001,115	169,391	\$ 6,170,506 6,170,506
Total revenue	5,554,449	0,001,113	107,371	0,170,500
Expenditures				
Sewer Capital Projects:				
10th & Anderson Streets	301,000	_	119,866	119,866
10th and Fanning Streets	338,432	196,242	3,928	200,170
10th and Orange Streets	251,000	39,214	-	39,214
13th St & N. Lake Shore	750,000	-	16,221	16,221
13th Street Sewer Relay	256,000	_	.0,22.	-
15th Street Sewer Repair	141,374	136,490	4,883	141,373
23rd Street 30" Force Main (FM) Repair	587,145	8,148	571,998	580,146
30" Pump Repairs	30,000	-	20,953	20,953
30th Street Sewer Replacement	1,995,085	27,905	91,675	119,580
39th and Park Sewer Repair	74,385	74,050	-	74,050
608 Hampton Drive	170,000	- 1,000	34,775	34,775
6404 Spicewood Dr	60,000	_	15,317	15,317
Admin Building HVAC	28,714	_	28,714	28,714
Airport Line Replacement	705,750	_	453,975	453,975
Alandale Pump Station (PS) Removal Project	2,575,000	24,609	226,854	251,463
Annexation 98 - Completion of Sewer Extensions	3,380,835	267,377	215,719	483,096
Air Release Valve Improvement to PS	400,000	-	68,160	68,160
Air Release Valve Replacement	100,000	_	-	-
Asset Management Implementation Study & CMMS	3,058,274	2,611,718	111,437	2,723,155
Barnards Creek	469,722	49,049	406,078	455,127
Between the Creeks Sewer Improvements	499,750	36,455	165,527	201,982
Bluepoint FM Sewer Repair	221,813	184,901	16,543	201,444
Borden Avenue	67,000	4,249	56,583	60,832
Brookwood Avenue South	39,000	2,631	2,547	5,178
Burnett & Central Blvd	340,000	-	6,500	6,500
Burnt Mill Creek Manhole Repair	500,000	_	40,701	40,701
Burnt Mill Creek Outfall Repair Phase 1	3,657,429	3,270,393	193,351	3,463,744
Burnt Mill Creek Outfall Repair Phase 2	4,065,592	259,697	2,550,599	2,810,296
Capacity Management Flow Reduction	100,000	2,430	4,387	6,817
Cedar Ave	74,500	-,	73,770	73,770
Collection System Assessment	500,000	_	207,435	207,435
Collection System Rehab	607,911	15,268	32,715	47,983
Collection System-Standard Development Agreement	250,000	-	-	-
Colwell Street-1900 Block Sewer Repair	247,694	1,400	244,532	245,932
Copier Replacement	81,286	-	63,549	63,549
Country Haven PS Upgrade	2,604,940	611,651	110,249	721,900
Dawson St. Interceptor	250,000	-	28,468	28,468
Demolition of Obsolete Structures	75,000	_	25,299	25,299
Dock Street-900 Block	59,000	2,750	-	2,750
Downtown Sewer Rehab & Sewer Assessment	1,377,329	780,737	37,918	818,655

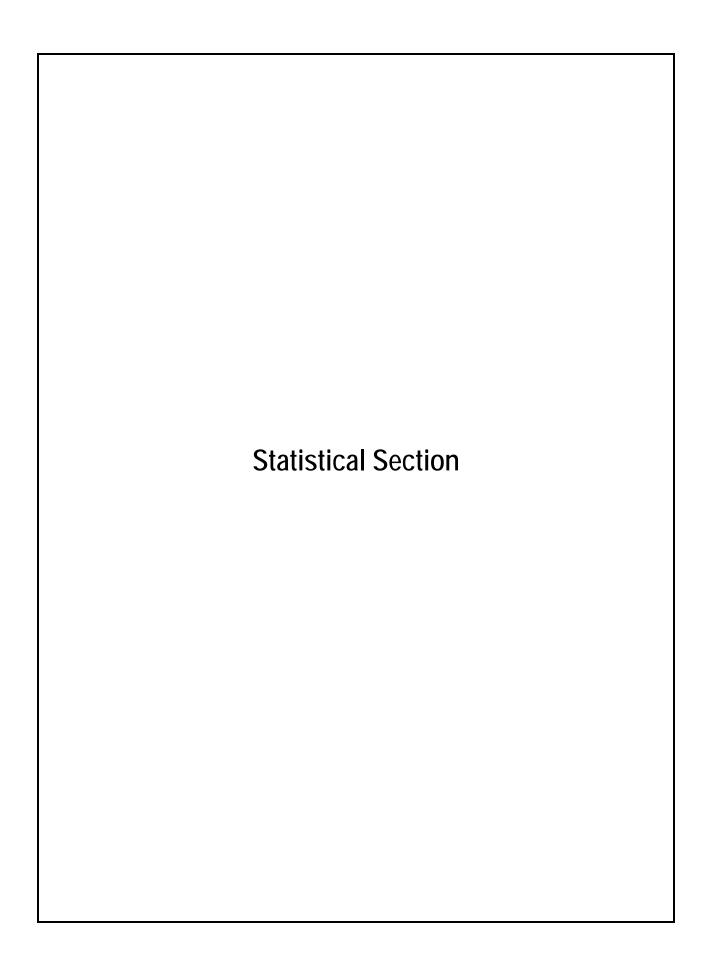
			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
Find it/Fix it Repairs	1,253,471	34,470	-	34,470
General Water and Sewer Project (NHC)	881,017	791,997	-	791,997
GIS and CMMS Updates	94,231	85,603	8,067	93,670
GIS As-Built Entry & Mapping Maintenance Contract	197,845	47,845	3,075	50,920
Gore's Alley Sewer Repair	210,700	40,602	158,601	199,203
Grace St-900 Block	1,850	1,400	-	1,400
Greenfield Lake Outfall Rehabilitation	2,250,000	49,863	95,005	144,868
Hampton Road-100 Block	360,000	-	351,226	351,226
Heritage Park Extension	560,800	-	82,980	82,980
Heritage Park PS	410,000	-	-	-
Infiltration Inflow Investigation and Elimination Program	1,641,722	1,453,114	182,060	1,635,174
Kerr & McClelland Sewer	155,083	154,170	912	155,082
Kilarny & Pine Grove Dr	37,480	14,684	1,500	16,184
Kirkland Capacity Expansion	650,000	-	59,639	59,639
Large Equipment Purchases	714,416	214,566	399,274	613,840
Lincoln/Oleander Dr Sewer Repair	10,000	4,462	-	4,462
Manhole Rehab	325,261	280,918	28,016	308,934
Market & Perry-1800-1900 Block	298,150	-	173,361	173,361
Marquis Hills Extension	862,500	-	213,422	213,422
Mayfaire Outfall Investigation	100,000	-	82,665	82,665
McCumber's Ditch Outfall Rehab	1,331,455	20,000	120,199	140,199
Middle Sound Sewer (NHC)	1,858,004	1,747,162	66,532	1,813,694
Myrtle Landing Subdivision	332,000	5,000	-	5,000
N. Third St Streetscape	1,472,365	893,043	474,000	1,367,043
Northeast Interceptor (NEI) Rehab Project-including PS 34/35	9,374,565	5,803,182	164,924	5,968,106
North 5th Street Sewer Repair	9,700	8,200	-	8,200
Northern Route Force Main (NEI Project)	17,257,861	5,001,374	3,922	5,005,296
Northside Wastewater Treatment Plant (WWTP) FM	4,944,510	3,386,404	102,408	3,488,812
Pressure Pipe Assessment	1,000,000	46,727	578,532	625,259
Princess Place 2500 Block	3,500	-	2,000	2,000
Princess St-700-800 Block	6,200	3,760	-	3,760
PS 10 & 12 Upgrades	213,200	167,281	11,164	178,445
PS 10 FM Repairs	4,500	2,830	-	2,830
PS 11	3,763,708	- -	-	-
PS 14 Generator Repair	35,130	-	26,294	26,294
PS 34 Barscreen Replacement	1,428,451	521,946	8,773	530,719
PS 34/35 Pump Repairs	91,000	- -	90,293	90,293
PS 89-24" Valve Installation	142,593	126,398	-	126,398
PS Barnards Creek	8,155,208	3,413,722	484,107	3,897,829
PS 001 Northchase SE	75,000	-	4,714	4,714
PS 003 Heatheridge	60,000	-	44,410	44,410
PS 004 Northchase NE	50,000	-	-	-
PS 010 Renovation	500,000	-	26,785	26,785
PS 015 Madison Equiment Upgrade	75,000	-	-	-
PS 018 Greenhow Woods	75,000	-	4,768	4,768
PS 022 Tangle Oaks #3	50,000	-	-	-

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
PS 024 Tangle Oaks #1	75,000	-	730	730
PS 041 Towles Rd	75,000	-	-	-
PS 048 Oak Landing	215,000	-	-	-
PS 090 Clarendon	100,000	-	44,636	44,636
PS 104 Runny Meade	75,000	-	-	-
PS 105 Runny Meade	100,000	-	4,768	4,768
PS 119 Beasley Road	150,000	-	-	-
PS 136 Tangle Oaks #2	75,000	-	-	-
PS 137 Quail Woods	250,000	-	-	-
Rankin & 10th Streets	66,000	6,288	3,144	9,432
Redcross Street 300-400 Block	41,000	2,993	3,514	6,507
Relocation of Utility Lines per NCDOT Agreements	2,150,039	1,540,436	32,111	1,572,547
River Road Force Main	2,018,469	864,904	128,247	993,151
Riverside Subdivision Project	160,055	-	-	-
Rogersville & Eastwood	298,263	292,262	1,500	293,762
Saint Rosea 300 Block	47,353	-	47,352	47,352
Scada Implementation	776,554	-	87,895	87,895
Sewer Emergency Repair	2,774,547	1,497,626	12,756	1,510,382
Smith Creek Rehab	833,485	5,788	866,291	872,079
Southside WWTP Interim Improvements	500,000	-	-	-
Southside WWTP Rehabilitation and Upgrade	8,682,693	7,825,219	476,078	8,301,297
Southside WWTP Drain Pipe Rehab	200,000	-	-	-
Southside WWTP Wet Failure Resolution	55,000	_	50,411	50,411
System Wide Odor & Corrosion Control (OCCP) Facility	2,031,640	2,031,141	498	2,031,639
Thickened Alum Sludge	540,000	_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-	-,,
Thurgood & Ashby Sewer Repair	14,250	7,787	6,462	14,249
US 421 Regional WWTP	749,341	749,340	-	749,340
Vactor Bay Building	356,002	348,413	2,717	351,130
Walnut & 10th Streets	57,000	4,230	-,	4,230
Walnut Hills Sewer Rehab	375,250	-	246,139	246,139
Walnut Hills WTP Demolition	1,080,000	10,536	265,301	275,837
Walnut Street 100-1200 Block	58,000	4,860	-	4,860
Walnut Street 300-400 Block	46,000	4,465	5,395	9,860
Wright Street 600-700 Block	58,000	4,860	-	4,860
Wrightsville & Barnett St	25,000	-,000	_	-,000
Wastewater Planning Aqua Area	100,000	_	_	_
Undesignated Sewer Projects	1,002,993	-	-	-
Officesignated Sewer Frojects	1,002,993	-	-	-
Water Capital Projects:				
10th & Anderson Streets Water Repair	65,000	_	24,100	24,100
16" Water Main-Burnett/Carolina Beach Rd	53,500	1,750	27,100 -	1,750
23rd Street	45,457	37,556	-	37,556
30" Raw Water Main Assessment/Rehab	5,243,698	5,242,696	-	5,242,696
	250,000	J,Z4Z,U9U	- 21 220	
30th Street Water Replacement	250,000	-	31,238	31,238

Project Project Project Project Project Charlo 7778 Alexander Dr Water Repair 5,150 - 150 150 Annexation 1995 And 1996 Water Lines 948,466 5,266 8,717 14,003 Annexation 1995 Area Water System 43,310 55,910 - 55,910 Aquifer Storage & Recovery (ASR) 3,007,515 1,034,557 1,270,109 2,304,666 Aquifer Sustainability & Monitoring 650,000 110,472 23,017 370,629 Cavalier Dr.2 Water Line 150 - 1,50 1,50 City-County Water System Study and Improvements 443,050 212,227 118,80 331,107 City-County Water System Study and Improvements 75,000 - 55,471 552,471 Disinfectant Byproduct Evaluation Project 173,600 - - 57,720 57,720 Disinfectant Byproduct Evaluation Project 173,600 - - - - - Distribution System-Standard Development Agreement 25,000 - - -				Actual	
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Aquifer Storage & Recovery (ASR) 3,007,515 1,034,557 1,270,109 2,304,666 Aquifer Sustainability & Monitoring 650,000 140,472 230,157 370,629 Cavalier Dr. 2' Water Line 150 - 150 150 City-County Water System Study and Improvements 443,050 212,227 118,880 331,107 Comprehensive Meter Replacement Program 1,245,383 - 525,471 525,471 Distribution System-Standard Development Agreement 251,000 - - - Demolition of Obsolete Structures 75,000 - - - - Distribution System-Standard Development Agreement 251,000 - - - - Downtown Water Line Rehabilitation 1,187,015 1,183,187 - 1,183,187 Environmental Services Building 4,596,830 4,385,341 34,913 4,420,254 Facilities Mgmt Plan 50,000 - - - - Faulkenberry Waterine 6,750 11,900 - 2,750 66,070 <	Annexation 1995 and 1998 Water Lines	948,466	5,286	8,717	14,003
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Scada Implementation 100,000 - - - SCADA Master Plan 250,000 35,000 - 35,000 Southern Transmission Mains 965,000 36,270 22,925 59,195 Sweeney Clear Well Rehab 250,000 - - - - Sweeney WTP Expansion to 40 MGD 71,832,722 69,754,589 1,220,352 70,974,941 System Interconnects - Water 12,093 7,178 - 7,178 Water Distributuin Monitor Station 200,000 - - - - Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859	·			1,316,714	
SCADA Master Plan 250,000 35,000 - 35,000 Southern Transmission Mains 965,000 36,270 22,925 59,195 Sweeney Clear Well Rehab 250,000 - - - - Sweeney WTP Expansion to 40 MGD 71,832,722 69,754,589 1,220,352 70,974,941 System Interconnects - Water 12,093 7,178 - 7,178 Water Distributuin Monitor Station 200,000 - - - - Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859			-	-	 -
Southern Transmission Mains 965,000 36,270 22,925 59,195 Sweeney Clear Well Rehab 250,000 - - - - Sweeney WTP Expansion to 40 MGD 71,832,722 69,754,589 1,220,352 70,974,941 System Interconnects - Water 12,093 7,178 - 7,178 Water Distributuin Monitor Station 200,000 - - - Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859	•		35,000	-	35,000
Sweeney Clear Well Rehab 250,000 - - - - Sweeney WTP Expansion to 40 MGD 71,832,722 69,754,589 1,220,352 70,974,941 System Interconnects - Water 12,093 7,178 - 7,178 Water Distributuin Monitor Station 200,000 - - - Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859	Southern Transmission Mains			22,925	
Sweeney WTP Expansion to 40 MGD 71,832,722 69,754,589 1,220,352 70,974,941 System Interconnects - Water 12,093 7,178 - 7,178 Water Distributuin Monitor Station 200,000 - - - Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859	Sweeney Clear Well Rehab	250,000	-	-	-
System Interconnects - Water 12,093 7,178 - 7,178 Water Distributuin Monitor Station 200,000 - - - - Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859	Sweeney WTP Expansion to 40 MGD	71,832,722	69,754,589	1,220,352	70,974,941
Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859				-	7,178
Water Emergency Repair 1,758,271 65,837 270 66,107 Water Intake Improvements 92,859 72,685 20,174 92,859	· ·		-	-	-
	Water Emergency Repair		65,837	270	66,107
	Water Intake Improvements	92,859	72,685	20,174	92,859
	Water Laterals and Services	150,000	-	-	-

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
Water Valve Replacement	662,455	13,961	212,327	226,288
Well Site Security	100,000	-	28,683	28,683
Wellfield and Water Treatment Plant (NHC)	28,342,999	28,105,687	11,168	28,116,855
Completed Projects-Prior Years	31,563,895	31,563,861	-	31,563,861
Total expenditures	292,037,809	191,787,123	18,918,013	210,705,136
Revenue (under) expenditures	(286,483,360)	(185,786,008)	(18,748,622)	(204,534,630)
Other financing sources				
Long-term obligations issued	207,651,364	196,439,636	3,573,976	200,013,612
Capital grants and contributions	7,029,117	2,539,350	2,744,631	5,283,981
Transfers in - Operating Fund	25,436,382	20,336,515	5,099,867	25,436,382
Appropriated fund balance	46,366,497	-	-	
Total other financing sources	286,483,360	219,315,501	11,418,474	230,733,975
Revenue and other financing				
sources over (under) expenditures	\$ -	\$ 33,529,493	\$ (7,330,148)	\$ 26,199,345

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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 Position by Component Changes in Net Position

Revenue Capacity:

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

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

Debt Capacity:

The schedule represents the ratio of debt to revenue.

Pledged-Revenue Coverage Ratios of Outstanding Debt by Type

<u>Demographic and Economic Information:</u>

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

Demographic Statistics Principal Employers Full Time Equivalent Employees

Operating Information:

These schedules contain operating and capital asset data to show how operations and assets have changed as the Authority grows.

Water Production and Wastewater Treatment Operating Statistics

Sources:

Unless otherwise noted, the information included in these schedules and charts is derived from the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and is provided for additional analysis purposes only and has not been verified by audit as presented.

Cape Fear Public Utility Authority Net Position By Component Last Five Fiscal Years (Accrual Basis of Accounting)

	Fiscal Year 2013	Fiscal Year 2012 (1)	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009 (1)
Net investment in capital assets Unrestricted	\$ 295,343,987 95,959,547	\$ 288,506,512 84,201,125	\$ 287,538,728 68,587,385	\$ 295,307,938 60,590,755	\$ 293,467,066 56,535,895
Total net position	\$ 391,303,534	\$ 372,707,637	\$ 356,126,113	\$ 355,898,693	\$ 350,002,961

Source: Cape Fear Public Utility Authority's Comprehensive Annual Financial Report.

Note: Fiscal year 2009 was the first year of operations for the Authority.

⁽¹⁾ Net Position was restated in fiscal years 2012 and 2009 to reflect a change in accounting principle.

Cape Fear Public Utility Authority Changes in Net Position Last Five Fiscal Years (Accrual Basis of Accounting)

		Fiscal Year 2013	Fiscal Year 2012 (1)	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009 (1)
Operating revenues			• •			• • • • • • • • • • • • • • • • • • • •
Charges for services	\$	63,061,317	\$ 61,115,234	\$ 57,086,229	\$ 47,524,673	\$ 42,726,268
Other operating revenues		3,218,814	3,233,216	2,671,784	2,313,214	139,595
Total operating revenues	_	66,280,131	64,348,450	59,758,013	49,837,887	42,865,863
Operating expenses						
Personnel and benefits		15,320,702	15,316,759	15,176,175	17,038,778	17,714,505
Services and utilities		12,052,125	11,674,355	10,557,920	10,783,853	11,375,036
Materials		2,590,893	2,800,466	3,630,676	2,431,060	3,264,294
Depreciation and amortization		17,591,990	16,107,252	14,283,401	13,096,230	12,400,153
Total operating expenses		47,555,710	45,898,832	43,648,172	43,349,921	44,753,988
Operating income (loss)		18,724,421	18,449,618	16,109,841	6,487,966	(1,888,125)
Nonoperating revenues (expenses)						
Investment earnings		959,408	962,260	738,453	4,105,897	5,970,732
Interest expense		(13,213,771)	(10,500,330)	(13,011,609)	(10,909,406)	(9,674,421)
Bond issuance costs and other debt service fees		(316,120)	(625,383)	(131,224)	(104,215)	(100,183)
Loss on disposal of capital assets		(202,214)	-	-	-	-
Amortization of bond issuance costs			-	-	-	(4,357,699)
Contributions from the City of Wilmington and New Hanover County		1,900,000	1,900,000	1,900,000	1,900,000	64,627,498
Total nonoperating revenues (expenses)		(10,872,697)	(8,263,453)	(10,504,380)	(5,007,724)	56,465,927
Income before capital contributions, special items and			, , , ,	,	,	
extraordinary items		7,851,724	10,186,165	5,605,461	1,480,242	54,577,802
Capital contributions from the City of Wilmington and New Hanover County			-	-		285,873,980
Capital contributions-other		10,744,173	6,395,359	2,813,350	7,982,758	9,551,179
Special impairment of capital assets		-	-	(8,191,391)	(2,275,200)	-
Extraordinary impairment of capital assets		-	-	-	(1,292,068)	-
Total capital contributions, special and extraodinary items		10,744,173	6,395,359	(5,378,041)	4,415,490	295,425,159
Increase in net position		18,595,897	16,581,524	227,420	5,895,732	350,002,961
Net position						
Beginning of year, restated		372,707,637	356,126,113	355,898,693	350,002,961	-
End of year, restated	\$	391,303,534	\$ 372,707,637	\$ 356,126,113	\$ 355,898,693	\$ 350,002,961

Source: Cape Fear Public Utility Authority's Comprehensive Annual Financial Report.

Note: Fiscal year 2009 was the first year of operations for the Authority.

⁽¹⁾ Statement of Revenues, Expenses and Changes in Fund Net Position was restated in fiscal years 2012 and 2009 to reflect a change in accounting principle.

Cape Fear Public Utility Authority Schedule of User Rates Last Five Fiscal Years

	Fiscal Year									
	2013(1)		2012(1)	2	011 (1)	20	010 (1)		2009	
Water Rates										
Water Fixed Rate (bi-monthly)	\$ 25.81	\$	25.81	\$	24.99	\$	21.89	\$	15.20	
Water Rate per 1,000 gallons	\$ 3.42		N/A		N/A		N/A		N/A	
Water Variable Rate:										
0 - 9,000 gallons	N/A		N/A		N/A	\$	2.22	\$	1.95	
9,001 - 18,000 gallons	N/A		N/A		N/A	\$	3.36	\$	2.95	
18,001+ gallons	N/A		N/A		N/A	\$	4.50	\$	3.95	
0 - 12,000 gallons	N/A	\$	2.64	\$	2.64		N/A		N/A	
12,001 - 24,000 gallons	N/A	\$	3.96	\$	3.96		N/A		N/A	
Over 24,000 gallons	N/A	\$	5.28	\$	5.28		N/A		N/A	
Irrigation (5)	\$ 3.42	\$	3.36	\$	2.64	\$	4.50	\$	3.95	
Non-Residential	\$ 3.42	\$	3.96	\$	3.96	\$	3.36	\$	2.95	
Average bi-monthly residential bill (4)	\$ 60.01	\$	52.21	\$	51.39	\$	45.23	\$	35.70	
Sewer Rates										
Sewer Fixed Rate (bi-monthly)	\$ 29.10	\$	26.68	\$	26.68	\$	23.37	\$	16.50	
Sewer Variable Rate (2)	\$ 4.21	\$	4.04	\$	3.59	\$	3.14	\$	2.75	
Sewer Flat Rate (3)	\$ 130.14	\$	123.64	\$	112.84	\$	98.73	\$	82.50	
Average bi-monthly residential bill (4)	\$ 71.20	\$	67.08	\$	62.58	\$	54.77	\$	44.00	

Source: Cape Fear Public Utility Authority Customer Service Department.

Note: Fiscal year 2009 was the first year of operations for the Authority.

⁽¹⁾ Rates are adopted effective May 1 of each year, in order to be in effective for the next year's budget.

⁽²⁾ Sewer volume charges are capped at 30,000 gallons for residential customers.

⁽³⁾ Sewer flat rate charge when Authority water is not available based on 24,000 gallons.

⁽⁴⁾ Average bi-monthly residential bill calculated at usage of 10,000 gallons.

⁽⁵⁾ Board adopted lower irrigation rates in fiscal years 2011and 2012 to discourage irrigation wells. For fiscal years 2009 and 2010, irrigation rates were set at the over 18,000 gallons rate.

Cape Fear Public Utility Authority Principal Water Customers Current Fiscal Year and Four Years Ago

20	•	1
71		

Ten Largest Users of the Water System Annual Consumption	Thousands of Gallons	% of System	Revenues (\$)	% of Revenues
1 UNC Wilmington	148,310	2.94%	\$ 616,844	2.07%
2 New Hanover Regional Medical Center	55,933	1.11%		0.89%
3 New Hanover County Schools	43,103	0.85%		0.96%
4 New Hanover County	38,793	0.77%		0.77%
5 Wilmington Housing Authority	38,697	0.77%		0.62%
6 Tribute Properties	33,355	0.66%		0.90%
7 Lake Forest Apartments	28,826	0.57%	\$ 126,128	0.42%
8 Mayfaire Complex	27,630	0.55%	\$ 196,995	0.66%
9 College Manor Apartments	26,527	0.53%	\$ 123,189	0.41%
10 City of Wilmington	20,366	0.40%	\$ 179,006	0.60%
Total Net Consumption / Net Revenue	461,539	9.15%	\$ 2,475,277	8.31%
Total Annual System Net Consumption / Net Revenue	5,042,733	: =	\$ 29,770,387	:
		20	009*	
Ten Largest Users of the Water System Annual Consumption	Thousands of Gallons	% of System	Revenues (\$)	% of Revenues
1 UNC Wilmington	136,483	2.34%	\$ 430,613	1.89%
2 New Hanover County	63,232	1.08%		1.02%
3 New Hanover Regional Medical Center	61,473	1.05%		0.93%
4 New Hanover County Schools	47,862	0.82%		0.92%
5 Wilmington Housing Authority	40,956	0.70%	•	0.60%
6 Lake Forest Apartments	30,088	0.52%	\$ 97,305	0.43%
7 College Manor Apartments	23,411	0.40%	\$ 80,985	0.36%
8 Mayfaire Complex	22,955	0.39%		0.52%
9 Tribute Properties	21,463	0.37%		0.50%
10 Elementis Chromium	18,971	0.33%	\$ 58,243	0.26%
Total Net Consumption / Net Revenue	466,893	8.00%	\$ 1,690,699	7.42%
Total Annual System Net Consumption / Net Revenue	5,834,129	:	\$ 22,781,177	

^{*}Restated 2009 Top 10 Users to reflect "Net Consumption" and "Net Revenue"

Source: Cape Fear Public Utility Authority Customer Service Department.

Cape Fear Public Utility Authority Principal Sewer Customers Current Fiscal Year and Four Years Ago

2013

Ten Largest Users of the Sewer System Annual Consumption	Thousands of Gallons	% of System	Re	evenues (\$)	% of Revenues
1 Town of Wrightsville Beach	203,370	4.29%	\$	357,931	1.09%
2 UNC Wilmington	88,768	1.87%	\$	378,962	1.16%
3 New Hanover Regional Medical Center	55,078	1.16%	\$	275,525	0.84%
4 New Hanover County Schools	42,756	0.90%	\$	299,665	0.91%
5 Wilmington Housing Authority	38,599	0.81%	\$	191,869	0.58%
6 New Hanover County	36,870	0.78%	\$	227,115	0.69%
7 Tribute Properties	32,532	0.69%	\$	304,049	0.93%
8 Lake Forest Apartments	28,826	0.61%	\$	132,614	0.40%
9 Mayfaire Complex	27,006	0.57%	\$	203,378	0.62%
10 College Manor Apartments	26,527	0.56%	\$	129,447	0.39%
Total Net Consumption / Net Revenue	580,333	12.25%	\$	2,500,555	7.62%
Total Annual System Net Consumption / Net Revenue	4,737,719	:	\$	32,802,745	1

2009

Ten Largest Users of the Sewer System Annual Consumption	Thousands of Gallons	% of System	R	devenues (\$)	% of Revenues
1 Town of Wrightsville Beach	214,743	4.42%	\$	220,364	1.00%
2 UNC Wilmington	87,800	1.81%	\$	269,249	1.22%
3 New Hanover Regional Medical Center	54,042	1.11%	\$	176,741	0.80%
4 New Hanover County Schools	45,665	0.94%	\$	199,592	0.90%
5 Wilmington Housing Authority	40,652	0.84%	\$	129,175	0.58%
6 New Hanover County	34,744	0.72%	\$	132,783	0.60%
7 Lake Forest Apartments	30,080	0.62%	\$	92,040	0.42%
8 Mayfaire Complex	25,303	0.52%	\$	125,124	0.57%
9 Tribute Properties	24,536	0.51%	\$	154,676	0.70%
10 College Manor Apartments	23,411	0.48%	\$	77,352	0.35%
Total Net Consumption / Net Revenue	580,975	11.96%	\$	1,577,096	7.14%
Total Annual System Net Consumption / Net Revenue	4,856,146		\$	22,089,335	

^{*}Restated 2009 Top 10 Users to reflect "Net Consumption" and "Net Revenue"

Source: Cape Fear Public Utility Authority Customer Service Department.

Cape Fear Public Utility Authority Consumption by Customer Group Last Five Fiscal Years

	2013		2012		2011		2010 (1)		2009 (1)	
	Thousand Gallons	% of Consumption								
Water Customers										
Residential	3,522,531	69.85%	3,806,074	70.45%	3,887,894	70.88%	3,652,988	70.13%	4,152,536	71.17%
Commercial	1,026,039	20.35%	1,059,983	19.62%	1,075,703	19.61%	1,032,322	19.82%	1,094,936	18.77%
Industrial	59,116	1.17%	62,267	1.15%	62,278	1.14%	57,719	1.11%	102,707	1.76%
Institutional & Governmental	435,048	8.63%	474,130	8.78%	459,656	8.38%	465,940	8.94%	483,950	8.30%
Total	5,042,734	100.00%	5,402,454	100.00%	5,485,531	100.00%	5,208,969	100.00%	5,834,129	100.00%
Sewer Customers										
Residential	3,246,521	68.52%	3,424,127	68.94%	3,497,483	68.98%	3,329,608	69.30%	3,543,624	72.98%
Commercial	923,952	19.50%	941,927	18.97%	957,062	18.88%	842,782	17.54%	869,266	17.90%
Town of Wrightsville Beach	203,370	4.29%	207,561	4.18%	214,479	4.23%	234,303	4.88%	214,743	4.42%
Pender County	10,473	0.22%	11,550	0.23%	16,224	0.32%	13,550	0.28%	14,139	0.29%
Industrial	16,296	0.34%	16,197	0.33%	18,219	0.36%	23,060	0.48%	24,964	0.51%
Institutional & Governmental	337,107	7.12%	365,297	7.35%	366,618	7.23%	361,467	7.52%	189,410	3.90%
Total	4,737,719	100.00%	4,966,659	100.00%	5,070,085	100.00%	4,804,770	100.00%	4,856,146	100.00%

Source: Cape Fear Public Utility Authority Customer Service Department.

Note: Fiscal year 2009 was the first year of operations for the Authority.

Water includes domestic and irrigation connections.

⁽¹⁾ Prior year data has been updated to reflect adjustments made in the current year.

Cape Fear Public Utility Authority Schedule of New Connections Last Five Fiscal Years

		Increase In					
		Available	Cumulative	% Water	Increase In		
		Services	Available	Growth -	Water	Cumulative	% Water
	Fiscal Year	Water	Services	Available	Connections	Water	Growth -
	Ended June 30	(1)(2)(3)	Water (2)	Services	(2)	Connections	Connections
	2013	3,007	70,496	4.46%	964	66,503	1.47%
	2012	889	67,489	1.33%	549	65,539	0.84%
	2011	1,675	66,600	2.58%	1,877	64,990	2.97%
	2010	1,390	64,925	2.19%	485	63,113	0.77%
	2009	-	63,535	0.00%	-	62,628	0.00%
		Increase In	Cumulative	% Sewer			
		Available	Available	Growth -	Increase In	Cumulative	% Sewer
	Fiscal Year	Services	Services	Available	Sewer	Sewer	Growth -
-	Ended June 30	Sewer (2)(3)	Sewer (3)	Services	Connections	Connections	Connections
	2013	1,530	66,059	2.37%	450	63,878	0.71%
	2012	199	64,529	0.31%	352	63,428	0.56%
	2011	537	64,330	0.84%	255	63,076	0.41%
	2010	1,497	63,793	2.40%	683	62,821	1.10%
	2009	-	62,296	0.00%	-	62,138	0.00%

Source: Cape Fear Public Utility Authority Customer Service Department. Note: Fiscal year 2009 was the first year of operations for the Authority.

Connected services are defined as locations that have active billed customers.

Non-connected services are defined as locations that have services available but have no active billed customers. Available services are an indicator of potential customer growth.

⁽¹⁾ Water connections and available services include domestic and irrigation.

⁽²⁾ Available services include domestic and irrigation both connected and non-connected services.

⁽³⁾ Database clean up during FY12 produced a more accurate number of possible connections (prior years restated).

Cape Fear Public Utility Authority Pledged-Revenue Coverage Water and Sewer Revenue Bonds Last Five Fiscal Years

Fiscal				Less	Net							Debt
Year Ended		Gross		Operating	Available		Debt Service	D	ebt Service		Total	Coverage
June 30	Re	evenues (1)	E	xpenses (2)	Revenue		Principal		Interest		ebt Service	Ratio
2013												
Parity Debt Coverage Ratio	\$	71,023,046	\$	30,068,015	\$ 40,955,031	\$	8,105,000	\$	13,525,578	\$	21,630,578	1.89
Total Debt Coverage Ratio						\$	11,989,171	\$	14,590,085	\$	26,579,256	1.54
2012												
Parity Debt Coverage Ratio	\$	69,045,118	\$	29,956,912	\$ 39,088,206	\$	6,919,113	\$	11,894,186	\$	18,813,299	2.08
Total Debt Coverage Ratio						\$	12,006,657	\$	13,283,201	\$	25,289,858	1.55
2011												
Parity Debt Coverage Ratio	\$	62,820,928	\$	29,378,869	\$ 33,442,059	\$	3,329,579	\$	8,612,881	\$	11,942,460	2.80
Total Debt Coverage Ratio						\$	9,147,645	\$	11,160,138	\$	20,307,783	1.65
2010 (3)												
Parity Debt Coverage Ratio	\$	53,457,074	\$	29,314,125	\$ 24,142,949	\$	2,320,562	\$	5,220,454	\$	7,541,016	3.20
Total Debt Coverage Ratio	•		*	,	¥ = 1,1 1=,0 10	\$	8,706,072	,	8,092,789	\$	16,798,861	1.44
2009 (3)	¢	A7 702 A02	¢	21 517 700	¢ 16 065 604	¢	2 222 042	¢	4 040 401	¢	6 272 464	2.50
Parity Debt Coverage Ratio Total Debt Coverage Ratio	\$	47,783,403	\$	31,517,799	\$ 16,265,604	\$ \$	2,232,043 7,987,738	\$ \$	4,040,421 7,508,261	\$ \$	6,272,464 15,495,999	2.59 1.05
Total Debt Ooverage Natio						Ψ	1,301,130	Ψ	1,500,201	Ψ	10,700,000	1.00

⁽¹⁾ Gross revenues include all fees (including system development charges), other charges and investment earnings.

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

⁽³⁾ Debt coverage ratios for fiscal years ended June 30, 2010 and 2009 were restated in fiscal year ended June 30, 2011 to be consistent with a restatement of investment earnings.

Cape Fear Public Utility Authority
Ratios of Outstanding Debt by Type
Last Five Fiscal Years

		General	ARRA	Clean Water				% of		
Fiscal	Revenue	Obligation	Revolving	State	Installment	Capital		Personal	P	er
Year	Bonds	Bonds	Loan	Revolving Loan	Obligations	Leases	Total	Income (1)	Ca	pita
2013	\$ 285,309,582	\$ 5,255,000	\$1,131,523	\$ 2,442,453	\$ 35,410,732	\$ -	\$ 329,549,290	N/A	\$	1,575
2012	293,217,535	7,759,279	444,323	-	37,297,244	14,171	338,732,552	N/A		1,643
2011	255,556,814	11,712,630	330,545	-	39,918,647	179,315	307,697,951	0.015%		1,518
2010	259,225,928	16,371,000	-	-	42,475,207	413,381	318,485,516	0.014%		1,641
2009	261,888,896	21,605,709	-	-	45,007,970	155,324	328,657,899	0.014%		1,710

⁽¹⁾ Personal income demographics provided by US Census Bureau; data provided for as many years as available.

Cape Fear Public Utility Authority Demographic Statistics Last Five Fiscal Years

Fiscal Year Ended June 30	City of Wilmington Population (1)	New Hanover County Population (1)	Median Age (1)	Public School Enrollment (2)	Local Unemployment Rate % (3)	Personal Income (4)	Per Capita Income (4)
2013	109.922	209,234	38	25,364	9.1%	N/A	N/A
2012	108,297	206,189	37.54	25,253	9.3%	N/A	N/A
2011	106,476	202,667	36.7	23,934	10.1%	\$45,890	\$36,108
2010	102,207	194,054	38.5	23,643	9.4%	\$46,129	\$34,692
2009	101,526	192,235	38	23,614	9.0%	\$44,719	\$34,578

⁽¹⁾ US Census Bureau.

⁽²⁾ Provided by the NHC Public Schools.

⁽³⁾ North Carolina Department of Commerce

⁽⁴⁾ Provided by www.ncworks.gov; data provided for as many years as available.

Cape Fear Public Utility Authority Principal Employers Current Fiscal Year and Four Years Ago

		2013	
	Employees		Percentage of Total
Employer	(1)	Rank	County Employment
New Hanover Regional Medical Center	4,917	1	4.93%
New Hanover County Schools	3,900	2	3.91%
GE Wilmington	2,250	3	2.26%
Wal-Mart Stores	2,000	4	2.01%
University of North Carolina at Wilmington	1,843	5	1.85%
New Hanover County	1,571	6	1.58%
PPD, Inc.	1,500	7	1.50%
Verizon Wireless	1,244	8	1.25%
Corning, Inc.	1,000	9	1.00%
City of Wilmington	975	10	0.98%
,		•	21.27%
		;	
Total # Employed at June 30 of the respective FY (2)		;	99,683
		2009	
	Employees	2009	Percentage of Total
Employer	(3)	Rank	County Employment
Linpioyei	(3)	Kalik	County Employment
New Hanover Regional Medical Center	4.890	1	5.10%
New Hanover Regional Medical Center New Hanover County Schools	4,890 4.130	1 2	5.10% 4.30%
New Hanover County Schools	4,130	2	4.30%
New Hanover County Schools GE Wilmington	4,130 3,000	2	4.30% 3.13%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington	4,130 3,000 1,810	2 3 4	4.30%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington New Hanover County	4,130 3,000 1,810 1,670	2	4.30% 3.13% 1.89%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington New Hanover County PPD, Inc.	4,130 3,000 1,810 1,670 1,420	2 3 4 5	4.30% 3.13% 1.89% 1.74%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington New Hanover County PPD, Inc. Cape Fear Community College	4,130 3,000 1,810 1,670	2 3 4 5 6	4.30% 3.13% 1.89% 1.74% 1.48%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington New Hanover County PPD, Inc.	4,130 3,000 1,810 1,670 1,420 1,260 1,200	2 3 4 5 6 7	4.30% 3.13% 1.89% 1.74% 1.48% 1.31%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington New Hanover County PPD, Inc. Cape Fear Community College City of Wilmington Verizon Wireless	4,130 3,000 1,810 1,670 1,420 1,260 1,200	2 3 4 5 6 7 8 9	4.30% 3.13% 1.89% 1.74% 1.48% 1.31% 1.25%
New Hanover County Schools GE Wilmington University of North Carolina at Wilmington New Hanover County PPD, Inc. Cape Fear Community College City of Wilmington	4,130 3,000 1,810 1,670 1,420 1,260 1,200	2 3 4 5 6 7 8	4.30% 3.13% 1.89% 1.74% 1.48% 1.31% 1.25%

⁽¹⁾ Source: Greater Wilmington Business Journal, Fall 2012 Book of Lists

⁽²⁾ Source: North Carolina Employment Security Commission (2009) and www.ncworks.gov (2013)

⁽³⁾ Source: New Hanover County CAFR for Fiscal Year Ended June 30, 2009 using the Wilmington Industrial Development, Inc. and NC State Demographics Website.

Cape Fear Public Utility Authority
Full Time Equivalent Employees
Last Five Fiscal Years

Departments	2013	2012	2011	2010	2009
General and Administrative					
Administration	6	5	4	6	7
Human Resources	4	4	4	4	4
Finance/Information Technology	14.5	14	15	15	16
Engineering	22	22	22	24	25
Operations					
Administration	9	9	9	9	9
Utility Services	96	96	96	104	104
Water Treatment	30	30	31	31	31
Wastewater Treatment	40	40	40	41	41
Environmental & Safety Management	29.5	29.5	29.5	29.5	30.5
Customer Service	41	42	41	41	42
Total FTE's	292	291.5	291.5	304.5	309.5

Cape Fear Public Utility Authority Water Production and Wastewater Treatment (thousands of gallons) Last Eight Fiscal Years

Water Processed	
and	Wastewater
Pumped to System	Treated
5,970,000	5,900,239
6,020,000	5,525,894
6,179,900	5,777,917
5,989,700	6,122,662
6,375,455	5,696,412
6,590,075	5,429,210
6,906,195	6,132,272
6,940,475	6,004,330
	and Pumped to System 5,970,000 6,020,000 6,179,900 5,989,700 6,375,455 6,590,075 6,906,195

⁽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 Last Five Fiscal Years

Fiscal Year 2013 2012 2011 2010 2009 Water System 70,496 67,489 66,600 64,925 63,535 Number of available service connections Number of treatment plants - surface water system 1 1 1 Treatment capacity (mgd) - surface water 35.00 35.00 27.50 27.50 27.50 13.20 13.50 13.70 13.30 14.30 Average production (mgd) - surface water 3 3 3 3 3 Number of groundwater systems Number of treatment plants - groundwater system (1) 1 1 1 1 36 36 36 36 36 Number of wells - groundwater system Treatment capacity (mgd) - groundwater plant 6 6 6 6 Treatment capacity (mgd) - other groundwater systems 0.70 0.70 0.70 0.70 0.70 2.95 2.95 3.20 3.30 Average production (mgd) - groundwater 3.10 Miles of water mains 1,078 1,072 1070 (3) 1,129 1,103 Wastewater System 64,529 63,793 62,296 Number of available service connections 66,059 64,330 Number of treatment plants 3 3 3 3 3 WPC plant permit (mgd) 22.10 22.10 22.10 22.10 22.10

16.17

141

850

110

20,300

15.10

141

840

104

20,300

15.80

141

840

104

20,300

16.80

142

881

100

N/A

15.60

142

877

100

N/A

Source: Cape Fear Public Utility Authority Records

Average annual daily flow (mgd)

Miles of sewer gravity mains

Miles of sewer force mains (2)

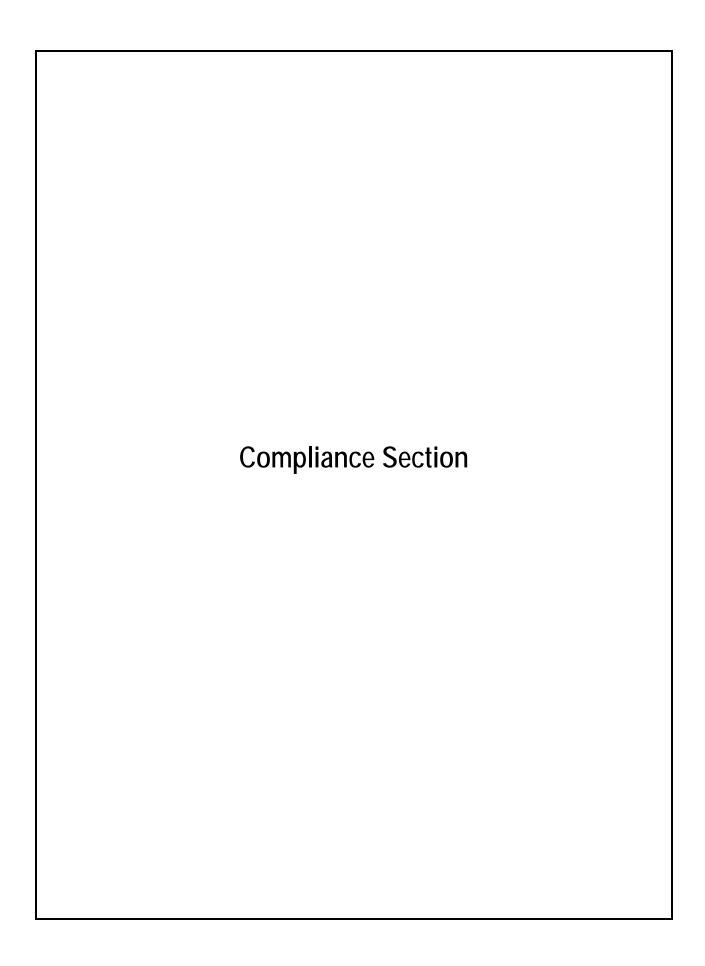
Number of lift stations

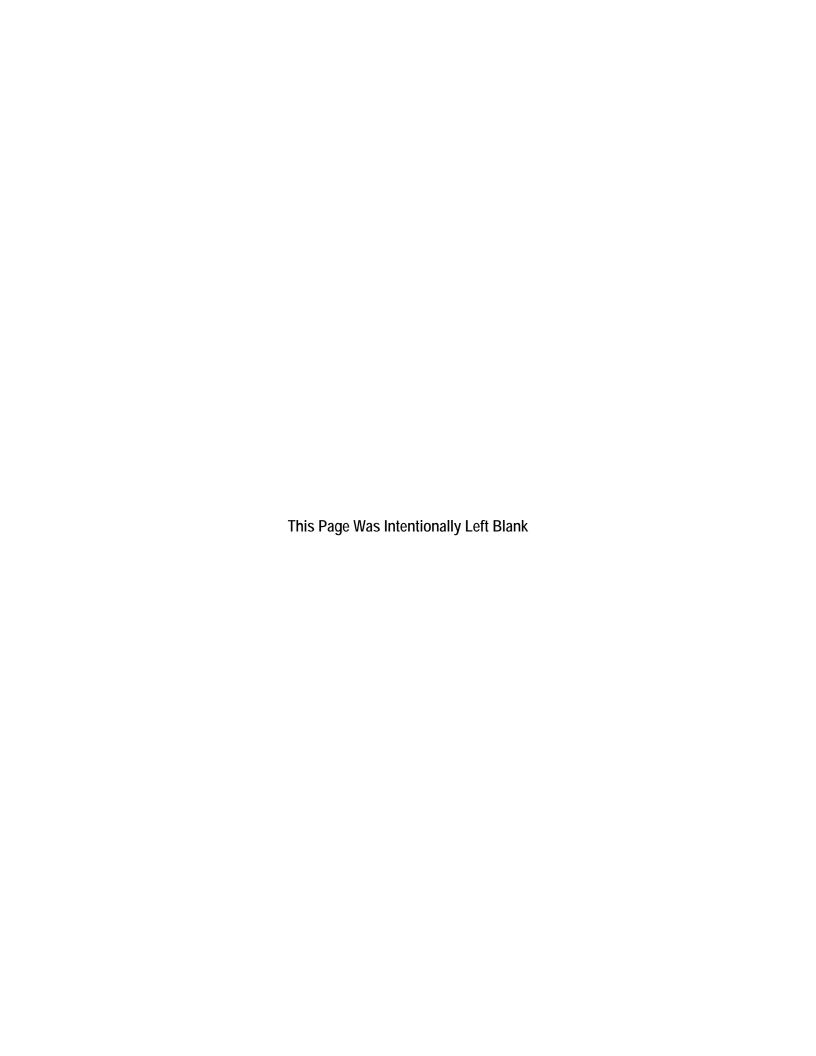
Number of Manholes

⁽¹⁾ During FY 2010, a groundwater treatment plant began operations providing advanced treatment for the largest of the three groundwater systems and resulted in a .3 mgd reduction in total treatment capacity.

⁽²⁾ Prior years restated based on more accurate data from the Authority's Operations Division.

⁽³⁾ Current year number is based on more accurate information as a result of implementating an asset management system.







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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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of the Cape Fear Public Utility Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Cape Fear Public Utility Authority's basic financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cape Fear Public Utility Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cape Fear Public Utility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cape Fear Public Utility 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thompson, Dice, Scott, adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A. Wilmington, North Carolina October 11, 2013



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Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Cape Fear Public Utility Authority's, compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of Cape Fear Public Utility Authority's major federal programs for the year ended June 30, 2013. Cape Fear Public Utility Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cape Fear Public Utility Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States; and OMB Circular A-133, <u>Audits of States</u>, <u>Local Governments</u>, <u>and Non-Profit Organizations</u>, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cape Fear Public Utility Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Cape Fear Public Utility Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Cape Fear Public Utility Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Cape Fear Public Utility Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Cape Fear Public Utility Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thompson, Dice, Scott, adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A. Wilmington, North Carolina

October 11, 2013

Cape Fear Public Utility Authority Wilmington, North Carolina Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 2013

		Section I. Sumr	nary of Auditor's Results					
<u>Financ</u>	Financial Statements							
Туре о	Type of auditor's report issued: Unqualified							
Interna	l control over fina	ncial reporting:						
•	Material weakne	ess(es) identified?	ves _X_no					
•	Significant Defice that are not cons material weakne		yes <u>X_</u> no					
	mpliance material nents noted	to financial	yesX_no					
<u>Federa</u>	l Awards							
Interna	l control over maj	or federal programs:						
•	Material weakn	ess(es) identified?	yes <u>X</u> no					
•	Significant Defi- that are not cor material weakn		yes X_none reported					
Type o	f auditor's report i	ssued on compliance fo	r major federal programs: Unqualified.					
requir	Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133yes _X_no							
Identific	cation of major fed	deral programs:						
<u>CFD</u>	A Numbers	Names of Federal Pro	gram or Cluster					
	66.468		cipal Forgiveness Loan					
	66.458	Capitalization Grants	for Clean Water State Revolving Loan Funds					

Cape Fear Public Utility Authority Wilmington, North Carolina Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 2013

Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	yes_X_no

Cape Fear Public Utility Authority Wilmington, North Carolina Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 2013

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Cape Fear Public Utility Authority Wilmington, North Carolina Corrective Action Plan For the Fiscal Year Ended June 30, 2013

Section II – Financial Statement Findings						
None reported.						
	Section III – Federal Award Findings and Questioned Costs					
None reported.						
	Section IV – State Award Findings and Questioned Costs					
None reported.						

Cape Fear Public Utility Authority Wilmington, North Carolina Summary Schedule of Prior Audit Findings For the Fiscal Year Ended June 30, 2013

Status: N/A

Cape Fear Public Utility Authority Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2013

Grantor/Pass-through Grantor/Program Title	Federal CFDA <u>Number</u>	State/ Pass-through Grantor's <u>Number</u>	Federal (Direct & Pass-through) Expenditures		_	ocal nditures
Federal Awards:						
U.S. Environmental Protection Agency						
Passed-through the N.C. Dept. of Environment and Natural Resources:						
Division of Environmental Health:						
ARRA - DWSRF Revolving Loan	66.468	DEH-1314	\$ 631,593	\$ -	\$	-
ARRA - DWSRF Principal Forgiveness Loan	66.468	DEH-1314	631,593	-		-
		Total	1,263,186	-		
Passed-through the N.C. Dept. of Environment and Natural Resources:						
Division of Water Quality:						
Capitalization Grants for Clean Water State Revolving Funds	66.458	E-SRF-T-11-0275	2,442,453	-		-
		Total	2,442,453	-		-
Total U.S. Environmental Protection Agency			3,705,639	-		-
Total Federal Awards			\$ 3,705,639	\$ -	\$	•
			·	*		

Cape Fear Public Utility Authority Notes to the Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2013

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes all of the federal and State grant activity of Cape Fear Public Utility Authority (the Authority) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2. Loans Outstanding

ARRA Loan

During the year ended June 30, 2010, the Authority was approved for a loan from the State of North Carolina, Department of Environment and Natural Resources (DENR). The loan has been drawn down as expenditures are paid on a certain capital project, to a maximum of \$2,263,046. Half of the loan amount is subject to immediate principal forgiveness under an American Recovery and Reinvestment Act of 2009 (ARRA) program awarded by the Environmental Protection Agency (EPA) through the State Revolving Fund program administered by DENR. The remaining \$1,131,523 will be due in 20 equal, annual installments of \$56,576, commencing on May 1 immediately following the completion of the project. The loan does not bear interest. At June 30, 2013, \$1,131,523 is recorded as an outstanding loan as of June 30, 2013.

Clean Water State Revolving Loan

During the year ended June 30, 2013, the Authority was approved for a loan and executed the promissory note from the State of North Carolina, Department of Environment and Natural Resources (DENR). The loan has been drawn down as expenditures are paid on a certain capital project, to a maximum of \$3,025,992. The interest rate on the loan is 2.455% per annum, with a term of twenty years. Principal payments will be made annually on May 1, and interest payments will be made semiannually on May 1 and November 1 of each year. The first principal and interest payments are not due until six months after the original date of completion of the project. At June 30, 2013, \$2,442,453 is recorded as an outstanding loan.

Cape Fear Public Utility Authority

Supplemental Schedule - Statement of Revenues and Expenditures Aquifer Storage & Recovery (ASR) Project No. 09W113 For the Period 07/01/2008 to 06/30/2013

Statement of Revenues

Source of Funds:

Source of Funds:			
Federal Funds Received:			
ARRA - DWSRF Revolving Loan		\$	1,131,523
ARRA - DWSRF Principal Forgiveness	Loan		1,131,523
Federal Funds Not Yet Reimbursed	:		
ARRA - DWSRF Revolving Loan			-
ARRA - DWSRF Principal Forgiveness	Loan		
Total Sources of Funds		\$	2,263,046
Chalanna and a fil			
Statement of E	expenditures		
Construction Cost	Nei II im en	φ	F70 4C4
1. Sydnor Hydro Inc., Part A-Well D	-	\$	570,461
1. M.B. Kahn Construction Co., Pa	art B-Well Drilling		1,046,249
Engineering Fees			563,921
Administrative Expense			
1. NCDENR Closing Costs			54,327
2. Administration and Legal			4,996
3. Inspection Fees			22,791
4. Signage			301
Total Statement of Expenditures		\$	2,263,046
		_	
Note: Total expenditures reported or	n the Schedule of Federal and Stat	e Av	vards were as
	Fiscal year ended June 30, 2010	\$	380,407
	Fiscal year ended June 30, 2011		558,450
			04.000

s follows:

	\$ 2,263,046
Fiscal year ended June 30, 2013	1,263,186
Fiscal year ended June 30, 2012	61,003
Fiscal year ended June 30, 2011	558,450
Fiscal year ended June 30, 2010	\$ 380,407

Total Loan reported in Long-Term Debt:

	Fiscal year ended June 30, 2011	\$ 330,545
	Fiscal year ended June 30, 2012	113,778
	Fiscal year ended June 30, 2013	687,200
		\$ 1,131,523
Amount Reimbursed to Date		\$ 2,263,046

Cape Fear Public Utility Authority Supplemental Schedule - Statement of Revenues and Expenditures Burnt Mill Creek Phase II Project No. 09W113

For the Period 07/01/2012 to 06/30/2013

Statement of Revenues

Source of Funds: Federal Funds Received: Capitalization Grants for Clean Water State Revolving Loans Federal Funds Not Yet Reimbursed: Capitalization Grants for Clean Water State Revolving Loans	\$	1,567,865 874,588				
Total Sources of Funds	\$	2,442,453				
Statement of Expenditures						
Construction Cost	•	0.040.400				
1. State Utility Contractors, Inc.	\$	2,248,428				
Engineering Fees - Camp Dresser & McKee Total Statement of Expenditures	\$	194,025 2,442,453				
Total Gatomontol Exponditures	<u> </u>	2,112,100				
Note: Total expenditures reported on the Schedule of Federal and State Awards were as follows:						
Fiscal year ended June 30, 201	3 \$	2,442,453				
	\$	2,442,453				
Total CWSRF Loan reported in Long-Term Debt:						
Fiscal year ended June 30, 201	3 \$	2,442,453				
,	\$	2,442,453				
Amount Reimbursed to Date	\$	1,567,865				

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