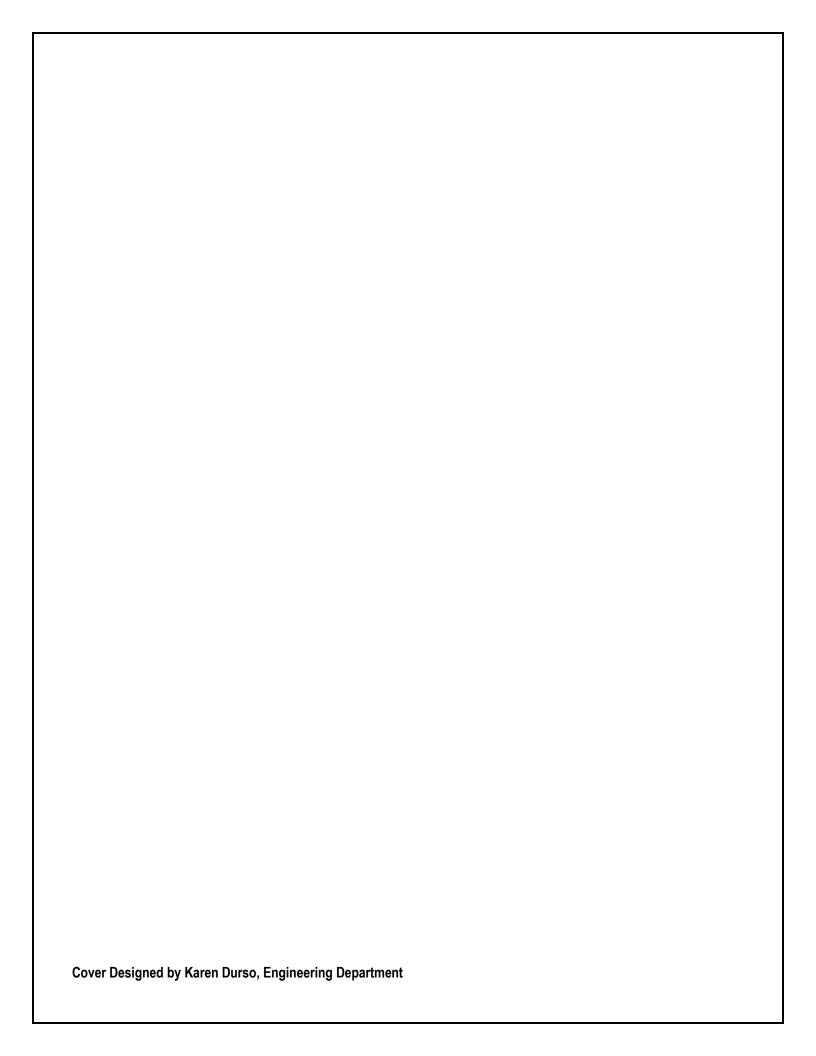


COMPREHENSIVE ANNUAL FINANCIAL REPORT For Fiscal Year Ended June 30, 2015

Cape Fear Public Utility Authority Wilmington, North Carolina









CAPE FEAR PUBLIC UTILITY AUTHORITY WILMINGTON, NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORTFor The Fiscal Year Ended June 30, 2015

Board Members

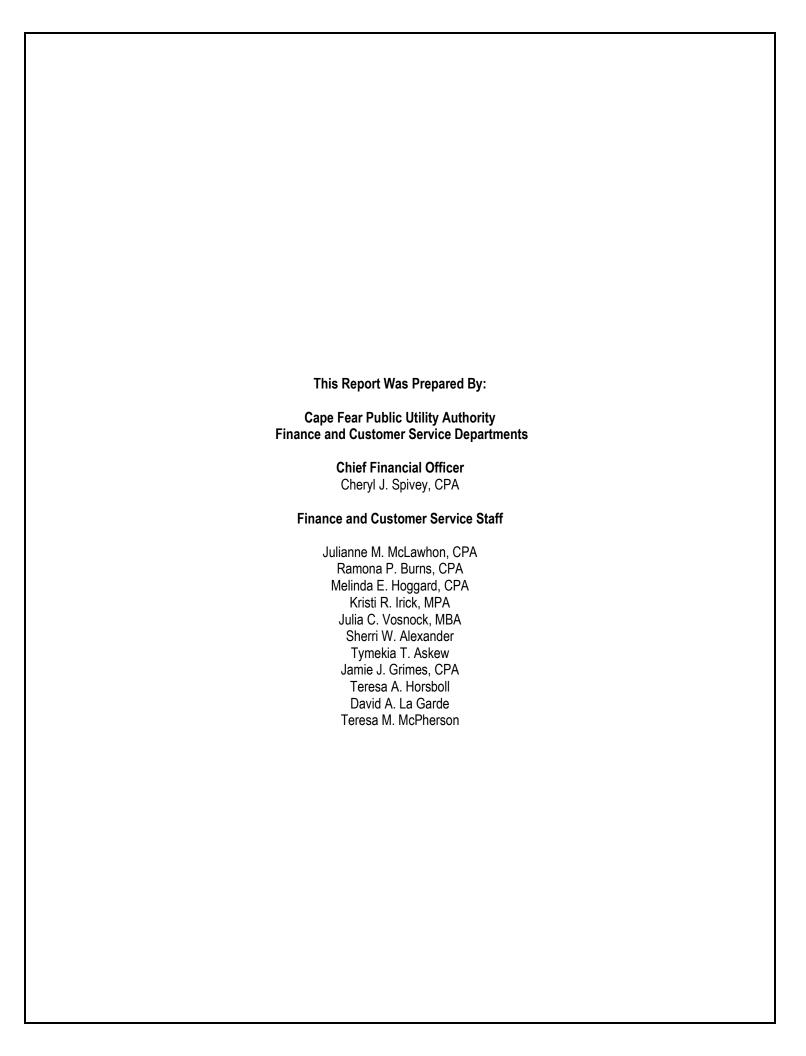
Patricia O. Kusek, Chairman
James L. Quinn III, Vice Chairman
James Brumit, Secretary
Michael C. Brown III, Treasurer
William A. Norris
Kevin O'Grady
Charlie Rivenbark
C. Lawrence Sneeden Jr.
Woody White
Cindee Wolf
Rob Zapple

Executive Director

James R. Flechtner, PE

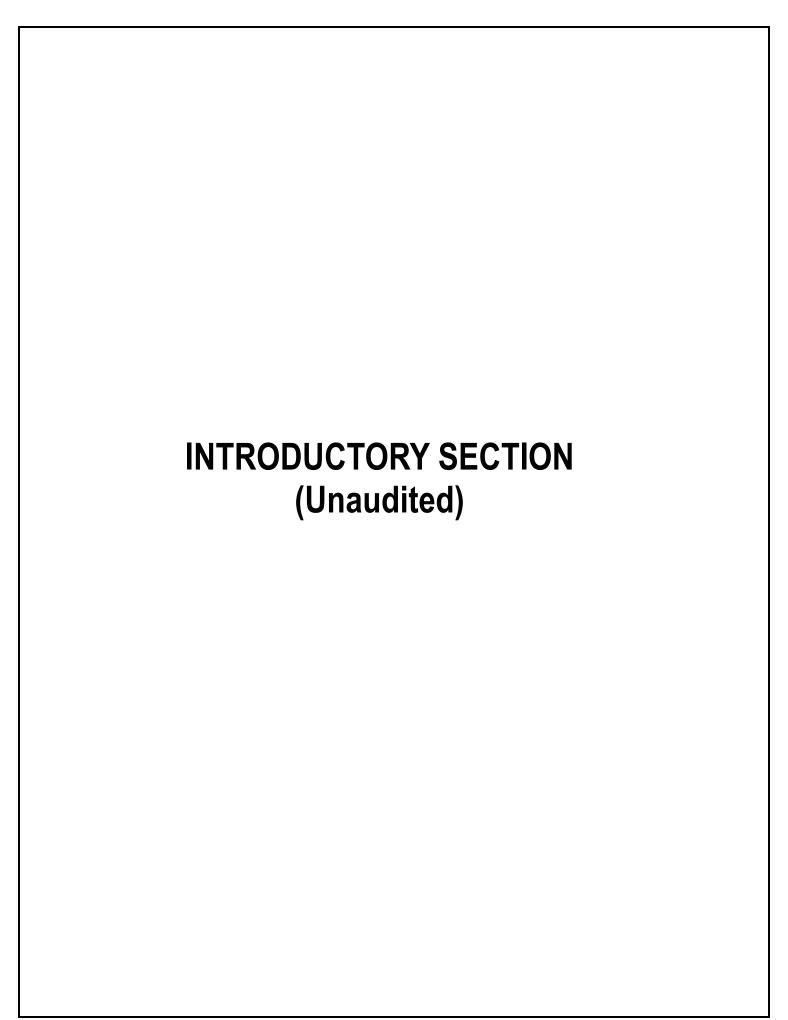
Chief Financial Officer

Cheryl J. Spivey, CPA



Cape Fear Public Utility Authority			
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October 23, 2015

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, 2015. 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, 2015, 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. Cherry Bekaert, LLP conducted the audit and concluded in an unmodified ("clean") opinion that the financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2015, 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 pages 16-18.

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 2015. 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 wastewater 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, wastewater flows from Wrightsville Beach and a portion of Pender County are conveyed to and treated by the Authority. New Hanover County's population is approximately 216,000 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 wastewater rates, making policy decisions, and appointing the Executive Director, 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 project 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 66,136 customer accounts, an increase of 1,072 compared to the previous year. Also, an additional 4,220 locations have services available (vacant lots). The water system has 1,089 miles of distribution lines at June 30, 2015. 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, 2015 increased 2.9%, compared to a 3% 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, 2015 was 13.56 MGD. The surface water distribution system has been providing water service for more than 100 years and includes 16.0 million gallons of covered ground storage of finished water and 5 million gallons of storage in three elevated tanks. The LCFWSA and CFPUA equally share in the 106 MGD (combined) allocation of raw water from the Cape Fear River withdrawn at the Kings Bluff Raw Water Facilities.

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, and 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, 2015 of 2.94 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. CFPUA has a groundwater capacity of 10.1 MGD at 12 hours pumping for all our ground water wells.

The Wastewater System

There are 65,730 wastewater accounts, an increase of 731 compared to the previous year. Also, an additional 2,516 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 844 miles of gravity lines, 21,000 manholes, 143 pump stations and 131 miles of pressurized sewage force main. Wastewater consumption, based on metered water (excluding irrigation) for the fiscal year June 30, 2015 increased nearly 1%, compared to a 1.5% 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). The NSWWTP is now permitted to treat up to 16.0 MGD. This is an increase from the prior year's permitted capacity of 10.0 MGD. This increase is a result of the completion of a second effluent force main, which conveys treated wastewater from the plant to the Cape Fear River. 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, 2015, the combined average daily flows were 17.48 MGD of the combined 28.1 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 hauled 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. All 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.

Taxable sales in New Hanover County were up 4.1% for the fiscal year ended June 30, 2015. New Hanover County reported a less than 1% increase in the number of building permits issued with a 31% decrease in the cost of these permitted projects compared to the prior year. The County's unemployment rate at June 30, 2015, of 5.6%, is lower than the 6.1% at June 30, 2014. It is also lower than North Carolina's 6.1% and slightly higher than the United States' 5.5%.

Tourism is the area's largest economic component in terms of employment and revenues. New Hanover County was ranked eight out of 100 counties in the state with \$507.9 million in travel-related revenues in calendar year 2014, a 6% increase over 2013 revenues. In 2014, tourism provided nearly 5,700 jobs with an annual payroll of \$113 million in New Hanover County. For fiscal year ended June 30, 2015, room occupancy tax receipts increased 9.99 % over the prior year.

Major employers in New Hanover County with 500 or more employees include New Hanover Regional Medical Center, New Hanover County Schools, University of North Carolina at Wilmington, PPD Development, New Hanover County, Verizon Wireless, Cape Fear Community College, Wal-Mart, City of Wilmington, Harris Teeter, General Electric Hitachi Nuclear Americas, Corning Inc., Food Lion, Wilmington Health Associates, General Electric, Global Nuclear Fuel Holding Co (joint venture of GE Energy, Toshiba, and Hitachi), Carolina Healthcare Associates, and Real Time Staffing Services.

Management expects economic conditions in the service area to be stable.

Long-Term Financial Planning

The Authority developed a new 10-year model this year 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
Customer Account Information Expectations Construction Bidding

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 2015

In the Authority's seventh 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, 2015, the Authority had approximately 150 active capital projects with approximately \$34 million in expenditures. The CIP for the ten-year period from FY 2016 to FY 2025 totals over \$343 million. The largest capital expenditures during the year, comprising 70% of current year expenditures, were on the following projects:

- Northeast Interceptor (NEI) Rehab Project (including pump stations 34 and 35) \$11.8 million project budget. This
 project replaced approximately 5,000 linear feet of 20" ductile iron pipe. This project is substantially complete as of
 June 30, 2015.
- Heritage Park Extensions \$7 million project budget. This project connects current Heritage Park residents that
 presently have wells and septic systems to the Authority's water and sewer collection system. This project is
 ongoing.
- Northern Route Force Main (NEI Project) \$13 million project budget. This project includes installation of a new 24" wastewater force main between Pump Station 35 at Bradley Creek to the Northside Wastewater Treatment Plant with an interconnect to the existing NEI force main. This project is complete.
- Comprehensive Meter Replacement Program \$3.8 million project budget. This project systematically replaces approximately 65,000 meters over a five year period to increase meter accuracy. This project is ongoing.
- Marquis Hills Wastewater Extensions \$10.5 million project budget. This project connects existing Marquis Hills residents with septic tanks to the Authority's collection system. This project is ongoing.
- Barnards Creek Pump Station \$8.7million project budget. This project involves construction of a new pump station.
 This project is ongoing.
- Waltmoor Sanitary Sewer Rehabilitation Phase II Project \$2.2 million project budget. This project consists of the rehabilitation of over 14,000 feet of pipe, over 60 manholes, and over 200 service laterals. This project is ongoing.
- Sweeney Clear Well Rehabilitation \$3.3 million project budget. This project addresses the immediate needs of the aging 12MG and 4MG concrete clear wells which store finished water before being pumped into the distribution system. This project is ongoing.
- Country Haven Pump Station Upgrade \$3 million project budget. This project consists of design and construction of a large pump station as well as a 6,000 foot 12" force main extending from the pump station. This project is complete.
- Annexation 98 Completion of Sewer Extensions \$3.8 million project budget. This project consists of extending
 water and sewer to existing neighborhoods along the Intracoastal Waterway which will allow for removal of aging
 private septic systems. This project is complete.

Other Accomplishments – The Authority maintained its AA2 bond rating with Moody's and received a bond rating of AA+ 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, 2014. The Authority has received this prestigious award each of the 6 fiscal years since it began operations July 1, 2008. 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.

R. Flutt

Executive Director

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, 2014

Executive Director/CEO



Patricia O. Kusek Chair



James L. Quinn III Vice Chair



James Brumit Secretary



Michael C. Brown III Treasurer

Cape Fear Public Utility Authority Board Members For Fiscal Year Ended June 30, 2015



William A. Norris Member



Kevin O'Grady Councilman



Charlie Rivenbark Councilman



C. Lawrence Sneeden, Jr. Member



Woody White Commissioner



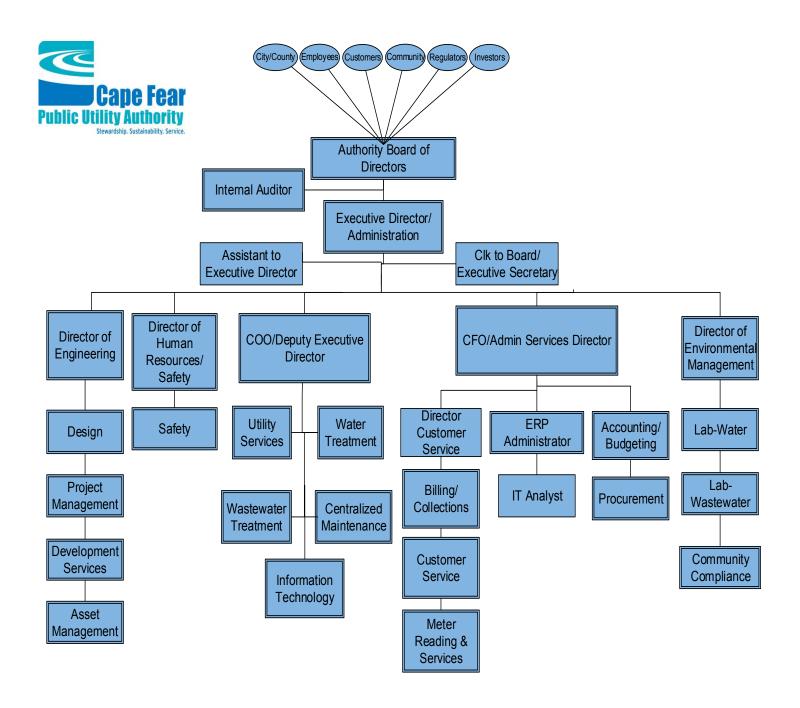
Cindee Wolf Member

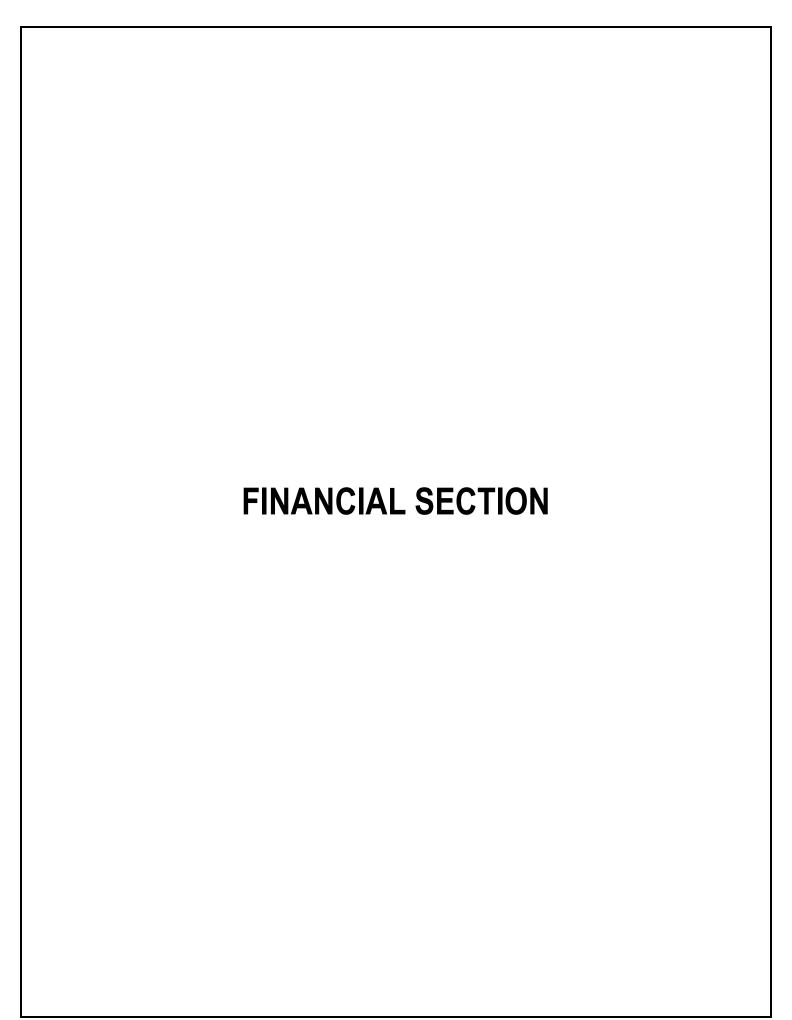


Rob Zapple Commissioner

Other Principal Officials

James R. Flechtner, PE Executive Director Cheryl J. Spivey, CPA Chief Financial Officer







Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying statement of net position of Cape Fear Public Utility Authority, (the "Authority") as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements.

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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Authority'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 Authority'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Notes 1, 7, and 17 to the basic financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68.* As a result, net position as of June 30, 2014 of the statement of revenues, expenses, and changes in net position has been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the other required supplementary information as listed in the table of contents 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 Authority's basic financial statements. The introductory section, and schedules listed in the table of contents under "Supplementary Schedules" and the statistical section, as well as the schedule of expenditures of federal and state awards as required by U.S. 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 supplementary 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 this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the Authority's internal control over financial reporting and compliance.

Raleigh, North Carolina October 23, 2015

Cherry Bekaust LLP

The management of Cape Fear Public Utility Authority (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, 2015. 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 6 through 11 of this report.

FINANCIAL HIGHLIGHTS

- The overall financial condition of the Authority improved during the year ended June 30, 2015. Assets and deferred outflows of resources of the Authority exceeded its liabilities at the close of the fiscal year by approximately \$444 million (net position) which is an increase of \$33 million from the prior year. The increase in net position is a result of the Authority's investment in infrastructure during the year as well as an increase in the unrestricted portion of net position discussed below.
- Approximately \$109 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 \$2 million. The primary reasons for the increase in
 unrestricted assets is that operating expenses were less than anticipated. In addition, revenues were slightly higher
 than anticipated due to modest customer growth and revenues coming in higher than expected.
- Total operating revenues were \$71.26 million, an increase of \$2.42 million or 3.5% over the prior year. The increase in revenues reflects increases in water and wastewater rates effective May 1, 2014, which was necessary to maintain a debt coverage ratio of 1.20 as a result of anticipated declining consumption. The rates established in May 2014 were primarily required to cover the actual decline in water and sewer usage during calendar year 2013 and, to be conservative, an additional 4% decline that was assumed would occur in FY 2015.
- Total operating expenses (including depreciation and amortization) were approximately \$49.35 million, an increase of approximately \$1.44 or 3% over the prior year.
- Operating income (operating revenue less operating expenses, including depreciation and amortization) increased to \$21.9 million from \$20.9 million in the prior year.
- Overall debt coverage increased to 1.77 for fiscal year 2015 from 1.65 in the prior year, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 2.33, also remaining above the 1.2 ratio required by revenue bond covenants.
- The Authority received a credit rating upgrade to AA+ from Standard & Poor's and maintained its AA2 from Moody's.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's primary mission is to provide water and wastewater services to the City of Wilmington (City) and the unincorporated areas of New Hanover County (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 28 through 31 of this report.

<u>Notes to the 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 32 through 60 of this report.

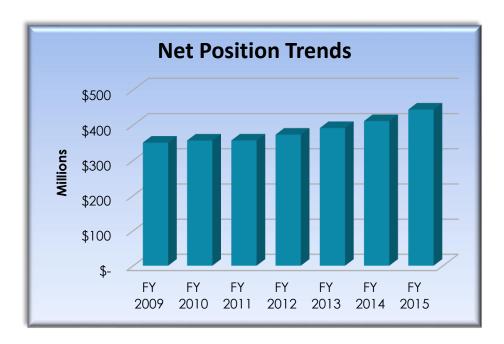
FINANCIAL ANALYSIS

Table A presents the Condensed Statement of Net Position for the fiscal years ended June 30, 2015 and June 30, 2014.

Condensed Statement	of Net Position	
Table A	A	
	June 30,	June 30,
	2015	2014
Assets		
Current assets	\$ 117,521,982	\$ 126,256,059
Noncurrent assets-noncapital	43,336,927	17,163,164
Noncurrent assets-capital	635,714,148	609,590,516
Total assets	796,573,057	753,009,739
Deferred Outflows of Resources	3,177,782	1,631,912
Liabilities		
Current liabilities	29,405,713	30,379,274
Noncurrent liabilities	323,381,811	313,056,042
Total liabilities	352,787,524	343,435,316
Deferred Inflows of Resources	3,066,311	-
Net Position		
Net investment in capital assets	335,218,505	304,634,404
Unrestricted	108,678,499	
Total net position	\$ 443,897,004	
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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 by approximately \$444 million at June 30, 2015, which is an increase of nearly \$33 million over the prior year.

The increase in net position is a result of the Authority's investment in infrastructure, as well as an increase in the unrestricted portion of net position. The Authority's investment in infrastructure increased from \$610 million to nearly \$636 million. Net investment in capital assets (land, buildings, machinery, and equipment less the associated debt on those assets) comprised 76% of total net position at June 30, 2015. These capital assets are essential in providing water and wastewater 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, 2015, these other resources totaled nearly \$109 million, an increase of nearly 2%, or \$2 million over the prior year. The primary reasons for the increase in unrestricted assets is that operating expenses were less than anticipated and revenues were slightly higher than anticipated due to modest customer growth and revenues coming in higher than expected.



Also, the Authority implemented GASB Statement 68 this year. With the new reporting change, the Authority is allocated its proportionate share of the Local Government Employees' Retirement System's (LGERS) net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. The Authority's portions of the LGERS net pension asset was nearly \$1.3 million, reflected in noncurrent assets (noncapital) above. The Authority's portion of deferred outflows of resources related to this new statement was just over \$1 million while deferred inflows of resources was just over \$3 million. The Authority also recognized pension expense of approximately \$104,000. A restatement to record the effects of the new reporting guidance also decreased beginning net position by \$1,603,112.

Management of the Local Government Employees' Retirement System resides with the LGERS Board of Trustees, which consists of 13 members, nine of which are appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. Decisions related to funding and investing the plan are made by the Department of State Treasurer, not by the Authority's management.

Fluctuations in noncapital portions of noncurrent assets beyond the implementation of GASB 68 are as a result of investments in certificates of deposits that mature after June 30, 2016. In recent years, the Authority has developed an investment program and has been increasingly investing idle funds into certificates of deposits in order to achieve a higher rate of return. Deferred outflows of resources increased as well due to a deferred charge on debt refunding of just over \$2 million which is further discussed in the Debt Administration section of this analysis.

Table B presents the Condensed Statement of Revenues, Expenses and Changes in Fund Net Position for the fiscal years ended June 30, 2015 and June 30, 2014.

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position Table B			
	Year Ended	Year Ended	
	June 30, 2015		
Revenues		,	
Operating revenues			
Charges for services	\$ 67,429,021	\$ 65,495,922	
Other operating revenues	3,835,966	3,344,807	
	71,264,987	68,840,729	
Nonoperating revenues			
Investment earnings	1,012,470	993,737	
Contributions from New Hanover County	1,254,000	1,577,000	
Gain on disposal of capital assets	77,599	73,780	
Total revenues	73,609,056	71,485,246	
Expenses Operating expenses Depreciation and amortization	30,578,562 18,776,391	30,180,664 17,729,409	
	49,354,953	47,910,073	
Nonoperating expenses			
Interest expense	8,332,023	11,919,549	
Bond issuance costs and other debt service fees	683,650	85,243	
Total expenses	58,370,626	59,914,865	
Increase in net position before capital contributions	15,238,430	11,570,381	
Capital contributions	19,055,351	8,332,420	
Increase in net position	34,293,781	19,902,801	
Net position, July 1 Restatement	411,206,335 (1,603,112)	391,303,534 -	
Net position, June 30	\$ 443,897,004	\$411,206,335	

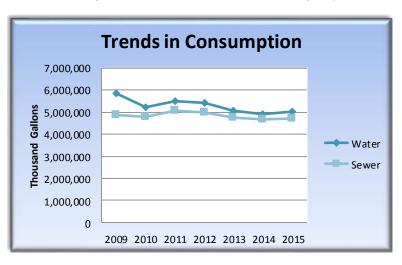
The condensed two-year comparison of Revenues, Expenses and Changes in Net Position, combined with the following discussion provides insight as to the causes affecting net position.

- Operating Revenues: The Authority is not empowered to levy or collect taxes. However, the Authority did receive a contribution of nearly \$1.3 million from the County in fiscal year 2015. This contribution will gradually reduce over the next three years with a final contribution of \$304,000 in fiscal year 2018. Except for this contribution, which accounted for 1.7% of total revenues in fiscal year 2015, the Authority's operations, capital improvements 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 increased by \$1.9 million from the prior year as a result of rate changes implemented in May 2014, a slight increase in number of customers, and increases in usage of water and sewer. In May 2014, rate changes increased the volumetric water charge by 7.3% and increased the wastewater volumetric charge by 8.3%. There was no change to the fixed meter charge. The volumetric rate increase was enacted primarily.

to cover the actual decline in water and wastewater usage realized during calendar year 2013, as well as an additional 4% decline in consumption to offset potential further declines.

	2015	2014
Average Bi-Monthly Residential Consumption	8,600	8,400
Average Bi-Monthly Residential Water Bill	\$ 57.37	\$ 56.64
Average Bi-Monthly Residential Sewer Bill	\$ 68.32	\$ 67.40
Total Average Bi-Monthly Residential Combined Bill	\$ 125.69	\$ 124.04

- Customer Growth and Consumption: The Authority budgeted revenues for FY15 assuming no customer growth.
 However, the Authority did experience modest growth in its customer base during FY15, with an increase of 1,072 water customers and 731 wastewater customers. Operating revenues came in above the final budget by \$5.1 million.
 - This excess revenue over budget is attributed primarily to volumetric revenues coming in higher than anticipated, as well as connection fees coming in above budget. Also, the increase in new customers contributed to water and sewer base rate charges coming in above budget. Overall water consumption increased by 2.9% from the prior year. Residential demand, which constituted 68.8% of water demand, increased 1.3%, commercial demand increased 4.7%, industrial demand increased 3.1% and institutional and governmental demand increased 11.8%. Billed volumes for wastewater



service increased less than 1% from fiscal year 2014. Residential wastewater volumes decreased less than 1% from the prior fiscal year while non-residential increased by 4%.

- Other revenues: Investment earnings increased slightly from \$994,000 to just over \$1 million in fiscal year 2015. Capital contributions increased to \$19 million from \$8.3 million in fiscal year 2014. Cash contributions included in this category in the form of system development capacity charges were \$4.7 million in fiscal year 2015, an increase from \$4.4 million collected in 2014. Also included in this category are cost sharing contributions from developers which increased to \$8.3 million in fiscal year 2015 from \$1.7 million in fiscal year 2014. Noncash contributions from developers (donated capital) increased to nearly \$6 million in fiscal year 2015 from \$2.3 million in fiscal year 2014.
- **Operating expenses:** Overall, operating expenses, excluding depreciation and amortization, increased 1.3%. After factoring in depreciation and amortization, operating expenses increased by 3% from the prior year primarily related to

an increase in depreciation and amortization of nearly 6% as a result of newly installed capital assets. Services and utilities increased 5.2%, while materials costs held constant. Personnel and benefits decreased by 1.1% primarily as a result of the implementation of GASB 68 as discussed earlier in this analysis.

• Interest expense: Interest expense decreased from \$11.9 million to \$8.3 million primarily due to interest paid being \$1 million higher than the previous year, less an increase in premium amortization of \$2.8 million, recognition of an unamortized deferred charge on debt refunding of \$1.5 million related to the 2005 Water and Sewer System Revenue and Refunding Bonds that were refunded during the year, plus \$500,000 of additional amortization of deferred charges over last year, and the amount of interest expense capitalized for construction projects in progress (interest that is not immediately expensed, but instead considered an asset and amortized over time) increased by \$800,000 over the prior year.

Interest Expense Table C			
	Υ	ear Ended	Year Ended
	Ju	ne 30, 2015	June 30, 2014
Interest Paid	\$	15,809,044	\$ 14,833,732
Decrease in Accrued Interest		(92,617)	(71,040)
Capitalized Interest to Construction in Progress		(2,964,515)	(2,156,714)
Amortization of Premiums		(3,827,265)	(1,065,681)
Unamortized deffered charge on refunding		(1,512,279)	
Amortization of Deferred Charges		919,655	379,252
Total Interest Expense	\$	8,332,023	\$ 11,919,549

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets totals nearly \$636 million (net of accumulated depreciation and amortization) at June 30, 2015. The major assets include water treatment 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 decreased nearly \$11 million (\$49 million in completed projects were removed from construction in progress and \$38 million in new projects added to construction in progress). Of the \$49 million that was placed into service from construction in progress, \$8 million related to the Northern Route Force Main Project. Other projects completed during the year included \$6.4 million for rehabilitation to the Northeast Interceptor, \$5.6 million for the Northside Wastewater Treatment Plant Force Main, \$3.9 million for the completion of the 1998 Annexation Sewer Extensions, \$2.8 million for upgrades to the Country Haven Pump Station, \$2.7 million for the Aquifer Storage Retrieval project, \$2.5 million for the removal of the Alandale Pump Station, \$2.1 million for the Kerr Avenue Waterline project, \$1.7 million for the River Road Force Main project, and \$1.3 million for sewer replacements on 30th Street.
- The largest increases in construction in progress, including all capitalized interest and other costs, were \$4.9 million for the Heritage Park Extension project, \$2.2 million for the Comprehensive Meter Replacement Program, \$1.8 million

for the Marquis Hills Extension project, \$1.7 million for the Barnard's Creek Pump Station project, \$1.6 million for the Waltmoor Sanitary Sewer Rehabilitation Phase 2 project, \$1.4 million for the Sweeney Clear Well Rehabilitation project.

Table D presents the Changes in Net Capital Assets for the fiscal year ended June 30, 2015. Additional information on the Authority's capital assets can be found in Note 4 on page 40 of this report.

	Capital A	ssets			
Net o	of Depreciation a		on		
	Table	D			
	Beginning Balances, Reclassified July 1, 2014	Increases	Decreases	Completed Projects	Ending Balances June 30, 2015
Capital assets not being depreciated:					
Land	\$ 6,982,245	\$ -	\$ -	\$ -	\$ 6,982,245
Intangible Asset-Easements	1,860,518	-	-	229,499	2,090,017
Construction in progress	51,964,009	38,418,510	-	(49,320,756)	41,061,763
Total capital assets not being depreciated	60,806,772	38,418,510	_	(49,091,257)	50,134,025
or amortized		20,110,010		(10,001,201)	
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	291,038,500	46,020	-	3,389,857	294,474,377
Water and Sewer Lines	332,747,423	5,972,874	-	43,568,587	382,288,884
Furniture, Fixtures and Machinery	10,089,219	384,358	(326,434)	2,015,330	12,162,473
Intangible Asset-Computer Software	4,038,992	78,261	-	117,483	4,234,736
Intangible Asset-Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being depreciated or					
amortized	639,902,250	6,481,513	(326,434)	49,091,257	695,148,586
Less:					
Accumulated depreciation	(88,023,858)	(17,937,014)	326,434	-	(105,634,438)
Accumulated amortization	(3,094,648)	(839,377)	-	-	(3,934,025)
Total accumulated depreciation and					
amortization	(91,118,506)	(18,776,391)	326,434	-	(109,568,463)
Capital assets, net	\$ 609,590,516	•			\$ 635,714,148

Debt Administration

The Authority's long term debt, presented in Table E below, totaled \$330 million at June 30, 2015, net of applicable premiums, discounts and deferred refunding charges. The Authority's overall debt coverage for fiscal year 2015 was 1.77, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 2.33, well above the 1.2 ratio required by revenue bond covenants.

Outstanding Long-Term Obligation Table E	ns	
	2015	2014
Revenue Bonds	\$ 291,532,167	\$ 277,272,935
General Obligation Bonds:		
Locality compensation payment	-	2,355,000
Installment Obligations:		
Locality compensation payment	29,044,491	32,259,698
ARRA Revolving Loan	1,018,371	1,074,947
DWSRF Revolving Loan	167,121	91,048
Clean Water State Revolving Loans	8,696,154	8,653,524
Totals	\$ 330,458,304	\$ 321,707,152

The Authority assumed the long term obligations of the City of Wilmington and New Hanover County on July 1, 2008 for water and wastewater 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 wastewater capital improvements and to refund \$42 million in the County's 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 wastewater 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.

The Authority issued approximately \$20 million of revenue bonds on December 1, 2014 to fund projects such as replacement and rehabilitation of wastewater and water mains and manholes, partnering with the County to construct wastewater, pump stations, and force mains to serve existing neighborhoods with failing septic systems, construction of water transmission mains to improve hydraulics, add customers, and improve water interconnections, decommissioning of an outdated wastewater treatment plant and construction of wastewater transmission infrastructure to redirect flow to the Northside Wastewater Treatment Plant, rehabilitation of concrete clear wells at the Sweeney Water Treatment Plant, and replacement and upgrade of water meters throughout the service area to improve reading accuracy and convert from a primary manual read system to an automated read system. At the same time the Authority also refunded \$44.7 million of the Series 2005 Revenue Bonds that were previously issued by the City of Wilmington. The total net present value savings was \$7.9 million, and the percentage of net present value savings based on the refunded bonds was 15.7%.

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. The remaining \$1.1 million from the ARRA loan is due in 20 equal installments of nearly \$57,000 which commenced on May 1, 2014. This loan is funding the Aquifer Storage and Recovery project. At June 30, 2015, the total amount outstanding on this loan totaled just over \$1 million.

During the year ended June 30, 2013, the Authority was approved for a second loan from the State of North Carolina, Department of Environment and Natural Resources (DENR) for approximately \$204,000 also for the Aquifer Storage and Recovery Project.

This loan is due in 20 equal installments of approximately \$10,000 commencing on May 1, 2015. At June 30, 2015, the total amount outstanding on this loan totaled \$167,000.

The Authority also has NC Clean Water State Revolving Loans for the Burnt Mill Creek Phase II capital project, the Smith Creek 'Alandale' Pump Station project, the Greenfield Lake Sewer Outfall Rehabilitation project, the 30th Street Sewer Rehabilitation project, the McCumbers Ditch project, and the Between the Creek Pump Station 28 Refurbishment project. At June 30, 2015, the total amount outstanding on these loans totaled \$8.7 million.

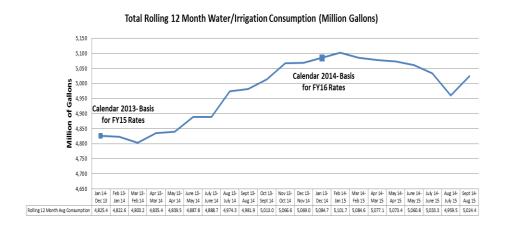
Since the Authority's inception, it has been responsible for payments made and received under a swap agreement which the City entered into related to its 2002 Series Variable Rate General Obligation Bonds. The intent of the swap agreement was to effectively change the interest rate on the bonds to a synthetic fixed rate. The bonds that related to this swap agreement matured during the fiscal year on June 1, 2015.

Additional information on the Authority's long term debt can be found in Note 10, Long-Term Obligations beginning on page 50 of this report.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2016

The Board approved a \$76 million annual operating budget for fiscal year 2016. The adopted budget reflects a 2.5% decrease, or \$1.9 million, under fiscal year 2015. Net debt service is \$4.4 million less than the fiscal year 2015 adopted budget decreasing from \$27.9 million to \$23.6 million. Operating expenditures are \$1.4 million greater in the 2016 adopted budget, increasing from \$37.5 million to \$38.9 million. Cash funded capital projects are also greater in the fiscal year 2016 adopted budget by \$1.1 million, increasing from \$11.8 million to \$12.9 million.

Revenues are budgeted to increase to \$73.8 million in fiscal year 2016 from \$70.9 million in the fiscal year 2015 adopted budget, or 4.2%. This increase in revenues is primarily related to an increase in water and wastewater usage. The FY 16 water and wastewater rates were modeled using calendar year 2014 actual customer billing data. As depicted in the chart below, the 12 month rolling average, water consumption increased by 5.4% in calendar year 2014. Based on this data, water and sewer rates remain unchanged for the fiscal year 2016 budget as adopted.



Thus far in FY16, water consumption trends have stayed relatively unchanged. The Authority continues to monitor consumption revenue and patterns very closely and will make adjustments to expenditure levels if needed in order to end the year in a favorable financial position.

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, 2015

ASSETS

Cash, cash equivalents and investments \$ 60,360,796 Receivables, net 17,177,359 Due from other governments 2,014,293 Restricted: 29,786,492 Cash, cash equivalents and investments 29,786,492 Receivables 617,183 Due from other governments 5,916,704 Prepaids 124,756 Inventories 1,524,399 Total current assets 117,521,982 Noncurrent assets 42,078,822 Net pension asset 1,258,105 Capital assets 42,078,822 Net pension asset 1,258,105 Capital assets 50,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: 4,590,199 Accounts payable and accrued liabilit	Current assets	
Due from other governments 2,014,293 Restricted: 29,786,492 Cash, cash equivalents and investments 29,786,492 Receivables 617,183 Due from other governments 5,916,704 Prepaids 124,756 Inventories 1,524,399 Total current assets 117,521,982 Noncurrent assets 42,078,822 Net pension asset 1,258,105 Capital assets: 20,134,025 Land, easements and construction in progress 50,134,025 Other capital assets, net 585,580,123 Total capital assets 679,051,075 Total assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES 20 Current liabilities 9,454,035 Liabilities payable from restricted assets: 4,690,190 Lous to ther governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue	Cash, cash equivalents and investments	\$ 60,360,796
Restricted: 29,786,492 Receivables 617,183 Due from other governments 5,916,704 Prepaids 124,756 Inventories 1,524,399 Total current assets 117,521,982 Noncurrent assets 22,078,822 Net pension asset 1,258,105 Capital assets: 1,258,105 Capital assets and construction in progress 50,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES 20 Current liabilities 9,454,035 Liabilities payable from restricted assets: 4,690,190 Customer and escrow deposits 1,955,125 Accounts payable 5,292,896 Customer and escrow deposits 1,955,125 Accounts payable and accrued liabilities 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current matur	Receivables, net	17,177,359
Cash, cash equivalents and investments 29,786,492 Receivables 617,183 Due from other governments 5,916,704 Prepaids 124,756 Inventories 1,524,399 Total current assets 117,521,982 Noncurrent assets 42,078,822 Net pension asset 1,258,105 Capital assets: 1,258,105 Land, easements and construction in progress 50,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES 20,005,073 Current liabilities 9,454,035 Liabilities payable from restricted assets: Accounts payable from restricted assets: Accounts payable from restricted assets: 1,955,125 Accrued interest payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities <t< td=""><td>Due from other governments</td><td>2,014,293</td></t<>	Due from other governments	2,014,293
Receivables 617,183 Due from other governments 5,916,704 Prepaids 124,756 Inventories 1,524,399 Total current assets 117,521,982 Noncurrent assets 42,078,822 Net pension asset 1,258,105 Capital assets: 1,258,105 Land, easements and construction in progress 50,134,025 Other capital assets, net 585,580,123 Total capital assets 679,051,075 Total assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES 20,405,773,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES 2,22,896 Current liabilities 9,454,035 Liabilities payable from restricted assets: Accounts payable for payabl	Restricted:	
Due from other governments	Cash,cash equivalents and investments	29,786,492
Prepaids	Receivables	617,183
Inventories	Due from other governments	5,916,704
Total current assets	Prepaids	124,756
Noncurrent assets 42,078,822 Cash and cash equivalents 42,078,822 Net pension asset 1,258,105 Capital assets: 50,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: Accounts payable from restricted assets: Accounts payable 5,292,896 Customer and escrow deposits 1,955,125 Accrued interest payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue 268,260 Total current liabilities 379,288 Other post-employment benefits (OPEB) 1,998,254	Inventories	1,524,399
Cash and cash equivalents 42,078,822 Net pension asset 1,258,105 Capital assets: 1,258,105 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: Accounts payable 5,292,896 Customer and escrow deposits 1,955,125 Accrued interest payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue 268,260 Total current liabilities 29,405,713 Noncurrent liabilities 379,288 Other post-employment benefits (OPEB) 1,998,254 Long-term obligations, net of current maturities 321,004,269 Total no	Total current assets	117,521,982
Net pension asset 1,258,105 Capital assets: 250,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: 5,292,896 Customer and escrow deposits 1,955,125 Accounts payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue 268,260 Total current liabilities 29,405,713 Noncurrent liabilities 379,288 Other post-employment benefits (OPEB) 1,998,254 Long-term obligations, net of current maturities 321,004,269 Total noncurrent liabilities 323,381,811 Total liabilities 352,787,5	Noncurrent assets	
Capital assets: Land, easements and construction in progress 50,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: Accounts payable Accounts payable 5,292,896 Customer and escrow deposits 1,955,125 Accrued interest payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue 268,260 Total current liabilities 29,405,713 Noncurrent liabilities 379,288 Other post-employment benefits (OPEB) 1,998,254 Long-term obligations, net of current maturities 321,004,269 Total noncurrent liabilities 323,381,811 Total liabilities	Cash and cash equivalents	42,078,822
Land, easements and construction in progress 50,134,025 Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: Accounts payable Accounts payable 5,292,896 Customer and escrow deposits 1,955,125 Accrued interest payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue 268,260 Total current liabilities 29,405,713 Noncurrent liabilities 379,288 Other post-employment benefits (OPEB) 1,998,254 Long-term obligations, net of current maturities 321,004,269 Total noncurrent liabilities 323,381,811 Total liabilities 323,381,811 <	Net pension asset	1,258,105
Other capital assets, net 585,580,123 Total capital assets 635,714,148 Total noncurrent assets 679,051,075 Total assets 796,573,057 DEFERRED OUTFLOWS OF RESOURCES 3,177,782 LIABILITIES Current liabilities Long-term obligations, current maturities 9,454,035 Liabilities payable from restricted assets: Accounts payable 5,292,896 Customer and escrow deposits 1,955,125 Accrued interest payable 4,690,190 Due to other governments 3,890,410 Accounts payable and accrued liabilities 3,118,797 Compensated absences, current maturities 736,000 Unearned revenue 268,260 Total current liabilities 29,405,713 Noncurrent liabilities 379,288 Other post-employment benefits (OPEB) 1,998,254 Long-term obligations, net of current maturities 321,004,269 Total noncurrent liabilities 323,381,811 Total liabilities 352,787,524 DEFERRED INFLOWS OF RESOURCES	Capital assets:	
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Net investment in capital assets335,218,505Unrestricted108,678,499	DEFERRED INFLOWS OF RESOURCES	3,066,311
Unrestricted 108,678,499	NET POSITION	
Unrestricted 108,678,499	Net investment in capital assets	335,218,505
· · · · · · · · · · · · · · · · · · ·	Total net position	

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, 2015

Operating revenues	
Charges for services	\$ 67,429,021
Other operating revenues	 3,835,966
Total operating revenues	71,264,987
Operating expenses	
Personnel and benefits	15,944,834
Services and utilities	11,967,879
Materials	2,665,849
Depreciation and amortization	18,776,391
Total operating expenses	 49,354,953
Operating income	 21,910,034
•	
Nonoperating revenues (expenses)	
Investment earnings	1,012,470
Interest expense	(8,332,023)
Bond issuance costs	(619,539)
Other debt service fees	(64,111)
Gain on disposal of capital assets	77,599
Contributions from New Hanover County	 1,254,000
Total nonoperating (expenses)	(6,671,604)
Income before capital contributions	 15,238,430
Capital contributions	19,055,351
Total capital contributions	19,055,351
Change in net position	 34,293,781
Net position	
Beginning of year, previously reported	411,206,335
Restatement	 (1,603,112)
Beginning, as restated	409,603,223
End of year	\$ 443,897,004

See Notes to Financial Statements.

Cape Fear Public Utility Authority Statement of Cash Flows For the Fiscal Year Ended June 30, 2015

Cash Flows From Operating Activities		
Cash received from customers	\$	67,794,420
Cash paid to suppliers		(15,080,435)
Cash paid to or on behalf of employees		(16,879,129)
Cash received for deposits		1,447,584
Cash returned for deposits		(947,545)
Other operating income		3,835,966
Net cash provided by operating activities	_	40,170,861
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets		(36,160,403)
Principal paid on long-term obligations		(11,493,145)
Principal paid on refunded bonds		(47,860,000)
Proceeds from long-term obligations		23,813,283
Proceeds from refunding bonds		44,600,000
Premium from refunding bonds		4,772,279
Bond issuance costs		(619,539)
Other debt service fees		(64,111)
Interest paid on long-term obligations		(15,809,044)
Proceeds from sale of capital assets		77,599
Capital contributions		13,331,201
Net cash used for capital and related financing activities	_	(25,411,880)
Cash Flows From Investing Activities		
Investment earnings		992,917
Net cash provided by investing activities		992,917
Net increase in cash and cash equivalents		15,751,898
Cash and cash equivalents, beginning of year		103,018,020
Cash and cash equivalents, end of year	\$	118,769,918
Reconciliation to statement of net position:		
Cash and cash equivalents (current and noncurrent)	\$	102,439,618
Restricted cash and cash equivalents	•	16,330,300
Total cash and cash equivalents	\$	118,769,918
•	<u> </u>	, -,-

(Continued)

Cape Fear Public Utility Authority Statement of Cash Flows (Continued) For the Fiscal Year Ended June 30, 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 21,910,034
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	18,776,391
Pension expense	104,171
Changes in assets and liabilities:	
(Increase) in receivables, net and due from other governments	(241,125)
(Increase) in inventories	(258,082)
(Increase) in prepaids	(90,948)
Increase in accounts payable, accrued liabilities and due to other governments	508,847
Increase in customer and escrow deposits	500,039
(Decrease) in compensated absences	(22,804)
(Decrease) in OPEB liability	(70,097)
(Increase) in deferred outflows of resources for pensions	 (945,565)
Total adjustments	18,260,827
Net cash provided by operating activities	\$ 40,170,861
Supplemental Schedule of Noncash Activities	
Contributions of capital assets from developers	\$ 5,972,874
Debt payment reduction from New Hanover County	\$ 1,254,000

See Notes to Financial Statements.

Cape Fear Public Utility Authority Notes to Financial Statements For the Fiscal Year Ended June 30, 2015

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

Cape Fear Public Utility Authority 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 wastewater services to residents of the county. The assets and related liabilities of the City and the County water and wastewater 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 the County and the City. 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 classified as organizations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The corporations are further classified as a public charity under Section 509(a) (2) and are exempt from filing annual information returns, Form 990. 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

Cape Fear Public Utility Authority Notes to Financial Statements For the Fiscal Year Ended June 30, 2015

is financed with debt that is secured solely by pledges of the net revenues from fees and charges of the activity.

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 wastewater 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.

Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority 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 wastewater system. Operating expenses for the Authority include the cost of services, administrative expenses, and depreciation and amortization of 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 fund 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

Cape Fear Public Utility Authority Notes to Financial Statements For the Fiscal Year Ended June 30, 2015

accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC registered (2a-7) money market mutual fund. The securities of the NCCMT cash portfolio are valued at fair value, which is the NCCMT's share price. The US Government securities are valued at fair value, which approximates cost.

The Authority pools monies from several funds to facilitate disbursement and investment and to maximize investment earnings. The Authority considers demand deposits and investments (including restricted assets) purchased with an original maturity of three months or less cash and cash equivalents.

Restricted Assets and Liabilities

When capital projects are funded by debt issues, federal and state grants or capital contributions, 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. Customer deposits held by the Authority before services are supplied are restricted to the service for which the deposit was collected.

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, 2015 totaled \$2,964,515.

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

Intangible assets consist of water availability rights, easements and software.

The water availability rights valued at \$1,988,116 are available to the Authority under an agreement the City entered into in 1991 with a regional public authority, Lower Cape Fear Water and Sewer Authority (LCFWSA), and later modified in 2007. The agreement is a needs-based contract to purchase up to 23.0 MGD of raw water from the 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 water availability rights are being amortized over 40 years, the original life of the agreement, and has a net value at June 30, 2015 of \$1,383,036.

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 reports 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 and so will not be recognized as an expenditure until then. The Authority has several items that meet this criterion – a deferred charge on debt refunding, pension related deferrals, and contributions made to the pension plan in the current fiscal year. In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future reporting period and so will not be recognized as revenue until then. The Authority has two items that meet this criterion – deferrals of pension expense that result from the implementation of GASB Statement 68.

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, and estimated useful lives of capital assets, compensated absences, other post-employment benefits, medical self-insurance, workers' compensation self-insurance and the net pension asset.

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 leave policy of the Authority provides for the maximum accumulation of 320 hours accrued vacation leave in any fiscal year with such leave being fully vested when accrued. Vacation leave is accrued by regular full-time and part-time employees working each pay period (limited to 26 pay periods per calendar year) and based on years of service to the Authority. Eligible employees begin accruing vacation leave on the employee's hire date; however, the employee must be employed six (6) months before the employee is eligible to take paid vacation leave, unless authorized and approved by the Executive Director. 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 \$1,115,288 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 \$736,000 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 \$100,000 on behalf of any participant during the contract period. The stop-loss insurance policy was underwritten by Blue Cross Blue Shield of North Carolina. A provision of \$797,000 has been accrued to fund estimated claims incurred but not reported as of June 30, 2015, 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 through Midwest Employers Casualty Company of Chesterfield, MO. 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 \$1,299,783 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 has been accrued to fund annual estimated claims as of June 30, 2015.

Net Position

Net position is classified as net investment in 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 are 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 \$3,648,244 has been earmarked by the governing Board for other post-employment benefits as disclosed in Note 7.

Pension Plans

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

Note 2. Cash, Cash Equivalents, Deposits and Investments

Deposits

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. The Authority relies on the State Treasurer to monitor those financial institutions.

At June 30, 2015, the carrying amount of the Authority deposits was \$118,393,736 and the bank balance was \$118,532,049. Of the bank balance, \$1,992,816 was covered by FDIC insurance and \$116,539,233 was covered by collateral held under the Pooling Method.

Investments

At June 30, 2015, the Authority had the following investments:

		Fair Value	Maturity Less Than One Year
US Government Securities		\$ 13,456,192	\$ 13,456,192
NC Capital Management Trust - Cash Portfolio		373,782	N/A
	Total	\$ 13,829,974	\$ 13,456,192

Cash, cash equivalents, deposits and investments of the Authority can be summarized as follows as of June 30, 2015.

Cash on hand	\$ 2,400
Deposits	118,393,736
Investments	13,829,974
Total	\$ 132,226,110
Current Assets	
Cash,cash equivalents and investments	\$ 60,360,796
Restricted cash, cash equivalents and investments	29,786,492
Noncurrent Assets	
Cash and cash equivalents	42,078,822
Total	\$ 132,226,110

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. There are no violations of the investment policy.

As of June 30, 2015 the Authority's investments in the NCCMT Cash Portfolio carried a credit rating of AAAm by Standard & Poor's. The Authority's short-term investment in U.S. Government Agencies (Federal Home Loan Bank Discount Note) are rated P-1 by Moody's Investors Service and A-1+ by Standard & Poor's.

Custodial Credit Risk

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 formal 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 June 30, 2015, 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 unbilled water usage by the approximate number of days unbilled at June 30. As of June 30, 2015, the Authority had approximately \$8,028,451 of unbilled receivables included in Receivables – Authority customers and Receivables – City of Wilmington customers, below.

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

Receivables - Authority customers		\$ 16,050,946
Receivables - City of Wilmington customers		3,479,248
Accrued interest receivable		277,569
Allowance for doubtful accounts - Authority		(2,013,221)
	Total	\$ 17,794,542
Receivables, net		\$ 17,177,359
Restricted receivables		\$ 617,183
	Total	\$ 17,794,542

Due from other governments that is owed to the Authority consists of the following:

State of North Carolina-Refund of sales and use tax paid	\$ 746,826
City of Wilmington	\$ 635
New Hanover County	1,000,000
Town of Wrightsville Beach	266,832
Total Due from other governments	\$ 2,014,293
New Hanover County	\$ 5,164,656
City of Wilmington	137,773
State of North Carolina	614,275
Total Restricted due from other governments	\$ 5,916,704

Note 4. Capital Assets

Capital assets activity consists of the following for the fiscal year ended June 30, 2015. Current depreciation and amortization expense was \$17,937,014 and \$839,377, respectively.

	Beginning Balances July 1, 2014	Increases	Decreases	Completed Projects	Ending Balances June 30, 2015
Capital assets not being depreciated:				<u> </u>	•
Land	\$ 6,982,245	\$ -	\$ -	\$ -	\$ 6,982,245
Intangible Asset-Easements	1,860,518	-	-	229,499	2,090,017
Construction in progress	51,964,009	38,418,510	-	(49,320,756)	41,061,763
Total capital assets not being					
depreciated or amortized	60,806,772	38,418,510	-	(49,091,257)	50,134,025
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	291,038,500	46,020	-	3,389,857	294,474,377
Water and Sewer Lines	332,747,423	5,972,874	-	43,568,587	382,288,884
Furniture, Fixtures and Machinery	10,089,219	384,358	(326,434)	2,015,330	12,162,473
Intangible Asset-Computer Software	4,038,992	78,261	-	117,483	4,234,736
Intangible Asset-Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being					
depreciated or amortized	639,902,250	6,481,513	(326,434)	49,091,257	695,148,586
Less accumulated depreciation or amortization for:					
Plant, Structures and Improvements	34,819,718	8,015,070	-	-	42,834,788
Water and Sewer Lines	45,816,854	8,714,378	-	-	54,531,232
Furniture, Fixtures and Machinery	7,387,286	1,207,566	(326,434)	-	8,268,418
Intangible Asset-Computer Software	2,576,008	752,937	-	-	3,328,945
Intangible Asset-Water Availability Rights	518,640	86,440	-	-	605,080
Total accumulated depreciation					
and amortization	91,118,506	18,776,391	(326,434)	-	109,568,463
Total capital assets being					
depreciated or amortized, net	548,783,744				585,580,123
Capital assets, net	\$ 609,590,516	-			\$ 635,714,148

Capital contributions as shown on the Statement of Revenues, Expenses and Changes in Fund Net Position consist of the following at June 30, 2015.

Capital Contributions	
System Development Charges	\$ 4,740,567
Contributions from Developers-Cost Sharing	8,341,910
Cash Contribution from Cash	13,082,477
Contribution from Developers (Non-Cash)	5,972,874
Total Capital Contributions	\$ 19,055,351

Capital contributions from cash of \$13,331,201 on the Statement of Cash Flows vary from total capital contributions due to the changes in receivables and unearned revenue related to capital contributions of \$248,724 recognized on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Note 5. Due to Other Governments

The amounts presented in the Statement of Net Position as Due to Other Governments as of June 30, 2015 are as follows:

State of North Carolina-Sales and Use Tax Paid	\$ 9,195
City of Wilmington-Solid Waste and Stormwater Fees (in Receivables)	3,605,289
New Hanover County - Kirkland Capital Project and SDCs	275,926
Total Due to other governments	\$ 3,890,410

Note 6. Operating Leases

The Authority leases building, office facilities, tower space, equipment and land under several operating lease arrangements. The lease for the Administration Building commenced on June 1, 2008, with an amendment to that lease 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 lease for the Operations Center commenced August 1, 2011 with a lease term of 60 months, with the option to extend the lease for one additional two-year period. A lease for tower space for an antenna site commenced October 1, 2014 with a lease tern of 60 months, with an option to extend the lease for four additional five-year periods. A lease for equipment will commence on July 1, 2015 with a lease term of 96 months, with an option to extend the lease for two additional one-year periods. Total lease costs were \$802,775 for the fiscal year ended June 30, 2015. The future minimum lease payments as of June 30, 2015 are as follows:

Year Ending June 30	Amount
2016	\$ 834,529
2017	685,915
2018	683,847
2019	695,661
2020	696,091
Thereafter	1,501,248
Total	\$ 5,097,291

Note 7. Benefit Plan Obligations

Local Governmental Employees' Retirement System

Plan description. The Authority is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the 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 Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2015, was 7.07% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority \$945,565 for the year ended June 30, 2015.

Refunds of Contributions – Authority employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Authority reported an asset of \$1,258,105 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension

liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension asset was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Authority's proportion was 0.2133%, which was an increase of 0.0037% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Authority recognized pension expense of \$104,171. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
	of Resources	of Resources
Differences between expected and actual experience	\$ -	\$ 137,470
Net difference between projected and actual earnings on pension plan investments	1	2,928,841
Changes in proportion and differences between Authority contributions and proportionate share of contributions	100,923	-
Authority contributions subsequent to the measurement date	945,565	
Total	\$ 1,046,488	\$ 3,066,311

\$945,565 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016		(741,370)
2017		(741,370)
2018		(741,370)
2019		(741,278)
	Total	(2,965,388)

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.0 percent

Salary increases 4.25 to 8.55 percent, including inflation and productivity factor

Investment rate of return 7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension asset to changes in the discount rate. The following presents the Authority's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Authority's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	 1% Decrease (6.25%)	Dis	scount Rate (7.25%)	•	1% Increase (8.25%)
Authority's proportionate share of the net pension liability (asset)	\$ 4,270,555	\$	(1,258,105)	\$	(5,913,059)

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

Supplemental Retirement Income Plan and Deferred Compensation Plan

Plan Descriptions. The Authority offers its employees the opportunity to participate in the NC-401(k) 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 administered by ICMA-RC. 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 either the NC-401(k) 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 NC-401(k) Supplemental Retirement Income Plan on behalf of the employee.

The Authority's contributions to the Supplemental Retirement Income Plan totaled \$361,882 and employee contributions and loan repayments were \$435,825 for the fiscal year ended June 30, 2015.

The Authority's contributions to the 457 Deferred Compensation Plan totaled \$110,879 and employee contributions and loan repayments were \$160,595 for the fiscal year ended June 30, 2015.

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 that transferred from the City must have at least five years of creditable service. Employees that transferred from the 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 152 active plan members and 11 retirees receiving benefits at December 31, 2014, 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 1.39% of annual covered payroll. Actual cash contributions of \$220,228 (1.7% of annual covered payroll) were made by the Authority for the current year.

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. Unrestricted net position of \$3,648,244 has been earmarked by the governing Board for other post-employment benefits.

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)	\$ 182,409
Interest on net OPEB obligation	82,734
Adjustment to annual required contribution	(115,012)
Annual OPEB cost	150,131
Contributions made	(220,228)
Decrease in net OPEB obligation	(70,097)
Net OPEB obligation, beginning of year	2,068,351
Net OPEB obligation, end of year	\$ 1,998,254

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:

For The Year Ended June 30	(Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	let OPEB Obligation
2015	\$	150,131	146.69%	\$ 1,998,254
2014	\$	115,953	219.07%	\$ 2,068,351
2013		115,811	107.84%	2,206,421

Funded Status and Funding Progress. As of December 31, 2014, 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 \$2,272,027. The covered payroll (annual payroll of active employees covered by the plan) was \$13,167,614, and the ratio of the UAAL to the covered payroll was 17.25%.

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, 2014 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 12.0% and 4.5%, and a 3.0% inflation assumption. The UAAL is being amortized on a level dollar amount on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

Note 8. Deferred Outflow and Inflows of Resources

	Deferred Outflows of Resources		eferred Inflows of Resources
Pensions - differences between expected and actual experience	\$	-	\$ 137,470
Pensions - difference between projected and actual earnings on pension plan investments		-	2,928,841
Pensions - changes in proportion and difference between Authority contributions and proportionate share of contributions		100,923	-
Pensions - Authority contributions in 2015 fiscal year		945,565	
Deferred charge on refunding of debt		2,131,294	
Total	\$	3,177,782	\$ 3,066,311

Note 9. 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, general liability, auto, crime, public official liability and excess liability coverage. Claims did not exceed coverage for any category for the fiscal years ended June 30, 2015, 2014, or 2013.

The Authority 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 cover three additional employees who handle the 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, 2015 and 2014 are as follows:

	2015	2014
Medical Self-Insurance Program		
Unpaid claims, beginning of year	\$ 674,000	\$ 640,000
Incurred claims (including IBNR)	2,881,931	2,493,985
Claim payments (including fees)	(2,758,931)	(2,459,985)
Unpaid claims, end of year	\$ 797,000	\$ 674,000
Workers' Compensation Self-Insurance Progr	am	
Unpaid claims, beginning of year	\$ 140,000	\$ 140,000
Incurred claims (including IBNR)	18,909	16,832
Claim payments	(18,909)	(16,832)
Unpaid claims, end of year	\$ 140,000	\$ 140,000

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Note 10. Long-Term Obligations

Bonded and Installment Long-term Obligations

Details of the Authority's outstanding bonded and installment long-term obligations at June 30, 2015 are as follows:

Revenue Bonds		
\$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		,675,000
\$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),890,000
\$60,355,000 Water and Sewer System Revenue and Refunding Revenue Bonds, Series 2014A issued for water and sewer improvements; principal payments due annually on June 1 in varying amounts of \$1,015,000 to \$3,940,000 plus interest through June 1, 2040; inte),025,000
\$4,730,000 Taxable Water and Sewer System Refunding Revenue Bonds, Series 2014B issued for water and sewer improvements; principal payments due annually on June 1 in varying amounts of \$1,155,000 to \$1,195,000 plus interest through June 1, 2019; interest		1,690,000
Total Revenue Bonds	276	5,280,000
Installment Obligations		
Locality compensation payable to City of Wilmington for Refunding Certificates of Participation, Series 2006A, due in annual principal payments on June 1 ranging from \$1,055,000 to \$1,550,000 through June 1, 2024; semiannual interest payments due June 1 a		,630,000
Locality compensation payable to New Hanover County for Refunding Certificates of Participation, Series 2005A, due in annual principal payments on August 26 ranging from \$824,000 to \$891,800 through August 26, 2017; semiannual interest payments due August		2,574,000
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 \$1,105,000 through December 1, 2027; semiannual interest payments due December 1 and June 1		3,035,000
Total Installment Obligations		,239,000
Total Long-Term Obligations	303	3,519,000
Plus Unamortized Premiums	17	,057,658
Net Carrying Value of Long-Term Obligations	\$ 320	,576,658

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

	E	Balance				U	namortized		Balance		Current
	July	1, 2014 (1)	Additions	F	Retirements		Premiums	J	lune 30, 2015	I	Maturities
Revenue Bonds	\$ 2	65,905,000	\$ 65,085,000.00	\$	54,710,000	\$	15,252,167	\$	291,532,167	\$	5,945,000
General Obligation Bonds:											
Locality compensation payment		2,355,000	-		2,355,000		-		-		-
Installment Obligations:											
Locality compensation payment		30,184,600	-		2,945,600		1,805,491		29,044,491		2,984,200
Total Bonds and Installment Obligations	2	98,444,600	65,085,000		60,010,600		17,057,658		320,576,658		8,929,200
Other Installment Obligations:											
ARRA Revolving Loan		1,074,947			56,576		-		1,018,371		56,576
DWSRF Revolving Loan		91,048	84,869		8,796		-		167,121		8,796
Clean Water State Revolving Loans		8,653,524	573,803		531,173				8,696,154		459,463
Total Other Installment Obligations		9,819,519	658,672		596,545		-		9,881,646		524,835
Total Long-Term Obligations	3	08,264,119	65,743,672		60,607,145		17,057,658		330,458,304		9,454,035
Compensated Absences		1,138,092	713,300		736,104		-		1,115,288		736,000
Net Pension Liablity (LGERS) (2)		2,526,485	-		2,526,485		-		-		-
Other Post-Employment Benefits (OPEB)		2,068,351	150,131		220,228		-		1,998,254		-
Total noncurrent liabilities	\$ 3	13,997,047	\$ 66,607,103	\$	64,089,962	\$	17,057,658	\$	333,571,846	\$	10,190,035

⁽¹⁾ Balance at July 1, 2014 is not net of unamortized premiums and discounts of \$13,443,033.

⁽²⁾ The LGERS plan has a net pension asset as of June 30, 2015; however, the plan had a net pension liablity at the beginning of the fiscal year.

			Subordir	nated				
Year Ending	Parity Bor	nded Debt	Bonded & Insta	allment Debt	Total			
June, 30	Principal	Interest	Principal	Interest	Principal (1)	Interest		
2016	5,945,000	12,944,573	2,984,200	1,150,769	8,929,200	14,095,342		
2017	9,745,000	12,667,778	3,043,000	1,038,734	12,788,000	13,706,512		
2018	10,135,000	12,287,258	3,111,800	915,839	13,246,800	13,203,097		
2019	10,290,000	11,861,713	2,250,000	801,095	12,540,000	12,662,808		
2020	9,300,000	11,393,663	2,300,000	699,195	11,600,000	12,092,858		
2021-2025	53,940,000	49,500,619	10,700,000	1,896,685	64,640,000	51,397,304		
2026-2030	68,680,000	34,773,376	2,850,000	213,250	71,530,000	34,986,626		
2031-2035	83,875,000	16,503,100	-	-	83,875,000	16,503,100		
2036-2040	24,370,000	1,512,500	-	-	24,370,000	1,512,500		
Total	276,280,000	\$163,444,580	27,239,000	\$6,715,567	303,519,000	\$170,160,147		
Unamortized premiums	15,252,167		1,805,491		17,057,658			
Net carrying value	\$291,532,167	-	\$29,044,491	-	\$320,576,658			

Pursuant to the interlocal agreement transferring the City's and the County's water and wastewater 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, 2015 were \$4,063,338 and \$2,580,880, respectively.

Under Section 2.10 of the interlocal agreement, the County agreed to a reduction in the amount of the debt service payments made by the Authority to the County (debt payment reduction amount) 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 \$1.254 million for fiscal year ended June 30, 2015. Beginning in the eighth year (fiscal year ending June 30, 2016), the debt payment reduction amount will be \$950,000, \$627,000 for the ninth year, and \$304,000 for the tenth year. If at any time the debt payment 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 wastewater improvement capital projects.

The Authority has pledged net revenue, revenues over current expenses, to repay the Water & Sewer Revenue and Refunding Revenue Bonds outstanding. Proceeds from the bonds provided financing for various improvements to the Authority's water and sewer system. The bonds are payable from net revenues and are payable through 2040. The total principal and interest remaining to be paid on the bonds is \$439,724,580. Principal and interest paid for the current year and net revenues were \$19,906,801 and \$46,289,459, respectively. The debt service coverage provides that the Authority maintain a certain long-term debt service coverage ratios, as defined below. The Authority was in compliance with the covenants during the fiscal year ended June 30, 2015.

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 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 three 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, 2015, is as follows:

Revenues	
Operating revenues (1)	\$ 71,264,987
System development charges	4,740,567
Investment earnings (2)	 996,675
	77,002,229
Expenses	
Operating expenses and debt service fees (3)	49,419,064
Less depreciation and amortization (3)	(18,776,391)
Less increase in net OPEB obligation	70,097
	30,712,770
Net Revenues Available for Debt Service	\$ 46,289,459
Debt Service on Parity Indebtedness	\$ 19,906,801
Debt Service on Subordinate Indebtedness	\$ 6,219,685
Total Debt Service on All Indebtedness (4)	\$ 26,126,486
Debt Service Coverage Ratio for Parity Indebtedness	2.33
Debt Service Coverage Ratio for All Indebtedness	1.77

- (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).

Interest Rate Swap Agreement

The interest rate swap matured on June 1, 2015. The Authority has no derivative agreements. The Interlocal Transition and Operating Agreement established the terms and conditions of the transfer of water and wastewater 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 wastewater-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 was accounted for as a cash flow hedge and was determined to be effective using the synthetic instrument method.

Terms. The bonds and the related swap agreement matured on June 1, 2015.

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

The following is a summary of the derivative activity for the fiscal year ended June 30, 2015:

	Notional June 30,		Fair Value July 1, 2014		Additions		Reductions		_	Value 30, 2015
2002 pay-fixed, receive variable interest rate swap	\$	-	\$	(93,242)	\$	93,242	\$	-	\$	-

Advance Refunding

On December 1, 2014 the Authority issued refunding revenue bonds to provide resources to defease all of the outstanding 2005 Water & Sewer System Revenue and Refunding Revenue Bonds. The bond proceeds were \$49,372,279 made up of \$44,600,000 par amount plus \$4,772,279 premium. The Authority also contributed \$2,439,600 in cash. The total net present value savings was \$7,886,711, when discounted at the yield of the tax exempt bonds, and the percentage of net present value savings based on the refunded bonds was 15.07%. A portion of the proceeds of the new bonds were place with an escrow agent to be used for future debt service payments on the defeased bonds. The defeased bonds were fully redeemed and the escrow closed on June 1, 2015. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the Authority's financial statements. The reacquisition price exceeded the net carrying amount of the old bonds by \$1,512,279, which is a deferred charge amortized over the life of the debt. The annual gross savings is approximately \$500,000 over 19 years.

Other Installment Obligations

DWSRF Loans - American Recovery and Reinvestment Act (ARRA)

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 was drawn down as expenditures were paid on the Aquifer Storage and Recovery capital project, to a maximum of \$2,263,046. Half of the loan amount was 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 \$1,131,523 loan is due in 20 equal annual installments of \$56,576, commencing on May 1, 2014. The loan does not bear interest. At June 30, 2015, \$1,018,371 is recorded as an outstanding loan.

On June 27, 2013, the Authority was approved for a second loan from the State of North Carolina, Department of Environment and Natural Resources (DENR) in the amount of \$204,082. The loan was drawn down as expenditures were paid on the Aquifer Storage and Recovery capital project, to a maximum of \$175,917. The \$175,917 loan is due in 20 equal annual installments of \$8,796, commencing on May 1, 2015. The loan does not bear interest. At

June 30, 2015, \$167,121 is recorded as an outstanding loan. The payments on the Authority's outstanding DWSRF Loans for the future years are as follows:

Year Ending	Α	RRA Loan	DW:	SRF Loan
June 30,		Principal	Р	rincipal
2016	\$	56,576	\$	8,796
2017		56,576		8,796
2018		56,576		8,796
2019		56,576		8,796
2020		56,576		8,796
2021-2025		282,880		43,980
2026-2030		282,880		43,980
2031-2035		169,731		35,181
Total	\$	1,018,371	\$	167,121

Clean Water State Revolving Fund (CWSRF) Loans

The Authority has been approved for various loans through the NC Clean Water State Revolving Fund and has executed promissory notes from the State of North Carolina, Department of Environment and Natural Resources (DENR). The approved loans total \$9,906,361 and are drawn down as expenditures are paid on the respective capital projects.

		A	_	Balance
0, 3, 5, 5, 1, 5, 1,	4	Approved	J	une 30,
Clean Water State Revolving Fund Loans		Loan		2015
Burnt Mill Creek Phase 2 - \$3,025,992, principal payments of				
\$151,300 due annually on May 1 plus interest due semi-				
annually through May 1, 2033 at a rate of 2.455%.	\$	3,025,992	\$2	2,723,393
Between the Creeks & Pump Station 28 Refurbishment -				
\$429,000, principal payments of \$21,450 due annually on May 1				
plus interest due semi-annually through May 1, 2034 at a rate of				
2.0%.	\$	429,000	\$	407,550
30th Street Sewer Rehabilitation - \$1,086,266, principal				
payments of \$54,313 due annually on May 1 plus interest due				
semi-annually through May 1, 2034 at a rate of 2.0%.	\$	1,086,266	\$1	,028,686
Mc Cumber Ditch - \$1,250,000, principal payments of \$62,500				
due annually on May 1 plus interest due semi-annually through				
May 1, 2034 at a rate of 2.0%.	\$	1,250,000	\$1	,035,440
Smith Creek 'Alandale' Pump Station - \$1,913,623, principal				
payments of \$95,681 due annually on May 1 plus interest due				
semi-annually through May 1, 2034 at a rate of 2.0%.	\$	1,913,623	\$1	,785,354
Greenfield Lake Sewer Outfall Rehabilitation - \$2,201,480,				
principal payments of \$110,074 due annually on May 1 plus				
interest due semi-annually through May 1, 2034 at a rate of				
2.0%.	\$	2,201,480		,715,731
Total	\$	9,906,361	\$8	3,696,154

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

Year Ending		Clean Water State Revolving Fund Loans				
June 30,	Principal	Interest				
2016	459,463	211,211				
2017	495,318	186,992				
2018	495,318	176,397				
2019	495,318	165,802				
2020	495,318	155,207				
2021-2025	2,476,590	617,114				
2026-2030	2,476,590	352,245				
2031-2034	1,302,239	74,131				
Total	8,696,154	\$1,939,099				

Note 11. Contributions from Other Governments

As disclosed in Note 10, the County agreed to a reduction in debt service payments made to 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, 2015 was \$1,254,000.

Note 12. Other Related Party Transactions

The Authority provides water and wastewater services to the County which generated water revenues of \$193,623 and wastewater revenues of \$204,162 for the fiscal year ended June 30, 2015 making the County one of the top 10 principal water and wastewater customers of the Authority. The County has a receivable to the Authority of approximately \$40,293 as of June 30, 2015 which is included in Receivables, net on the Statement of Net Position.

The Authority provides water and wastewater services to the City which generated water revenues of \$190,653 and wastewater revenues of \$148,812 for the fiscal year ended June 30, 2015. The City has a receivable to the Authority of approximately \$28,176 as of June 30, 2015 which is included in Receivables, net on the Statement of Net Position.

Please refer to Notes 1, 3, 5, 10, 11, 13 and 14 for additional disclosures on the relationship between the Authority, the City and the County.

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 was made by the City, the County or the Authority. The City and the County retained a total of \$3 million for the payment of any fines to 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 wastewater systems. In order to address the problem of wet weather overflows of raw sewage from the wastewater lines, the Authority will develop and implement a comprehensive wastewater system assessment and rehabilitation program.

After the completion of public notice and hearing, the Court signed the Consent Decree, and it was filed in U.S. District Court on December 11, 2013. Under the decree, CFPUA agreed to undertake several projects, some of which are already complete, which are included in the Authority's Capital Improvement Program. Upon completion of all actions, the Consent Decree will be terminated. The City paid a \$300,000 fine to the EPA on December 18, 2013. Should there be significant wastewater overflows, the Authority could be subject to fines ranging from \$250 to \$5,000.

Note 14. Commitments and Contingencies

The Authority has active water and wastewater capital projects as of June 30, 2015. The Authority's remaining commitments with contractors, developers and professional firms related to these projects is approximately \$26 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 entered into an interlocal agreement on May 6, 2009 to share jointly in the cost of providing water and wastewater 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 wastewater collection lines, water trunk mains and wastewater 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 City approved to terminate this interlocal agreement on March 17, 2017 and subsequently the Authority approved to terminate this interlocal agreement on May 13, 2015.

The Authority is a defendant in pending litigation filed by several developers to recover wastewater impact fees that were paid to the County from 2003-2007 for wastewater services that have not been provided yet. Per the Interlocal agreement, the Authority is responsible for the liabilities of the County wastewater system. These cases have been heard and the courts ruled in favor of the Plaintiffs. In the opinion of the Authority's litigating counsel, while potential exists for these lawsuits to be reasonably possible, it is uncertain that they are probable. The Authority has appealed the cases and is vigorously defending the claims. The amount of potential liability is estimated at \$873,000.

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 final Kirkland Sewer Project costs totals \$640,146, and the Authority refunded the County \$9,854 as of June 30, 2015. The agreement calls for the Authority to reimburse the County with capacity fees for new development collected from developers requiring wastewater capacity. For the fiscal year ended June 30, 2015, a liability of \$77,600 was recognized to the County, for a total reimbursement to date of \$533,337. Of the \$533,337 reimbursed, \$183,097 is from capacity fees and \$350,240 from expedited system development fees collected.

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 agreed to fund the total project cost currently estimated at \$883,645. The Authority's share of the project cost is \$330,000, which will be paid back to the County within three years of the project completion. The final project costs totals \$796,791. For the fiscal year ended June 30, 2015, a liability of \$188,472 was recognized to be remitted to the County.

The Authority and the County entered into an agreement on October 4, 2013 to expedite the extension of wastewater 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 \$15,106,542. The Authority's share of the project cost is \$4,264,000, for a total project cost of \$19,370,542. The County will reimburse the Authority on a monthly basis as expenditures are incurred on the project. At June 30, 2015, reimbursable costs of \$7,437,031 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

The City maintains the public drainage system within the City and provides trash services to a large majority of the citizens within the City limits. The cost of providing those services are billed to the customers on behalf of the City by the Authority on the same bimonthly bill the customer receives for the water and/or wastewater services that they have received. The stormwater and solid waste charges are set by the City. The amounts the Authority receives from customers for the City services 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 the same payment application hierarchy 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. The Authority does not have the legal authority to act as a collection agent on behalf of the City.

Note 15. Pending GASB Statements

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

Statement No. 72, Fair Value Measurement and Application will be effective in the fiscal year ending June 30, 2016.

Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 will be effective in the fiscal year ending June 30, 2017.

Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans will be effective in the fiscal year ending June 30, 2017.

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions will be effective in the fiscal year ending June 30, 2018.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments will be effective in the fiscal year ending June 30, 2016.

GASB Statement No. 77, Tax Abatement Disclosures will be effective in the fiscal year ending June 30, 2017.

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 16. Subsequent Events

On July 1, 2015 the Northwest Force Main and River Bluffs Pump Station were conveyed to the Authority for ownership and operation according to the reimbursement agreement dated December 21, 2010 with Chair Road Associates, LLC (Developer). The Authority will recognize this conveyance as an asset and contributed capital. Reimbursable costs associated with this conveyance totals \$4,129,214 and shall bear interest at the prime rate, compounded monthly during the reimbursement period. The reimbursable costs will be collected from future benefited development through a Development Capacity Fee and reimbursed to the Developer as collected on a semi-annual basis. In addition, the Authority will pay interest earned on the Development Capacity Fees less a 20% administrative fee. The reimbursement period shall be 20 years or shorter period necessary to fully reimburse the Developer.

On October 23, 2015, the Authority lost the appeal of the pending litigation referred to Note 14, Commitments and Contingencies, with two developers to recover wastewater impact fees that were paid to the County from 2004-2007 for wastewater services that have not been provided. The amount of the liability estimated at \$798,000, was not recorded as a liability in fiscal year ended June 30, 2015 and is not deemed to have a material effect on the financial statements.

Note 17. Restatement – Change in Accounting Principles

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27) and GASB Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68), in the fiscal year ending June 30, 2015. The implementation of these statements required the Authority to record beginning net pension liability and the effects on net position of contributions made by the Authority during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the Authority decreased by \$1,603,112.

Cape Fear Public Utility Authority Required Supplementary Information Other Post-Employment Benefits (OPEB) Schedule of Funding Progress 2009-2015

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 (2) c	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/2014	\$0	\$2,272,027	\$2,272,027	0.00%	\$13,167,614	17.25%
12/31/2012	\$0	\$2,459,288	\$2,459,288	0.00%	\$12,632,605	19.47%
12/31/2010	\$0	\$2,351,870	\$2,351,870	0.00%	\$12,895,415	18.24%
12/31/2008	\$0	\$7,167,107	\$7,167,107	0.00%	\$11,551,913	62.04%

Required Supplementary Information Schedule of Employer Contributions 2009-2015

	Annual	
Fiscal	Required	Percentage
Years Ended	Contribution	Contributed
2015	\$182,409	146.69%
2014	\$150,386	219.07%
2013	\$150,386	107.84%
2012	\$157,782	90.76%
2011	\$157,186	6.01%
2010	\$1,043,781	0.06%
2009	\$1,043,781	0.00%

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	12/31/14
Actuarial cost method (1)	Entry Age Normal
Amortization method	Level Dollar, Open
Remaining amortization period	30 years
Asset valuation method	Not Applicable
Actuarial assumptions:	
Discount rate	4.0%
Salary increases	2.5%
Medical trend rate *	4.5%-12.0%
* Includes inflation at	3.0%

- (1) Projected Unit Credit method was used in the 12/31/08 valuation
- (2) Covered payroll is reported as of the fiscal year ended prior to the Actuarial Valuation Date.

Cape Fear Public Utility Authority Required Supplementary Information

Schedule of the Authority's Proportionate Share of the Net Pension Liabilty (Asset) Local Government Employees' Retirement System 2014-2015 *

	2015	2014
Authority's proportion of the net pension liability (asset)	0.2133%	0.2096%
Authority's proportionate share of the net pension liability (asset)	\$ (1,258,105)	\$ 2,526,485
Authority's covered-employee payroll	\$ 13,527,958	\$ 13,167,614
Authority's proportionate share of the net pension liability (asset) as a		
percentage of its covered payroll	-9.30%	19.19%
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.64%	94.35%

^{*} The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. Information is not available for years prior to 2014.

Schedule of Authority Contributions Local Government Employees' Retirement System 2014-2015 *

	2015	2014
Contractually required conribution	\$ 945,565	\$ 923,373
Contributions in relation to the contractually required contribution	945,565	923,373
Contribution deficiency (excess)	-	-
Authority's covered-employee payroll	13,527,958	13,167,614
Contributions as a percentage of covered-employee payroll	6.99%	7.01%

^{*} Information is not available for years prior to 2014.

Cape Fear Public Utility Authority Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Operating Fund

For the Fiscal Year Ended June 30, 2015

		Final Budget	Actual	Variance Positive (Negative)
Operating revenues		<u> </u>		,
Water charges	\$	29,165,000	\$ 31,406,862	\$ 2,241,862
Sewer charges		33,939,000	36,022,159	2,083,159
Connection fees		419,000	750,905	331,905
Miscellaneous revenue		2,649,000	3,096,459	447,459
Total operating revenues		66,172,000	71,276,385	5,104,385
Nonoperating revenues				
System development charges		4,300,000	4,740,567	440,567
Investment earnings		747,000	831,429	84,429
Sale of capital assets		64,200	77,599	13,399
Total nonoperating revenues		5,111,200	5,649,595	538,395
Total revenues		71,283,200	76,925,980	5,642,780
Expenditures				
General - administrative		5,990,735	5,539,945	450,790
Operations - water and wastewater		20,986,746	19,654,496	1,332,250
Environment management		2,336,791	2,018,287	318,504
Customer service		2,888,356	2,727,321	161,035
Other operating		201,600	164,322	37,278
Nondepartmental		2,244,300	1,993,605	250,695
Debt service:				
Principal		11,880,619	11,493,145	387,474
Interest		15,796,280	14,633,342	1,162,938
Bond issuance costs		750,000	619,539	130,461
Other debt service fees		275,000	64,111	210,889
Repairs and maintenance		2,103,501	1,451,814	651,687
Capital outlay		553,801	508,638	45,163
Contingency	_	348,182		348,182
Total expenditures		66,355,911	60,868,565	5,487,346

Cape Fear Public Utility Authority Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) Operating Fund (Continued)

For the Fiscal Year Ended June 30, 2015

i or the rissur rout	Final				
		Final		A = 4 = 1	Positive
		Budget		Actual	(Negative)
Other financing sources (uses)					
Long-term obligations issued		413,424		152,589	(260,835
Capital contributions		-		900	900
Transfers out - Capital Projects Funds		(15,915,100)		(15,915,100)	-
Proceeds from refunded bonds		44,600,000		44,600,000	-
Procceds from refunded bonds-Premium		4,772,279		4,772,279	-
Payment to refunded bond escrow agent		(49,035,703)		(49,035,703)	-
Appropriated fund balance		10,237,811		-	(10,237,811
Total financing (uses)		(4,927,289)		(15,425,035)	(10,497,746
Revenues and other financing (uses)					
over expenditures	\$	-	\$	632,380	\$ 632,380
December 1976 Comment of the Comment	-11				
Reconciliation of modified accrual basis to full accrua		S:			
Revenues and other financing sources over expenditur			•	44.040.004	
Capital Projects Funds - Water, Wastewater & Sytem	1-vviae		\$	14,310,304	
Capital contributions				5,972,874	
Depreciation and amortization on capital and intangible	assets			(18,776,391)	
Pension expense				(104,171)	
Contributions to pension plans				945,565	
Capital and intangible assets				39,298,902	
Accounts payable-unencumbered				(20,827)	
Long-term obligations:				500.004	
Unamortized charge-interest expense				592,624	
Unamortized bond premium-interest expense				(3,614,626)	
Accrued interest income				19,553	
Accrued interest expense				92,617	
Unearned revenue				(11,398)	
Other post-employment benefits (OPEB)				70,097	
Compensated absences				22,804	
Proceeds from long-term obligations				(65,743,672)	
Principal on long-term obligations				60,607,146	
Change in net position			\$	34,293,781	

Cape Fear Public Utility Authority Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) Capital Projects Funds - Water, Wastewater & System-Wide From Inception and For the Fiscal Year Ended June 30, 2015

			Actual					
		Project Prior		Prior	Current			Total to
	0	rdinance		Years		Year		Date
Revenue								
Investment earnings	\$	5,554,449	\$	6,288,178	\$	161,488	\$	6,449,666
Total revenue		5,554,449		6,288,178		161,488		6,449,666
Expenditures								
Wastewater Capital Projects:		07.705				07.704		07.704
1209 43rd Street Sewer Rehab		27,795		-		27,794		27,794
13th St & N. Lake Shore		1,350,847		49,270		14,979		64,249
1402 Front Street Sewer Rehab		83,973		-		83,972		83,972
249 Loder Avenue Sewer Rehab		31,682		-		31,681		31,681
30th Street Sewer Replacement - CWSRF		1,995,085		1,273,511		(16,304)		1,257,207
3114 Market Street Sewer Rehab		34,452		-		34,452		34,452
331 Longmeadow Sewer Rehab		41,482		-		41,481		41,481
3900 Block Wrightsville Avenue		12,100		12,100		-		12,100
400 Block Venus Court		150,234		2,440		147,794		150,234
608 Varsity Drive		21,970		21,968		-		21,968
7061 Market Street		6,344		6,344		-		6,344
Aerial Lines Piling Assess		100,000		-		-		-
Air Release Valve Improvement to PS		1,733,890		175,143		16,274		191,417
Alandale Pump Station (PS) Removal Project		3,023,200		2,355,958		25,133		2,381,091
Annexation 98 - Completion of Sewer Extensions		3,817,616		2,657,339		1,146,874		3,804,213
ARV Replacement		59,310		-		-		-
Between the Creeks Sewer Improvements - CWSRF		515,460		505,404		1,476		506,880
Borden Avenue		50,892		60,832		(9,940)		50,892
Cherry Avenue Sewer Rehab		10,651		-		10,651		10,651
Compton Street Sewer Rehab		34,890		-		34,890		34,890
Country Haven PS Upgrade		2,969,640		1,411,725		1,214,895		2,626,620
Covil Crossing-Snug Harbor		6,693		6,280		413		6,693
Cypress Grove Land Development Agreement		89,019		-		-		-
Dawson St. Interceptor		326,183		51,625		274,558		326,183
Downtown Gravity Phase 1		2,000,000		-				-
Edgewater Club PS		1,135,033		_		52,193		52,193
Find it/Fix it Repairs		34,471		34,470		•		34,470
Find it/Fix it Repairs-FY15		204,294		-				-
Flemington Sewer Project		1,868,550		41,308		289,538		330,846
Force Main Assessment & Rehab		100,000		41,000		200,000		-
Franklin & Kerr Ave Sewer		17,963		_		17,963		17,963
Generator Replacement		423,063		_		205,466		205,466
•				67 626				
GIS As-Built Entry & Mapping Maintenance Contract Greenfield Lake Outfall Rehabilitation - CWSRF		198,405		67,636		18,864 26,316		86,500 2 188 070
Hanover & Front Street Sewer Rehab		2,844,111 73,000		2,161,763		72,999		2,188,079
Heritage Park Extension				50E 277				72,999 5 456 146
_		7,065,759		525,377		4,930,769		5,456,146
Heritage Park PS		195,000		-		16,001		16,001

Cape Fear Public Utility Authority Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) Capital Projects Funds - Water, Wastewater & Sytem-Wide (Continued) From Inception and For the Fiscal Year Ended June 30, 2015

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
Heritage Park-Upsize Alternate	66,588	-	40,680	40,680
Kilarny & Pine Grove Dr	37,480	16,184	-	16,184
Kirkland Capacity Expansion	650,000	487,285	152,861	640,146
Large Equipment Purchases-FY15	384,755	· =	305,657	305,657
Mandatory Connections Sewer	1,050,000	-	70	70
Manly Avenue Sewer Rehab	24,095	-	24,094	24,094
Marquis Hills Extension	10,476,425	724,951	1,809,751	2,534,702
McCumber's Ditch Outfall Rehab - CWSRF	1,489,655	1,024,696	180,418	1,205,114
Mimosa Place	2,700	2,700	-	2,700
Myrtle Landing Subdivision	332,000	5,000	-	5,000
N. Third St Streetscape	1,378,772	1,377,382	1,390	1,378,772
North 6th & Bess Streets Sewer Rehab	26,853	-	26,853	26,853
North College Road FM Improvement	60,000	-	29,298	29,298
Northeast Interceptor (NEI) Rehab Project-including PS 34/35	11,790,178	6,354,647	5,282,634	11,637,281
Northern Route Force Main (NEI Project)	13,087,861	10,228,425	2,385,481	12,613,906
Northside Wastewater Treatment Plant (WWTP) FM	5,273,540	5,081,517	192,020	5,273,537
Northside WWTP Digester	145,000	-	24,060	24,060
Northside WWTP Dystor	340,976	26,700	314,276	340,976
NSWWTP Caustic Tank	100,000	- -	-	-
Oleander & South College Sewer Rehab	170,000	-	401	401
Oleander & Wrightsville Sewer Rehab	43,145	-	43,144	43,144
PS #12 Force Main	350,000	-	20,544	20,544
PS #36 Improvements	15,000	-	-	-
PS #69 Motts Creek Upgrade	400,000	-	1,109	1,109
PS #89 Capacity Upgrade	100,000	-	1,337	1,337
PS 001 Northchase SE	145,716	4,714	8,652	13,366
PS 004 Northchase NE	45,452	-	45,451	45,451
PS 010 Renovation	156,371	56,715	9,471	66,186
PS 015 Madison Equiment Upgrade	75,000	-	48,868	48,868
PS 018 Greenhow Woods	75,000	4,768	8,712	13,480
PS 022 Tangle Oaks #3	300,000	-	-	-
PS 041 Towles Rd	75,000	-	-	-
PS 048 Oak Landing	215,000	-	13,745	13,745
PS 10 Force Main	350,000	34,888	136,375	171,263
PS 104 Runny Meade	75,000	-	4,091	4,091
PS 11	2,419,287	32,164	258,211	290,375
PS 119 Beasley Road	150,000	-	4,016	4,016
PS 137 Quail Woods	279,548	2,268	5,175	7,443
PS 14-34-35 Reliability	35,000	24,476	-	24,476
PS 8 Capacity Upgrade	550,000	17,322	25,069	42,391
PS Barnards Creek	8,688,408	3,910,159	1,692,854	5,603,013
Pump Station Alarms	50,000	-	-	-
River Road Force Main	1,612,368	1,571,130	41,236	1,612,366

Cape Fear Public Utility Authority Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) Capital Projects Funds - Water, Wastewater & Sytem-Wide (Continued) From Inception and For the Fiscal Year Ended June 30, 2015

			Actual			
	Project	Prior	Current	Total to		
	Ordinance	Years	Year	Date		
Riverside Subdivision Project	160,055	-	-	-		
Scada Implementation	778,046	107,915	256,013	363,928		
Sewer Emergency Annual -FY15	4,458,736	-	-	=		
Sewer Emergency Repair	1,524,900	1,524,898	-	1,524,898		
Sewer Laterals & Services	50,000	-	-	-		
Sewer PS Rehab Upgrade	421,480	-	133,838	133,838		
Sewer Pump Station Rehab/Upgrade	28,520	40,441	(11,922)	28,519		
South Kerr & Randall Parkway	128,687	-	128,686	128,686		
Southside WWTP Interim Improvements	319,469	-	319,468	319,468		
Southside WWTP Rehabilitation and Upgrade	8,682,693	8,421,401	90,032	8,511,433		
Thickened Alum Sludge	540,000	42,392	71,773	114,165		
Undesignated Sewer Projects	956,891	-	-	-		
Walnut Hills WTP Demolition	3,546,707	613,711	227,726	841,437		
Waltmoor SS Rehab Phase 2	2,201,201	3,555	1,593,869	1,597,424		
Waltmoor SS Rehab Phase 3	1,400,000	261	824,938	825,199		
Water Street Sewer Replacement	250,000	-	-	-		
Total Wastewater Capital Projects Expenditures	121,192,615	53,163,158	25,483,607	78,646,765		
Water Capital Projects:						
30th Street Water Replacement	229,548	221,023	8,524	229,547		
4th Street Water Main Lining	110,000	-	16,375	16,375		
Aeration/Mixer Program	1,450,000	_	119,885	119,885		
Annexation 1995 and 1998 Water Lines	301,806	58,867	110,300	169,167		
Annexation Easements	105,444	-	2,860	2,860		
Aquifer Storage & Recovery (ASR) - DWSRF	2,473,906	2,389,016	84,887	2,473,903		
Aquifer Sustainability & Monitoring	757,325	539,406	101,790	641,196		
ASR Westbrook Well	400,000	_	12,779	12,779		
City-County Water System Study and Improvements	402,613	379,016	23,595	402,611		
Comprehensive Meter Replacement Program	3,775,859	1,279,202	2,198,896	3,478,098		
Disinfectant Byproduct Evaluation Project	422,350	203,931	192,939	396,870		
Distribution System-Standard Development Agreement	166,493	, -		-		
Emergency Generator Well Site Q	55,000	-	-	-		
Fazio-Eagle Pt Water line	883,845	23,517	773,275	796,792		
Figure 8 Island	20,000	-		-		

Cape Fear Public Utility Authority Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) Capital Projects Funds - Water, Wastewater & Sytem-Wide (Continued) From Inception and For the Fiscal Year Ended June 30, 2015

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
Find It/Fix It FY15	864,675	-	-	-
Flemington Monitoring Wells	49,000	12,961	4,421	17,382
Flemington Water-Duke	3,647,000	88,793	743,826	832,619
Generator Replacement	50,000	-	10,742	10,742
GIS and As-Built Integration	95,086	71,393	(19,200)	52,193
Heritage Park Water	848,926	128,237	551,590	679,827
Kerr & Cedar Water	46,381	39	46,342	46,381
Kerr Ave Waterline	2,007,177	1,792,487	214,688	2,007,175
Kings Bluff-Brunswick County	81,256	-	68,743	68,743
Landfall-Summer Rest	70,000	150	-	150
Mandatory Connections Water	3,100,000	-	132	132
Marina Club Dr Rehab	125,000	20,171	1,709	21,880
Market St - Sweeney to Nano	1,000,000	-	1,650	1,650
Meter Services Building - Sweeney	385,000	-	19,705	19,705
N. Third St Streetscape	1,248,867	1,247,477	1,390	1,248,867
Nana Scada Improvements	156,000	-	-	-
Nano Wellfield Access Road and Drainage	20,331	-	20,331	20,331
Nano WTP Discharge Line	266,539	195,398	71,141	266,539
Nano-Market Feeder	823,877	823,070	805	823,875
NHC Airport Authority	54,673	-	54,673	54,673
Raw Water Meter Vault	529,850	53,027	214,363	267,390
Raw Water Supply Line	49,152	-	49,152	49,152
Raw Water Transmission	1,585,991	1,585,991	-	1,585,991
Riverlights Water Improvements	1,190,000	-	-	-
Sample Station/Auto Flush	100,000	11,520	31,234	42,754
SCADA Master Plan	325,000	92,640	147,603	240,243
Sweeney Clear Well Rehab	3,344,752	626,950	1,406,451	2,033,401
Sweeney Scada Connection	300,000	-	-	-
Undesignated Water Projects	2,889,386	-	-	-
Water Distribution Monitor Station	100,000	79,114	15,574	94,688
Water Emergency Annual-FY15	617,658	-	-	-
Water Laterals and Services	131,000	-	-	-
Water Street Water Line	109,896	-	-	-
Water Treatment Facility Rehab	159,059	-	-	-
Water Valve Replacement Annual FY15	453,777	-	62,637	62,637
WDP, LLC Porters Neck Walmart	9,834	-	9,834	9,834
Well Site Security	100,000	28,683	-	28,683
Wisteria Clearbrook Drainage	88,800	-	-	-
Total Water Capital Projects Expenditures	38,578,132	11,952,079	7,375,641	19,327,720

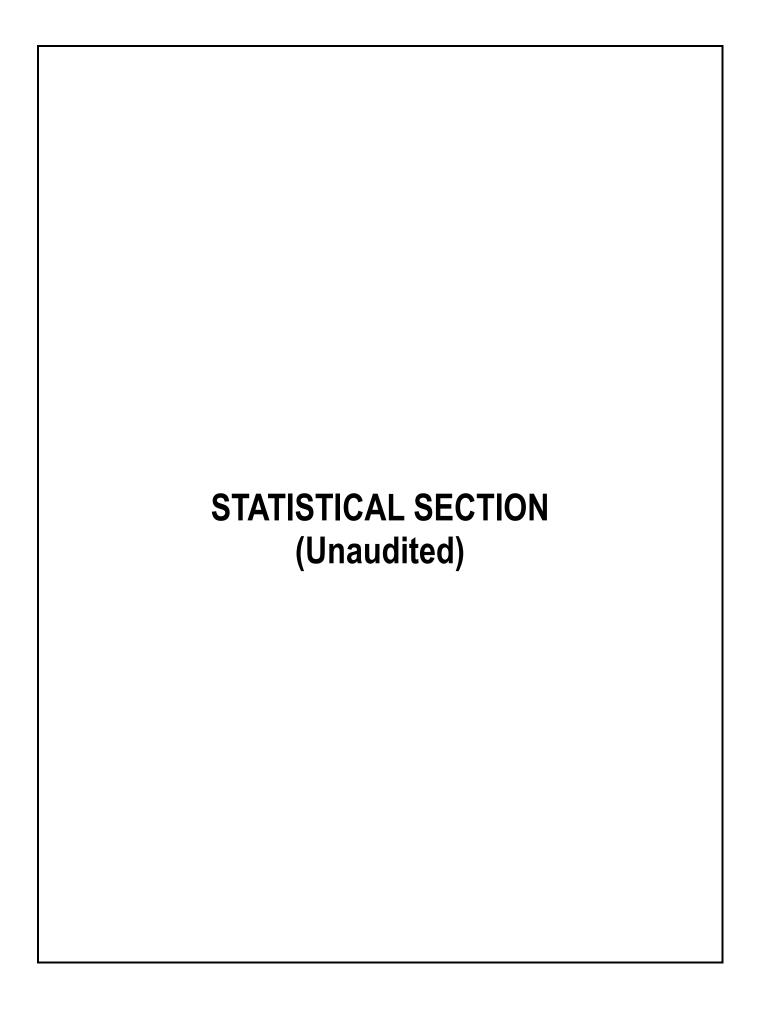
Cape Fear Public Utility Authority

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) - Capital Projects Funds - Water, Wastewater & Sytem-Wide (Continued)

From Inception and For the Fiscal Year Ended June 30, 2015

	Actual			
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
System-Wide Capital Projects:				
Enterprise Software Replacement	2,000,000	-	-	-
IT Networking Infrastructure	106,900	-	92,628	92,628
Maximo Software License	98,620	-	98,619	98,619
Motor Fleet Capital	1,145,628	-	656,892	656,892
Office Renovations	41,000	-	-	-
Undesignated System-Wide Projects	41,841	-	-	-
Virtual Desktop Migration	127,539	-	127,539	127,539
Total System-Wide Capital Projects Expenditures	3,561,528	-	975,678	975,678
Completed Projects-Prior Years	173,786,084	173,852,915	(66,937)	173,785,978
Total expenditures	337,118,359	238,968,152	33,767,989	272,736,141
Revenue (under) expenditures	(331,563,910)	(232,679,974)	(33,606,501)	(266,286,475)
Other financing sources				
Long-term obligations issued	211,313,130	206,467,030	23,660,695	230,127,725
Capital grants and contributions	24,946,587	6,940,028	8,341,010	15,281,038
Transfers in - Operating Fund	48,937,696	33,022,596	15,915,100	48,937,696
Appropriated fund balance	46,366,497	-	-	-
Total other financing sources	331,563,910	246,429,654	47,916,805	294,346,459
Revenue and other financing				
sources over expenditures	\$ -	\$ 13,749,680	\$ 14,310,304	\$ 28,059,984

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Cape Fear Public Utility Authority Statistical Section (Unaudited)

Financial Trends

These schedules identify the trends in changes over time of the 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 Wastewater Customers Consumption by Customer Group Schedule of New Connections

Debt Capacity

These schedules represent the ratio of debt to revenue.

Pledged-Revenue Coverage Ratios of Outstanding Debt by Type

Demographic and Economic Information

These schedules show the demographic and economic picture of the environment in which the 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 is derived from the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015 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 Seven Fiscal Years (Accrual Basis of Accounting)

	Fisc	scal Year 2015	"	Fiscal Year 2014 (1)	Ĕ	Fiscal Year 2013		Fiscal Year 2012 (1)	ш	Fiscal Year 2011	"	Fiscal Year 2010	ш ``	Fiscal Year 2009 (1)
Net investment in capital assets Unrestricted	\$ 335	35,218,505 08,678,499	€	304,634,404 104,968,819	\$ 22	295,343,987 95,959,547	↔	288,506,512 84,201,125	€9	287,538,728 68,587,385	€	295,307,938 \$ 60,590,755		293,467,066 56,535,895
Total net position	\$ 443		٠ ده	897,004 \$ 409,603,223 \$ 391,303,534 \$ 372,707,637 \$ 356,126,113	8	91,303,534	↔	372,707,637	€	356,126,113	S	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 2014, 2012 and 2009 to reflect a change in accounting principle.

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

	Fiscal Year 2015	Fiscal Year 2014 (1)	Fiscal Year 2013	Fiscal Year 2012 (1)	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009 (1)
Operating revenues Charges for services Other operating revenues (2) Total operating revenues	\$ 67,429,021 3,835,966 71,264,987	\$ 65,495,922 3,344,807 68,840,729	\$ 63,061,317 3,152,075 66,213,392	\$ 61,115,234 \$ 3,173,602 64,288,836	57,086,229 { 2,671,784 59,758,013	\$ 47,524,673 2,313,214 49,837,887	\$ 42,726,268 139,595 42,865,863
Operating expenses Personnel and benefits (2) Services and utilities Materials Depreciation and amortization Total operating expenses Operating income (loss)	15,944,834 11,967,879 2,665,849 18,776,391 49,354,953 21,910,034	16,128,971 11,379,231 2,672,462 17,729,409 47,910,073 20,930,656	15,253,963 12,052,125 2,590,893 17,591,990 47,488,971 18,724,421	15,257,145 11,674,355 2,800,466 16,107,252 45,839,218 18,449,618	15,176,175 10,557,920 3,630,676 14,283,401 43,648,172 16,109,841	17,038,778 10,783,853 2,431,060 13,096,230 43,349,921 6,487,966	17,714,505 11,375,036 3,264,294 12,400,153 44,753,988 (1,888,125)
Nonoperating revenues (expenses) Investment earnings Interest expense Bond issuance costs and other debt service fees Gain (Loss) on disposal of capital assets Amortization of bond issuance costs Contributions from the City of Wilmington and New Hanover County Total nonoperating revenues (expenses) Income before capital contributions, special items and extraordinary items	1,012,470 (8,332,023) (683,650) 77,599 - 1,254,000 (6,671,604)	993,737 (11,919,549) (85,243) 73,780 - 1,577,000 (9,360,275)	959,408 (13,213,771) (316,120) (202,214) - 1,900,000 (10,872,697) 7,851,724	962,260 (10,500,330) (625,383) - - 1,900,000 (8,263,453)	738,453 (13,011,609) (131,224) - - 1,900,000 (10,504,380) 5,605,461	4,105,897 (10,909,406) (104,215) - 1,900,000 (5,007,724)	5,970,732 (9,674,421) (100,183) - (4,357,699) 64,627,498 56,465,927 54,577,802
Capital contributions from the City of Wilmington and New Hanover County Capital contributions-other Special impairment of capital assets Extraordinary impairment of capital assets Total capital contributions, special and extraodinary items Increase in net position	19,055,351 - 19,055,351 34,293,781	8,332,420 - - 8,332,420 19,902,801	- 10,744,173 - 10,744,173 18,595,897	6,395,359 - - 6,395,359 16,581,524	2,813,350 (8,191,391) - (5,378,041) 227,420	7,982,758 (2,275,200) (1,292,068) 4,415,490 5,895,732	285,873,980 9,551,179 - 295,425,159 350,002,961
Net position Beginning of year Restatement End of year, restated	411,206,335 (1,603,112) \$ 443,897,004	391,303,534 \$ 411,206,335	372,707,637 - \$ 391,303,534	356,126,113 - \$ 372,707,637 \$	355,898,693 - 356,126,113	350,002,961 - \$ 355,898,693	. 350,002,961

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

⁽¹⁾ Statement of Revenues, Expenses and Changes in Fund Net Position was restated in fiscal years 2015, 2012 and 2009 to reflect a change in accounting principle. (2) Certain amounts presented in prior year's data have been reclassified to be consistent with the current year's presentation.

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

								Fiscal Year	ear						
	50	2015 ⁽¹⁾	20	2014 ⁽¹⁾	20	2013 ⁽¹⁾		2012 ⁽¹⁾	7	2011 (1)		2010 ⁽¹⁾		2009	_
Water Rates															
Water Fixed Rate (bi-monthly)	\$	25.81	↔	25.81	↔	25.81	↔	25.81	↔	24.99	⇔	21.89	↔	15	15.20
Water Rate per 1,000 gallons	\$	3.67	↔	3.67	↔	3.42		N/A		NA	_	N/A		_	N/A
Water Variable Rate:															
0 - 9,000 gallons		A/N		A/N		N/A		N/A		N/A	↔	2.22	↔	_	.95
9,001 - 18,000 gallons		A/N		A/N		N/A		N/A		N/A	φ.	3.36	↔	2	.95
18,001 + gallons		A/N		A/N		N/A		N/A		N/A	↔	4.50	↔	e,	.95
0 - 12,000 gallons		A/N		A/N		N/A	↔	2.64	↔	2.64		N/N		_	ΑN
12,001 - 24,000 gallons		A/N		A/N		N/A	↔	3.96	↔	3.96		N/A		_	A/N
Over 24,000 gallons		A/N		A/N		N/A	↔	5.28	↔	5.28		N/N		_	۷ N
Irrigation (2)	s	3.67	↔	3.67	↔	3.42	↔	3.36	↔	2.64		N/N		_	N/A
Non-Residential	\$ >	3.67	↔	3.67	↔	3.42	↔	3.96	↔	3.96	↔	3.36	↔	2	2.95
Average bi-monthly residential consumption per customer (gallons) (3)		8,600		8,400		9,200		10,000		10,000	_	10,000		10,0	000'0
Average bi-monthly residential bill	\$	57.37	↔	56.64	↔	57.27	↔	52.21	↔	51.39	⇔		↔	35	35.70
Wastewater Rates															
Wastewater Fixed Rate (bi-monthly)	∽	29.10	↔	29.10	↔	29.10	↔	26.68	↔	26.68	↔	23.37	\$	16	16.50
Wastewater Variable Rate ⁽⁴⁾	€9	4.56	↔	4.56	↔	4.21	↔	4.04	↔	3.59	↔	3.14	↔	2	2.75
Wastewater Flat Rate ⁽⁵⁾	₩.	138.54	↔	138.54	↔	130.14	↔	123.64	↔	112.84	↔	98.73	↔	82	82.50
Average bi-monthly residential consumption per customer (gallons) (3)		8,600		8,400		9,200		10,000		10,000	_	10,000		10,0	0,000
Average bi-monthly residential bill	⇔	68.32	↔	67.40	↔	67.83	↔	67.08	↔	62.58	↔	54.77	↔	44.00	00.

⁽¹⁾ Rates effective May 1 of respective fiscal year.

 $^{^{\}left(2\right) }$ Board adopted lower irrigation rate to discourage irrigation wells.

For years 2009 and 2010, irrigation rates were set at the over 18,000 gallons rate.

⁽³⁾ Average customer consumption was not calculated prior to 2012. Values for time periods prior to 2012 are estimates.

 $^{^{(4)}}$ Wastewater volume charges are capped at 30,000 gallons for residential customers.

 $^{^{(5)}}$ Wastewater flat rate charge when Authority water is not available.

⁷⁵

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

		2015					2009 (1)		
Ten Largest Users of the Water System Annual Consumption	Thousands of Gallons	% of System Re	System Revenues (\$)	% of Revenues	Ten Largest Users of the Water System Annual Consumption	Thousands of Gallons	% of System Rev	Revenues (\$) Re	% of Revenues
1 UNC Wilmington	164,475	3.27% \$	631,628	1.98%	1 UNC Wilmington	136,483	2.34% \$	430,613	1.89%
2 New Hanover Regional Medical Center	59,458	1.18%	262,841	0.82%	2 New Hanover County	63,232	1.08%	232,431	1.02%
3 New Hanover County Schools	43,871	0.87%	266,339	0.84%	3 New Hanover Regional Medical Center	61,473	1.05%	211,318	0.93%
4 Wilmington Housing Authority	42,430	0.84%	189,680	%09:0	4 New Hanover County Schools	47,862	0.82%	208,756	0.92%
5 New Hanover County	31,803	0.63%	193,623	0.61%	5 Wilmington Housing Authority	40,956	0.70%	137,433	%09.0
6 Mayfaire	27,269	0.54%	193,610	0.61%	6 Lake Forest Apartments	30,088	0.52%	97,305	0.43%
7 LSREF3 Bravo, LLC (Multi-family Complexes)	26,755	0.53%	141,945	0.45%	7 College Manor Apartments	23,411	0.40%	80,985	0.36%
8 College Manor Apartments	23,852	0.47%	111,927	0.35%	8 Mayfaire Complex	22,955	0.39%	119,091	0.52%
9 Lake Forest Apartments	23,440	0.47%	100,816	0.32%	9 Tribute Properties	21,463	0.37%	114,526	0.50%
10 Tribute	23,216	0.46%	208,782	%99:0	10 Elementis Chromium	18,971	0.33%	58,243	0.26%
Total Net Consumption / Net Revenue	466,569	9.27% \$	9.27% \$ 2,301,191	7.22%	Total Net Consumption / Net Revenue	466,893	8.00% \$ 1,690,699	1,690,699	7.42%
Total Annual System Net Consumption / Net Revenue	5,031,738	6	\$ 31,869,097		Total Annual System Net Consumption / Net Revenue	5,834,129	\$2	\$ 22,781,177	

(1) 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 Wastewater Customers Current Fiscal Year and Six Years Ago

2015

2009 (1)

	Thousands	% of		% of		Thousands	% of		% of
Ten Largest Users of the Wastewater System Annual Consumption	of Gallons	System R	System Revenues (\$) Revenues	Revenues	Ten Largest Users of the Wastewater System Annual Consumption	of Gallons	System R	of Gallons System Revenues (\$) Revenues	Revenues
1 Town of Wrightsville Beach	207,905	4.41% \$	641,061	1.77%	1 Town of Wrightsville Beach	214,743	4.42% \$	442,639	2.00%
2 UNC Wilmington	100,358	2.13%	451,364	1.25%	2 UNC Wilmington	87,800	1.81%	269,249	1.22%
3 New Hanover Regional Medical Center	57,642	1.22%	313,166	0.87%	3 New Hanover Regional Medical Center	54,042	1.11%	176,741	0.80%
4 Wilmington Housing Authority	40,519	%98.0	222,010	0.61%	4 New Hanover County Schools	45,665	0.94%	199,592	%06:0
5 New Hanover County Schools	39,780	0.84%	298,634	0.83%	5 Wilmington Housing Authority	40,652	0.84%	129,175	0.58%
6 New Hanover County	28,549	0.61%	204,162	0.56%	6 New Hanover County	34,744	0.72%	132,783	%09:0
7 LSREF3 Bravo, LLC (Multi-family Complexes)	26,532	0.56%	166,317	0.46%	7 Lake Forest Apartments	30,080	0.62%	92,040	0.42%
8 Mayfaire Complex	25,899	0.55%	222,432	0.62%	8 Mayfaire Complex	25,303	0.52%	125,124	0.57%
9 College Manor Apartments	23,852	0.51%	136,264	0.38%	9 Tribute Properties	24,536	0.51%	154,676	0.70%
10 Lake Forest Apartments	23,426	0.50%	123,496	0.34%	10 College Manor Apartments	23,411	0.48%	77,352	0.35%
Total Net Consumption / Net Revenue	574,462	12.20% \$	12.20% \$ 2,778,906	%69.2	Total Net Consumption / Net Revenue	580,975	580,975 11.96% \$ 1,799,37	1,799,371	8.15%
Total Annual System Net Consumption / Net Revenue	4,710,062	\$	\$ 36,136,378		Total Annual System Net Consumption / Net Revenue	4,856,146	\$ 	\$ 22,089,335	

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

(1) 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 Seven Fiscal Years

		2015	. •	2014	2	2013	Ż	2012	2	2011	20′	2010 (1)	2009 (1)	9(1)
	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption
Water Customers														
Residential	3,461,812	%08.89	3,415,831	%28.69	3,522,531	%58.69	3,806,074	70.45%	3,887,894	70.88%	3,652,988	70.13%	4,152,536	71.18%
Commercial	1,053,502	20.94%	1,006,253	20.58%	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	65,334	1.30%	63,349	1.30%	59,116	1.17%	62,267	1.15%	62,278	1.14%	57,719	1.11%	102,707	1.76%
Institutional and Government	451,090	8.96%	403,523	8.25%	435,048	8.63%	474,130	8.78%	459,656	8:38%	465,940	8.94%	483,950	8.30%
Total	5,031,738	100.00%	100.00% 4,888,957	100.00%	5,042,733	100.00%	5,402,454	100.00%	5,485,531	100.00%	5,208,969	100.00%	5,834,129	100.00%
Wastewater Customers														
Residential	3,171,068	67.33%	3,184,447	68.27%	3,246,521	68.52%	3,424,127	68.94%	3,497,483	%86.89	3,329,608	69.30%	3,543,624	72.97%
Commercial	956,150	20.30%	922,045	19.77%	923,952	19.50%	941,927	18.96%	957,062	18.88%	842,782	17.54%	869,266	17.90%
Town of Wrightsville Beach	207,905	4.41%	210,681	4.52%	203,370	4.29%	207,561	4.18%	214,479	4.23%	234,303	4.88%	214,743	4.42%
Pender County	10,033	0.21%	9,008	0.19%	10,473	0.22%	11,550	0.23%	16,224	0.32%	13,550	0.28%	14,139	0.29%
8 Industrial	21,027	0.45%	19,468	0.42%	16,296	0.34%	16,197	0.33%	18,219	0.36%	23,060	0.48%	24,964	0.51%
Institutional and Government	343,878	7.30%	318,809	6.83%	337,107	7.12%	365,297	7.35%	366,618	7.23%	361,467	7.52%	189,410	3.90%
Total ⁽²⁾	4,710,062	100.00%	100.00% 4,664,457	100.00%	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.

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

Water includes domestic and irrigation connections

⁽²⁾ The Total value for Thousand Gallons listed for Wastewater Customers does not include an estimation for the volumetric value of the Flat Wastewater customer class.

For billing purposes, the calculation of Flat Wastewater charges is based on 24,000 gallons discharged bimonthly. There were an average of approximately 1,530 Flat Wastewater customers in 2015.

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

	Increase In	Cumulative	% Water			
	Available	Available	Growth -	Increase in	Cumulative	% Water
Fiscal Year Ended	Services	Services	Available	Water	Water	Growth -
June 30	Water	Water	Services	Connections	Connections	Connections
2015	1,562	70,356	2.27%	1,072	66,136	1.65%
2014	761	68,794	1.12%	391	65,064	%09:0
2013	996	68,033	1.44%	1,224	64,673	1.93%
2012	2,465	67,067	3.82%	457	63,449	0.73%
2011	919	64,602	1.44%	1,121	62,992	1.81%
2010	1,132	63,683	1.81%	227	61,871	0.37%
2009	ı	62,551	0.00%	ı	61,644	%00.0
	Increase In	Cumulative				
	Available	Available	% Wastewater			
	Services	Services	Growth -	Increase In	Cumulative	% Wastewater
Fiscal Year Ended	Wastewater	Wastewater	Available	Wastewater	Wastewater	Growth -
June 30	(2)(3)	(3)	Services	Connections	Connections	Connections
2015	1,417	68,246	2.12%	731	65,730	1.12%
2014	770	66,829	1.17%	1,195	64,999	1.87%
2013	1,530	66,059	2.37%	448	63,804	0.71%
2012	199	64,529	0.31%	571	63,356	0.91%
2011	537	64,330	0.84%	1,454	62,785	2.37%
2010	1,497	63,793	2.40%	1,103	61,331	1.83%
2009	1	62,296	0.00%	•	60,228	%00.0

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

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

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.

⁽³⁾ Both available services and connected services for all years have been restated to present more accurate numbers based on a better understanding of the data.

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

Fiscal Year Ended June 30	8	Gross Revenues (1)	اق ت	Less Operating Expenses (2)	Net Available Revenue	ے ق	Debt Service Principal	ă	Debt Service Interest	٥	Total Debt Service	Debt Coverage Ratio
2015 Parity Debt Coverage Ratio Total Debt Coverage Ratio	\$	77,002,229	↔	\$ 30,712,770	\$ 46,289,459	\$ \$	6,850,000 11,493,145	↔ ↔	13,056,801 14,633,341	↔ ↔	19,906,801 26,126,486	2.33
2014 Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	74,317,342	↔	30,508,462	\$ 43,808,880	\$ \$	7,210,000 11,652,876	\$ \$	13,209,678 14,833,732	\$ \$	20,419,678 26,486,608	2.15
2013 Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	71,023,046	↔	30,068,015	\$ 40,955,031	↔ ↔	8,105,000 11,989,171	\$ \$	13,525,578 14,590,085	φ φ	21,630,578 26,579,256	1.89
2012 Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	69,045,118	↔	29,956,912	\$ 39,088,206	\$ \$	6,919,113 12,006,657	\$ \$	11,894,186 13,283,201	\$ \$	18,813,299 25,289,858	2.08
2011 Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	62,820,928	↔	29,378,869	\$ 33,442,059	\$ \$	3,329,579 9,147,645	\$ \$	8,612,881 11,160,138	\$ \$	11,942,460 20,307,783	2.80
2010 (3) Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	53,457,074	↔	29,314,125	\$ 24,142,949	↔ ↔	2,320,562 8,706,072	\$ \$	5,220,454 8,092,789	φ φ	7,541,016 16,798,861	3.20
2009 (3) 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⁾ Gross revenues include all charges for services (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 Seven Fiscal Years

	Per	Capita	1,528	1,550	1,575	1,643	1,518	1,641	1,710
	-	Ċ	₽						
% of	Personal	Income (1)	A/N	∀/Z	∀/Z	0.015%	0.015%	0.014%	0.014%
		Total	\$ 330,458,304	321,707,152	329,549,290	338,732,552	307,697,951	318,485,516	328,657,899
	Capital	Leases	۰ ده	•	1	14,171	179,315	413,381	155,324
Clean Water	State Revolving	Fund Loans	8,696,154	8,653,524	2,442,453	1	•	1	1
J	St	_	s						
DWSRF	Revolving	Loan	167,121	91,048	•	1	•	•	1
			ઝ						
ARRA	Revolving	Loan	1,018,371	1,074,947	1,131,523	444,323	330,545	1	Ī
			S						
	Installment	Obligations	\$ 29,044,491	32,259,698	35,410,732	37,297,244	39,918,647	42,475,207	45,007,970
General	Obligation	Bonds	- \$	2,355,000	5,255,000	7,759,279	11,712,630	16,371,000	21,605,709
	Revenue	Bonds	\$ 291,532,167	277,272,935	285,309,582	293,217,535	255,556,814	259,225,928	261,888,896
	Fiscal	Year	2015	2014	2013	2012	2011	2010	2009

(1) Personal income provided by www.ncworks.gov; data provided for as many years as available.

Cape Fear Public Utility Authority Demographic Statistics Last Seven Fiscal Years

Per Capita Income (4)	N/A	N/A	\$38,846	\$37,559	\$36,108	\$34,692	\$34,578
Personal Income (4)	A/N	A/N	N/A	\$50,890	\$45,890	\$46,129	\$44,719
Local Unemployment Rate % (3)	2.6%	6.1%	9.1%	9.3%	10.1%	9.4%	%0.6
Public School Enrollment (2)	26,241	25,470	25,364	25,253	23,934	23,643	23,614
Median Age (3)	38	38	38	37.5	36.7	38.5	38
New Hanover County Population (1)	216,298	213,267	209,234	206,189	202,667	194,054	192,235
Fiscal Year City of Ended Wilmington June 30 Population (1)	113,657	112,067	109,922	108,297	106,476	102,207	101,526
Fiscal Year Ended June 30	2015	2014	2013	2012	2011	2010	2009

(1) US Census Bureau.

(2) Provided by the NHC Schools Finance Department(3) North Carolina Department of Commerce(4) Provided by www.ncworks.gov; data provided for as many years as available.

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

2015				2009			
		Δ.	Percentage of Total			ь.	Percentage of Total
Employers	Employees (1)	Rank	County Employment	Employers	Employees (3)	Rank	County Employment
New Hanover Regional Medical Center	6,123	_	2.88%	New Hanover Regional Medical Center	4,890	_	5.10%
New Hanover County Schools	4,443	2	4.27%	New Hanover County Schools	4,130	2	4.30%
GE Wilmington	2,175	က	2.09%	GE Wilmington	3,000	3	3.13%
University of North Carolina at Wilmington	1,860	4	1.79%	University of North Carolina at Wilmington	1,810	4	1.89%
Wal-Mart Stores	1,755	2	1.68%	New Hanover County	1,670	2	1.74%
New Hanover County	1,611	9	1.55%	PPD, Inc.	1,420	9	1.48%
PPD, Inc.	1,500	7	1.44%	Cape Fear Community College	1,260	7	1.31%
Verizon Wireless	1,411	∞	1.35%	City of Wilmington	1,200	80	1.25%
Cape Fear Community College (4)	1,000	6	%96.0	Verizon Wireless	1,200	6	1.25%
City of Wilmington	866	10	%96.0	Corning, Inc.	1,000	10	1.04%
			21.96%				22.49%
Total # Employed at June 30 of the respective FY (2)			106,218	Total # Employed at June 30 of the respective FY (2)		l II	95,964

Source: 2015 Book on Business; www.wilmingtonbiz.com
 Source: North Carolina Employment Security Commission (2009) and www.ncworks.gov (2015)
 Source: North Carolina Employment Security Commission (2009) and www.ncworks.gov (2015)
 Source: New Hanover County CAFR for Fiscal Year Ended June 30, 2009 using the Wilmington Industrial Development, Inc. and NC State Demographics Website.
 Source: North Carolina Employment Security Commission (4th Qtr 2014)

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

Departments	2015	2014	2013	2012	2011	2010	2009
General - Administrative							
Administration	5	2	9	2	4	9	7
Human Resources/Safety	2	2	4	4	4	4	4
Finance/Information Technology (2)	12	15	14.5	14	15	15	16
Engineering	25	24	22	22	22	24	25
Operations							
Administration/Information Technology (1)(2)	14	တ	6	တ	တ	o	6
Centralized Maintenance (1)	14	•	•	•	•	•	•
Utility Services (1)	87	96	96	96	96	104	104
Water Treatment (1)	24	30	30	30	31	31	31
Wastewater Treatment (1)	30	40	40	40	40	41	4
Environmental Management	28.5	28.5	29.5	29.5	29.5	29.5	30.5
Customer Service (1)	20	42	41	42	41	41	42
Total FTE's	294.5	294.5	292	291.5	291.5	304.5	309.5

⁽¹⁾ In FY 14 the Operations Divisions were reorganized to create a new Centralized Maintenance Division. (2) In FY15 the Authority reorganized resulting in individual position moves and department moves.

⁻ Information Technology moved to Operations - Administration

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

Fiscal Year	Water Processed	
Ended	and	Wastewater
June 30	Pumped to System	Treated
2015	6,038,539	6,379,565
2014	6,016,143	6,004,110
2013	5,970,000	5,900,239
2012	6,020,000	5,525,894
2011	6,179,900	5,777,917
2010	5,989,700	6,122,662
2009	6,375,455	5,696,412
2008 (1)	6,590,075	5,429,210
2007 (1)	6,906,195	6,132,272
2006 (1)	6,940,475	6,004,330

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

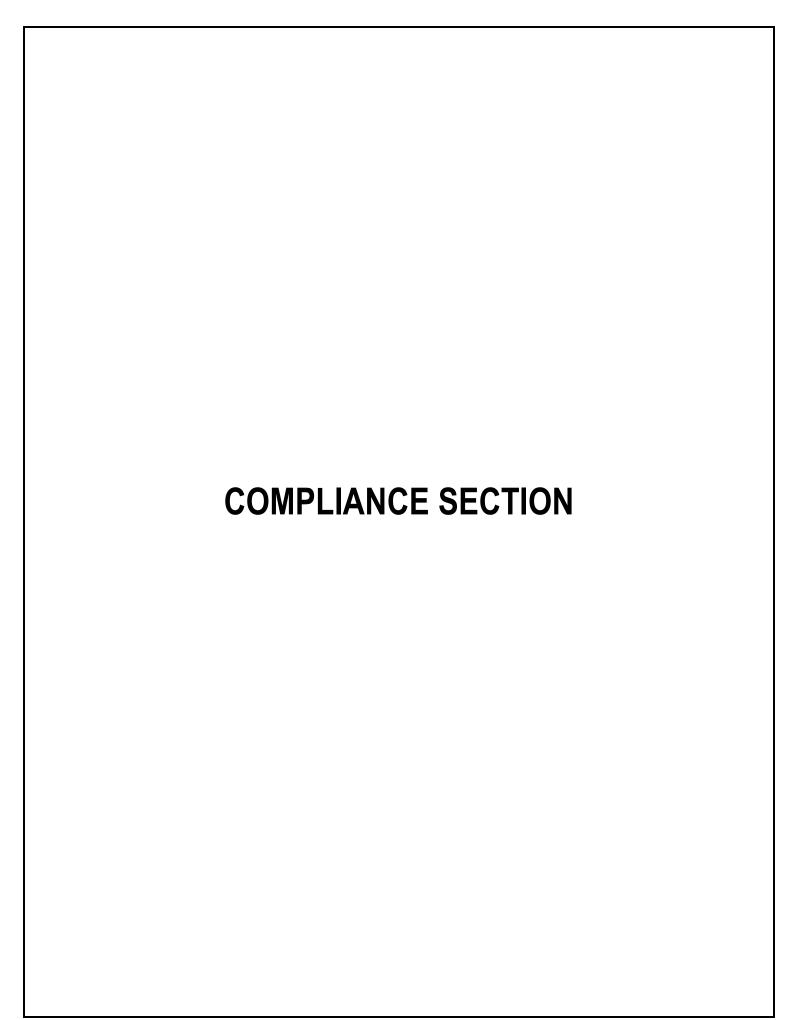
Cape Fear Public Utility Authority Operating Statistics Last Seven Fiscal Years

				Fiscal Year	ear		
	2015	2014	2013	2012	2011	2010	2009
Water System							
Number of available service connections ⁽¹⁾	70,356	68,794	68,033	290,79	64,602	63,683	62,551
Number of treatment plants - surface water system	-	_	_	_	_	~	_
Treatment capacity (mgd) - surface water	35	35	35.00	35.00	27.50	27.50	27.50
Average production (mgd) - surface water	13.56	13.44	13.20	13.50	13.70	13.30	14.30
Number of groundwater systems	က	က	က	က	က	က	က
Number of treatment plants - groundwater system	-	_	_	_	_	~	•
Number of wells - groundwater system	36	36	36	36	36	36	36
Treatment capacity (mgd) - groundwater plant	9	9	9	9	9	9	•
Treatment capacity (mgd) - other groundwater systems	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Average production (mgd) - groundwater	2.94	2.48	2.95	2.95	3.20	3.30	3.10
Miles of water mains	1,089	1,041 (2)	1,078	1,072	1,070 (2)	1,129	1,103
Wastewater System							
Number of available service connections ⁽¹⁾	68,246	66,829	690'99	64,529	64,330	63,793	62,296
Number of treatment plants	က	က	က	က	က	လ	က
WPC plant permit (mgd)	28.10	22.10	22.10	22.10	22.10	22.10	22.10
Average annual daily flow (mgd)	17.48	16.45	16.17	15.10	15.80	16.80	15.60
Number of lift stations	143	141	141	141	141	142	142
Miles of wastwater gravity mains ⁽²⁾	844	$827^{(2)}$	850	840	$840^{(2)}$	881	877
Miles of wastewater force mains	131	112	110	104	104	100	100
Number of manholes	21,049	20,918	20,300	20,300	20,300	N/A	N/A

Source: Cape Fear Public Utility Authority Records

⁽¹⁾ Data restated to remove irrigation meters associated with domestic meters for the same location.

⁽²⁾ Based on more accurate information as a result of implementating and improving the accuracy of an asset management system.





Report of Independent Auditor 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*

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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Cape Fear Public Utility (the "Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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 internal control was for the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raleigh, North Carolina October 23, 2015

Cherry Bekaust LLP



Report of Independent Auditor on Compliance for Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

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 (the "Authority's"), compliance with the types of compliance requirements described in the OMB 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 the Authority's major federal programs for the year ended June 30, 2015. The 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 the 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 Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; 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 the 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 Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the 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, 2015.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered the Authority's internal control over compliance with 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 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 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 the 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 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.

Purpose of this Report

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.

Raleigh, North Carolina October 23, 2015

Cherry Bekaust LLP

CAPE FEAR PUBLIC UTILITY AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results	
Financial Statements	
Type of auditor's report issued: Unmodified	
Internal control over financial reporting:	
Material weakness identified	yes <u>X</u> no
 Significant deficiency identified that is not considered to be material weakness 	yes _X_ none reported
Noncompliance material to financial statements noted	yes <u>X</u> no
Federal Awards	
Internal control over major federal programs:	
Material weakness(es) identified?	yes <u>X</u> no
 Significant deficiency(ies) identified that are not considered to be material weaknesses? 	yesX_ none reported
Noncompliance material to federal awards?	yes <u>X</u> no
Type of auditor's report issued on compliance for majo	r federal programs: <i>Unmodified</i>
Any audit findings disclosed that are required to be rep in accordance with Section 510(a) of Circular A-133?	orted yesX_ no
Identification of major federal programs:	
<u>CFDA#</u> 66.458	Names of Federal Program or Cluster Capitalization Grants for Clean Water State Revolving Loan Funds
Dollar threshold used to distinguish between Type A ar	nd Type B Programs: <u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	_ <u>X</u> yes no

CAPE FEAR PUBLIC UTILITY AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

Section II - Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

CAPE FEAR PUBLIC UTILITY AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

None reported.

Cape Fear Public Utility Authority Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2015

Grantor/Pass-through <u>Grantor/Program Title</u>	Federal CFDA Number	State/ Pass-through Grantor's <u>Number</u>	Federal (Direct & Pass-through) Expenditures	- ·	State Expenditures	Local Expenditures
Federal Awards: U.S. Environmental Protection Agency Passed-through the N.C. Dept. of Environment and Natural Resources: Division of Water Services:	66 468 88	FG_084338 13	æ	84 A80		·
	5		-		· '	· ·
		Total	84	84,869		
Passed-through the N.C. Dept. of Environment and Natural Resources: Division of Water Quality:						
Capitalization Grants for Clean Water State Revolving Fund	66.458	Various	573	573,803	ı	ı
		Total	573	573,803	1	1

See Notes to Schedule of Expenditures of Federal and State Awards.

Total U.S. Environmental Protection Agency Total Federal Awards

573,803 658,672 658,672

Cape Fear Public Utility Authority Notes to Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2015

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 (Authority) and is presented on the full 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

DWSRF Loans - American Recovery and Reinvestment Act (ARRA)

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 was drawn down as expenditures were paid on the Aquifer Storage and Recovery capital project, to a maximum of \$2,263,046. Half of the loan amount was 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 is due in 20 equal annual installments of \$56,576, commencing on May 1, 2014. The loan does not bear interest. At June 30, 2015, \$1,018,371 is recorded as an outstanding loan.

On June 27, 2013, the Authority was approved for a second loan from the State of North Carolina, Department of Environment and Natural Resources (DENR) in the amount of \$204,082. The loan was drawn down as expenditures were paid on the Aquifer Storage and Recovery capital project, to a maximum of \$175,917. The \$175,917 loan is due in 20 equal annual installments of \$8,796, commencing on May 1, 2015. The loan does not bear interest. At June 30, 2015, \$167,121 is recorded as an outstanding loan.

Clean Water State Revolving Loan

The Authority has been approved for various loans through the NC Clean Water State Revolving Fund and has executed promissory notes from the State of North Carolina, Department of Environment and Natural Resources (DENR). The approved loans total \$9,906,361 and are drawn down as expenditures are paid on the respective capital projects. Interest is at rates ranging from 2% to 2.455%. Principal will be due in twenty equal annual installments due on May 1, with interest due semi-annually on May 1 and November 1. At June 30, 2015, \$8,696,154 is recorded as an outstanding loan.

Cape Fear Public Utility Authority
Supplemental Schedule - Schedule of Federal and State Awards
Capital Projects Funds - Water and Wastewater
For the Period 07/01/2008 to 06/30/2015

	O	DWSRF			Clean Water State Revolving Fund	ing Fund		
	Aquifer Recov	Aquifer Storage & Recovery (ASR)	30th Street Sewer Replacement	Between the Creeks Sewer Improvements	Burnt Mill Creek Outfall Repair Phase 2	Greenfield Lake Outfall Rehab	McCumber's Ditch Outfall Rehab	Smith Creek Rehab
Federal Funds Received:								
ARRA - DWSRF Revolving Loan	↔	1,131,523	· •	· \$	•	•	\$	· \$
ARRA - DWSRF Principal Forgiveness Loan		1,131,523	•	•	•	•		,
DWSRF Revolving Loan		175,917	•	•	•	'		
Capitalization Grants for Clean Water State Revolving Fund Loans			1,086,266	429,000	3,025,992	1,464,352	944,686	6 1,913,623
Federal Funds Not Yet Reimbursed:								
DWSRF Revolving Loan		•	•	•	•	•		
Capitalization Grants for Clean Water State Revolving Fund Loans		•	•	•	•	361,453	153,254	4
Total Federal and State Awards	ss	2,438,963	\$ 1,086,266	\$ 429,000	\$ 3,025,992	\$ 1,825,805	\$ 1,097,940	0 \$ 1,913,623
Total expenditures reported on the Schedule of Expenditures of Federal and St		ate Awards						
Fiscal year ended June 30, 2010	↔	380,407		•	•	•	\$	· \$
Fiscal year ended June 30, 2011		558,450	•	•	•	'		
Fiscal year ended June 30, 2012		61,003	•	•	•	•		
Fiscal year ended June 30, 2013		1,263,186	•	•	2,442,453	•		
Fiscal year ended June 30, 2014		91,048	1,045,133	407,550	583,539	1,261,524	925,020	0 2,139,604
Fiscal year ended June 30, 2015		84,869	41,133	21,450	•	564,281	172,920	0 (225,981)
	₩.	2,438,963	1,086,266	\$ 429,000	\$ 3,025,992	\$ 1,825,805	\$ 1,097,940	0 \$ 1,913,623
Total Other Installment Obligations reported in Long-Term Obligations:								
Fiscal year ended June 30, 2011	↔	330,545	· •	•	· &	•	\$	· \$
Fiscal year ended June 30, 2012		113,778	•	•	•	'		
Fiscal year ended June 30, 2013		687,200	•	•	2,442,453	'		
Fiscal year ended June 30, 2014		91,048	1,045,133	407,550	583,539	1,261,524	925,020	0 2,139,604
Fiscal year ended June 30, 2015		84,869	41,133	21,450	•	564,281	172,920	0 (225,981)
	s	1,307,440	1,086,266	\$ 429,000	\$ 3,025,992	\$ 1,825,805	\$ 1,097,940	0 \$ 1,913,623
ARRA - DWSRF Principal Forgiveness Loan	₩.	1,131,523	•	•	· •	•	€9-	

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