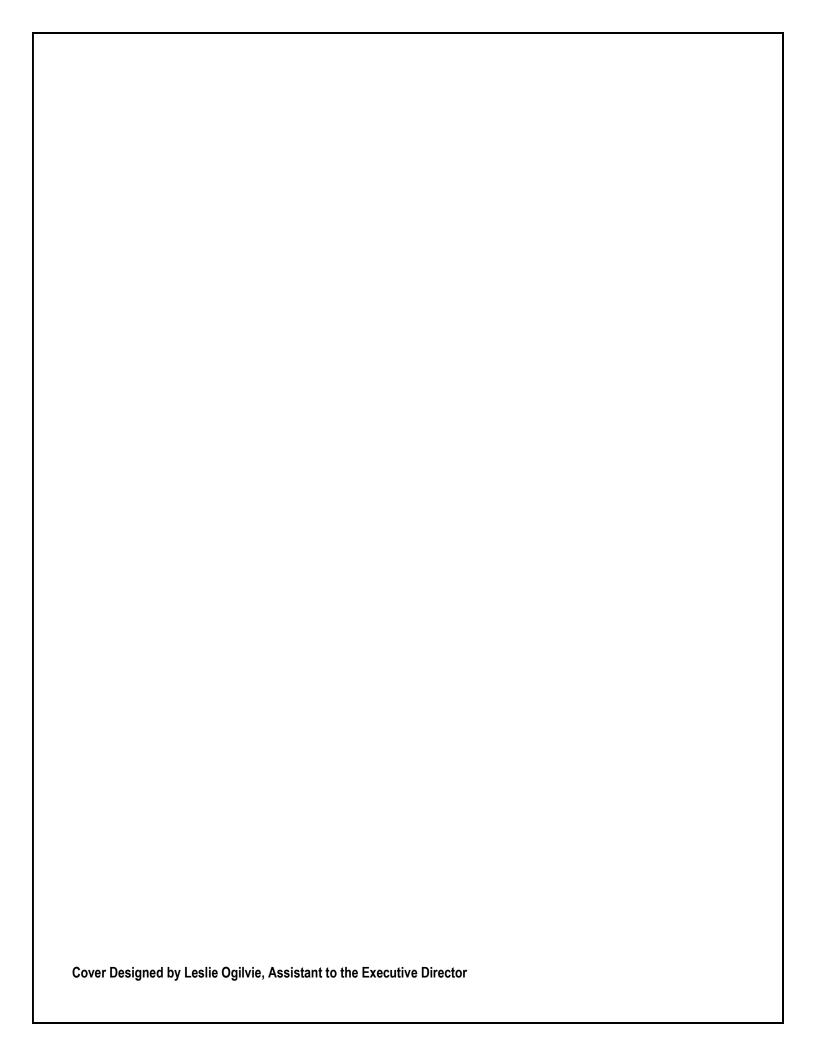


COMPREHENSIVE ANNUAL FINANCIAL REPORT For Fiscal Year Ended June 30, 2016

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, 2016

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

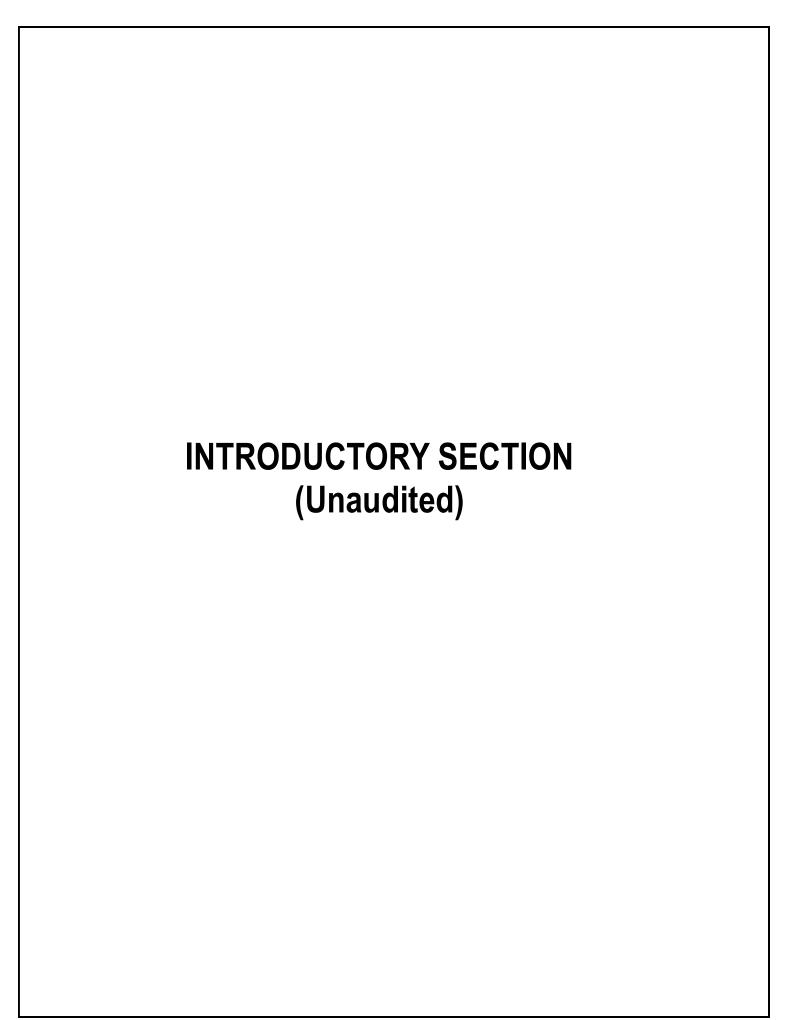
Chief Financial Officer

John B. McLean, CPA



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October 26, 2016

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, 2016. 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, 2016, 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, 2016, 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 2016. 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 220,000 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 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 two groundwater systems. There are 67,352 customer accounts, an increase of 1,216 compared to the previous year. Also, an additional 4,087 locations have services available (vacant lots). The water system has 1,114 miles of distribution lines at June 30, 2016. The Authority also keeps eight wells on standby to supplement the water supply during emergencies or peak demand periods. Metered water consumption for the fiscal year June 30, 2016 increased 4.3%, compared to a 2.9% increase 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 10 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, 2016 was 14.35 MGD. The surface water distribution system has been providing water service for more than 100 years and includes 16.0 million gallons of covered finished water storage and 5.6 million gallons of storage in five 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, 2016 of 2.32 MGD. The distribution system provides water service to customers and includes 2.8 million gallons of covered ground storage and 2.35 million gallons of elevated storage in five elevated tanks. In addition, the Authority operates one smaller groundwater system, Monterey Heights, providing groundwater directly to customers from four wells and a single 0.5 million gallon elevated storage tank. The groundwater receives disinfection and pH adjustment before being pumped to the distribution system and the storage tanks. Average production of the Monterey Heights system during the fiscal year ended June 30, 2016 was 0.61 MGD.

The Wastewater System

There are 66,384 wastewater accounts, an increase of 654 compared to the previous year. Also, an additional 2,838 locations have services available (vacant lots). The Authority also provides wholesale wastewater treatment services to the Town of Wrightsville Beach and provides wastewater services to a portion of Pender County. The Authority's collection system consists of approximately 850 miles of gravity lines, 21,200 manholes, approximately 140 pump stations and 130 miles of pressurized sewage force main. Wastewater consumption, based on metered water (excluding irrigation) for the fiscal year June 30, 2016 increased nearly 3.6%, compared to a 1% increase the previous year.

The Authority currently owns and operates the James A. Loughlin, or Northside Wastewater Treatment Plant (NSWWTP) and the M'Kean Maffitt, or Southside Wastewater Treatment Plant (SSWWTP). The NSWWTP is permitted to treat up to 16.0 MGD. The SSWWTP is permitted to treat up to 12.0 MGD. For the fiscal year ended June 30, 2016, the combined average daily flows were 18.76 MGD of the combined 28.1 MGD permitted, including the Walnut Hills Plant, which ceased operation on June 30, 2016. Flows from the Walnut Hills Treatment Plant have been redirected to the NSWWTP. The NSWWTP and SSWWTP both 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 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 14.5% for the fiscal year ended June 30, 2016. New Hanover County reported a 21% increase in the number of building permits issued with a 23% increase in the cost of these permitted projects compared to the prior year. The County's unemployment rate at June 30, 2016, of 4.8%, is lower than the 5.6% at June 30, 2015. It is also lower than North Carolina's 5.2% and the United States at 4.9%.

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 \$520.86 million in travel-related revenues in calendar year 2015, a 2.55% increase over 2014 revenues. In 2015, tourism provided approximately 5,800 jobs with an annual payroll of \$121 million in New Hanover County. For fiscal year ended June 30, 2016, room occupancy tax receipts increased 6.87 % 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, and Carolina Healthcare Associates.

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

Long-Term Financial Planning

The Authority uses a 10-year model to forecast revenue requirements based on anticipated operating expenditures, debt service, and capital needs.

Relevant Financial Policies

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

Finance and Accounting Consistency of Budgeting and Financial Reporting

Investment Revenue

Budget Amendment and Transfer

Reserve Contract Approval

Debt Management Capital Improvements Program

Corporate Governance Travel

Purchasing Procurement Card
Post Issuance Monitoring of Tax Exempt Debt Uniform Policy
Food Purchase Local Preference
Surplus Real and 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 2016

In the Authority's eighth 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, 2016, the Authority had approximately 175 active capital projects with approximately \$29 million in expenditures. The CIP for the ten-year period from FY 2017 to FY 2026 totals over \$213 million. The largest capital expenditures during the year, comprising nearly 70% of current year expenditures, were on the following projects:

- Heritage Park Extensions \$8 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
 complete.
- Marquis Hills Wastewater Extensions \$11.5 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 million project budget. This project involves construction of a new pump station.
 This project is substantially complete as of June 30, 2016.
- 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 complete.
- Walnut Hills Wastewater Treatment Plant Decommissioning \$3.5 million project budget. This project consists of installation of a new force main and pump station upgrades in order to decommission the Walnut Hills Wastewater Treatment Plant. This project is ongoing.
- Disinfection Bi-Products Reduction Infrastructure Project \$2.9 million project budget. This project consists of installation of aeration and mixer equipment to the Sweeney Clear Well and two elevated water tanks. This project is ongoing.
- Flemington Water Project \$3.6 million project budget. This project consists of a cost sharing agreement with Duke Energy to install waterlines under the Cape Fear River to serve the Flemington area. This project is complete.
- Kerr Avenue Waterline Phase II \$2.6 million project budget. This project consists of the installation of waterlines to complete an interconnection between the Sweeney and Nano Water Plants. This project is ongoing.

Other Accomplishments – The Authority received a credit rating upgrade to Aa1 from Moody's and maintained its 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, 2015. The Authority has received this prestigious award each of the 7 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.

Executive Director

John B. McLean, 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, 2015

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, 2016



William A. Norris Member



Kevin O'Grady Councilman



Charlie Rivenbark Councilman



C. Lawrence Sneeden, Jr. Member



Woody White Commissioner



Cindee Wolf Member

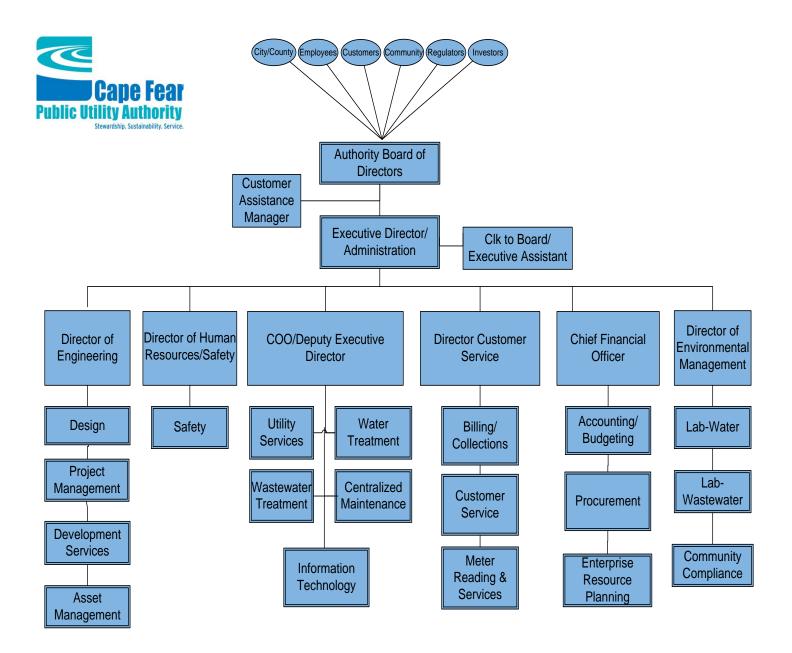


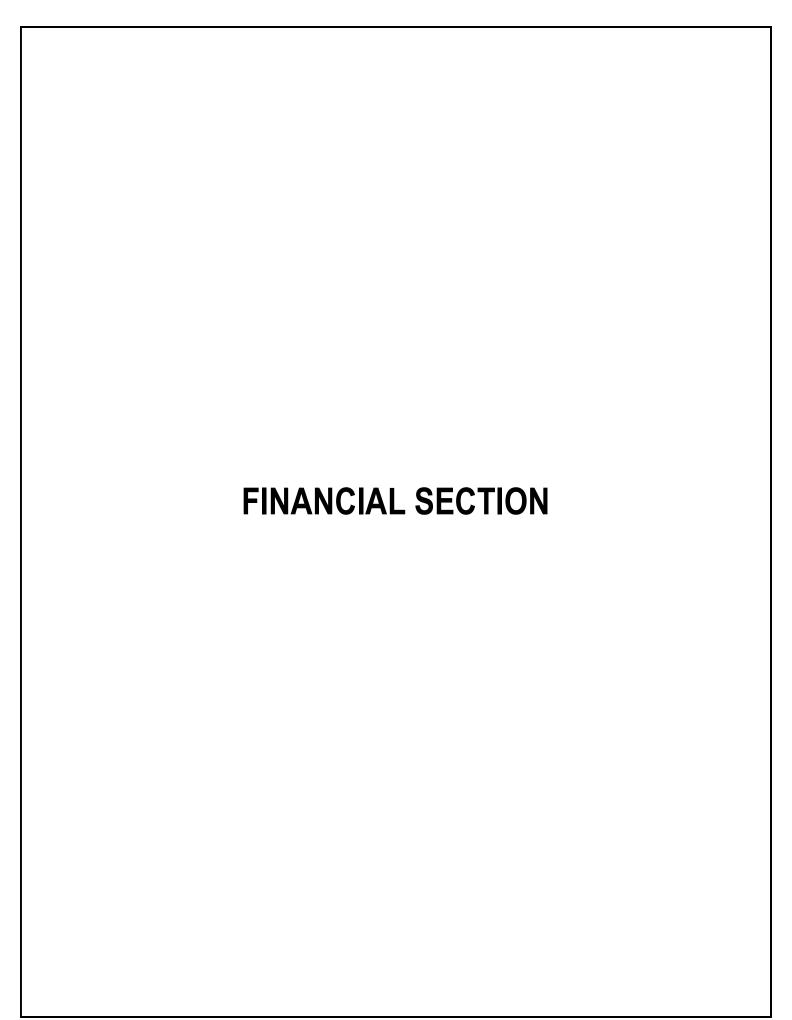
Rob Zapple Commissioner

Other Principal Officials

James R. Flechtner, PE Executive Director

John B. McLean 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, 2016, 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, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules 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 26, 2016, 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 26, 2016

Chumy Belaurt 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, 2016. 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, 2016. Assets and deferred
 outflows of resources of the Authority exceeded its liabilities at the close of the fiscal year by approximately \$485 million
 (net position) which is an increase of \$41 million from the prior year.
- Total operating revenues were \$72.5 million, an increase of \$1.2 million or 1.7% over the prior year. The increase in revenues reflects increases in water and wastewater consumption and customer growth during the year.
- Total operating expenses (including depreciation and amortization) were approximately \$53.1 million, an increase of approximately \$3.7 million or 7.5% over the prior year.
- Overall debt coverage increased to 2.14 for fiscal year 2016 from 1.77 in the prior year, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 2.58, also remaining above the 1.2 ratio required by revenue bond covenants.
- The Authority received a credit rating upgrade to Aa1 from Moody's, while Standard & Poor's maintained its AA+ rating. Both ratings are one level below the highest possible ratings.

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 26 through 29 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 30 through 51 of this report.

FINANCIAL ANALYSIS

Table A presents the Condensed Statement of Net Position for the fiscal years ended June 30, 2016 and June 30, 2015.

Condensed Statement of Net Position				
Table A				
		June 30,		June 30,
		2016		2015
Assets				
Current assets	\$	135,545,304	\$	117,521,982
Noncurrent assets-noncapital		12,347,107		43,336,927
Noncurrent assets-capital		658,491,656		635,714,148
Total assets		806,384,067		796,573,057
Deferred Outflows of Resources		15,964,053		3,177,782
Liabilities				
Current liabilities		31,694,723		29,405,713
Noncurrent liabilities		305,320,889		323,381,811
Total liabilities		337,015,612		352,787,524
Deferred Inflows of Resources	_	510,751		3,066,311
Net Position				005 040 565
Net investment in capital assets		359,084,362		335,218,505
Restricted		2,916,717		-
Unrestricted	_	122,820,678		108,678,499
Total net position	\$	484,821,757	\$	443,897,004

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 \$485 million at June 30, 2016, which is an increase of nearly \$41 million over the prior year. The largest component of the Authority's net position represents the investment in water and wastewater infrastructure and other capital assets net of the outstanding balance of debt issued to acquire and construct these assets. The restricted component of the Authority's net position consists of those resources that are restricted through law or by outside parties for a particular purpose. The Authority's restricted net position consisted of receivables from the State of North Carolina and New Hanover County that are restricted for the construction of certain capital projects. The Authority's remaining net position is unrestricted and can be used to satisfy the Authority's ongoing obligations including debt service, normal operating expenses, and for the acquisition of capital assets.

The approximately \$41 million increase in the Authority's net position is a result of the following:

- Actual operating revenues outperformed revenue estimates incorporated in budgeted water and wastewater rates due
 to higher consumption and customer growth compared to forecasts. In addition, certain operating and nonoperating
 expenses including administrative, operations and maintenance, customer service, and interest were lower than
 budgeted estimates.
- The payment of approximately \$11.8 million in principal on outstanding debt funded with current year revenues. Approximately \$9.5 million in water and wastewater revenue was used to retire the Authority's outstanding debt. Another \$2.3 million in investment earnings from the termination of an investment contract was used in the defeasance of the 2008 Water and Sewer Revenue Bonds.
- Approximately \$3.4 million in engineering, legal, and interest costs funded with current year revenues were capitalized
 as part of the cost of placing capital assets into service.
- Investments in capital assets funded with approximately \$20.0 million in capital contributions from developers and New Hanover County through various capital cost-sharing agreements and \$7.8 million from current year operating revenues. However, these additional investments in capital assets were offset by depreciation of approximately \$20.1 million for the year.



Table B presents the Condensed Statement of Revenues, Expenses and Changes in Fund Net Position for the fiscal years ended June 30, 2016 and June 30, 2015.

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position Table B			
	Year Ended June 30, 2016	Year Ended June 30, 2015	
Revenues			
Operating revenues			
Charges for services		\$ 67,429,021	
Other operating revenues	3,873,167	3,835,966	
	72,500,266	71,264,987	
Nonoperating revenues			
Investment earnings	3,312,744	1,012,470	
Contributions from New Hanover County	950,000	1,254,000	
Gain on extinguishment of debt	93,020	-	
Gain on disposal of capital assets	53,691	77,599	
Total revenues	76,909,721	73,609,056	
Expenses			
Operating expenses	32,992,768	30,578,562	
Depreciation and amortization	20,076,373	18,776,391	
	53,069,141	49,354,953	
Nonoperating expenses			
Interest expense	8,274,675	8,332,023	
Bond issuance costs and other debt service fees	717,165	683,650	
Total expenses	62,060,981	58,370,626	
Increase in net position before capital contributions	14,848,740	15,238,430	
Capital contributions	26,076,013	19,055,351	
Increase in net position	40,924,753	34,293,781	
	10,721,700	5 .,200,701	
Net position, July 1	443,897,004	411,206,335	
Restatement		(1,603,112)	
Net position, June 30	\$ 484,821,757	\$443,897,004	

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets grew by 5.1% to over \$658 million (net of accumulated depreciation and amortization) at June 30, 2016 compared to the prior year. 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 \$7 million (approximately \$39 million in completed projects were removed from construction in progress while nearly \$32 million in new projects were added to construction in progress). Of the \$39 million that was placed into service from construction in progress, \$8.5 million was related to the Heritage Park Project. Other projects completed during the year include \$5 million for the Barnards Creek Pump Station project, \$4 million for the Comprehensive Meter Replacement Project, \$3.7 million for the Sweeney Clear Well Rehabilitation Project, and \$3.2 million for the Greenfield Lake Outfall Rehabilitation Project.
- The largest increases in construction in progress, including all capitalized interest and other costs were \$7.4 million for the Marquis Hills Extension Project, approximately \$3 million for the Flemington Water Project with Duke Energy, \$2.7 million for the Aeration and Mixer Project, \$2.6 million for the Barnards Creek Pump Station Project, and \$2.3 million for the Heritage Park Extension Project.

Table D presents the Changes in Net Capital Assets for the fiscal year ended June 30, 2016. Additional information on the Authority's capital assets can be found in Note 4 on page 37 of this report.

Capital Assets Net of Depreciation and Amortization Table D				1
	2016		2015	
Nondepreciable capital assets: Land Intangible Asset-Easements Construction in progress	\$ 6,863,195 2,134,823 34,063,352		6,982,245 2,090,017 41,061,763	
Total capital assets not being depreciated or amortized	43,061,370		50,134,025	
Depreciable capital assets, net:				ı
Plant, Structures and Improvements	258,996,645		251,639,589	1
Water and Sewer Lines	349,572,453		327,757,652	1
Furniture, Fixtures and Machinery	5,087,751		3,894,055	1
Intangible Asset-Computer Software	476,841		905,791	1
Intangible Asset-Water Availability Rights	1,296,596		1,383,036	
Total capital assets being depreciated or				
amortized	615,430,286		585,580,123	

Debt Administration

The Authority's long term debt, presented in Table E below, totaled \$317 million at June 30, 2016. The Authority's overall debt coverage for fiscal year 2016 was 2.14, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 2.58, well above the 1.2 ratio required by revenue bond covenants.

Outstanding Long-Term Obl Table E	igations	
	2016	2015
Revenue Bonds	\$ 294,031,807	\$ 291,532,167
Installment Obligations:		
Locality compensation payment	13,679,800	29,044,491
ARRA Revolving Loan	961,795	1,018,371
DWSRF Revolving Loan	158,325	167,121
Clean Water State Revolving Loans	8,611,567	8,696,154
Totals	\$ 317,443,294	\$ 330,458,304

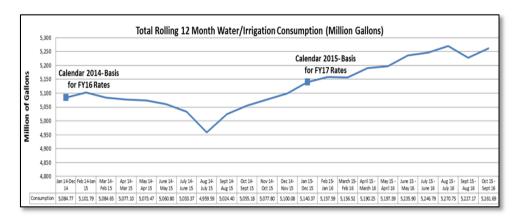
During the year the Authority issued \$155.8 million to advance refunded outstanding 2008 Water and Sewer System Revenue Bonds resulting in a net present value savings of \$27.6 million. The Authority placed total proceeds of \$187.8 million into an irrevocable escrow account to pay principal and interest through and pay outstanding maturities on August 1, 2018. In addition, the Authority used resources from the 2008 Debt Service Reserve to extinguish \$10,575,000 in remaining maturities on the Series 2006A Certificates of Participation. Principal retirements on other revenue bonds and installment obligations totaled approximately \$9.5 million.

Additional information on the Authority's long term debt can be found in Note 10, Long-Term Obligations beginning on page 46 of this report.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2017

The Board approved a \$75.6 million annual operating budget for fiscal year 2017. The adopted budget reflects a less than 1% decrease, or approximately \$450,000, under fiscal year 2016. Net debt service is \$700,000 more than the fiscal year 2016 adopted budget increasing from \$23.6 million to \$24.3 million. Operating expenditures are \$1.2 million greater in the 2017 adopted budget, increasing from \$38.9 million to \$40.1 million. Cash funded capital projects are less in the fiscal year 2017 adopted budget by \$2.4 million, decreasing from \$12.9 million to \$10.5 million.

Revenues are budgeted to increase to \$74.7 million in fiscal year 2017 from \$73.8 million in the fiscal year 2016 adopted budget, or 1.1%. This increase in revenues is primarily related to an increase in water and wastewater usage and customer growth. The FY 17 water and wastewater rates were modeled using calendar year 2015 actual customer billing data. As depicted in the chart below, the 12 month rolling average, water consumption increased by 1% in calendar year 2015. Based on this data, water and sewer rates remain unchanged for the fiscal year 2017 budget as adopted.



far in FY17, Thus water consumption trends have The continued to increase. Authority continues to monitor revenue and consumption patterns very closely and will adjustments make 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 john.mclean@cfpua.org.

Cape Fear Public Utility Authority Statement of Net Position June 30, 2016

ASSETS	
Current assets	
Cash and cash equivalents	\$ 107,940,665
Receivables, net	17,774,582
Due from other governments	1,962,129
Restricted:	
Cash and cash equivalents	3,173,806
Receivables	78
Due from other governments	2,916,639
Prepaids	49,272
Inventories	1,728,133
Total current assets	135,545,304
Noncurrent assets	
Cash and cash equivalents	12,347,107
Capital assets:	
Land, easements and construction in progress	43,061,370
Other capital assets, net	615,430,286
Total capital assets	658,491,656
Total noncurrent assets	670,838,763
Total assets	806,384,067
DEFERRED OUTFLOWS OF RESOURCES	15,964,053
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	8,008,880
Accrued interest payable	1,205,332
Due to other governments	3,959,075
Unearned revenue	264,227
Customer and escrow deposits	2,197,415
Compensated absences, current maturities	736,104
Long-term obligations, current maturities	15,323,690
Total current liabilities	31,694,723
Noncurrent liabilities	
Net pension liability	982,683
Compensated absences	365,421
Other post-employment benefits (OPEB)	1,853,181
Long-term obligations, net of current maturities	302,119,604
Total noncurrent liabilities	305,320,889
Total liabilities	337,015,612
DEFERRED INFLOWS OF RESOURCES	510,751
NET POSITION	
Net investment in capital assets	359,084,362
Restricted	2,916,717
Unrestricted	122,820,678
Total net position	\$ 484,821,757
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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, 2016

Operating revenues	
Charges for services	\$ 68,627,099
Other operating revenues	3,873,167
Total operating revenues	72,500,266
Operating expenses	
Personnel and benefits	16,598,873
Services and utilities	13,809,862
Materials	2,584,033
Depreciation and amortization	20,076,373
Total operating expenses	53,069,141
Operating income	19,431,125
Nonoperating revenues (expenses)	
Investment earnings	3,312,744
Interest expense	(8,274,675)
Bond issuance costs	(690,170)
Other debt service fees	(26,995)
Gain on disposal of capital assets	53,691
Gain on debt extinguishment	93,020
Contributions from New Hanover County	950,000
Total nonoperating (expenses)	(4,582,385)
Income before capital contributions	14,848,740
Capital contributions	26,076,013
Total capital contributions	26,076,013
Change in net position	40,924,753
Net position	,,.
Beginning of year	443,897,004
End of year	\$ 484,821,757

See Notes to Financial Statements.

Cape Fear Public Utility Authority Statement of Cash Flows For the Fiscal Year Ended June 30, 2016

Cash Flows From Operating Activities	
Cash received from customers	\$ 68,089,976
Cash paid to suppliers	(17,083,166)
Cash paid to or on behalf of employees	(17,127,853)
Cash received for deposits	1,123,974
Cash returned for deposits	(881,684)
Other operating income	3,873,167
Net cash provided by operating activities	37,994,414
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(30,609,279)
Principal paid on long-term obligations	(18,129,035)
Cash paid to refunded bond escrow agent	(187,785,880)
Proceeds from refunding bonds	155,863,020
Premium from refunding bonds	27,230,224
Bond issuance costs	(690,170)
Other debt service fees	(26,996)
Interest paid on long-term obligations	(14,964,503)
Proceeds from sale of capital assets	172,740
Capital contributions	18,603,113
Net cash used for capital and related financing activities	(50,336,766)
Cash Flows From Investing Activities	
Proceeds from the sale of investments	13,456,192
Investment earnings	3,577,820
Net cash provided by investing activities	17,034,012
Net increase in cash and cash equivalents	4,691,660
Cash and cash equivalents, beginning of year	118,769,918
Cash and cash equivalents, end of year	\$ 123,461,578
Reconciliation to statement of net position:	
Cash and cash equivalents (current and noncurrent)	\$ 120,287,772
Restricted cash and cash equivalents	3,173,806
Total cash and cash equivalents	\$ 123,461,578
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(Continued)

Cape Fear Public Utility Authority Statement of Cash Flows (Continued) For the Fiscal Year Ended June 30, 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 19,431,125
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	20,076,373
Pension expense	576,751
Pension contributions made subsequent to measurement date	(946,895)
Changes in assets and liabilities:	
(Increase) in receivables, net and due from other governments	(602,857)
(Increase) in inventories	(203,734)
Decrease in prepaids	75,484
Increase in accounts payable, accrued liabilities and due to other governments	(495,287)
Increase in customer and escrow deposits	242,290
(Decrease) in compensated absences	(13,763)
(Decrease) in OPEB liability	(145,073)
Total adjustments	18,563,289
Net cash provided by operating activities	\$ 37,994,414
Supplemental Schedule of Noncash Activities	
Contributions of capital assets from developers	\$ 10,796,864
Debt payment reduction from New Hanover County	\$ 950,000

See Notes to Financial Statements.

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.

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 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

The Authority considers demand deposits and investments (including restricted assets) purchased with an original maturity of three months or less cash and cash equivalents. The NCCMT cash portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is NCCMT's share price.

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 acquisition 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.

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 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 10.0 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. 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 Inflows and Outflows 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 and pension-related deferrals. 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 reports deferred inflows of resources related to pensions.

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 liability.

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 amortized into interest expense over the life of the bonds using the effective interest method. The difference between the reacquisition value and carrying value of old debt on bond refundings are deferred and amortized into interest expense. Bond issuance costs are expensed in the period incurred.

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.

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.

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".

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

Cash, cash equivalents, deposits and investments of the Authority are summarized as follows as of June 30, 2016:

Cash on hand		\$	3,904
		Ψ	
Deposits			122,913,901
Investments			543,773
	Total	\$	123,461,578
Current Assets			
Cash and cash equivalents		\$	107,940,665
Restricted cash and cash equivalents			3,173,806
Noncurrent Assets			
Cash and cash equivalents			12,347,107
	Total	\$	123,461,578

Deposits

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

Custodial Credit Risk for 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 Authority's agent in the Authority's name. Under the Pooling Method, uninsured deposits are collateralized with securities in a statewide collateral pool 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 Authority, these deposits are considered to be held by the participating Authority's agents in its 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 Authority. Because of the inability to measure the exact amounts of collateral pledged for the Authority 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 financial stability standards for each depository that collateralizes public deposits under the Pooling Method, including minimum capitalization standards. The Authority relies on the State Treasurer to monitor those financial institutions.

At June 30, 2016, the carrying amount of the Authority deposits was \$122,913,901 and the bank balance was \$123,105,659. Of the bank balance, \$1,967,675 was covered by FDIC insurance and \$121,137,984 was covered by collateral held under the Pooling Method.

Investments

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.

At June 30, 2016, the Authority had \$543,773 invested with NCCMT cash portfolio which carried a credit rating of AAAm by Standard & Poor's. The Authority has no policy regarding credit risk.

Note 3. Receivables

At June 30, 2016, 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.

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

Receivables - Authority customers		\$ 16,314,526
Receivables - City of Wilmington customers		3,683,461
Accrued interest receivable		12,415
Allowance for doubtful accounts - Authority		(2,235,820)
	Total	\$ 17,774,582
Restricted accrued interest receivable		\$ 78
	Total	\$ 17,774,660

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	\$ 673,244
City of Wilmington	\$ 784
New Hanover County	1,024,324
Town of Wrightsville Beach	263,777
Total Unrestricted Due from other governments	\$ 1,962,129
New Hanover County	\$ 2,027,056
State of North Carolina	889,583
Total Restricted Due from other governments	\$ 2,916,639

Note 4. Capital Assets

Capital assets activity consists of the following for the fiscal year ended June 30, 2016. Depreciation and amortization expense for the year was \$19,446,163 and \$630,209, respectively. Capital asset additions for the year include \$1,323,751 of capitalized interest.

	Beginning Balances July 1, 2015	Increases	Decreases	Completed Projects	Ending Balances June 30, 2016
Capital assets not being depreciated:					
Land	\$ 6,982,245	\$ -	\$ (119,050)	\$ -	\$ 6,863,195
Intangible Asset-Easements	2,090,017	-	-	44,806	2,134,823
Construction in progress	41,061,763	31,942,314	-	(38,940,725)	34,063,352
Total capital assets not being					
depreciated or amortized	50,134,025	31,942,314	(119,050)	(38,895,919)	43,061,370
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	294,474,377	-	-	15,726,865	310,201,242
Water and Sewer Lines	382,288,884	10,796,864	-	20,662,700	413,748,448
Furniture, Fixtures and Machinery	12,162,473	233,753	(60,932)	2,391,535	14,726,829
Intangible Asset-Computer Software	4,234,736	-	-	114,819	4,349,555
Intangible Asset-Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being					
depreciated or amortized	695,148,586	11,030,617	(60,932)	38,895,919	745,014,190
Less accumulated depreciation or amortization for:					
Plant, Structures and Improvements	42,834,788	8,369,810	-	-	51,204,598
Water and Sewer Lines	54,531,232	9,644,763	-	-	64,175,995
Furniture, Fixtures and Machinery	8,268,418	1,431,591	(60,932)	-	9,639,077
Intangible Asset-Computer Software	3,328,945	543,769	-	-	3,872,714
Intangible Asset-Water Availability Rights	605,080	86,440	-	-	691,520
Total accumulated depreciation					
and amortization	109,568,463	20,076,373	(60,932)	-	129,583,904
Total capital assets being					
depreciated or amortized, net	585,580,123				615,430,286
Capital assets, net	\$ 635,714,148	_			\$ 658,491,656

Capital contributions as shown on the Statement of Revenues, Expenses and Changes in Fund Net Position consist of the following at June 30, 2016.

Capital Contributions	
System Development Charges	\$ 6,068,284
Contributions from Developers-Cost Sharing	9,210,865
Cash Contributions	15,279,149
Contribution from Developers (Non-Cash)	10,796,864
Total Capital Contributions	\$26,076,013

Capital contributions from cash of \$18,603,113 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 \$3,323,964 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, 2016 are as follows:

State of North Carolina-Sales and Use Tax Paid	\$ 19,939
Fines to Schools	\$ 10,800
City of Wilmington-Solid Waste and Stormwater Fees	3,928,336
Total Due to other governments	\$ 3,959,075

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 an amendment to that lease effective August 1, 2016, with a new 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 term of 60 months, with an option to extend the lease for equipment commenced 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 \$857,545 for the fiscal year ended June 30, 2016. The future minimum lease payments as of June 30, 2016 are as follows:

Year Ending June 30	Amount
2017	\$ 840,052
2018	683,900
2019	695,716
2020	694,936
2021	701,184
Thereafter	800,064
Total	\$ 4,415,852

Note 7. Post-Retirement Benefits

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. Cost of living benefit increases are contingent upon investment gains and subject to LGERS Board approval.

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, 2016, was 6.67% 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 \$946,895 for the year ended June 30, 2016.

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 include interest (currently 4%) regardless of the number of years of retirement service credit or of the reason for separation from service. 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, 2016, the Authority reported a net pension liability of \$982,683 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability 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, 2015, the Authority's proportion was 0.2190%, which was an increase of 0.0057% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Authority recognized pension expense of \$576,751. Deferred outflows of resources resulting from \$946,895 in contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2017		(279,914)
2018		(279,914)
2019		(279,813)
2020		483,853
	Total	(355,788)

Actuarial Assumptions. The total pension liability in the December 31, 2014 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, 2014 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 of the total pension liability.

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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	<u>6.0%</u>	3.4%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 3.00%. All rates of return and inflation are annualized.

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 liability to changes in the discount rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Authority's proportionate share of the 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%)	Di	scount Rate (7.25%)	•	1% Increase (8.25%)
Authority's proportionate share of the net pension liability (asset)	\$ 6,852,358	\$	982,683	\$	(3,962,395)

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 expense related to the Supplemental Retirement Income Plan and the 457 Deferred Compensation Plan totaled \$396,506 and \$111,598, respectively, for the fiscal year ended June 30, 2016.

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 of Wilmington (City) or New Hanover County (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 by paying a portion of retiree coverage through private insurers. The plan does not issue a stand-alone financial report.

At December 31, 2015, the date of the latest actuarial valuation, membership consisted of 137 active plan members and 15 retirees or retiree dependents.

Funding Policy. The Authority funds OPEB on a pay-as-you-go basis meaning that benefits are paid as they become due.

Summary of Significant Accounting Policies. Post-employment benefits are paid as they come due from the Authority's operating fund. Assets have been designated 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)	\$ 238,418
Interest on net OPEB obligation	83,450
Adjustment to annual required contribution	(116,007)
Annual OPEB cost	205,861
Contributions made	(350,934)
Decrease in net OPEB obligation	(145,073)
Net OPEB obligation, beginning of year	1,998,254
Net OPEB obligation, end of year	\$ 1,853,181

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

			Percentage of		
For The Year		Annual	Annual OPEB		let OPEB
Ended June 30	OPEB Cost		Cost Contributed	0	bligation
2016	\$	205,861	170.47%	\$	1,853,181
2015	\$	150,131	146.69%	\$	1,998,254
2014	\$	115,953	219.07%	\$	2,068,351

Funded Status and Funding Progress. As of December 31, 2015, 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 \$3,157,860. The covered payroll (annual payroll of active employees covered by the plan) was \$7,701,969, and the ratio of the UAAL to the covered payroll was 41.00%.

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.

For the December 31, 2015 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 4.5% and 8.0%, and mortality assumptions from the RP-2000 Combined Mortality Table for males and females with no mortality improvement. The UAAL is being amortized on a level dollar amount on an open, 30-year basis.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 8. Deferred Outflow and Inflows of Resources

At June 30, 2016 the Authority's deferred inflows and outflows of resources presented on the Statement of Net Position were as follows:

	Deferred Outflows of Resources		Deferred Inflow of Resources	
Pensions - differences between expected and actual experience	\$	-	\$	230,987
Pensions - difference between projected and actual earnings on pension plan investments		-		279,764
Pensions - changes in proportion and difference between Authority contributions and proportionate share of contributions		154,964		-
Pensions - Authority contributions in 2015 fiscal year		946,895		
Deferred charge on refunding of debt		14,862,194		
Total	\$	15,964,053	\$	510,751

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 self-insures risks associated with workers' compensation. Prior to February 1, 2016 the Authority self-insured risks associated with active employee and retiree health care. On February 1, 2016 the Authority began participation in the North Carolina State Health Plan for its active employees. 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, 2016, 2015, or 2014.

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 and the Deputy 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 self-insured risks, 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, 2016 and 2015 are as follows:

	2016	2015
Medical Self-Insurance Program		
Unpaid claims, beginning of year	\$ 797,000	\$ 674,000
Incurred claims (including IBNR)	942,548	2,881,931
Claim payments (including fees)	(1,694,048)	(2,758,931)
Unpaid claims, end of year	\$ 45,500	\$ 797,000
Workers' Compensation Self-Insurance Progr	am	
Unpaid claims, beginning of year	\$ 140,000	\$ 140,000
Incurred claims (including IBNR)	43,489	18,909
Claim payments	(43,489)	(18,909)
Unpaid claims, end of year	\$ 140,000	\$ 140,000

Note 10. Long-term Obligations

G.S. 162A-8 gives the Authority the power to periodically issue revenue bonds in accordance of the provisions of G.S. 159-80 through G.S. 159-98. 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.

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 \$950,000 for fiscal year ended June 30, 2016. The debt payment reduction amount will be \$627,000 and \$304,000 for 2017 and 2018, respectively. 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.

The Authority has pledged net revenue, revenues over current expenses, to repay outstanding revenue bonds. 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 \$19,079,035 and \$26,387,335, respectively.

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, 2016 was 2.58 for parity indebtedness and 2.14 for all indebtedness.

On June 8, 2016 the Authority issued refunding revenue bonds to provide resources to advance refund all of the outstanding 2008 Water & Sewer System Revenue and Refunding Revenue Bonds. The proceeds of \$187,785,880 consisting of \$155,770,000 par amount plus \$27,230,224 premium and \$4,785,656 in cash were placed into escrow to pay principal and interest on the 2008 Bonds through the call date and outstanding principal on the call date. The total net present value savings was \$27,548,059, when discounted at the yield of the tax exempt bonds. As of June 30, 2016 principal outstanding on the defeased 2008 Water and Sewer System Revenue and Refunding Revenue Bonds was \$170,265,000.

Details of the Authority's outstanding bonded and long-term installment obligations at June 30, 2016 are as follows:

Revenue Bonds	
\$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 semiannual interest through August 1, 2036; coupons ranging from 3.25% to 5.00%	38,360,000
\$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 semiannual interest through June 1, 2040; coupons ranging from 3.00% to 5.00%	
\$4,730,000 Taxable Water and Sewer System Refunding Revenue Bonds, Series 2014B issued to refund outstanding portions of 2005 Bonds; principal payments due annually on June 1 in varying amounts of \$1,155,000 to \$1,195,000 plus semiannual interest through June 1, 2019; coupons ranging from .20% to 2.00%	
\$155,770,000 Water and Sewer System Refunding Revenue Bonds, Series 2016 issued to (a) refund all of the outstanding 2008 bonds and (b) prepay all of the outstanding 2006A Certificates of Participation; principal payments due annually on August 1 in varying amounts of \$2,000,000 to \$10,915,000 plus semiannual interest through August 1, 2034; coupons ranging from 1.75% to 5.00%	
Total Revenue Bonds	255,840,000
Installment Obligations	
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 each August and February	
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	
Total Installment Obligations	13,679,800
Total Long-Term Obligations	269,519,800
Plus Unamortized Premiums	38,191,807
Net Carrying Value of Long-Term Obligations	\$ 307,711,607

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, 2016, \$961,795 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, 2016, \$158,325 is recorded as an outstanding loan. The payments on the Authority's outstanding DWSRF Loans for the future years are as follows:

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 \$9,753,501 and are drawn down as expenditures are paid on the respective capital projects.

		Balance
	Approved	June 30,
Clean Water State Revolving Fund Loans	Loan	2016
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	\$2,572,093
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	\$ 386,100
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	\$ 977,639
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%.	\$ 1,097,140	\$ 972,141
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	\$1,722,261
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	\$1,981,333
Total	\$ 9,753,501	\$8,611,567

Changes in the Authority's debt during the fiscal year (except for changes in the net pension liability and net OPEB obligation which are discussed in Note 7 were) were as follows:

		Balance					Balance		Current
	July 1, 2015		Additions	Retirements		June 30, 2016		Maturities	
Revenue Bonds	\$	276,280,000	\$	155,770,000	\$ 176,210,000	\$	255,840,000	\$	12,825,000
Installment Obligations:									
Locality compensation payment		27,239,000		-	13,559,200		13,679,800		1,938,000
Unamortized Premiums/Discounts		17,057,658		27,230,224	6,096,075		38,191,807		-
Total Bonds and Installment Obligations		320,576,658		183,000,224	195,865,275		307,711,607		14,763,000
Other Installment Obligations:									
ARRA Revolving Loan		1,018,371		-	56,576		961,795		56,576
DWSRF Revolving Loan		167,121		-	8,796		158,325		8,796
Clean Water State Revolving Loans		8,696,154		374,876	459,463		8,611,567		495,318
Total Other Installment Obligations		9,881,646		374,876	524,835		9,731,687		560,690
Total Long-Term Obligations		330,458,304		183,375,100	196,390,110		317,443,294		15,323,690
Compensated Absences		1,138,092		713,300	736,104		1,115,288		736,104

The debt service requirements for the Authority's outstanding bonds and installment obligations for future years are as follows:

Year Ending	Revenue	Bonds	Installment O	bligations	Total		
June, 30	Principal	Interest	Principal	Interest	Principal (1)	Interest	
2017	12,825,000	8,617,881	1,938,000	533,489	14,763,000	9,151,370	
2018	10,795,000	10,662,257	1,946,800	465,844	12,741,800	11,128,101	
2019	10,980,000	10,202,962	1,030,000	409,350	12,010,000	10,612,312	
2020	10,030,000	9,699,413	1,015,000	368,450	11,045,000	10,067,863	
2021	10,540,000	9,194,013	1,000,000	328,150	11,540,000	9,522,163	
2022-2026	58,085,000	37,775,719	4,855,000	1,027,550	62,940,000	38,803,269	
2027-2031	68,415,000	23,306,000	1,895,000	94,625	70,310,000	23,400,625	
2032-2036	66,600,000	7,873,938	-	-	66,600,000	7,873,938	
2037-2041	7,570,000	687,250	-	-	7,570,000	687,250	
Total	\$255,840,000	\$118,019,433	\$13,679,800	\$3,227,458	\$269,519,800	\$121,246,891	

Year Ending	Clean Water State Revolving Fund Loans		ARRA Loan	DWSRF Loan		
June 30,	Principal	al Interest Principal P		Principal		
2017	472,389	145,835	\$ 56,576	\$ 8,796		
2018	487,675	144,083	56,576	8,796		
2019	487,675	135,498	56,576	8,796		
2020	487,675	126,913	56,576	8,796		
2021	487,675	118,329	56,576	8,796		
2022-2026	2,438,375	462,873	282,880	43,980		
2027-2031	2,438,375	248,255	282,880	43,980		
2032-2035	1,311,726	45,937	113,155	26,385		
Total	8,611,565	\$1,427,723	\$ 961,795	\$ 158,325		

Note 11. Litigation

At this time, the Authority is a party to two civil lawsuits. Both lawsuits derive from the installation of water and sewer utilities on one parcel of property. The outcome of these claims is not expected to have a significant impact on the Authority's financial position.

As stated in previous reports, the Authority is under a Consent Decree with the Environmental Protection Agency requiring that several projects be completed by the Authority. Those projects have been completed, and the Authority anticipates release from the Consent Decree within the coming year.

Note 12. Construction and Other Significant Commitments

Construction commitments. The Authority has active water and wastewater capital projects as of June 30, 2016. The projects include wastewater, water, and system-wide projects. At the end of the year, the Authority's commitments with contractors, developers and professional firms are as follows:

Project Type	Spent -to-Date		Re	emaining Commitment
Wastewater Projects	\$	52,482,148	\$	8,405,847
Water Projects		19,631,154		3,437,748
System-wide Projects		1,197,273		102,107
Complete Projects		227,995,998		
	\$	301,306,573	\$	11,945,702

Encumbrances. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The Authority periodically enters into agreements with other parties in order to provide water and sewer services. Funds are encumbered at the time of the agreement. At year end the amount of outstanding encumbrances were as follows:

	Remaining		
Budgetary Fund	Commitment		
Operating Fund	\$	25,343	
Capital Projects Funds		11,945,702	
	\$	11,971,045	

These remaining commitments will be funded from the proceeds from revenue bonds, federal and state grants and loans, and funds generated from operations.

Note 13. Subsequent Events

On September 14, 2016 dissolution of the Authority's two blended component units, Cape Fear Utilities, Inc. and Quality Water Supplies, Inc., was approved by their respective boards. Neither entity had any assets or liabilities at the time of approval of the dissolution.

In October 2016 the Authority applied for grant funding for several capital projects under the Connect NC program. If approved, the Authority would receive up to \$16 million in matching funds.

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

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 (1) C	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/2015	\$0	\$3,157,860	\$3,157,860	0.00%	\$7,701,969	41.00%
12/31/2014	\$0	\$2,272,027	\$2,272,027	0.00%	\$8,448,100	26.89%
12/31/2012	\$0	\$2,459,288	\$2,459,288	0.00%	\$9,775,517	25.16%

Notes to the Required Schedules:

On February 1, 2016 the Authority ceased self-insuring retiree health care benefits and began sharing the cost of premiums on individual, fully-insured policies.

⁽¹⁾ 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 2014-2016 *

	2013	2014	2015
Authority's proportion of the net pension liability (asset)	0.2096%	0.2133%	0.2190%
Authority's proportionate share of the net pension liability (asset)	\$ 2,526,485 \$	(1,258,105) \$	982,683
Authority's covered-employee payroll	\$ 12,624,256 \$	13,060,438 \$	13,374,328
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	20.01%	-9.63%	7.35%
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.35%	102.64%	98.09%

^{*} The amounts presented for each fiscal year were measured as of the prior fiscal year ending June 30 based on an actuarial valuation dated the previous December 31.

Information is not available for years prior to 2014.

Schedule of Authority Contributions Local Government Employees' Retirement System 2014-2016 *

	2014	2015	2016
Contractually required contribution	\$ 923,373	945,565	\$ 946,895
Contributions in relation to the contractually required contribution	923,373	945,565	946,895
Contribution deficiency (excess)	-	-	-
Authority's covered-employee payroll	13,060,438	13,374,328	14,196,327
Contributions as a percentage of covered-employee payroll	7.07%	7.07%	6.67%

^{*} 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, 2016

	Final Budget	Actual	Variance Positive (Negative)		
Operating revenues				· •	
Water charges	\$ 31,084,000	\$	32,076,137	\$ 992,137	
Sewer charges	35,297,000		36,550,962	1,253,962	
Connection fees	535,000		840,219	305,219	
Miscellaneous revenue	2,557,500		3,079,402	521,902	
Total operating revenues	69,473,500		72,546,720	3,073,220	
Nonoperating revenues					
System development charges	5,545,400		6,068,284	522,884	
Investment earnings	2,810,710		3,288,329	477,619	
Sale of capital assets	90,521		172,740	82,219	
Total nonoperating revenues	8,446,631		9,529,353	1,082,722	
Total revenues	77,920,131		82,076,073	4,155,942	
Expenditures					
General - administrative	5,168,471		4,615,296	553,175	
Operations - water and wastewater	22,194,891		20,630,316	1,564,575	
Environment management	2,299,324		2,165,313	134,011	
Customer service	3,534,268		3,193,261	341,007	
Other operating	261,189		173,415	87,774	
Nondepartmental	2,398,500		2,079,547	318,953	
Litigation Settlement	871,000		870,609	391	
Debt service:					
Principal	19,322,139		19,079,035	243,104	
Interest	14,556,554		14,296,359	260,195	
Bond issuance costs	1,466,100		690,170	775,930	
Other debt service fees	275,000		26,996	248,004	
Repairs and maintenance	2,386,018		1,895,956	490,062	
Capital outlay	375,985		233,753	142,232	
Contingency	472,000		-	472,000	
Total expenditures	75,581,439		69,950,026	5,631,413	

(Continued)

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, 2016

	Final Budget		Actual	Variance Positive (Negative)
Other financing sources (uses)				
Long-term obligations issued	750,00	0	-	(750,000)
Capital contributions	35,00		32,850	(2,150)
Transfers out - Capital Projects Funds	(16,233,85		(16,233,854)	-
Proceeds from refunding bonds	155,770,00	,	155,770,000	-
Proceeds from refunding bonds-Premium	27,230,22		27,230,224	-
Payment to refunded bond escrow agent	(187,785,88		(187,785,880)	-
Appropriated fund balance	17,895,81	,	-	(17,895,818)
Total financing (uses)	(2,338,69		(20,986,660)	(18,647,968)
Revenues and other financing (uses)				
over expenditures	\$ -	\$	(8,860,613) _\$	(8,860,613)
Capital Projects Funds - Water, Wastewater & Syte Capital contributions Depreciation and amortization on capital and intangil Pension expense Contributions to pension plans Capitalized expenditures Interest expense:		\$	(2,442,393) 10,796,864 (20,076,373) (576,751) 946,895 32,176,066	
Accrued interest expense			3,484,858	
Amortization of deferred amount on refunding			(273,187)	
G			• • • •	
Amortization of premium			1.486.262	
Amortization of premium Accrued interest income			1,486,262 (263.046)	
Accrued interest income			(263,046)	
Accrued interest income Unearned revenue			(263,046) (46,451)	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB)			(263,046) (46,451) 145,073	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB) Compensated absences			(263,046) (46,451) 145,073 13,763	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB) Compensated absences Contribution from New Hanover County	ts an book value		(263,046) (46,451) 145,073 13,763 950,000	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB) Compensated absences Contribution from New Hanover County Difference between proceeds on sale of capital asse	ts an book value		(263,046) (46,451) 145,073 13,763 950,000 (119,049)	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB) Compensated absences Contribution from New Hanover County Difference between proceeds on sale of capital asser	ts an book value		(263,046) (46,451) 145,073 13,763 950,000 (119,049) (183,375,100)	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB) Compensated absences Contribution from New Hanover County Difference between proceeds on sale of capital asse Proceeds from long-term obligations Principal on long-term obligations	ts an book value		(263,046) (46,451) 145,073 13,763 950,000 (119,049) (183,375,100) 19,079,035	
Accrued interest income Unearned revenue Other post-employment benefits (OPEB) Compensated absences Contribution from New Hanover County Difference between proceeds on sale of capital asser	ts an book value		(263,046) (46,451) 145,073 13,763 950,000 (119,049) (183,375,100)	

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, 2016

_	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue	¢	Ф 6.440.666	¢ 207.462	¢ 6 727 120
Investment earnings Total revenue	<u> </u>	· · · · ·	\$ 287,462 287,462	\$ 6,737,128 6,737,128
Total revenue	5,554,449	6,449,666	201,402	0,737,120
Expenditures				
Wastewater Capital Projects:				
1101 S. 7TH STREET	23,448	-	23,448	23,448
1205 S 43RD ST SEWER ER	75,000	-	73,467	73,467
13TH ST/N. LAKE SHORE OUT	1,870,847	64,249	43,144	107,393
1409 S. 39TH STREET	40,000	-	38,529	38,529
1817 HALL DR SEWER ER	25,000	-	24,355	24,355
4102 MARKET ST SEWER ER	20,000	-	13,860	13,860
4220 INDEPENDENCE BLVD SE	20,000	-	8,621	8,621
4608 STILL MEADOWS DR MAN	28,311	-	28,311	28,311
4812 OBERBECK LN SEWER ER	25,000	-	22,299	22,299
5132 S. COLLEGE ROAD	40,503	-	40,503	40,503
AERIAL LINES PILING ASSES	100,000	-	-	-
ALUM SLUDGE TANK	1,758,000	114,165	87,320	201,485
ARV IMPROVE TO PUMP STATI	1,733,890	191,417	25,231	216,648
ARV REPLACEMENT-AM	59,310	-	-	-
BRENDA DR UTILITY RELOCAT	42,000	-	41,088	41,088
BREWSTER LANE SEWER ER	24,540	-	24,540	24,540
BULLITT LN 4301 SEWER ER	20,000	-	11,862	11,862
CCTV CUT AND COVER REHAB	275,000	-	-	-
CHERRY & 39TH ST SEWER ER	16,343	-	16,343	16,343
COLLECTION SYS-SDAS FY16	48,223	-	-	-
COUNTRY HAVEN PS PHASE 2	9,444	-	9,443	9,443
CYPRESS GROVE APT BLDG #7	55,000	-	37,092	37,092
CYPRESS GROVE LAND DEV	90,796	-	90,796	90,796
D-TOWN GRAVITY PH 1	1,725,000	-	-	-
EDGEWATER CLUB PS	1,466,073	52,193	423,604	475,797
FAIRLAWN & CLOVER MANHOLE	53,811	-	53,811	53,811
FIFI FORCE MAIN REHAB	200,000	-	-	-
FIFI GRAVITY SE REHAB	195,983	-	-	-
FLEMINGTON SEWER PROJECT	1,618,550	330,846	729,084	1,059,930
FLOW MONITORING, MODELING	300,000	-	-	-
FY16 UNDESIGNATED SEWER	1,331,987	-	-	-
GENERATOR REPLACE (AM)	136,425	-	34,109	34,109
GENERATOR REPLACE SPS-062	100,000	-	-	-
GENERATOR REPLACEMENT	186,638	205,466	(18,828)	186,638
GIS ASBUILT ENTRY/MAP-AM	155,901	86,500	38,135	124,635
GRAVITY SEWER REHAB 2016	-	-	13,535	13,535
GREENFIELD LKE OUTFLL-SRF	2,844,111	2,188,079	612,235	2,800,314
GRIT RAKE	50,000	-	-	-
H. PARK VENT REPLACEMENT	145,000	-	140,812	140,812

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, 2016

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
HERITAGE PARK EXTENSION	7,929,759	5,456,146	2,045,291	7,501,437
HERITAGE PARK PS-HAN LAKE	195,000	16,001		16,001
HP-UPSIZE ALTERNATE	66,588	40,680	8,949	49,629
KILARNY & PINE GROVE DR	37,480	16,184	, -	16,184
LARGE EQUIPMENT FY16	79,098	-	54,955	54,955
LEE & E LAKESHORE DR SEWE	38,176	_	38,176	38,176
LILY POND RD REHAB	30,000	_	17,443	17,443
MANDATORY SE CONNECTION	1,250,000	_	30,578	30,578
MARQUIS HILLS EXTENSION	11,520,783	2,534,702	6,538,689	9,073,391
MASONBORO SD SE ANNEX	165,365	_,	17,653	17,653
MASONBORO SOUND SE ANNEX	3,805,985	3,804,213	1,771	3,805,984
MCCUMBERS DTCH OUTFLL-SRF	1,489,655	1,205,114	(3,586)	1,201,529
MYRTLE LANDING SUBDIVISIN	332,000	5,000		5,000
N KERR AVE & YESTER OAKS	30,000	-	16,542	16,542
N KERR AVE MANHOLE REPLAC	550,000	_	•	-
N. WATER ST SE REPLACE	2,205,000	_	-	_
NO COLLEGE RD FM IMPROVE	60,000	29,298	-	29,298
NORTHSIDE WWTP DIGESTER	145,000	24,060	100,508	124,568
NSWWTP CAUSTIC TANK	190,000	,	-	-
NSWWTP MIXER REHAB	12,000	_	11,821	11,821
OLEANDER & S. COLLEGE SE	383,378	54,195	275,388	329,583
PARSLEY & FRONT ST SEWER	38,835	-	38,834	38,834
PEMBROKE JONES DR.MANHOLE	25,000	_	23,579	23,579
PS 10 FORCE MAIN	350,000	171,263	85,699	256,963
PS 11 D/TOWN WATERSHED	2,419,287	290,375	575,946	866,321
PS 130 TIDALHOLM UPGRADE	, , -	, -		-
PS 19 REPLACE PUMPS	55,000	-	5,346	5,346
PS 50 HIDDEN LAKES	100,000	-	-	-
PS 8 CAPACITY UPGRADE	1,050,000	42,391	52,184	94,575
PS 89 CAPACITY UPGRADE	100,000	1,337	28,563	29,900
PS BARNARDS CREEK	7,988,408	5,603,013	2,239,711	7,842,724
PS CRITICAL SPARE PUMPS	48,000		47,170	47,170
PS#001 NORTHCHASE SE	145,716	13,366	2,777	16,144
PS#010 RENOVATION	156,371	66,186	-	66,186
PS#018 GREENHOW WOODS	75,000	13,480	2,892	16,372
PS#022 TANGLE OAKS #3	300,000	-	-	-
PS#041 TOWLES ROAD	75,000	-	-	-
PS#048 OAK LANDING	215,000	13,745	2,634	16,379
PS#104 RUNNY MEADE	75,000	4,091	1,358	5,449
PS#119 BEASLEY ROAD	150,000	4,016	1,333	5,349
PS#12 FORCE MAIN	350,000	20,544	49,889	70,433
PS#137 QUAIL WOODS	279,548	7,443	-	7,443
PS#36 IMPROVEMENTS	15,000	-	-	-
PS#66 DISCHARGE LINES	25,583	-	25,582	25,582
PS#69 MOTTS CREEK UPGRADE	400,000	1,109	58,720	59,829
	•	•	•	•

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, 2016

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
PS#7 THE CAMBRIDGE	50,121	48,868	1,253	50,120
PUMP STATION ALARMS	50,000	-	-	-
PUMP STATION REHAB (AM)	109,059	_		_
PUMP STATION SCADA IMPLEM	250,000	_	18,127	18,127
RIVERSIDE SUBDIVISON PROJ	160,055	_		10,127
S. COLLEGE RD & PARK AVE	245,000	_	226,401	226,401
SCADA IMPLEMENTATION	778,046	363,928	66,289	430,217
SE COLLECTION OLD MG RD	300,000	303,920	00,203	430,217
SE LATERALS & SERVICES-AM	50,000	-	-	-
SEWER EMERGENCY REPAIR	50,000	-	•	-
	4 717 700	-	-	=
SEWER ER-ANNUAL FY16	4,717,720	-	70.400	70.400
SEWER MODELING SOFTWARE	100,000	-	70,166	70,166
SHINWOOD RD UTILITY RELOC	18,600	-	18,600	18,600
SSWWTP CLARIFIER #1 REHAB	250,000	-	234,624	234,624
SSWWTP INTERIM REHAB 2&3	405,531	-	44,302	44,302
SSWWTP REHAB & UPGRADE	8,682,693	8,511,433	30,828	8,542,261
SSWWTP SCADA IMPROVEMENTS	35,000	-	5,800	5,800
SUN DIAL CT IN SEA SPRAY	-	-	-	-
TIMBER CREEK LN SEWER ER	42,505	=	42,505	42,505
US HIGHWAY 421	1,400,000	-	-	-
WALNUT HILLS WTP DEMO	3,546,707	841,482	1,174,230	2,015,712
WALTMOOR SS REHAB PH2	2,201,201	1,597,424	564,007	2,161,431
WALTMOOR SS REHAB PH3	1,400,000	825,199	10,260	835,459
WRIGHTSVILLE AVE 4008 SEW	30,000	-	32,414	32,414
WW FAC REHAB-AM	13,000	-	-	-
Total Wastewater Capital Projects Expenditures	86,697,387	34,859,200	17,622,949	52,482,148
Water Capital Projects:				
4TH ST WATER MAIN LINING	1,074,675	16,375	78,232	94,606
ANNEXATION EASEMENTS	105,444	2,860	1,970	4,830
AQUIFER SUSTAIN & MONITOR	642,759	641,196	1,560	642,756
ASR WESTBROOK WELL	515,855	12,779	296,600	309,379
BIRCH CREEK SYSTEM	30,000	12,779	12,876	
CHANNEL WATCH DEVELOPER A	30,000	-	12,070	12,876
	6 350 000	-	45 562	- 4E EGO
COMP METER REPLACE PH 2	6,350,000	2 470 000	45,562	45,562
COMP METER REPLACE PROG	3,775,859	3,478,098	106,197	3,584,295
DBP EVALUATION PROJECT	422,350	396,870	13,429	410,299
DBP REDUCTION INFRASTRUCT	2,850,000	119,885	2,536,621	2,656,505
DISTRIBUTION SYS-SDA FY16	228,493	-		-
EMD HVAC & POWER SUPPLY	50,000	-	7,960	7,960
ER GENERATOR WELL SITE Q	112,664	-	108,317	108,317
FAZIO-EAGLE PT WATER LINE	883,845	796,791	-	796,791
FIFI-RAW H2O LINE REHAB	50,000	-	-	-
FIGURE 8 ISLAND	20,000	-	-	-
FLEMINGTON WATER LINES-GM	32,600	17,382	3,275	20,657

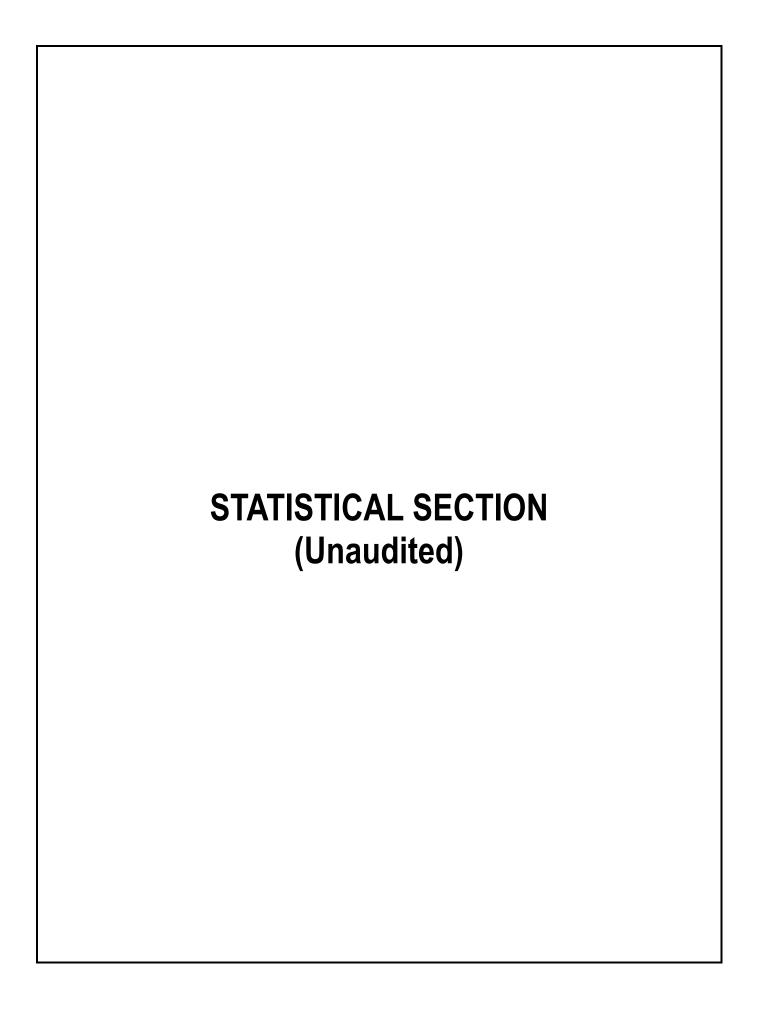
Cape Fear Public Utility Authority Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) Capital Projects Funds - Water, Wastewater & System-Wide From Inception and For the Fiscal Year Ended June 30, 2016

	Project	Prior	Actual Current	Total to
ELEMINOTON WATER DUIZE	Ordinance	Years	Year	Date
FLEMINGTON WATER-DUKE	3,635,000	832,619	2,593,424	3,426,042
FY16 UNDESIGNATED WATER	128,456	-	20 502	40.005
GENERATOR REPLACEMENT	49,336	10,742	38,593	49,335
GIS ASBUILT INTEGRATION	66,521	52,193	6,518	58,711
H2O DISTRIBUTION AVENEL	480,000	-	- 0.075	- 0.075
H2O T'MENT FAC REHAB (AM)	68,859	-	9,875	9,875
H2O TOWERS STRUCTURE REHA	50,000	-	-	-
HERITAGE PARK WATER	848,926	679,828	161,162	840,990
HIGH SERVICE PUMP#6 REHAB	30,000	=	25,839	25,839
KERR AVE WATERLINE-PH 2	2,607,253	-	1,200,066	1,200,066
LANDFALL-SUMMER REST WLE	70,000	150	3,104	3,254
MANDATORY H2O CONNECTION	3,150,000	-	86,854	86,854
MARINE CLUB DR REHAB	23,665	21,880	1,785	23,665
METER SERVS BDLG@SWEENEY	495,000	19,705	103,173	122,878
MKT ST-MILITARY CO-NANO	1,000,000	1,650	-	1,650
N. WATER ST WATER REPLACE	454,896	-	126,749	126,749
NANO SCADA IMPROVEMENTS	156,000	-	-	-
NANO SULPHURIC ACID TANK	137,000	-	110,582	110,582
NORTH CHASE TANK MODIFICA	90,000	-	86,000	86,000
OZONE FLOWMETER REPLACE	30,000	=	-	-
OZONE GENERATOR REHAB	57,000	-	51,858	51,858
RAW WATER METER VAULT	529,850	267,390	207,833	475,223
REPLACE CH AQUIFER SOURCE	300,000	-	-	-
RINGO DR WATER ANNEX	216,667	169,167	47,496	216,663
RINGO DR WATER EXT	93,861	-	5,228	5,228
RIVERLIGHTS WATER IMPROVE	1,190,000	-	75,269	75,269
SAMPLE STION/AUTOFLUSH AM	57,245	-	21,377	21,377
SCADA MASTER PLAN	325,000	240,243	34,860	275,103
SHINWOOD WATERLINE REHAB	35,000	-	-	-
SWEENEY BACKWASH PUMP	30,000	-	-	-
SWEENEY CLEAR WELL REHAB	3,344,752	2,033,401	1,191,130	3,224,531
SWEENEY CONTACT BASIN 1	50,000	-	43,600	43,600
SWEENEY HIGH SV PUMP #5	31,200	-	-	-
SWEENEY SCADA CONNECTION	300,000	-	-	-
US HIGHWAY 421	700,000	-	-	-
WATER DIST MONITOR STATIO	103,200	94,688	-	94,688
WATER EMERGENCY FY16	492,658	-	-	-
WATER LATERALS-ANNUAL	101,000	-	-	-
WATER METERS-NEW CUSTOMER	205,000	-	136,520	136,520
WATER VALVE REPLACE-AM	391,139	-	65,030	65,030
WELL SITE SECURITY	100,000	28,683	12,522	41,204
WISTERIA/CLEARBROOK DRAIN	88,800		37,539	37,539
Total Water Capital Projects Expenditures	39,457,828	9,934,574	9,696,580	19,631,154

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, 2016

			Actual	
	Project	Prior	Current	Total to
	Ordinance	Years	Year	Date
System-Wide Capital Projects:				
CUSTOMER SERVICE REMODEL	102,000	-	1,737	1,737
ENTERPRISE SOFTWARE REPLA	3,200,000	-	4,972	4,972
FY16 UNDESIGNATED SYSTEM	168,461	-	-	-
GCD OFFICE RENOVATIONS	41,000	-	39,866	39,866
IT NETWORKING INFRASTURCT	164,271	-	144,262	144,262
MOTOR FLEET CAPITAL FY16	1,179,257	-	873,060	873,060
US421 CORRIDOR PER	110,000	-	109,800	109,800
VIRTUAL DESKTOP MIGRATION	120,000	-	23,577	23,577
Total System-Wide Capital Projects Expenditures	5,084,989	•	1,197,273	1,197,273
Completed Projects-Prior Years	227,996,151	227,996,200	(202)	227,995,998
Total expenditures	359,236,355	272,789,974	28,516,599	301,306,573
Revenue (under) expenditures	(353,681,906)	(266,340,309)	(28,229,137)	(294,569,445)
Other financing sources				
Long-term obligations issued	212,820,648	230,127,725	374,876	230,502,601
Capital grants and contributions	29,311,481	15,281,039	9,178,014	24,459,053
Transfers in - Operating Fund	65,183,280	48,937,696	16,233,854	65,171,550
Appropriated fund balance	46,366,497	-	-	-
Total other financing sources	353,681,906	294,346,459	25,786,744	320,133,203
Revenue and other financing				
sources over expenditures	\$ -	\$ 28,006,151	\$ (2,442,393)	\$ 25,563,758

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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

<u>Sources</u>

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, 2016 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
Current Fiscal Year and Last Seven Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014 (1)	Fiscal Year 2013	Fiscal Year 2012 (1)	Fiscal Year 2011	Fiscal Year 2010	Fis	Fiscal Year 2009 (1)
Net investment in capital assets Restricted	\$ 359,084,362	\$ 335,218,505	\$ 304,634,404	\$ 295,343,987	\$ 288,506,512	\$ 287,538,728	\$ 295,307,938	\$	293,467,066
Unrestricted	122,820,678	108,678,499	104,968,819	95,959,547	84,201,125	68,587,385	60,590,755		56,535,895
Total net position	\$ 484,821,757	\$ 443,897,004	443,897,004 \$ 409,603,223 \$ 391,303,534 \$ 372,707,637 \$	\$ 391,303,534	\$ 372,707,637	\$ 356,126,113	356,126,113 \$ 355,898,693 \$	&	350,002,961

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

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

(1) Net Position was restated in fiscal years 2014, 2012 and 2009 to reflect a change in accounting principle.

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

	Fiscal Year 2016	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)	\$ 68,627,099 3.873.167	\$ 67,429,021 3.835.966	\$ 65,495,922	\$ 63,061,317	\$ 61,115,234 3.173.602	\$ 57,086,229 2.671.784	\$ 47,524,673	\$ 42,726,268 139.595
Total operating revenues	72,500,266	71,264,987	68,840,729	66,213,392	64,288,836	59,758,013	49,837,887	42,865,863
Operating expenses					1			
Personnel and benefits (2)	16,598,873	15,944,834	16,128,971	15,253,963	15,257,145	15,176,175	17,038,778	17,714,505
Services and unities Materials	2,584,033	2.665.849	2.672,462	2,590,893	2.800,466	3,630,676	2.431.060	3,264,294
Depreciation and amortization	20,076,373	18,776,391	17,729,409	17,591,990	16,107,252	14,283,401	13,096,230	12,400,153
Total operating expenses	53,069,141	49,354,953	47,910,073	47,488,971	45,839,218	43,648,172	43,349,921	44,753,988
Operating income (loss)	19,431,125	21,910,034	20,930,656	18,724,421	18,449,618	16,109,841	6,487,966	(1,888,125)
Nonoperating revenues (expenses)	3.312.744	1 012 470	693 737	959 408	962 260	738 453	4 105 897	5 970 732
Interest expense	(8,274,675)	(8,332,023)	(11,919,549)	(13,213,771)	(10,500,330)	(13,011,609)	(10,909,406)	(9,674,421)
Bond issuance costs and other debt service fees	(717,165)	(683,650)	(85,243)	(316,120)	(625,383)	(131,224)	(104,215)	(100,183)
Gain (Loss) on disposal of capital assets	53,691	77,599	73,780	(202,214)				- 00
Amortization of bond issuance costs	. 000		•	1				(4,357,699)
cain (Loss) on extinguismment of debt Contributions from the City of Wilmington and New Hanover County	93,020	1.254.000	1.577.000	1.900.000	1.900.000	1.900.000	1.900.000	64.627.498
Total nonoperating revenues (expenses)	(4,582,385)	(6,671,604)	(9,360,275)	(10,872,697)	(8,263,453)	(10,504,380)	(5,007,724)	56,465,927
Income before capital contributions, special items and extraordinary items	14,848,740	15,238,430	11,570,381	7,851,724	10,186,165	5,605,461	1,480,242	54,577,802
Capital contributions from the City of Wilmington and New Hanover County								285.873.980
Capital contributions-other	26,076,013	19,055,351	8,332,420	10,744,173	6,395,359	2,813,350	7,982,758	9,551,179
Special impairment of capital assets Extraordinary impairment of capital assets						(8,191,391)	(2,275,200)	
Total capital contributions, special and extraodinary items	26,076,013	19,055,351	8,332,420	10,744,173	6,395,359	(5,378,041)	4,415,490	295,425,159
Increase in net position	40,924,753	34,293,781	19,902,801	18,595,897	16,581,524	227,420	5,895,732	350,002,961
Net position Beginning of year	443,897,004	411,206,335	391,303,534	372,707,637	356,126,113	355,898,693	350,002,961	•
Restatement								
End of year, restated	\$ 484,821,757	\$ 443,897,004	\$ 411,206,335	\$ 391,303,534	\$ 372,707,637	\$ 356,126,113	\$ 355,898,693	\$ 350,002,961

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

⁽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.

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

										Fiscal Year	/ear						
	5	2016 (1)	20	2015 ⁽¹⁾	70	2014 (1)	7	2013 (1)		2012 (1)	7	2011		2010 ⁽¹⁾		20	2009
Water Rates																	
Water Fixed Rate (bi-monthly)	\$	25.81	↔	25.81	↔	25.81	↔	25.81	↔	25.81	↔	24.99	8	21.8	g g	٠,	15.20
Water Rate per 1,000 gallons	∽	3.67	↔	3.67	↔	3.67	↔	3.42		N/A		N/A	_	N/A	⋖		Ν Ν
Water Variable Rate:																	
0 - 9,000 gallons		N/A		N/A		N A		N/A		N/A		ž	⇔	2.2	ζ.		1.95
9,001 - 18,000 gallons		N/A		N/A		N A		N/A		N/A		Ž	\$	33.	9	٠,	2.95
18,001+ gallons		N/A		N/A		N A		N/A		N/A		Ž	⇔	4.5	0,	٠,	3.95
0 - 12,000 gallons		N/A		N/A		N A		N/A	↔	2.64	↔	2.6		Ż	⋖		Ø/N
12,001 - 24,000 gallons		N/A		N/A		N A		N/A	↔	3.96	↔	3.96	(0	Ż	⋖		N/A
Over 24,000 gallons		A/N		N/A		N A		N/A	↔	5.28	↔	5.28	m	N/A	×		N/A
Irrigation ⁽²⁾	⇔	3.67	↔	3.67	↔	3.67	↔	3.42	↔	3.36	↔	79.7	₹+	Ż	⋖		N/A
Non-Residential	↔	3.67	s	3.67	↔	3.67	↔	3.42	s	3.96	↔	3.96				s	2.95
Average bi-monthly residential consumption per customer (gallons) $^{(3)}$		8,600		8,600		8,400		9,200		10,000		10,000	_	10,000	0	-	000'0
Average bi-monthly residential bill	↔	57.37	↔	57.37	↔	56.64	↔	57.27	S	52.21	↔	51.39	8			€	35.70
Wastewater Rates																	
Wastewater Fixed Rate (bi-monthly)	↔	29.10	s	29.10	↔	29.10	↔	29.10	↔	26.68	↔	26.68	⊗	23.3	<u>}</u>		16.50
Wastewater Variable Rate ⁽⁴⁾	\$	4.56	s	4.56	↔	4.56	↔	4.21	↔	4.04	↔	3.59	8	3.14	4		2.75
Wastewater Flat Rate ⁽⁵⁾	₽	138.54	↔	138.54	₩	138.54	↔	130.14	↔	123.64	↔	112.8	↔	98.7	ί Ω		82.50
Average bi-monthly residential consumption per customer (gallons) $^{(3)}$		8,600		8,600		8,400		9,200		10,000		10,000	_	10,000	0	-	000'0
Average bi-monthly residential bill	↔	68.32	↔	68.32	s	67.40	↔	67.83	↔	67.08	↔	62.58	φ	54.7	<u>'</u>		44.00

⁽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 $30,000\,\mathrm{gallons}$ for residential customers.

⁽⁵⁾ Wastewater flat rate charge when Authority water is not available.

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

		2016					2009 (1)		
	Thousands of			% of		Thousands of	% of		% of
Ten Largest Users of the Water System Annual Consumption	Gallons	% of System R	System Revenues (\$) Revenues	Revenues	Ten Largest Users of the Water System Annual Consumption	Gallons	System Re	Revenues (\$) Re	Revenues
1 UNC Wilmington	135,543	2.58% \$	549,250	1.68%	1 UNC Wilmington	136,483	2.34% \$	430,613	1.89%
2 New Hanover Regional Medical Center	53,261	1.02%	238,777	0.73%	2 New Hanover County	63,232	1.08%	232,431	1.02%
3 Wilmington Housing Authority	43,835	0.84%	196,117	%09:0	3 New Hanover Regional Medical Center	61,473	1.05%	211,318	0.93%
4 New Hanover County Schools	41,014	0.78%	251,752	0.77%	4 New Hanover County Schools	47,862	0.82%	208,756	0.92%
5 LSREF3 Bravo, LLC (Multi-family Complexes)	40,526	0.77%	217,472	%99:0	5 Wilmington Housing Authority	40,956	0.70%	137,433	%09:0
6 New Hanover County	33,675	0.64%	190,474	0.58%	6 Lake Forest Apartments	30,088	0.52%	97,305	0.43%
7 Mayfaire Complex	29,110	0.55%	208,035	0.64%	7 College Manor Apartments	23,411	0.40%	80,985	0.36%
8 Lake Forest Apartments	24,645	0.47%	105,236	0.32%	8 Mayfaire Complex	22,955	0.39%	119,091	0.52%
9 Elementix	23,296	0.44%	89,368	0.27%	9 Tribute Properties	21,463	0.37%	114,526	0.50%
10 City of Wilmington	21,945	0.42%	183,307	0.56%	10 Elementis Chromium	18,971	0.33%	58,243	0.26%
Total Net Consumption / Net Revenue	446,852	8.52% \$	8.52% \$ 2,229,789	6.81%	Total Net Consumption / Net Revenue	466,893	8.00% \$ 1,690,699	1,690,699	7.42%
Total Annual System Net Consumption / Net Revenue	5,246,790	~	\$ 32,748,943		Total Annual System Net Consumption / Net Revenue	5,834,129	8	\$ 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 Seven Years Ago

2016

2009 (1)

	Thousands	% of		% of		Thousands	% of		% of
Ten Largest Users of the Wastewater System Annual Consumption	of Gallons	System R	Revenues (\$)	Revenues	Ten Largest Users of the Wastewater System Annual Consumption	of Gallons		System Revenues (\$) Revenues	Sevenues
1 Town of Wrightsville Beach	227,370	4.66% \$	673,043	1.81%	1 Town of Wrightsville Beach	214,743	4.42% \$	442,639	2.00%
2 UNC Wilmington	76,515	1.57%	421,456	1.13%	2 UNC Wilmington	87,800	1.81%	269,249	1.22%
3 New Hanover Regional Medical Center	51,144	1.05%	282,025	0.76%	3 New Hanover Regional Medical Center	54,042	1.11%	176,741	0.80%
4 Wilmington Housing Authority	43,639	0.89%	237,682	0.64%	4 New Hanover County Schools	45,665	0.94%	199,592	%06:0
5 LSREF3 Bravo, LLC (Multi-family Complexes)	40,194	0.82%	254,390	0.68%	5 Wilmington Housing Authority	40,652	0.84%	129,175	0.58%
6 New Hanover County Schools	39,218	0.80%	289,883	0.78%	6 New Hanover County	34,744	0.72%	132,783	%09:0
7 New Hanover County	30,530	0.63%	211,110	0.57%	7 Lake Forest Apartments	30,080	0.62%	92,040	0.42%
8 Mayfaire Complex	27,819	0.57%	236,973	0.64%	8 Mayfaire Complex	25,303	0.52%	125,124	0.57%
9 Lake Forest Apartments	24,645	0.50%	129,055	0.35%	9 Tribute Properties	24,536	0.51%	154,676	0.70%
10 College Manor Apartments	21,791	0.45%	135,598	0.36%	10 College Manor Apartments	23,411	0.48%	77,352	0.35%
Total Net Consumption / Net Revenue	582,867	11.94% \$	11.94% \$ 2,871,216	7.72%	Total Net Consumption / Net Revenue	580,975	580,975 11.96% \$ 1,799,371	1,799,371	8.15%
Total Annual System Net Consumption / Net Revenue	4,880,306	∽ ∥	\$ 37,179,637		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 Eight Fiscal Years

	2(2016	20	2015	22	2014	2	2013	20	2012	2011	11	2010 (1)	(1)	2009 (1)	(1)
	Thousand Gallons	% of Consumption	Thousand Gallons (% of Consumption	Thousand Gallons	% of Consumption										
Water Customers Residential	3,630,541	69.20%	3,461,812	%08:89	3,415,831	%28.69	3,522,531	69.85%	3,806,074	70.45%	3,887,894	70.88%	3,652,988	70.13%	4,152,536	71.18%
Commercial	1,128,569	21.51%	1,053,502	20.94%		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	74,645	1.42%	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	413,036	7.87%	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	5,246,790	100.00%	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	000	01			:											
Kesidential	3,287,280		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	%08.30%	3,543,624	72.97%
Commercial	1,019,892	20.90%	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	227,370	4.66%	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	10,562	0.22%	10,033	0.21%	800'6	0.19%	10,473	0.22%	11,550	0.23%	16,224	0.32%	13,550	0.28%	14,139	0.29%
Industrial	18,257	0.37%	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	316,946	6.49%	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)	4,880,306	100.00%	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.

(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. Water includes domestic and irrigation connections

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

Fiscal Year Ended June 30	Increase In Available Services Water	Cumulative Available Services Water	% Water Growth - Available Services	Increase in Water Connections	Cumulative Water Connections	% Water Growth - Connections
2016	1,083	71,439	1.54%	1,216	67,352	1.84%
2015	1,562	70,356	2.27%	1,072	66,136	1.65%
2014	761	68,794	1.12%	391	65,064	0.60%
2013	966	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	-	62,551	0.00%	-	61,644	0.00%

Fiscal Year Ended June 30	Increase In Available Services Wastewater (2)(3)	Cumulative Available Services Wastewater (3)	% Wastewater Growth - Available Services	Increase In Wastewater Connections	Cumulative Wastewater Connections	% Wastewater Growth - Connections
2016	976	69,222	1.43%	654	66,384	0.99%
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	-	62,296	0.00%	-	60,228	0.00%

⁽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.

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

Fiscal Year Ended June 30	8	Gross Revenues (1)	o 🗓	Less Operating Expenses (2)	Net Available Revenue	ے م	Debt Service Principal	De	Debt Service Interest	De	Total Debt Service	Debt Coverage Ratio
2016 Parity Debt Coverage Ratio Total Debt Coverage Ratio	s	81,854,931	↔	33,164,836	\$ 48,690,095	\$ \$	5,945,000 19,079,035	s s	12,944,573 14,296,359	\$	18,889,573 33,375,394	2.58
2015 Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	77,002,229	↔	30,712,770	\$ 46,289,459	8 8	6,850,000 11,493,145	8 8	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	8 8	7,210,000 11,652,876	& &	13,209,678 14,833,732	es es	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 8	8,105,000 11,989,171	& &	13,525,578 14,590,085	& &	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	8 8	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	8 8	3,329,579 9,147,645	& &	8,612,881	& &	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	8 8	2,320,562 8,706,072	& &	5,220,454 8,092,789	& &	7,541,016 16,798,861	3.20 1.44
2009 (3) Parity Debt Coverage Ratio Total Debt Coverage Ratio	↔	47,783,403	↔	31,517,799	\$ 16,265,604	५ ५	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 Current Fiscal Year and Last Seven Fiscal Years

Per Capita	1,441	1,528	1,550	1,575	1,643	1,518	1,641	1,710
% of Personal Income (1)	N/A	N/A	N/A	N/A	0.015%	0.015%	0.014%	0.014%
Total	317,443,294	330,458,304	321,707,152	329,549,290	338,732,552	307,697,951	318,485,516	328,657,899
Capital Leases	•	٠	•	•	14,171	179,315	413,381	155,324
Clean Water State Revolving Fund Loans	8,611,567	8,696,154	8,653,524	2,442,453	ı	ı	ı	1
DWSRF Revolving Loan	158,325	167,121	91,048	•	•	•	•	1
ARRA Revolving Loan	961,795	1,018,371	1,074,947	1,131,523	444,323	330,545	ı	•
Installment Obligations	13,679,800	29,044,491	32,259,698	35,410,732	37,297,244	39,918,647	42,475,207	45,007,970
General Obligation Bonds	•	1	2,355,000	5,255,000	7,759,279	11,712,630	16,371,000	21,605,709
Revenue Bonds	294,031,807	291,532,167	277,272,935	285,309,582	293,217,535	255,556,814	259,225,928	261,888,896
Fiscal Year	2016	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)	A/N	N/A	\$40,076	\$38,846	\$37,559	\$36,108	\$34,692	\$34,578
	Personal	Income (4)	N/A	A/N	N/A	N/A	\$50,890	\$45,890	\$46,129	\$44,719
Local	Unemployment	Rate % (3)	4.8%	2.6%	6.1%	9.1%	9.3%	10.1%	9.4%	%0.6
Public	School	Enrollment (2)	25,901	26,241	25,470	25,364	25,253	23,934	23,643	23,614
	Median	Age (3)	38	38	38	88	37.5	36.7	38.5	38
New Hanover	County	Population (1)	220,358	216,298	213,267	209,234	206,189	202,667	194,054	192,235
City of	Wilmington	Population (1)	115,933	113,657	112,067	109,922	108,297	106,476	102,207	101,526
Fiscal Year	Ended	June 30	2016	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 Seven Years Ago Cape Fear Public Utility Authority Principal Employers

2016				2009			
			Percentage of Total			Δ.	Percentage of Total
	Employees		County		Employees		County
Employers	£	Rank	Employment	Employers	(3)	Rank	Employment
New Hanover Regional Medical Center	6,462	-	6.20%	New Hanover Regional Medical Center	4,890	-	5.10%
New Hanover County Schools	3,700	2	3.55%	New Hanover County Schools	4,130	2	4.30%
GE Wilmington	3,000	က	2.88%	GE Wilmington	3,000	က	3.13%
Wal-Mart Stores	2,306	4	2.21%	University of North Carolina at Wilmington	1,810	4	1.89%
University of North Carolina Wilmington	1,891	2	1.82%	New Hanover County	1,670	2	1.74%
New Hanover County	1,609	9	1.54%	PPD, Inc.	1,420	9	1.48%
Verizon Wireless	1,514	7	1.45%	Cape Fear Community College	1,260	7	1.31%
PPD	1,500	œ	1.44%	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	1,007	10	%26.0	Coming, Inc.	1,000	10	1.04%
		ı II	23.03%				22.49%
Total # Employed at June 30 of the respective FY (2)		II	110,163	Total # Employed at June 30 of the respective FY (2)		II	95,964

Source: 2016 Book on Business; www.wilmingtonbiz.com
 Source: North Carolina Employment Security Commission (2009) and www.ncworks.gov (2016)
 Source: North Carolina Employment Security Commission (2009) and www.ncworks.gov (2016)
 Source: New Hanover County CAFR for Fiscal Year Ended June 30, 2009 using the Wilmington Industrial Development, Inc. and NC State Demographics Website.
 Source: NC Commerce, Labor and Economic Analysis Division, Top 25 Employers by NC County (4th Qtr 2015)

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

Departments	2016	2015	2014	2013	2012	2011	2010	2009
General - Administrative								
Administration	2	2	2	9	2	4	9	7
Human Resources/Safety	2	2	2	4	4	4	4	4
Finance/Information Technology (2)	12	12	15	14.5	14	15	15	16
Engineering	27	25	24	22	22	22	24	25
Operations								
Administration/Information Technology (1)(2)	14	14	6	6	6	6	6	6
Centralized Maintenance (1)	14	4						•
Utility Services (1)	06	87	96	96	96	96	104	104
Water Treatment (1)	25	24	30	30	30	31	31	31
Wastewater Treatment (1)	30	30	40	40	40	40	41	41
Environmental Management	28.5	28.5	28.5	29.5	29.5	29.5	29.5	30.5
Customer Service (1)	53	20	42	41	42	41	41	42
Total FTE's	303.5	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
2016	6,353,470	6,865,851
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

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

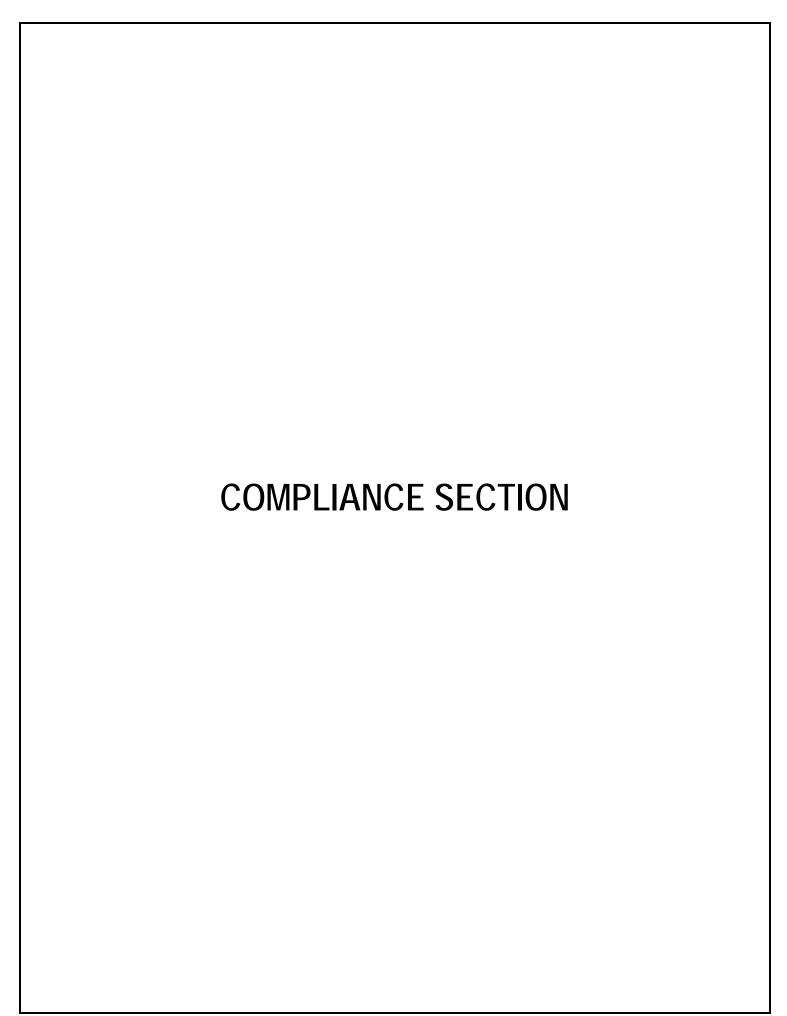
(1) Information for fiscal years ended June 30, 2007 and 2008 provided by City of Wilmington and New Hanover County.

Cape Fear Public Utility Authority Last Seven Fiscal Years **Operating Statistics**

					Fiscal Year	ear		
	2016	2015	2014	2013	2012	2011	2010	2009
Water System								
Number of available service connections ⁽¹⁾	71,439	70,356	68,794	68,033	67,067	64,602	63,683	62,551
Number of treatment plants - surface water system	_	_	_	_	_	_	_	_
Treatment capacity (mgd) - surface water	35.00	35.00	35.00	35.00	35.00	27.50	27.50	27.50
Average production (mgd) - surface water	14.35	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	က
Number of treatment plants - groundwater system	_	_	_	_	_	_	_	
Number of wells - groundwater system	34	36	39	36	36	36	36	36
Treatment capacity (mgd) - groundwater plant	9	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	0.70
Average production (mgd) - groundwater	3.04	2.94	2.48	2.95	2.95	3.20	3.30	3.10
Miles of water mains	1,114	1,089	1,041 (2)	1,078	1,072	1,070 (2)	1,129	1,103
Wastewater System								
Number of available service connections ⁽¹⁾	69,222	68,246	66,829	69,029	64,529	64,330	63,793	62,296
Number of treatment plants	က	က	က	က	3	က	က	က
WPC plant permit (mgd)	28.10	28.10	22.10	22.10	22.10	22.10	22.10	22.10
Average annual daily flow (mgd)	18.76	17.48	16.45	16.17	15.10	15.80	16.80	15.60
Number of lift stations	142	143	141	141	141	141	142	142
Miles of wastwater gravity mains ⁽²⁾	848	844	$827^{(2)}$	850	840	$840^{(2)}$	881	877
Miles of wastewater force mains	131	131	112	110	104	104	100	100
Number of manholes	21,221	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 Authority (the "Authority"), as of and for the year ended June 30, 2016, 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 26, 2016.

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 26, 2016

Chuny Belaert LLP