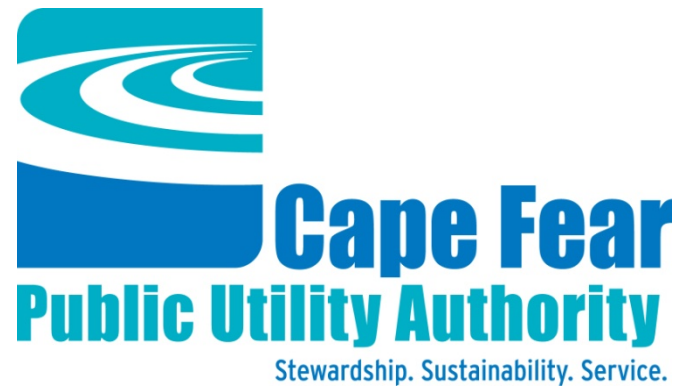
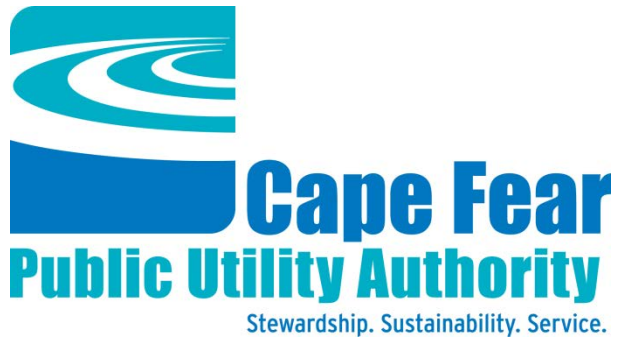




Cape Fear Public Utility Authority
Wilmington, North Carolina

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended June 30, 2012



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**CAPE FEAR PUBLIC UTILITY AUTHORITY
WILMINGTON, NORTH CAROLINA
For The Fiscal Year Ended June 30, 2012**

Prepared by Finance Department

Cheryl J. Spivey, CPA, CFO
Julianne M. McLawhon, CPA
Melinda E. Hoggard, CPA
Julia C. Vosnock
Sherri W. Alexander
Tymekia T. Askew
Rosalind B. Barker, CPA
Kristi E. Simpson-Harden
Teresa A. Horsboll

This Page Was Intentionally Left Blank

Introductory Section

This Page Was Intentionally Left Blank

Table of Contents

Introductory Section (Unaudited)	
Title Page	1
Table of Contents	5
Cape Fear Public Utility Authority Board Members and Other Principal Officials	6
Organizational Chart	7
Letter of Transmittal	8-12
Certificate of Achievement for Excellence in Financial Reporting	13
Financial Section	
Independent Auditor's Report	16-17
Management's Discussion and Analysis (MD&A)(Unaudited)	18-24
Basic Financial Statements:	
Statement of Net Assets	25
Statement of Revenues, Expenses and Changes in Net Assets	26
Statement of Cash Flows	27-28
Notes to Financial Statements	29-51
Required Supplementary Information - Other Postemployment Benefits	52
Supplementary Schedules:	
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) - Operating Fund	53-54
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) - Capital Projects	
Funds - Water and Sewer	55-58
Statistical Section (Unaudited)	
Statistical Section Overview	61
Net Assets by Component	62
Change in Net Assets	63
Schedule of User Rates	64
Principal Employers	65
Principal Water Customers	66
Principal Sewer Customers	67
Consumption by Customer Group	68
Schedule of New Connections	69
Pledged-Revenue Coverage	70
Ratios of Outstanding Debt by Type	71
Demographic Statistics	72
Full Time Equivalent Employees	73
Water Production and Wastewater Treatment	74
Operating Statistics	75
Compliance Section	
Communication on Internal Control Related Matters	79
Schedule of Expenditures of Federal and State Awards	80
Supplemental Schedule - Statement of Revenues and Expenditures - Aquifer Storage Retrieval	81



James L. Quinn III
Chairman



Patricia O. Kusek
Vice Chair



Gene F. Renzaglia
Secretary



Michael C. Brown III
Treasurer

Cape Fear Public Utility Authority Board Members for the fiscal year ended June 20, 2012



Neil Anderson
Councilman



James Brumit
Member



Rick Catlin
Commissioner



Charlie Rivenbark
Councilman



C. Lawrence Sneed, Jr.
Member



Jason Thompson
Commissioner



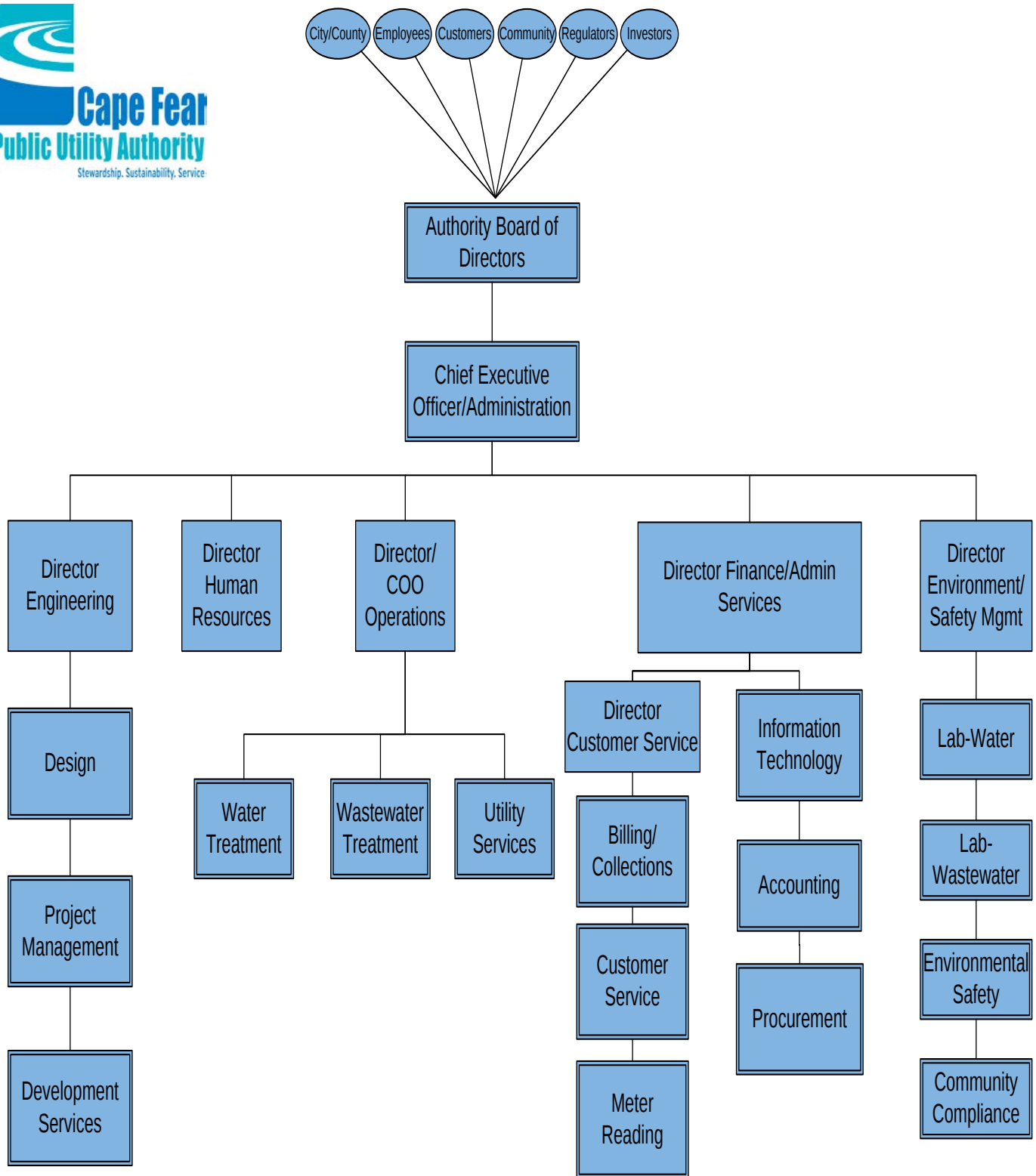
Cindee Wolf
Member

Other Principal Officials

Matthew W. Jordan, PE
Chief Executive Officer

James R. Flechtner, PE
Chief Operations Officer

Cheryl J. Spivey, CPA
Chief Financial Officer





October 22, 2012

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 (Authority) for the fiscal year ended June 30, 2012. 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, 2012, 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 and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and the evaluation of costs and benefits requires estimates and judgments by management.

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

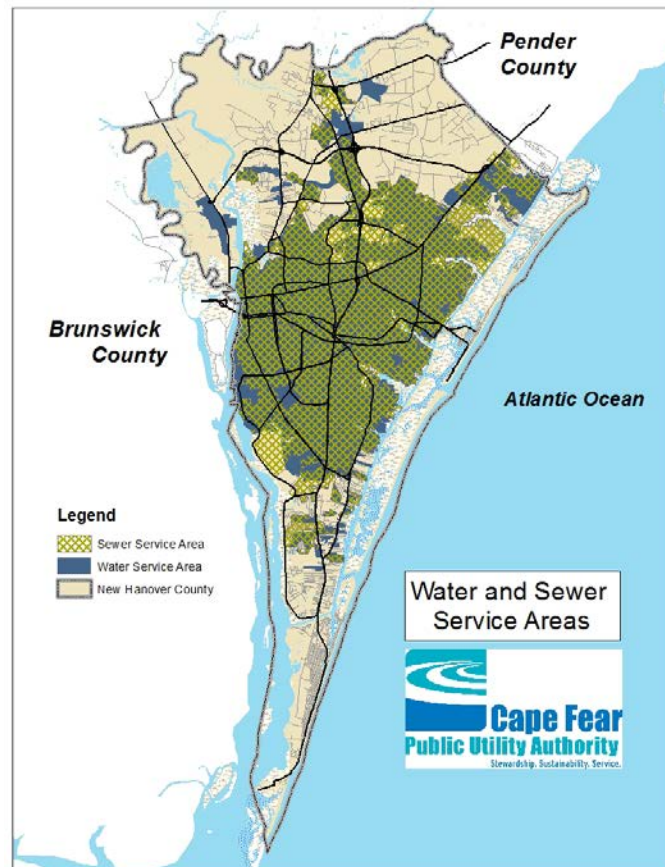
As noted earlier, the Authority is required by state law to have an annual independent financial audit. Thompson, Price, Scott, Adams & Co PA (Certified Public Accountants) conducted the audit and concluded in an unqualified ("clean") opinion that the financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, 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 16-17.

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 fiscal year 2012. This transmittal letter and the MD&A are intended to complement one another.

Authority Profile

The Authority was formed by the City of Wilmington and New Hanover County to combine the water and sewer operations, and began operations on July 1, 2008. The Cape Fear Public Utility Authority was established pursuant to the Chapter 162A, Article 1 of the North Carolina General Statutes, known as the North Carolina Water and Sewer Authorities Act. The Authority's service area consists of the City of Wilmington and areas of New Hanover County previously served by the New Hanover County Water and Sewer District (District). It does not include the municipalities of Carolina Beach, Kure Beach, and Wrightsville Beach; although by agreement, Wrightsville Beach wastewater flows are accepted by the Authority. New Hanover County's population is approximately 206,189 in an area encompassing approximately 220 square miles. Of this total, 21 square miles consist of water and wetlands. New Hanover County is the second smallest county in North Carolina by land area and is also the second most densely populated of the 100 counties. The County's beaches provide miles of unspoiled natural beauty and are the area's most

popular tourist attractions. The County is the eastern terminus of Interstate Highway 40, a transcontinental route ending in Barstow, California.



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

The annual budget serves as the foundation for the Authority's financial planning and control. The annual operating budget is adopted by the Authority Board at a functional level with capital projects ordinances adopted on a multi-year basis. The Authority has a 10-year Capital Improvement Plan (CIP). The first year of the CIP is adopted annually. Other years are programmed and are subject to change as priorities are considered. The Authority's operations are accounted for and reported as an enterprise fund, as provided services are funded by user fees and charges. Budget-to-actual comparisons are provided in this report for the annually appropriated operating fund. Multi-year capital projects are presented on a separate schedule with year to date and project to date information.

System Description

The Water System

The water system is composed of a surface water system and three groundwater systems. There are total of 65,539 customer accounts and an additional 1,950 locations where services are available, but not yet connected. The water system has 1,072 miles of distribution lines at June 30, 2012. The Authority also keeps six wells on standby to supplement the water supply during emergencies or peak demand periods. Metered water consumption for the fiscal year ended June 30, 2012 decreased 1.5%, compared to a 5.3% increase in the prior year.

The Authority has a needs based contract to purchase up to 23.0 MGD of raw water from the Lower Cape Fear Water and Sewer Authority (LCFWSA) with a term ending in 2030. Raw surface water is either drawn from the Cape Fear River through the

Authority's 15.0 million gallon per day (MGD) raw water intake at King's Bluff or purchased through a connection with the LCFWSA at U.S. Highway 421. The raw surface water is pumped to the Sweeney Water Treatment Plant (SWTP), which provides potable water to the majority of the Authority's service area. The SWTP, which completed a significant expansion and renovation this year, has a rated capacity of 35 MGD. Average production during the fiscal year ended June 30, 2012 was 13.5 MGD. The surface water distribution system has been providing water service for more than 50 years and includes 16.0 million gallons of covered ground storage of finished water and five million gallons of storage in three elevated tanks.

In October 2009, the Authority placed a Nano-Filtration Groundwater Membrane Plant (the Nano Plant) into operation to serve the northeast section of the distribution system. The source of raw water is from 25 wells drawing from two different aquifers. The plant softens the groundwater and removes organic and inorganic contaminants to produce a blended groundwater that is followed by disinfection, fluoridation, and corrosion control and pH adjustment. The Nano Plant has a rated capacity of 6.0 MGD and had a daily average production during the fiscal year ended June 30, 2012 of 2.95 MGD. The distribution system provides water service to customers and includes 2.0 million gallons of covered ground storage and 2.75 million gallons of elevated storage in six elevated tanks. In addition, the Authority operates two smaller groundwater systems providing groundwater directly to customers from seven wells and two elevated storage tanks. The groundwater receives disinfection and pH adjustment before being pumped to the distribution system and the storage tanks.

The Wastewater System

The Authority currently serves 63,428 wastewater connections and has an additional 1,101 locations where services are available, but not yet connected. The Authority also provides wholesale wastewater treatment services to the Town of Wrightsville Beach. The Authority's collection system consists of approximately 840 miles of gravity lines, 20,300 manholes, 141 pump stations and 104 miles of pressurized sewage force main. Wastewater consumption, based on metered water (excluding irrigation) for the fiscal year June 30, 2012 decreased 2.0%, compared to a 5.5% increase in the prior year.

The Authority currently owns and operates the James Loughlin, or Northside Wastewater Treatment Plant (NSWWTP), the M'Kean Maffitt, or Southside Wastewater Treatment Plant (SSWWTP) and the Walnut Hills Wastewater Treatment Plant (the Walnut Hills Plant). Although the NSWWTP is currently permitted to treat up to 10.0 MGD, the completion of an expansion to the NSWWTP by the end of 2012 will increase the permitted limit to 16.0 MGD. The SSWWTP is permitted to treat up to 12.0 MGD. The Walnut Hills Plant is a smaller facility permitted to treat up to 0.1 MGD. For the fiscal year ended June 30, 2012, the combined average daily flows were 15.10 MGD of the combined 22.1 MGD permitted. The NSWWTP and the SSWWTP use physical, chemical and biological processes to clean the wastewater. After the wastewater flows are collected and treated, the treated effluent is discharged into the Cape Fear River.

The Authority has a sewer use ordinance in place that is administered under the Authority's pretreatment program. The pretreatment program monitors and regulates significant wastewater dischargers connected to the Authority's wastewater collection system. Currently, six significant industrial users are permitted under the program and have discharge limits for BOD, TSS, COD, oil and grease, chlorides, ammonia, TKN, fluoride, certain metals, and organics, as applicable. Most of these significant users pre-treat their wastewater prior to discharging such waste to the Authority, and all submit monthly monitoring reports. The Authority conducts semi-annual monitoring. Surcharges apply to waste that exceeds sewer use ordinance limits. An enforcement response plan is also in place to address any permit violations.

Economic Condition and Outlook

New Hanover County, most of which is served by the Authority, continues to be the economic, medical, and educational hub for the surrounding counties that comprise southeastern North Carolina. Tourism is the area's largest economic component in terms of employment and revenues. New Hanover County was ranked nine out of 100 counties in the state with \$425 million in travel-related revenues in calendar year 2011, a 6.2% increase over 2010 revenues. Tourism provided over 5,000 jobs with an annual payroll of almost \$94 million in New Hanover County. For fiscal year ended June 30, 2012, room occupancy tax receipts increased 9.3% over the prior year.

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

Taxable sales in New Hanover County were up 10.9% for the fiscal year ended June 30, 2012. New Hanover County reported a 1% increase in the number of building permits and a 20% increase in the cost of these permitted projects compared to the prior year. The County's unemployment rate at June 30, 2012 of 9.3% is lower than the 10.1% at June 30, 2011. It is also lower than North Carolina's 9.9% and higher than the United States' 8.4%.

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

Long-Term Financial Planning

The Authority utilizes 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 Policy	Consistency of Budgeting and Financial Reporting Policy
Investment Policy	Revenue Policy
Budget Policy	Budget Amendment and Transfer Policy
Reserve Policy	Contract Approval Policy
Debt Management Policy	Capital Improvements Program Policy
Corporate Governance Policy	Travel Policy
Purchasing Policy	Procurement Card Policy
Post Issuance Monitoring of Compliance	Uniform Policy
For Tax Exempt Debt	Food Policy
Local Preference Policy	Surplus Personal Property Policy
Gas Card Policy	Inventory Management Policy
Internal Controls for Equipment	Payroll Policy

Major Initiatives and Accomplishments for Fiscal Year 2012

In the Authority's fourth 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, 2012, the Authority had 140 active capital projects with over \$33 million in expenditures. A number of the projects were underway by the City and County when the Authority began operations. The CIP for the ten-year period from fiscal year 2013 to fiscal year 2022 totals over \$312 million. The largest capital expenditures during the year were for the following projects:

- Sweeney Water Treatment – \$73.8 million project to increase the SWTP treatment capacity from 27.5 mgd to 35 mgd, with an ultimate plant capacity of 44 mgd. Process upgrades and improvements are included. Substantially complete.
- Barnards Creek and Motts Creek Pump Stations - \$7 million project to upgrade both pump stations and 20" force main between pump stations. Ongoing.
- Southside Wastewater Treatment Plant Rehab and Upgrade (Design) – \$8.4 million design and upgrade of treatment processes and capacity expansion. This project will upgrade the existing plant processes and increase capacity from 12 mgd to 16 mgd. Ongoing.
- Northside Wastewater Treatment Plant Force Main - \$5.8 million project to construct approximately 2.2 miles of 30-inch force main to convey treated effluent to its discharge. Part of the Northside plant expansion. Ongoing.

Other Accomplishments. The Authority also accomplished the following during the year:

- Maintained AA2 bond rating with Moody's and AA bond rating with Standard & Poor's;
- Issued \$44.1 million revenue bonds. When compared to the Bond Buyer's Revenue Bonds Index, the Authority's strong bond rating saved its customers over \$6.3 million in interest costs on the bond issue. The financing was composed of \$41.1 million in new bonds and \$3 million of refunding bonds;
- Continued to achieve 100% water plant compliance while in the midst of major construction and renovations;
- Obtained Third Party Certification for ISO 14001 Environmental Management System within the Collection System, Pump Station, Right of Way, and Environmental Groups within the Authority;
- "Scrubbed" the customer billing data and Land file to ensure accounts are billed accurately;
- Began a Customer Quality Assurance Program;
- Quickly and aggressively responded to infrastructure failures;
- Proactively worked as environmental stewards to minimize and/or prevent environmental impacts.

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 (CAFR) for the fiscal year ended June 30, 2011. This Authority has received this prestigious award each of the 3 years since it began operations. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized 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 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine eligibility for another certificate.

This report is the work of the efficient and dedicated staff of the Finance Department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report and the entire Authority staff for their cooperation and assistance. Credit is also due to the Authority Board members for their unfailing support of the highest standards of professionalism in the management of the Authority's finances.

Respectfully submitted,



Matthew W. Jordan, P.E.
Chief Executive Officer



Cheryl J. Spivey, CPA
Chief Financial Officer

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

Jeffrey R. Emer

This Page Was Intentionally Left Blank

Financial Section



CERTIFIED PUBLIC ACCOUNTANTS

4024 Oleander Drive Suite 3

Wilmington, North Carolina 28403

Telephone (910) 799-4872

Fax (910) 395-4872

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business type activities of Cape Fear Public Utility Authority (the "Authority") as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Cape Fear Public Utility Authority as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Cape Fear Public Utility Authority's basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules have 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. In our opinion, the combining and individual fund financial statements, budgetary schedules, and other schedules are stated in all material respects in relation to the basic financial statements as a whole.

Thompson, Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A.

October 22, 2012

Management's Discussion and Analysis (Unaudited)

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, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 8 through 12 of this report.

Financial Highlights

- The overall financial condition of the Authority improved during the year ended June 30, 2012. Assets of the Authority exceeded its liabilities at the close of the fiscal year by \$376 million (net assets) which is an increase of \$16.4 million from the prior year. Of this amount, \$87.5 million is unrestricted net assets that may be used to meet the Authority's ongoing obligations to customers and creditors.
- Unrestricted net assets increased \$15.4 million. The primary reason for the increase in unrestricted assets is that revenues for capital projects were greater than capital project expenditures during the year and operating expenses were significantly less than anticipated, which offset operating revenues being less than expected due to declines in customer water consumption.
- Total operating revenues were \$64.3 million, an increase of \$4.6 million or 7.7% over the prior year. The increase in revenues reflects increases in water and sewer charges effective May 1, 2011 and May 1, 2012 that were necessary to fund increased debt service expenditures.
- Total operating expenses (including depreciation and amortization) were approximately \$45.9 million, an increase of approximately \$2.1 million, or 4.8%, over the prior year.
- Operating income (operating revenue less operating expenses, depreciation and amortization) increased to \$18.4 million from \$16 million in the prior year.
- Overall debt coverage decreased to 1.53 for fiscal year 2012 from 1.65 in the prior year, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 2.05, also remaining above the 1.2 ratio required by revenue bond covenants.
- The Authority maintained a credit rating of AA from Standard & Poor's and AA2 from Moody's.

Overview of the Financial Statements

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

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

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

The *Statement of Revenues, Expenses and Changes in Net Assets* present information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

Management's Discussion and Analysis (Unaudited)

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 25 through 28 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 29 through 51 of this report.

Financial Analysis

Table A presents the Condensed Statement of Net Assets for the years ended June 30, 2012 and June 30, 2011.

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

	June 30, 2012	June 30, 2011
Current assets	\$ 114,004,396	\$ 101,548,573
Noncurrent assets-restricted and other	39,708,530	18,812,065
Noncurrent assets-capital	584,319,175	559,699,622
Total assets	738,032,101	680,060,260
Current liabilities	34,219,278	36,297,085
Noncurrent liabilities	327,843,077	296,288,570
Total liabilities	362,062,355	332,585,655
Net Assets		
Invested in capital assets, net of related debt	288,506,512	287,538,728
Unrestricted	87,463,234	72,046,877
Total net assets	\$ 375,969,746	\$ 359,585,605

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$376 million at June 30, 2012, which is an increase of \$16.4 million over the prior year. Capital assets net of related debt comprised 76.7% of total net assets at June 30, 2012. These capital assets are essential in providing water and sewer services to our customers and consequently, these assets are not available for future spending. The resources needed to repay the associated debt must be provided by other sources. At June 30, 2012, these other resources totaled \$87.5 million, an increase of 21.4%, or \$15.4 million over the prior year. The primary reason for the increase in unrestricted assets is that revenues for capital projects were greater than capital project expenditures during the year and operating expenses were significantly less than anticipated, which offset operating revenues being less than expected due to declines in customer water consumption.

Management's Discussion and Analysis (Unaudited)

Table B presents the Condensed Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2012 and June 30, 2011.

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

	Year Ended June 30, 2012	Year Ended June 30, 2011
Revenues		
Operating revenues		
Charges for services	\$ 61,115,234	\$ 57,086,229
Other operating revenues	3,233,216	2,671,784
	<u>64,348,450</u>	<u>59,758,013</u>
Nonoperating revenues		
Investment earnings (1)	962,260	296,336
Contributions from New Hanover County	1,900,000	1,900,000
Total revenues	<u>67,210,710</u>	<u>61,954,349</u>
Expenses		
Operating expenses	29,791,580	29,364,771
Depreciation and amortization	16,107,252	14,283,401
	<u>45,898,832</u>	<u>43,648,172</u>
Nonoperating expenses		
Interest expense (1)	10,500,330	12,569,492
Bond issuance costs and other fees (1)	625,383	131,224
Amortization of bond issuance costs	197,383	230,087
Total expenses	<u>57,221,928</u>	<u>56,578,975</u>
Increase in net assets before capital contributions and special items	9,988,782	5,375,374
Capital contributions	6,395,359	2,813,350
Special impairment of capital assets	-	(8,191,391)
Increase (decrease) in net assets	<u>16,384,141</u>	<u>(2,667)</u>
Net assets, July 1	<u>359,585,605</u>	359,588,272
Net assets, June 30	<u><u>\$ 375,969,746</u></u>	<u><u>\$ 359,585,605</u></u>

- (1) Fiscal Year 2011 has been restated to reclassify amortization of premiums on bonds as a decrease to interest expense and not as investment earnings and to reclassify ongoing debt from operating to nonoperating expenses.

Management's Discussion and Analysis (Unaudited)

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

- **Operating Revenues:** The Authority is not empowered to levy or collect taxes. The Authority did receive a contribution of \$1.9 million from New Hanover County in fiscal year 2012. This contribution will continue at the \$1.9 million level through fiscal year 2013 and then gradually reduce over the next five years with a final contribution of \$.3 million in fiscal year 2018. Except for this contribution, which accounted for 3% of total revenues in fiscal year 2012, the Authority's operations, capital expansion program, and debt service are funded almost entirely from fees charged to our customers. As such, the Authority's revenue stream is impacted by fluctuations in demand for our services and other economic factors.
- **Charges for services:** Charges for services revenue increased by \$4 million from the prior year as a result of rate changes implemented in May, 2011 and May, 2012. The May, 2012 rates changes increased the fixed water charge by 3.3% and increased the wastewater volumetric charge by 12.5%. The May 2011 rate changes increased both fixed and volumetric charges by 13% and 14%, respectfully.
- **Increased demand:** Operating revenues were expected to increase an additional \$800,000, but were affected by a decrease in demand. Overall water volumes consumed decreased by 1.5% from the prior year. Residential demand, which constituted 70.4% of water demand, decreased 2.1%, commercial demand decreased 1.5%, and institutional and governmental demand increased 3.1%. Billed volumes for sewer service decreased by 2% from fiscal year 2011. Residential sewer volumes decreased 2.1% from the prior fiscal year while non-residential decreased 1.9%.
- **Operating expenses:** Operating expenses increased by 5.2% from the prior year. Depreciation and amortization increased 12.8% from the prior year. Operating expenses, excluding depreciation and amortization, increased 1.5%. Personnel and benefits increased less than 1%, services and utilities increased 10.6%, and materials decreased 22.9%. A significant factor in the increase in services and decrease in materials is that the wastewater odor and corrosion went from a supplies and materials contract to a performance based contract.
- **Other revenues:** Investment earnings increased from \$296,000 to \$962,000 in fiscal year 2012. In fiscal year 2011, interest earnings were reduced by approximately \$730,000 to account for an overstatement error made by the bond trustee in fiscal year 2010. Without this adjustment, investment earnings for fiscal year 2012 would have been approximately \$65,000 less than fiscal year 2011. Capital contributions increased to \$6.4 million from \$2.8 million in fiscal year 2011. Cash contributions included in this category in the form of system development capacity charges were \$3.7 million in fiscal year 2012, up from \$2.0 million collected in 2011.
- **Interest expense:** Interest expense decreased from \$12.6 million to \$10.5 million primarily due to fiscal year 2011 interest expense having been corrected in fiscal year 2011 for overcapitalization of interest in fiscal year 2009 and fiscal year 2010. The adjustment related to fiscal year 2009 and fiscal year 2010 increased interest expense approximately \$1.8 million. Without the prior years' adjustment, interest expense would have decreased \$300,000. Interest paid and accrued during the year actually increased \$900,000; however, capitalized interest on assets being constructed (interest that is not immediately expensed, but instead considered an asset and amortized over time) reduced interest expense by a \$1 million more in fiscal year 2012 than in fiscal year 2011. The primary reason for the increase in capitalized interest is that construction in progress during fiscal year 2012 was higher than in fiscal year 2011. The Authority's largest capital project, the Sweeney Water Treatment Plant Expansion, was placed into service at year-end; therefore, capitalized interest is expected to be significant lower next year. Amortization of bond premium also increased \$100,000 related to the issuance of 2011 Revenue Bonds at a premium, which also decreased interest expense.

Management's Discussion and Analysis (Unaudited)

Capital Assets and Debt Administration

Capital Assets. The Authority's investment in capital assets totals \$584.3 million (net of accumulated depreciation and amortization) at June 30, 2012. Table C presents the Changes in Net Capital Assets for the year ended June 30, 2012. The major assets include water plants, wastewater treatment plants, pump stations, water distribution systems, and the wastewater collection system.

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

	Beginning Balances July 1, 2011	Increases	Retirements	Transfers	Ending Balances June 30, 2012
Capital assets not being depreciated:					
Land	\$ 7,182,245	\$ -	\$ -	\$ -	\$ 7,182,245
Intangible Asset-Easements	1,296,290	37,248	-	187,890	1,521,428
Construction in progress	89,130,657	37,689,518	-	(99,639,413)	27,180,762
Total capital assets not being depreciated or amortized	97,609,192	37,726,766	-	(99,451,523)	35,884,435
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	194,628,520	95,160	-	88,093,525	282,817,205
Water and Sewer Lines	295,107,256	2,046,051	-	10,593,869	307,747,176
Furniture, Fixtures and Machinery	7,169,029	704,111	-	296,424	8,169,564
Intangible Asset-Computer Software	2,913,931	154,717	-	467,705	3,536,353
Intangible Asset-Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being depreciated or amortized	501,806,852	3,000,039	-	99,451,523	604,258,414
Less:					
Accumulated depreciation	(38,871,887)	(15,438,739)	-	-	(54,310,626)
Accumulated amortization	(844,535)	(668,513)	-	-	(1,513,048)
Net depreciable assets	(39,716,422)	(16,107,252)	-	-	(55,823,674)
Total capital assets, net	\$ 559,699,622				\$ 584,319,175

Management's Discussion and Analysis (Unaudited)

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

- Construction in progress decreased by \$61.9 million. Of the \$99.6 million that was placed into service from construction in progress, \$80 million related to the Sweeney Water Treatment Plant Expansion. Other projects completed during the year included the \$5.5 million Northern Route Force Main (NEI Project) and the \$2.2 million System-Wide Odor and Corrosion Control Facilities.
- The largest increases in construction in progress, including all capitalized interest and other costs, were \$3.9 million Barnards Creek and Motts Creek Pump Stations, \$2.5 million Southside Wastewater Treatment Plant Rehab & Upgrade (Design) and \$2.1 million related to Northside Wastewater Treatment Plant Force Main.

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

Debt Administration. The Authority's long term debt, presented in Table D below, totaled \$338.7 million at June 30, 2012, net of applicable premiums, discounts and deferred refunding charges. \$4 million of a \$1.5 million loan from the State of North Carolina has been drawn as of June 30, 2012. The Authority's overall debt coverage for fiscal year 2012 was 1.53, remaining above the 1.0 ratio required by bond covenants. Coverage on revenue bond debt was 2.05, remaining above the 1.2 ratio required by revenue bond covenants.

Cape Fear Public Utility Authority's Outstanding Long-Term Debt

Table D

	<u>2012</u>	<u>2011</u>
Revenue Bonds	\$ 293,217,535	\$ 255,556,814
General Obligation Bonds:		
Locality compensation payment	7,759,279	11,712,630
Installment Obligations:		
Locality compensation payment	37,297,244	39,918,647
ARRA revolving loan	444,323	330,545
Capital Lease	14,171	179,315
Totals	<u>\$ 338,732,552</u>	<u>\$ 307,697,951</u>

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

The Authority issued \$187,765,000 in revenue bonds in August 2008 to pay for water and sewer capital improvements and to refund \$42 million in New Hanover County Certificates of Participation that the Authority had assumed on July 1, 2008. The capital improvements funded by this debt issuance included the Sweeney plant expansion, NANO water treatment facility, and improvements to the Northeast Interceptor sewer force main. The City and County had either started construction or were in final design on these projects when the Authority began operations on July 1, 2008.

The Authority issued \$44.1 million of revenue bonds on September 28, 2011, primarily to fund replacement and rehabilitation of wastewater and water lines, construction and installation of new water and wastewater lines, pump station and force main improvements, and programs expected to be required by the Environmental Protection Agency.

Management's Discussion and Analysis (Unaudited)

Additional information on the Authority's long term debt can be found in Note 8, Long-Term Obligations beginning on page 42 and Note 14, Subsequent Events beginning on page 50 of this report.

Budget Highlights for the Fiscal Year Ending June 30, 2013

The Authority's adopted fiscal year 2013 budget for operations is \$36.5 million as compared to \$37.0 million in fiscal year 2012.

Revenues are budgeted to increase slightly to \$69.5 million in fiscal year 2013 from \$68.4 million in the adopted fiscal year 2012 budget. Water and wastewater rates were increased in May 2012 to produce 4.7% additional revenues from charges for services. The rate increase was primarily required to fund increased debt service related to the 2011 Revenue Bonds. Fiscal year 2013 net debt service is \$27.0 million compared to \$25.5 million in fiscal year 2012.

The Authority will continue to closely monitor revenue and consumption patterns in fiscal year 2013 and will make adjustments to expenditure levels as needed.

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be addressed to the Cape Fear Public Utility Authority, Finance Department, 235 Government Center Drive, Wilmington, NC 28403. You can also call 910-332-6668, visit our website at www.cfpua.org or send an email to cheryl.spivey@cfpua.org.

Cape Fear Public Utility Authority

**Statement of Net Assets
June 30, 2012**

ASSETS

Current assets

Cash and cash equivalents	\$ 86,926,698
Receivables, net	16,132,198
Due from other governments	2,374,267
Restricted cash and cash equivalents	6,473,467
Restricted receivables	263,716
Prepays	36,526
Inventories	1,242,390
Deferred outflow of resources	555,134
Total current assets	114,004,396

Noncurrent assets

Restricted cash and cash equivalents	22,990,221
Restricted investments	13,456,200
Unamortized bond issuance costs	3,262,109
Capital assets:	
Land, easements and construction in progress	35,884,435
Other capital assets, net	548,434,740
Total capital assets	584,319,175
Total noncurrent assets	624,027,705
Total assets	738,032,101

LIABILITIES

Current liabilities

Long-term obligations, current maturities	13,448,080
Accrued interest payable	5,205,540
Customer and escrow deposits	1,001,060
Due to other governments	3,692,773
Accounts payable and accrued liabilities	3,075,026
Compensated absences, current maturities	720,331
Unearned revenue	47,867
Accounts payable from restricted assets	6,473,467
Derivative instrument - interest rate swap	555,134
Total current liabilities	34,219,278

Noncurrent liabilities

Compensated absences	343,107
Other postemployment benefits (OPEB)	2,215,498
Long-term obligations, net of current maturities	325,284,472
Total noncurrent liabilities	327,843,077
Total liabilities	362,062,355

NET ASSETS

Invested in capital assets, net of related debt	288,506,512
Unrestricted	87,463,234
Total net assets	\$ 375,969,746

See Notes to Financial Statements.

Cape Fear Public Utility Authority

**Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012**

Operating revenues	
Charges for services	\$ 61,115,234
Other operating revenues	3,233,216
Total operating revenues	<u>64,348,450</u>
Operating expenses	
Personnel and benefits	15,316,759
Services and utilities	11,674,355
Materials	2,800,466
Depreciation and amortization	16,107,252
Total operating expenses	<u>45,898,832</u>
Operating income	<u>18,449,618</u>
Nonoperating revenues (expenses)	
Investment earnings	962,260
Interest expense	(10,500,330)
Bond issuance costs	(625,383)
Amortization of bond issuance costs	(197,383)
Contributions from New Hanover County	1,900,000
Total nonoperating (expenses)	<u>(8,460,836)</u>
Income before capital contributions	<u>9,988,782</u>
Capital contributions	6,395,359
Total capital contributions	<u>6,395,359</u>
Increase in net assets	<u>16,384,141</u>
Net assets	
Beginning of year	359,585,605
End of year	<u>\$ 375,969,746</u>

See Notes to Financial Statements.

Cape Fear Public Utility Authority

Statement of Cash Flows
For the Year Ended June 30, 2012

Cash Flows From Operating Activities

Cash received from customers	\$ 61,437,168
Cash paid to suppliers	(14,263,936)
Cash paid to or on behalf of employees	(15,299,070)
Other operating income	3,270,725
Net cash provided by operating activities	35,144,887

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	(35,639,888)
Principal paid on long-term obligations	(15,059,046)
Proceeds from long-term obligations	
Principal	44,100,000
Premium	4,453,144
Bond issuance costs	(625,383)
Interest paid on long-term obligations	(14,787,976)
Capital contributions	4,697,245
Net cash used for capital and related financing activities	(12,861,904)

Cash Flows From Investing Activities

Investment earnings	954,556
Net cash provided by investing activities	954,556
Net increase in cash and cash equivalents	23,237,539

Cash and cash equivalents, beginning of year	93,152,847
Cash and cash equivalents, end of year	\$ 116,390,386

Reconciliation to statement of net assets:

Cash and cash equivalents	\$ 86,926,698
Restricted cash and cash equivalents (current and noncurrent)	29,463,688
Total cash, cash equivalents and investments	\$ 116,390,386

(Continued)

See Notes to Financial Statements.

Cape Fear Public Utility Authority

Statement of Cash Flows (Continued)
For the Year Ended June 30, 2012

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities

Operating income	\$ 18,449,618
------------------	----------------------

Adjustments to reconcile operating income to net cash

provided by operating activities:

Depreciation and amortization	16,107,252
-------------------------------	-------------------

Changes in assets and liabilities:

Decrease in receivables and due from other governments	284,900
--	----------------

Decrease in inventories	177,847
-------------------------	----------------

Decrease in prepaids	12,575
----------------------	---------------

(Decrease) in accounts payable and accrued liabilities	(138,195)
--	------------------

Increase in customer and escrow deposits	233,201
--	----------------

Increase in compensated absences and OPEB	17,689
---	---------------

Total adjustments	16,695,269
--------------------------	-------------------

Net cash provided by operating activities	\$ 35,144,887
--	----------------------

Supplemental Schedule of Noncash Activities

Contributions of capital assets from developers	\$ 2,080,896
---	---------------------

Debt payment reduction from New Hanover County	\$ 1,900,000
--	---------------------

See Notes to Financial Statements.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

Cape Fear Public Utility Authority was created in 2007 pursuant to Chapter 162A of the North Carolina General Statutes, by the governing bodies of New Hanover County (County) and the City of Wilmington (City), for the purpose of providing water and sewer services to residents of New Hanover County. The assets and related liabilities of the City of Wilmington and New Hanover County water and sewer systems were transferred to the Authority on July 1, 2008. The Authority is empowered to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency, but has no taxing authority. The Authority Board consists of eleven directors who hold office for staggered terms. The directors are appointed by the governing bodies of New Hanover County and the City of Wilmington. Each of the governing bodies appoints five members and they jointly appoint the eleventh member. The five appointed members from each governing body include two current members from those governing bodies.

Accounting principles generally accepted in the United States require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Codification Section 2100 have been considered and the Authority has identified two blended component units, described below, which are in substance part of the Authority's operations, and so data from these units is combined with data of the Authority. The Authority is not included in any other reporting entity. The Authority is a jointly governed organization, i.e. an entity governed primarily by representatives from other governments. The participants do not retain any ongoing financial interest in or financial responsibility for the Authority.

Blended Component Units

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

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

All activities of the Authority and its blended component units are accounted for within a single business-type activity and within a single proprietary (enterprise) fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. An Enterprise Fund is required to be used when an activity is financed with debt that is secured solely by pledges of the net revenues from fees and charges of the activity.

Measurement Focus and Basis of Accounting

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

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

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

Budgets

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

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Expenditures may not legally exceed appropriations at the functional level for the operating sub-fund and at the project level for the capital projects sub-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 as estimates for their department for the budget year.
June 1	The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.
July 1	The budget ordinance shall be adopted by the governing board.

Assets, Liabilities, and Net Assets

Deposits and Investments

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

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

Cash and Cash Equivalents

The Authority pools monies from several sub-funds to facilitate disbursement and investment and to maximize investment earnings. The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Assets

The unexpended bond proceeds of revenue bonds, certificates of participation and other long-term obligations issued by the Authority are classified as restricted assets under Restricted cash, cash equivalents and investments because their use is restricted to the purpose for which the obligations were originally issued.

Allowance for Doubtful Accounts

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

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories consist of materials and supplies maintained for major items used by the Authority. Inventories are valued at cost, which approximates market. Inventories are recorded using the consumption method. Inventory is recorded as an asset and materials and supplies are not recorded as an expense until consumed.

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The construction interest capitalized during the year ended June 30, 2012 totaled \$4,811,751.

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

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

The Authority may consider capital assets impaired if both: (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired assets will be appropriately reduced in value or discarded if idle.

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

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates to the financial statements include the unbilled receivables, allowance for doubtful accounts, the estimated useful lives of capital assets, compensated absences, other post-employment benefits, medical IBNR reserve, workers' compensation self-insurance, unamortized bond issuance costs, and the valuation of interest rate swaps.

Long-Term Obligations

Long-term obligations are reported as a liability in the statement of net assets, net of applicable bond charges, premiums and discounts. Bond charges, premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as noncurrent assets and amortized over the life of the bonds using the straight-line method. The Authority elected early application of GASB Statement No. 65 and bond issuance costs are recorded as an expense in the period incurred beginning in fiscal year ended June 30, 2012.

Compensated Absences

The vacation policy of the Authority provides for the accumulation of up to 320 hours earned vacation leave with such leave being fully vested when earned. Accrued vacation at year end totaled \$1,063,438 and is included as compensated absences.

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

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

Medical Self-Insurance

The Authority is self-insured for group medical insurance and has contracted with Blue Cross and Blue Shield of North Carolina to administer the program. The Authority's program provides for individual stop-loss coverage for claims above a specific amount. The individual stop-loss insurance provides reimbursement to the group plan of all eligible claims paid above \$85,000 on behalf of any participant during the contract period. The stop-loss insurance policy is underwritten by Blue Cross and Blue Shield of North Carolina. A provision of \$645,835 has been accrued to fund estimated claims incurred but not reported as of June 30, 2012, and to fund a 20% reserve level over expected claims.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Workers' Compensation Self-Insurance

The Authority is self-insured for workers' compensation and employers' liability insurance, and purchases Specific and Aggregate Excess Workers Compensation and Employers Liability Indemnity insurance. The Authority contracted with PMA, Inc., a provider of claims administrative services, to administer the program. The program provides that the Authority is responsible for the first \$400,000 of cost and/or benefits payable to employees resulting from any one accident or event, regardless of the number of persons injured.

Specific and Aggregate Excess Workers Compensation and Employers Liability Indemnity insurance provides protection against compensable claims during the policy year above the self-insured specific retention of \$500,000, up to the maximum limits provided under the North Carolina Workers' Compensation Act and up to \$1,000,000 each accident or disease for Employer's Liability. In addition, the insurance would provide protection against cumulative retained losses after the Authority's aggregate costs reach a minimum of \$1,077,213 for claims occurring during the policy period and would then provide an additional \$1,000,000 of coverage, with any losses beyond the \$1,000,000 limit being retained by the Authority.

A provision of \$158,000 for estimated claims incurred as of June 30, 2012 has been accrued.

Net Assets

Net assets are classified as invested in capital assets, net of related debt, restricted, or unrestricted. Invested in capital assets, net of related debt, represents the amount invested in capital assets less any outstanding debt used in the acquisition of those assets. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through state statute. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets" or "restricted". Unrestricted net assets of \$4,218,369 are designated for post-employment benefits and represent the amount that has been designated by the governing board to fund a trust to be established for future costs of post-employment benefits.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 2. Cash, Cash Equivalents, Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, a government's deposit may not be returned to it. The Authority has no policy on custodial credit risk, but all of the Authority's deposits are to be either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are separately collateralized with securities held by the governments' agents in the governments' names. Under the Pooling Method, which is a statewide collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the governments, these deposits are considered to be held by the governments' agents in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the governments or the escrow agents. Because of the inability to measure the exact amounts of collateral pledged for governments under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The State Treasurer enforces standards of minimum capitalization for all Pooling Method financial institutions.

At June 30, 2012, the carrying amount of the Authority deposits was \$114,564,919 and the bank balance was \$114,840,440. Of the bank balance, \$500,000 was covered by FDIC insurance and \$114,340,440 was collateralized using the Pooling Method. Cash on hand at June 30, 2012 was \$2,200.

Investments

At June 30, 2012, the Authority had the following investments:

	Fair Value	Maturity Less Than One Year
Restricted investments - US Government Agencies	\$ 13,456,200	\$ 13,456,200
Restricted cash and cash equivalents -NC Capital Management Trust - Cash Portfolio	1,823,265	N/A
	<u>\$ 15,279,465</u>	<u>\$ 13,456,200</u>

Interest Rate Risk

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

Cape Fear Public Utility Authority

Notes to Financial Statements

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

Credit Risk and Concentration of Credit Risk

The Authority has no formal policy on managing credit risk. The Authority's investment policy limits investments to the provisions of North Carolina G.S. 159-30(c) and requires the investment security types to be no more than 25% of the total portfolio in a single security type. As of June 30, 2012 the Authority's investments in the NCCMT Cash Portfolio carried a credit rating of AAAm by Standard & Poor's.

The Authority's investment in U.S. Government Agencies (Freddie Mac Discount Note) is rated AA+ by Standard & Poor's and Aaa by Moody's Investor's Service and AAA by Fitch.

Custodial Credit Risk

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

The Authority has no policy on foreign currency risk.

Note 3. Receivables

The Authority estimates the revenue value of water consumed by its customers at year end but not billed by the last day of the fiscal year. This is done by multiplying the estimated unbilled water usage by the approximate number of days unbilled at June 30. As of June 30, 2012, the Authority had approximately \$6,534,272 of unbilled receivables included in Accounts receivable – customers, below.

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

Accounts receivable - customers	\$ 18,800,697
Allowance for doubtful accounts	(2,668,499)
Total receivables, net	<u>\$ 16,132,198</u>

The amounts due from other governments consist of the following:

Refund of sales and use tax paid	\$ 967,007
New Hanover County	1,000,000
Other grants and reimbursements	407,260
Total due from other governments	<u>\$ 2,374,267</u>

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital assets activity consists of the following for the year ended June 30, 2012. Current depreciation and amortization expense was \$15,438,739 and \$668,513, respectively.

	Beginning Balances July 1, 2011	Increases	Decreases	Transfers	Beginning Balances June 30, 2012
Capital assets not being depreciated:					
Land	\$ 7,182,245	\$ -	\$ -	\$ -	\$ 7,182,245
Intangible Asset-Easements	1,296,290	37,248	-	187,890	1,521,428
Construction in progress	89,130,657	37,689,518	-	(99,639,413)	27,180,762
Total capital assets not being depreciated or amortized	97,609,192	37,726,766	-	(99,451,523)	35,884,435
Capital assets being depreciated or amortized:					
Plant, Structures and Improvements	194,628,520	95,160	-	88,093,525	282,817,205
Water and Sewer Lines	295,107,256	2,046,051	-	10,593,869	307,747,176
Furniture, Fixtures and Machinery	7,169,029	704,111	-	296,424	8,169,564
Intangible Asset-Computer Software	2,913,931	154,717	-	467,705	3,536,353
Intangible Asset-Water Availability Rights	1,988,116	-	-	-	1,988,116
Total capital assets being depreciated or amortized	501,806,852	3,000,039	-	99,451,523	604,258,414
Less accumulated depreciation or amortization for:					
Plant, Structures and Improvements	12,607,511	6,585,939	-	-	19,193,450
Water and Sewer Lines	22,760,994	7,446,828	-	-	30,207,822
Furniture, Fixtures and Machinery	3,503,382	1,405,972	-	-	4,909,354
Intangible Asset-Computer Software	585,215	582,073	-	-	1,167,288
Intangible Asset-Water Availability Rights	259,320	86,440	-	-	345,760
Total accumulated depreciation and amortization	39,716,422	16,107,252	-	-	55,823,674
Total capital assets being depreciated or amortized, net	462,090,430				548,434,740
Capital assets, net	\$ 559,699,622				\$ 584,319,175

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 5. Operating Leases

The Authority leases building, office facilities and land under two operating lease arrangements. A lease for the Administration Building commenced on June 1, 2008 and covers a period of 120 months, with the option to extend the lease for two additional five-year periods. A new lease for the Operations Center commences August 1, 2011 and covers a period of 60 months, with the option to extend the lease for one additional two-year period. Total lease costs of \$797,362 for the year ended June 30, 2012, included the Administration Building and the Operations Center and the final two-month extension on a separate lease for the Operations Center at a different location that ended August 31, 2011. The future minimum lease payments as of June 30, 2012 are as follows:

Year Ending June 30	Amount
2013	\$ 819,296
2014	843,875
2015	869,191
2016	895,267
2017	768,038
Thereafter	710,539
Total	\$ 4,906,206

Note 6. Benefit Plan Obligations

Local Governmental Employees' Retirement System

Plan description. The Authority contributes to the statewide Local Governmental Employees' Retirement System ("LGERS"), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the Authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Center Service, Raleigh, North Carolina 27699 - 1410, or by calling (919) 981-5454.

Funding policy. Plan members are required to contribute 6% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 6.88% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$860,792, \$799,850, and \$630,628, respectively. The contributions made by the Authority equaled the required contributions for the year.

Supplemental Retirement Income Plan and Deferred Compensation Plan

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

The Authority also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 6. Benefit Plan Obligations (Continued)

unforeseeable emergency. All assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

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

Employer contributions to the Supplemental Retirement Income Plan totaled \$333,278 and employee contributions and loan repayments were \$364,749 for the year ended June 30, 2012.

Employer contributions to the 457 Deferred Compensation Plan totaled \$122,148 and employee contributions and loan repayments were \$162,982 for the year ended June 30, 2012.

Other Post-Employment Benefits (OPEB)

Plan Description. According to the Authority's personnel policy, the Authority provides post-employment health care benefits to retirees of the Authority as a single-employer defined benefit plan, provided they participate in the North Carolina Local Government Employees' Retirement System and were employed by the City or County prior to July 1, 2008 as the years of service were transferred from participating member governments during the initial transition phase of the Authority. Employees transferred from the City of Wilmington must have at least five years of creditable service. Employees transferred from New Hanover County must have at least 15 years of creditable service. The Authority shares the cost of coverage for these benefits through private insurers with the retiree by paying claims under its medical self-insurance program and charging participants a co-payment amount. Also, the Authority's retirees can purchase coverage for their dependents at the Authority's group rates. A separate report was not issued for the plan.

Membership consisted of 234 active plan members and two retirees receiving benefits at December 31, 2010, the date of the latest actuarial valuation.

Funding Policy. The Authority's contribution to the plan is based on a set amount or percentage of the cost of the individual insurance coverage. The Authority is not required to fully fund the annual required contribution (ARC); however, the Authority is required to disclose the unfunded ARC, which must be amortized over future periods. To date, the Authority has chosen to fund these benefits on a pay-as-you-go basis.

The current ARC is 1.22% of annual covered payroll. Contributions of \$111,989 (.87% of annual covered payroll) were made by the Authority for the current year. There were no contributions made by employees of the Authority.

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

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 6. Benefit Plan Obligations (Continued)

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 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)	\$	157,782
Interest on net OPEB obligation		88,164
Adjustment to annual required contribution		(122,561)
Annual OPEB cost		123,385
Contributions made		(111,989)
Increase in net OPEB obligation		11,396
Net OPEB obligation, beginning of year		2,204,102
Net OPEB obligation, end of year	\$	2,215,498

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

For The Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 123,385	90.764%	\$ 2,215,498
2011	124,617	6.011%	2,204,102
2010	1,043,781	0.056%	2,086,976
2009	1,043,781	0.000%	1,043,781

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,351,870. The covered payroll (annual payroll of active employees covered by the plan) was \$12,895,415, and the ratio of the UAAL to the covered payroll was 18.2%.

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

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 6. Benefit Plan Obligations (Continued)

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

In the December 31, 2010 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 9.0% and 4.5%, and a 2.50% inflation assumption. The UAAL is being amortized on a level dollar amount on a closed basis. The remaining amortization period at December 31, 2010 was 30 years.

Note 7. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has chosen to establish a risk financing fund for risks associated with the employee's health insurance program and workers' compensation coverage. The Authority carries commercial coverage for all other risks of loss including property and general liability coverage. Claims did not exceed coverage for any category for the fiscal years ended June 30, 2012, 2011, or 2010.

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

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

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

Claims liabilities are reported as accounts payable and accrued liabilities. Changes in claims liability for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Medical Self-Insurance Program		
Unpaid claims, beginning of year	\$ 437,091	\$ 343,533
Incurred claims (including IBNR)	2,204,571	1,995,826
Claim payments (including fees)	(1,995,827)	(1,902,268)
Unpaid claims, end of year	<u>\$ 645,835</u>	<u>\$ 437,091</u>
Workers' Compensation Self-Insurance Program		
Unpaid claims, beginning of year	\$ 115,000	\$ 201,000
Incurred claims (including IBNR)	99,944	85,248
Claim payments	(56,944)	(171,248)
Unpaid claims, end of year	<u>\$ 158,000</u>	<u>\$ 115,000</u>

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8 Long-Term Obligations

Capital Lease

The Authority has entered into an agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The agreement was executed on April 23, 2008 for the lease of computer equipment for a period of 48 months and requiring a monthly payment of \$14,236. At June 30, 2012 the Authority's leased equipment was valued at \$612,731, net of accumulated depreciation of \$599,966, for a net carrying value of \$12,765. The equipment is recorded as Furniture, Fixtures and Machinery.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 are as follows:

Year Ending June 30,

	2013	\$	14,236
Total minimum lease payments			14,236
Less: amount representing interest			65
Present value of the minimum lease payments		\$	14,171

Changes in Long-Term Obligations

	Balance			(Charges)		Current
	July 1, 2011 (1)	Additions	Retirements	Premiums (Discounts) Unamortized	Balance June 30, 2012	Portion of Balance
Revenue Bonds	\$ 247,091,504	\$ 44,100,000.00	\$ 9,971,502	\$ 11,997,533	\$ 293,217,535	\$ 8,105,000
General Obligation Bonds:						
Locality compensation payment	12,310,000	-	4,110,000	(440,721)	7,759,279	2,945,000
Installment Obligations:						
Locality compensation payment	39,910,000	-	2,712,400	99,644	37,297,244	2,316,000
ARRA Revolving Loan	330,545	113,778	-	-	444,323	67,909
Capital lease/installment agreement	179,315	-	165,144	-	14,171	14,171
Compensated absences	1,057,145	6,293	-	-	1,063,438	720,331
Other postemployment benefits	2,204,102	123,385	111,989	-	2,215,498	-
Totals	\$ 303,082,611	\$ 44,343,456	\$ 17,071,035	\$ 11,656,456	\$ 342,011,488	\$ 14,168,411

(1) Balance at July 1, 2011 is not net of unamortized charges, premiums, and discounts of \$7,876,587.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8 Long-Term Obligations (Continued)

The payments of the Authority's outstanding long-term obligations for the future years are as follows:

Year Ending June, 30	Parity Bonded Debt		Subordinated Bonded & Installment Debt		Total	
	Principal	Interest	Principal	Interest	Principal (1)	Interest
2013	\$8,105,000	\$13,525,578	\$5,726,000	\$2,064,340	\$13,831,000	\$15,589,918
2014	7,210,000	13,209,678	5,747,000	1,798,598	12,957,000	15,008,276
2015	6,480,000	12,919,741	5,275,600	1,560,818	11,755,600	14,480,559
2016	5,430,000	12,671,241	2,994,200	1,334,669	8,424,200	14,005,910
2017	9,290,000	12,336,903	3,078,000	1,194,134	12,368,000	13,531,037
2018-2022	47,675,000	54,828,243	12,881,800	3,993,457	60,556,800	58,821,700
2023-2027	56,730,000	42,434,279	8,585,000	1,220,871	65,315,000	43,655,150
2028-2032	72,450,000	26,716,220	1,110,000	51,338	73,560,000	26,767,558
2033-2037	67,850,002	7,148,000	-	-	67,850,002	7,148,000
Total	281,220,002	\$195,789,883	45,397,600	\$13,218,225	326,617,602	\$209,008,108
Unamortized charges	(1,039,800)		(1,196,512)		(2,236,312)	
Unamortized premiums	13,037,333		855,435		13,892,768	
Net carrying value	\$293,217,535		\$45,056,523		\$338,274,058	

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

Pursuant to the inter-local agreement transferring the City's and the County's water and sewer system to the Authority, the Authority assumed responsibility for all of the related debt. However, certain debt instruments could not be transferred to the Authority or refinanced due to the nature of the agreements. Accordingly, the City and the County have retained and are servicing those obligations with the Authority making payments to the City and the County equal to the principal and interest payments required under those debt instruments. Debt service payments made to the City and County for the year ended June 30, 2012 were \$5,021,028 and \$4,061,805, respectively. Under Section 2.10 of the inter-local agreement, the County agreed to a reduction in the amount of the debt service payments made by the Authority to the County (debt payments reduction amounts) for a period of 10 years, starting with the year ended June 30, 2009. The debt payment reduction amount which reduces the debt service payments to be paid to the County by the Authority was \$1.9 million for fiscal years ended June 30, 2012, 2011, 2010, and 2009 and will be \$1.9 million for fiscal year ending June 30, 2013. Beginning in the sixth year (2014), the debt payment reduction amounts will consist of \$1.577 million for the sixth year, \$1.254 million for the seventh year, \$950,000 for the eighth year, \$627,000 for the ninth year, and \$304,000 for the tenth year. If at any time the debt payments reduction amounts in a given year are greater than the amounts required to be paid by the Authority to the County, the County will pay the Authority the difference.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

Details of the Authority's outstanding long-term obligations at June 30, 2012 are as follows:

Revenue Bonds

\$62,400,000 Water and Sewer Revenue and Refunding Revenue Bonds, Series 2005 issued for a wastewater plant expansion, other water and sewer system improvements and to refund \$9,235,000 of Water and Sewer Revenue Bonds, the proceeds of which were used for like improvements; principal installments due annually on June 1 in varying amounts of \$1,725,000 to \$2,875,000 plus interest through June 1, 2034; interest at fixed rates from 3.75% to 5.0% .

54,690,000

\$187,765,000 Water and Sewer Revenue bonds, Series 2008 issued for water and sewer improvements and to refund \$42 million of New Hanover County Certificates of Participation; principal payments due annually on August 1 in varying amounts of \$1,410,000 to \$13,125,000 plus interest through August 1, 2035; interest at rates ranging from 3.5% to 5.0% .

182,430,000

\$44,100,000 Water and Sewer Revenue bonds, Series 2011 issued for water and sewer improvements; principal payments due annually on August 1 in varying amounts of \$1,245,000 to \$2,740,000 plus interest through August 1, 2036; interest at rates ranging from 2.0% to 5.0% .

44,100,000

Total Revenue Bonds

281,220,000

General Obligation Bonds

Locality compensation payment payable to City of Wilmington due in annual principal payments on June 1 in varying amounts from \$2,355,000 to \$2,945,000 through June 1, 2015; variable rate semiannual interest payments due June 1 and December 1.

8,200,000

Total General Obligation Bonds

8,200,000

Installment Obligations

Locality compensation payable to City of Wilmington due in annual principal payments on June 1 ranging from \$925,000 to \$1,550,000 through June 1, 2024; semiannual interest payments due June 1 and December 1 at rates ranging from 4.0% to 5.0% .

14,530,000

Locality compensation payable to New Hanover County due in annual principal payments on February 23 ranging from \$1,110,000 to \$1,115,000 through February 23, 2028; semi-annual interest payments due August 26 and February 23 at rates ranging from 3.375% to 5.0% .

17,790,002

Locality compensation payable to New Hanover County due in annual principal payments on August 26 ranging from \$741,000 to \$891,800 through August 26, 2017; semiannual interest payments due August 26 and February 23 at rates ranging from 3.5% to 4.0% .

4,877,600

Total Installment Obligations

37,197,602

Total Long-Term Obligations

326,617,602

Plus Unamortized Charges, Premiums and Discounts

11,656,456

Net Carrying Value of Long-Term Obligations

\$ 338,274,058

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

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

Certain covenants are contained in the revenue bond orders, among the most restrictive of which provides that the Authority maintain a long-term debt service coverage ratio, as defined, of not less than 1.20. The Authority was in compliance with the covenants during the fiscal year ended June 30, 2012.

ARRA Loan

During the year ended June 30, 2010, the Authority was approved for a loan from the State of North Carolina, Department of Environment and Natural Resources (DENR). The loan will be drawn down as expenditures are paid on a certain capital project, to a maximum of \$2,716,357. Half of the loan amount is subject to immediate principal forgiveness under an American Recovery and Reinvestment Act of 2009 (ARRA) program awarded by the Environmental Protection Agency (EPA) through the State Revolving Fund program administered by DENR. The remaining \$1,358,179 will be due in 20 equal, annual installments of \$67,909, commencing on May 1 immediately following the completion of the project. The loan does not bear interest. At June 30, 2012, \$888,645 of this loan had been drawn down, of which \$444,323 is recorded as an outstanding loan as of June 30, 2012.

Interest Rate Swap Agreement

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

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

Terms. The bonds and the related swap agreement mature on June 1, 2015 and the swap's June 30, 2012 notional amount of \$8,200,000 matches the face amount of the variable-rate bonds. The swap was entered into at the same time the bonds were issued (February 2002). The notional value of the swap declines with the principal amount of the associated debt. Under the swap the City (as assumed by the Authority) pays the counterparty a fixed payment of 3.815% and receives a variable payment computed at 67% of the LIBOR. Conversely, the bonds' variable-rate coupons are based on the actual float rate coupons marketed weekly.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

Interest Rate Swap Agreement (Continued)

Fair value. Because interest rates have declined since execution of the swap, the swap has a negative fair value of \$555,134 as of June 30, 2012 which is reported on the Statement of Net Assets as a derivative liability offset by a deferred outflow of resources. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate bonds are adjusted every seven days to changing interest rates, the bonds do not have a corresponding fair value increase. The mark-to-market valuations were established by market quotations from the counterparty representing estimates of the amounts that would be paid for replacement transactions.

Credit risk. As of June 30, 2012 the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A3 by Moody's Investors Service (Moody's), A by Standard and Poor's (S&P) and A by Fitch Ratings (Fitch). To mitigate the potential for credit risk, if the counterparty's credit quality falls to A1 by Moody's or A+ by either S&P or Fitch and their exposure exceeds \$5,000,000, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third party custodian.

Basis risk. The swap agreement exposes the Authority to basis risk should the relationship between LIBOR and the average rate paid on the floating rate coupon converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.815% and the synthetic rate as of June 30, 2012 of 3.85%. As of June 30, 2012, the rate on the variable rate Bonds was .19% whereas 67% of LIBOR was .16%.

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

Swap payments and associated debt. Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for the term of the bonds, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Interest Rate			
Ending June 30,	Principal	Interest	Swap, Net	Total
2013	\$ 2,945,000	\$ 15,580	\$ 299,710	\$ 3,260,290
2014	2,900,000	9,985	192,070	3,102,055
2015	2,355,000	4,475	86,075	2,445,550
Total	\$ 8,200,000	\$ 30,040	\$ 577,855	\$ 8,807,895

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

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

The following sets forth a summary of the Authority's derivative instrument as of June 30, 2012: The pay-fixed, receive variable interest rate swap is a cash flow hedge with a notional value of \$8,200,000 and a negative fair value of \$555,134 at June 30, 2012. The negative fair value at June 30, 2012 represents a \$278,115 increase from the prior year and is reported on the Statement of Net Assets as a derivative liability offset by a deferred outflow of resources.

Debt Service Coverage

The Authority has been in compliance with the covenants as to the rates, fees, rentals, and charges in Article VI, Section 6.6 of the General Trust Indenture, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 1998. The General Trust Indenture dated as of December 1, 1998 and four series indentures under which the City of Wilmington had issued revenue bonds were assigned to the Authority on July 1, 2008 as provided for in Section 6.11(a) of the General Trust Indenture. 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 year ended June 30, 2012, is as follows:

Revenues

Operating revenues (1)	\$ 64,348,450
System development fees	3,734,210
Investment earnings	962,458
	<u>69,045,118</u>

Expenses

Operating expenses (2)	46,524,215
Less depreciation and amortization (2)	(16,107,252)
Less increase in net OPEB obligation	(11,396)
	<u>30,405,567</u>

Net Revenues Available for Debt Service	<u>\$ 38,639,551</u>
---	----------------------

Debt Service on Parity Indebtedness	\$ 18,813,299
Debt Service on Subordinate Indebtedness	\$ 6,476,559
Total Debt Service on All Indebtedness (3)	<u>\$ 25,289,858</u>

Debt Service Coverage Ratio for Parity Indebtedness	2.05
---	------

Debt Service Coverage Ratio for All Indebtedness	1.53
--	------

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

- (1) "Operating Revenues" come from the Statement of Revenue, Expenses, and Changes in Net Assets on page 26 of this report.
- (2) "Operating Expenses" come from Statement of Revenue, Expenses, and Changes in Net Assets on page 26 of this report.
- (3) Total long term debt includes revenue bonds (parity indebtedness), and locality compensation payables for general obligation bonds and installment obligations (subordinate indebtedness).

Note 9. Contributions From Other Governments

Contributions from other governments consist of the following from New Hanover County at June 30, 2012:

Noncapital contributions:	
Reduction in debt service payments	\$ 1,900,000
Total contributions from other governments	\$ 1,900,000

Note 10. Other Related Party Transactions

The Authority provides water and sewer services to the County which generated water revenues of approximately \$229,000 and sewer revenues of approximately \$197,000 for the fiscal year ended June 31, 2012 making the County one of the top 10 principal water and sewer customers of the Authority. The County has a receivable to the Authority of approximately \$52,000 as of June 30, 2012 which is included in Receivables, net on the Statement of Net Assets.

The Authority provides water and sewer services to the City which generated water revenues of approximately \$186,000 for the fiscal year ended June 31, 2012 making the City one of the top 10 principal water customers of the Authority. The City has a receivable to the Authority of approximately \$24,000 as of June 30, 2012 which is included in Receivables, net on the Statement of Net Assets.

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

Note 11. Pending GASB Statements

The GASB has issued several pronouncements prior to June 30, 2012 that have effective dates that may impact future financial presentations.

Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements will be effective for the Authority beginning with its year ending June 30, 2013.

Statement No. 61 The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34 will be effective for the Authority with its year ending June 30, 2013.

Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements will be effective for the Authority with its year ending June 30, 2013.

Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position will be effective for the Authority with its year ending June 30, 2013.

Statement No. 65 Items Previously Reported as Assets and Liabilities will be effective for the Authority with its year ending June 30, 2013.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 11. Pending GASB Statements (Continued)

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

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

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

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

Note 12. Litigation

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

Prior to the transfer of assets to the Authority on July 1, 2008, the City and the County were notified by the Environmental Protection Agency (EPA) that the City and County were in violation of the Clean Water Act. The EPA contends that the City and County experienced numerous sanitary sewer overflows that violated State and federal regulations. As the owner and operator of the wastewater system formerly operated by the City and County, the Authority has been included in the EPA action. The Authority is in negotiations with EPA and working toward a consent decree. Since the Authority began operations, it has had ongoing projects to repair and upgrade the Northeast Interceptor. In addition, the Authority has implemented comprehensive programs to control inflow and infiltration and other contributors to potential spills. Such significant progress has been made that, on September 25, 2009, the Director of the DENR Division of Water Quality notified the EPA that the State of North Carolina believes that actions taken by the Authority address most elements of the proposed consent decree with the EPA.

No admission of violation has been made by the City, the County or the Authority. The City and the County have retained a total of \$3 million for payment of any fines that may eventually be levied. In the opinion of the Authority's attorney, any fine that may be levied will be substantially less than the amount retained, and the final agreement with the EPA will not have a material effect on the Authority's financial position.

Note 13. Commitments and Contingencies

The Authority has active water and sewer capital projects as of June 30, 2012. The Authority's remaining commitments with contractors, developers and professional firms related to these projects is approximately \$28.2 million. The remaining commitments will be funded from the proceeds of revenue bonds and funds generated from operations.

The Authority and the City of Wilmington entered into an interlocal agreement on May 6, 2009 to share jointly in the cost of providing water and sewer services to an area intended to be annexed by the City pursuant to North Carolina General Statutes. The agreement requires the City to install water distribution lines and sewer collection lines, water trunk mains and sewer capacity related improvements in the proposed annexation area. The City's share is estimated at \$9.9 million with the Authority's share estimated at \$7.7 million. The City will transfer ownership for all installed improvements to the Authority upon completion. In addition the City has agreed to the payment of \$393,500 in impact fees for 88 water and 87 sewer connections. At this time the city annexation plans remain unclear although the Authority is proceeding with constructing sewer capacity related improvements. The Authority's share of the cost is included in the total construction commitments disclosed above.

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 13. Commitments and Contingencies (Continued)

The Authority and the County entered into an agreement on June 14, 2012 in which the County has agreed to assist the Authority in financing and construction of the Kirkland Sewer Project. The County provided economic development funding to construct the Kirkland Sewer Project in the amount of \$650,000. The Authority will reimburse the County with capacity fees for new development collected from developers requiring sewer capacity for new development. At June 30, 2012, there were no capacity fees collected for reimbursement.

Federal and State Assisted Programs

The Authority has been approved to receive proceeds from federal grants under the American Recovery and Reinvestment Act of 2009 (ARRA). Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Billing and Collection Procedures

Each bill of the Authority includes charges levied on behalf of the City for stormwater and solid waste collection. In the event of partial payments of current charges, payments are applied to stormwater charges first, solid waste charges second, wastewater charges third and then to water charges. The Authority enforces collection procedures, including shutting off water service, on delinquent accounts. In compliance with the Interlocal Agreement, the Authority uses these same collection methods for delinquent stormwater and solid waste accounts. Payments are applied to the most delinquent billing period first with the proceeds satisfying the entire outstanding amount for that billing period to stormwater charges first, solid waste charges second, wastewater charges third and then to water charges. It is unclear whether the Authority has the legal authority to collect delinquent solid waste accounts on behalf of the City.

Note 14. Subsequent Events

On October 3, 2011, the Authority received notification from the North Carolina Department of Environment and Natural Resources that five of the Authority's capital projects were eligible to receive funding from the Clean Water State Revolving Fund (SRF) with a low interest loan. The eligible projects total \$8,065,000. Three of the projects have been approved for loan assistance and the Offer and Acceptance has been approved by the Authority. The interest rate on the loan is 2% per annum, with a term of 20 years. Principal payments will be made annually on May 1, and interest payments will be made semiannually on May 1 and November 1 of each year. The first principal and interest payments are not due until six months after the original date of completion of the projects.

Capital Projects approved for SRF loans:	
Between the Creeks & Pump Station 28 Refurbishment	\$390,000
30th Street Sewer Rehabilitation	\$1,750,000
McCumber's Ditch Sewer System Rehabilitation	\$1,250,000
	\$3,390,000
Capital Projects awaiting approval for SRF loans:	
Smith Creek 'Alandale' Pump Station	\$2,425,000
Greenfield Lake Sewer Outfall Rehabilitation	\$2,250,000
	\$4,675,000
Total	\$8,065,000

Cape Fear Public Utility Authority

Notes to Financial Statements

Note 14.Subsequent Events (Continued)

On January 10, 2012 the North Carolina Local Government Commission approved the Authority's State Revolving Loan of \$2,025,992 for the Burnt Mill Creek Phase II Sewer Improvement Project. The Authority executed the promissory note on July 25, 2012. The interest rate on the loan is 2.455% per annum, with a term of twenty years. Principal payments will be made annually on May 1, and interest payments will be made semiannually on May 1 and November 1 of each year. The first principal and interest payments are not due until six months after the original date of completion of the project.

In September, 2012 the County issued \$20,540,000 Refunding Limited Obligation Bonds, Series 2012, dated December 1, 2012 a portion of which was to refinance the remaining principal component of the County's 2003 Certificates of Participation dated March 1, 2003. The interest rate on the bonds range from 1% - 5% with final maturity on December 1, 2027. Debt service payments are scheduled semiannually at amounts that range from \$650,000-\$1,180,000. The 2003 Certificates of Participation that are being refinanced is a portion of the County's installment debt that the Authority assumed responsibility for pursuant to the inter-local agreement transferring the County's water and sewer system to the Authority.

Cape Fear Public Utility Authority

**Required Supplementary Information
Other Postemployment Benefits
Schedule of Funding Progress
2009-2012**

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

**Required Supplementary Information
Schedule of Employer Contributions
2009-2012**

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

Notes to the Required Schedules:

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

Valuation date	12/31/10
Actuarial cost method (1)	Entry Age Normal
Amortization method	Level dollar amount, closed
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Discount rate	4.0%
Salary increases	2.5%
Medical trend rate *	4.5%-9.0%
* Includes inflation at	2.5%

Cape Fear Public Utility Authority

**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) -
Operating Fund
For Year Ended June 30, 2012**

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues			
Water charges	\$ 31,213,000	\$ 29,993,330	\$ (1,219,670)
Sewer charges	31,322,000	31,121,904	(200,096)
Connection fees	413,000	405,388	(7,612)
Miscellaneous revenue	2,246,600	2,838,844	592,244
Total operating revenues	65,194,600	64,359,466	(835,134)
Nonoperating revenues			
System development charges	3,563,699	3,734,210	170,511
Investment earnings	822,620	786,528	(36,092)
Total nonoperating revenues	4,386,319	4,520,738	134,419
Total revenues	69,580,919	68,880,204	(700,715)
Expenditures			
General - administrative	5,370,912	4,829,021	541,891
Operations - water and sewer	20,952,640	19,121,073	1,831,567
Environment & safety management	2,225,192	2,043,771	181,421
Customer service	2,968,993	2,438,826	530,167
Nondepartmental	1,856,023	1,845,615	10,408
Debt service:			
Principal	11,467,190	11,432,400	34,790
Interest	14,676,733	14,666,732	10,001
Bond issuance costs	710,144	625,383	84,761
Repairs and maintenance	2,036,628	1,561,484	475,144
Capital outlay	1,072,197	829,405	242,792
Contingency	800,000	-	800,000
Total expenditures	64,136,652	59,393,710	4,742,942

(Continued)

Cape Fear Public Utility Authority

**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) -
Operating Fund (Continued)
For Year Ended June 30, 2012**

	Final Budget	Actual	Variance Positive (Negative)
Other financing sources (uses)			
Long-term obligations issued	1,024,870	1,016,622	(8,248)
Capital contributions	-	3,420	3,420
Transfers out - Capital Projects Funds	(9,548,015)	(9,548,015)	-
Refunding debt issued	3,121,619	3,121,619	-
Payment to refunded bond escrow agent	(3,577,059)	(3,577,058)	1
Appropriated fund balance	3,534,318	-	(3,534,318)
Total financing (uses)	(5,444,267)	(8,983,412)	(3,539,145)
 Revenues and other financing (uses) over expenditures	 \$ -	 \$ 503,082	 \$ 503,082

**Reconciliation of modified accrual basis
to full accrual basis:**

Revenues and other financing sources over expenditures - capital projects funds water and sewer	\$ 23,866,518
Capital contributions	1,851,664
Depreciation and amortization on capital assets	(16,107,252)
Amortization on bond issuance costs	(197,383)
Capital and intangible assets	38,595,711
Long-term obligations:	
Unamortized charge-interest expense	(358,872)
Unamortized bond discount/premium-interest expense	537,224
Accrued interest income	7,694
Accrued interest expense	(702,458)
Other post-employment benefits (OPEB)	(11,396)
Compensated absences accrual	(6,293)
Proceeds from long-term obligations	(48,553,144)
Principal on long-term obligations	16,959,046
Increase in net assets	\$ 16,384,141

Cape Fear Public Utility Authority

**Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) -
Capital Projects Funds - Water and Sewer
From Inception and For the Fiscal Year Ended June 30, 2012**

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue				
Investment earnings	\$ 4,675,230	\$ 5,833,077	\$ 168,038	\$ 6,001,115
Total revenue	4,675,230	5,833,077	168,038	6,001,115
Expenditures				
11th & Hanover Sewer Repair	260,939	104,890	156,048	260,938
23rd Street	250,000	-	37,556	37,556
30" Raw Water Main Rehab	6,385,727	5,210,058	32,638	5,242,696
6th St. Sewer Repair	195,648	135,897	59,750	195,647
Airport Sewer Main Replacement	169,918	150,548	19,370	169,918
Annex 1995 Area Water System	136,202	55,910	-	55,910
Annex 95 & 98 Water Lines	876,574	5,286	-	5,286
Annex 98-Sewer Extensions	3,380,835	81,857	185,520	267,377
Aquifer Storage Retrieval	3,007,515	1,002,260	32,297	1,034,557
Aquifer Sustain & Monitor	500,000	30,000	110,472	140,472
ARV Replacement	100,000	-	-	-
Asset Mgmt Implementation Study	3,058,274	2,203,572	408,146	2,611,718
Between the Creeks	394,750	-	36,455	36,455
Burnt Mill Creek Outfall	3,657,429	3,454,013	(183,620)	3,270,393
Campbell St. Sewer Repair	315,816	2,450	313,365	315,815
Collection System Rehab	678,911	-	15,268	15,268
Country Haven PS Upgrade	2,604,940	212,277	399,374	611,651
Downtown Sewer Rehab/Assessment	2,981,037	740,731	40,006	780,737
Downtown Water Line Rehab	1,687,015	1,183,187	-	1,183,187
Environmental Services Building	4,596,830	4,389,998	(4,657)	4,385,341
Find It/Fix it Repairs	2,034,471	34,470	-	34,470
Foxwood Lane Interconnect	36,000	-	-	-
General W&S Projects-NHC	881,017	791,997	-	791,997
GIS & CMMS Updates	94,231	80,769	4,834	85,603
GIS As-built Entry/Mapping	197,845	47,845	-	47,845
Gleason Sewer Cave-In	239,057	225,712	13,344	239,056
Grace St. 900 Block	1,850	1,850	(450)	1,400
Grathwol-Kings Grant Interconnect	24,693	17,885	6,807	24,692
Groppo Cove & Haymarket	125,000	-	-	-
Heritage Park Pump Station	410,000	-	-	-
Heritage Park Water	771,362	16,765	13,769	30,534
Infiltration Inflow I&E	1,644,254	676,386	776,728	1,453,114
Kerr & McCelland Sewer	155,083	153,082	1,088	154,170
Manhole Rehab	592,250	406	280,512	280,918
Meter Replacement Program	245,000	99,616	-	99,616
Middle Sound Sewer-NHC	3,410,681	1,653,507	93,655	1,747,162
Myrtle Landing Subdivision	332,000	-	5,000	5,000
N Third St Streetscape - Sewer	1,476,031	193,696	699,347	893,043
N. Third St. Streetscape - Water	1,300,339	-	673,195	673,195
Nano Generator Repairs	115,240	115,726	(486)	115,240
Nano Market St. Feeder	64,100	14,870	11,731	26,601
NEI Rehab Project-PS 34-35	9,374,565	5,612,578	190,604	5,803,182

(Continued)

Cape Fear Public Utility Authority

**Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) -
Capital Projects Funds - Water and Sewer (Continued)
From Inception and For the Fiscal Year Ended June 30, 2012**

	Project Ordinance	Actual		Total to Date
		Prior Years	Current Year	
Northern Route Force Main	17,257,861	4,961,559	39,815	5,001,374
NSWWTP Force Main	5,843,410	1,662,257	1,724,147	3,386,404
Ogden Interceptor	5,590,415	5,590,084	330	5,590,414
Phase I CB Rd Trans Main	650,500	94,558	-	94,558
Porters Neck Water System	1,035,004	1,033,626	1,376	1,035,002
PS 10-12	213,200	113,200	54,081	167,281
PS 34 Barscreen Replacement	1,428,451	208,240	313,706	521,946
Pump Station-Barnards & Motts Creek	6,955,208	251,996	3,161,726	3,413,722
Raw Water Pump Station	4,214,884	586,762	87,453	674,215
Relocate Utility Lines Per DOT	2,650,039	1,513,493	26,943	1,540,436
River Road Force Main	1,218,469	412,268	452,636	864,904
Riverside Subdivision Project	160,055	-	-	-
S. College Hardess Interconnect	35,000	-	-	-
Scada Telemetry Enhancement	705,705	29,150	-	29,150
Sewer Emergency Repair	1,569,838	1,437,386	60,240	1,497,626
SSWWTP Rehab & Upgrade	8,453,807	5,818,937	2,006,282	7,825,219
Sweeney WTP Exp To 40 MGD	73,832,722	54,711,807	15,042,782	69,754,589
System Interconnects	985,464	4,878	2,300	7,178
System Wide OCCP Facility	2,247,345	1,963,166	67,975	2,031,141
Toomers Creek Water Line	217,979	218,335	(356)	217,979
US 421 Regional WWTP	788,742	745,900	3,440	749,340
Vactor Bay Building	450,000	11,063	337,350	348,413
Water Emergency Repair	2,192,848	65,837	-	65,837
Water Laterals & Services	150,000	-	-	-
Water System Enhancements-NHC	990,630	958,009	-	958,009
Water Valve Replacement	300,000	13,690	271	13,961
Wellfield & Water Treatment Plant-NHC	28,342,999	27,963,537	142,150	28,105,687
Thurgood & Ashby Sewer Repair	28,550	-	7,787	7,787
Mineral Springs Bank Restoration	84,876	-	84,875	84,875
Burnt Mill Sewer Rehab (Hoggard & Rosemont C	290,595	-	290,595	290,595
Northchase Sewer Repair	29,216	-	29,215	29,215
South 17th Street 600 Block	148,750	-	115,247	115,247
Lincoln/Oleander Dr Sewer Repair	120,000	-	4,462	4,462
30th Street Sewer Replacement	250,000	-	27,905	27,905
Greenfield Lake Outfall Rehabilitation	250,000	-	49,863	49,863
McCumber's Ditch Outfall Rehab	1,250,000	-	20,000	20,000
PS 11/Downtown Watershed	1,660,000	-	-	-
39th and Park Sewer Repair	151,000	-	74,050	74,050
Collection System Assessment	500,000	-	-	-
Pressure Pipe Assessment	500,000	-	46,727	46,727
North 5th Street Sewer Repair	9,700	-	8,200	8,200
College & Kerr Ave Sewer Repair	379,000	-	346,419	346,419
Burnt Mill Creek Manhole Repair	500,000	-	-	-
3rd and Wooster Sewer Repair	96,420	-	79,941	79,941
3rd and Burger King	40,000	-	17,980	17,980
Alandale PS Removal Project	300,000	-	24,609	24,609
Gore's Alley Sewer Emergency	45,700	-	40,602	40,602

(Continued)

Cape Fear Public Utility Authority

**Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) -
Capital Projects Funds - Water and Sewer (Continued)
From Inception and For the Fiscal Year Ended June 30, 2012**

	Project Ordinance	Prior Years	Actual	
			Current Year	Total to Date
Capacity Mgmt Flow Reduction	100,000	-	2,430	2,430
PS 89 - 24" Valve Installation	144,500	-	126,398	126,398
Bluepoint FM Sewer Repair	272,975	-	184,901	184,901
15th Street Sewer ER	160,500	-	136,490	136,490
Kilarny & Pine Grove Dr	37,480	-	14,684	14,684
Princess St 700-800 Block	6,200	-	3,760	3,760
Burnt Mill Creek Outfall Repair Phase 2	3,542,054	-	259,697	259,697
Barnards Creek SSO	555,000	-	49,049	49,049
Rogersville & Eastwood	359,000	-	292,262	292,262
Walnut Hills WTP Demo	50,000	-	10,536	10,536
Wright Street 600-700 Block	58,000	-	4,860	4,860
Walnut Street 1100-1200 Block	58,000	-	4,860	4,860
10th and Fanning Streets	486,000	-	196,242	196,242
10th and Orange Streets	251,000	-	39,214	39,214
13th Street Sewer Relay	256,000	-	-	-
Kirkland Capacity Expansion	650,000	-	-	-
Walnut Street 300-400 Block	46,000	-	4,465	4,465
Red Cross Street 300-400 Block	41,000	-	2,993	2,993
Walnut & Tenth Streets	57,000	-	4,230	4,230
Rankin & 10th Streets	66,000	-	6,288	6,288
Borden Avenue	46,000	-	4,249	4,249
Brookwood Avenue South	39,000	-	2,631	2,631
Dock Street - 900 Block	259,000	-	2,750	2,750
Smith Creek Rehab	1,200,000	-	5,788	5,788
PS 10 FM Repairs	25,000	-	2,830	2,830
23rd Street 30 inch Force Main Repair	540,580	-	8,148	8,148
Colwell Street 1900 Block Sewer	36,000	-	1,400	1,400
30th Street Water Replacement	250,000	-	-	-
Southern Transmission Mains	500,000	-	36,270	36,270
Lords Creek Interconnections	104,000	-	7,857	7,857
Figure 8 Island	1,000	-	-	-
Pender US 17 North	1,000	-	-	-
GIS and As-built Integration	50,000	-	-	-
SCADA Master Plan	250,000	-	35,000	35,000
Large Water Valve	285,000	-	22,545	22,545
Raw Water Transmission	166,400	-	38,466	38,466
Faulkenberry Waterline	6,750	-	1,900	1,900
16" Water Main-Burnett/Carolina Beach Rd	53,500	-	1,750	1,750
Water Intake Improvements	100,000	-	72,685	72,685
Large Equipment Purchases-Sewer	564,416	-	214,566	214,566
COW-NHC Water System Study	241,060	199,222	13,005	212,227
GIS As-built Integration	141,211	45,085	-	45,085
Kerr Ave Waterline	616,882	76,912	34,515	111,427
Completed Projects-Prior Years	21,325,585	21,325,568	-	21,325,568
Total expenditures	267,876,904	160,716,619	31,070,504	191,787,123
Revenue (under) expenditures	(263,201,674)	(154,883,542)	(30,902,466)	(185,786,008)

(Continued)

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) -
Capital Projects Funds - Water and Sewer (Continued)
From Inception and For the Fiscal Year Ended June 30, 2012

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Other financing sources				
Long-term obligations issued	192,268,469	152,024,732	44,414,904	196,439,636
Capital contributions	2,896,413	1,733,285	806,065	2,539,350
Transfers in - Operating Fund	21,670,295	10,788,500	9,548,015	20,336,515
Appropriated fund balance	46,366,497	-	-	-
Total other financing sources	263,201,674	164,546,517	54,768,984	219,315,501
Revenue and other financing sources over expenditures				
	\$ -	\$ 9,662,975	\$ 23,866,518	\$ 33,529,493

Statistical Section

This Page Was Intentionally Left Blank

Statistical Section Overview

Financial Trends:

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

Net Assets by Component
Changes in Net Assets

Revenue Capacity:

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

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

Debt Capacity:

The schedule represents the ratio of debt to revenue.

Pledged-Revenue Coverage
Ratios of Outstanding Debt by Type

Demographic and Economic Information:

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

Demographic Statistics
Full Time Equivalent Employees

Operating Information:

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

Water Production and Wastewater Treatment
Operating Statistics

Sources:

Unless otherwise noted, the information included in these schedules and charts is derived from the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012 and is provided for additional analysis purposes only and has not been verified by audit as presented.

Cape Fear Public Utility Authority

**Net Assets By Component
Last Four Fiscal Years
(Accrual Basis of Accounting)**

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009, Restated (1)
Invested in capital assets, net of related debt	\$ 288,506,512	\$ 287,538,728	\$ 295,307,938	\$ 293,467,066
Unrestricted	<u>87,463,234</u>	<u>72,046,877</u>	<u>64,280,334</u>	<u>60,460,682</u>
Total net assets	<u>\$ 375,969,746</u>	<u>\$ 359,585,605</u>	<u>\$ 359,588,272</u>	<u>\$ 353,927,748</u>

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

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

(1) Statement of Net Assets was restated in fiscal year 2009 to reflect a change in accounting principle.

Cape Fear Public Utility Authority

**Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)**

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009, Restated (1)
Operating revenues				
Charges for services	\$ 61,115,234	\$ 57,086,229	\$ 47,524,673	\$ 42,726,268
Other operating revenues	3,233,216	2,671,784	2,313,214	139,595
Total operating revenues	64,348,450	59,758,013	49,837,887	42,865,863
Operating expenses				
Personnel and benefits	15,316,759	15,176,175	17,038,778	17,714,505
Services and utilities	11,674,355	10,557,920	10,783,853	11,375,036
Materials	2,800,466	3,630,676	2,431,060	3,264,294
Depreciation and amortization	16,107,252	14,283,401	13,096,230	12,400,153
Total operating expenses	45,898,832	43,648,172	43,349,921	44,753,988
Operating income (loss)	18,449,618	16,109,841	6,487,966	(1,888,125)
Nonoperating revenues (expenses)				
Investment earnings	962,260	738,453	4,105,897	5,970,732
Interest expense	(10,500,330)	(13,011,609)	(10,909,406)	(9,674,421)
Bond issuance costs	(625,383)	(131,224)	(104,215)	(100,183)
Amortization of bond issuance costs	(197,383)	(230,087)	(235,208)	(432,912)
Contributions from the City of Wilmington and New Hanover County	1,900,000	1,900,000	1,900,000	64,627,498
Total nonoperating revenues (expenses)	(8,460,836)	(10,734,467)	(5,242,932)	60,390,714
Income before capital contributions, special items and extraordinary items	9,988,782	5,375,374	1,245,034	58,502,589
Capital contributions from the City of Wilmington and New Hanover County	-	-	-	285,873,980
Capital contributions	6,395,359	2,813,350	7,982,758	9,551,179
Special impairment of capital assets	-	(8,191,391)	(2,275,200)	-
Extraordinary impairment of capital assets	-	-	(1,292,068)	-
Total capital contributions, special and extraordinary items	6,395,359	(5,378,041)	4,415,490	295,425,159
Increase (decrease) in net assets	16,384,141	(2,667)	5,660,524	353,927,748
Net assets				
Beginning of year	359,585,605	359,588,272	353,927,748	-
End of year	\$ 375,969,746	\$ 359,585,605	\$ 359,588,272	\$ 353,927,748

Source: CFPWA Water and Sewer Authority's Comprehensive Annual Financial Report

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

Cape Fear Public Utility Authority

Schedule of User Rates Last Four Fiscal Years

	Fiscal Year			
	2012(1)	2011 (1)	2010 (1)	2009
Water Rates				
Water Fixed Rate (bi-monthly)	25.81	\$ 24.99	\$ 21.89	\$ 15.20
Water Variable Rate:				
0 - 9,000 gallons	N/A	N/A	\$ 2.22	\$ 1.95
9,001 - 18,000 gallons	N/A	N/A	\$ 3.36	\$ 2.95
18,001+ gallons	N/A	N/A	\$ 4.50	\$ 3.95
0 - 12,000 gallons	2.64	\$ 2.64	N/A	N/A
12,001 - 24,000 gallons	3.96	\$ 3.96	N/A	N/A
Over 24,000 gallons	5.28	\$ 5.28	N/A	N/A
Irrigation (5)	3.36	\$ 2.64	N/A	N/A
Non-Residential	3.96	\$ 3.96	\$ 3.36	\$ 2.95
Average bi-monthly residential bill (4)	52.21	\$ 51.39	\$ 45.23	\$ 35.70
Sewer Rates				
Sewer Fixed Rate (bi-monthly)	26.68	\$ 26.68	\$ 23.37	\$ 16.50
Sewer Variable Rate (2)	4.04	\$ 3.59	\$ 3.14	\$ 2.75
Sewer Flat Rate (3)	123.64	\$ 112.84	\$ 98.73	\$ 82.50
Average bi-monthly residential bill (4)	67.08	\$ 62.58	\$ 54.77	\$ 44.00

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

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

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

(3) Sewer flat rate charge when Authority water is not available.

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

(5) Board adopted lower irrigation rate to discourage irrigation wells.

For years 2009 and 2010, irrigation rates were set at the over 24,000 gallons rate.

Cape Fear Public Utility Authority

**Principal Employers
Current Fiscal Year and Three Years Ago**

2012			
Employer	Employees (1)	Rank	Percentage of Total County Employment
New Hanover Regional Medical Center	4,738	1	4.45%
New Hanover County Schools	3,666	2	3.44%
Wal-Mart Stores	2,592	3	2.43%
GE Wilmington	2,100	4	1.97%
The University of North Carolina at Wilmington	1,898	5	1.78%
PPD, Inc.	1,500	6	1.41%
New Hanover County	1,480	7	1.39%
Verizon Wireless	1,346	8	1.26%
Corning, Inc.	1,000	9	0.94%
City of Wilmington	981	10	0.92%
			19.99%
Total # Employed at June 30 of the respective FY (2)			106,569

2009			
Employer	Employees (3)	Rank	Percentage of Total County Employment
New Hanover Regional Medical Center	4,890	1	5.10%
New Hanover County Schools	4,130	2	4.30%
GE Wilmington	3,000	3	3.13%
The University of North Carolina at Wilmington	1,810	4	1.89%
New Hanover County	1,670	5	1.74%
PPD, Inc.	1,420	6	1.48%
Cape Fear Community College	1,260	7	1.31%
City of Wilmington	1,200	8	1.25%
Verizon Wireless	1,200	9	1.25%
Corning, Inc.	1,000	10	1.04%
			22.49%
Total # Employed at June 30 of the respective FY (2)			95,964

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

(1) Source: Wilmington Chamber of Commerce.

(2) Source: North Carolina Employment Security Commission.

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

Cape Fear Public Utility Authority

Principal Water Customers
Current Fiscal Year and Three Years Ago

Rank	Water Customer	2012				Rank	Water Customer	2009 *			
		Thousand Gallons	% of System	Revenue (\$)	% of Revenue			Thousand Gallons	% of System	Revenue (\$)	% of Revenue
1	UNC Wilmington	170,172	3.15%	\$ 716,357	2.35%	1	UNC Wilmington	136,483	2.34%	\$ 430,613	1.89%
2	New Hanover Regional Medical Center	59,221	1.10%	280,798	0.92%	2	New Hanover County	63,232	1.08%	232,431	1.02%
3	New Hanover County Schools	51,685	0.96%	322,386	1.06%	3	New Hanover Regional Medical Center	61,473	1.05%	211,318	0.93%
4	New Hanover County	38,079	0.70%	229,145	0.75%	4	NC State Ports Authority	58,768	1.01%	134,943	0.59%
5	Wilmington Housing Authority	37,422	0.69%	181,080	0.60%	5	New Hanover County Schools	47,862	0.82%	208,756	0.92%
6	Tribute Properties	32,791	0.61%	257,418	0.85%	6	Wilmington Housing Authority	40,956	0.70%	137,433	0.60%
7	College Manor Apartments	31,032	0.57%	142,864	0.47%	7	Lake Forest Apartments	30,088	0.52%	97,305	0.43%
8	Lake Forest Apartments	29,306	0.54%	128,283	0.42%	8	College Manor Apartments	23,411	0.40%	80,985	0.36%
9	Mayfaire Complex	27,112	0.50%	194,082	0.64%	9	Mayfaire Complex	22,955	0.39%	119,091	0.52%
10	City of Wilmington	25,392	0.47%	186,388	0.61%	10	Elements Chromium	22,469	0.39%	58,243	0.26%
Total Net Consumption/Net Revenue		<u>502,212</u>	<u>9.30%</u>	<u>\$ 2,638,801</u>	<u>8.67%</u>	Total Net Consumption/Net Revenue		<u>507,697</u>	<u>8.70%</u>	<u>1,711,116</u>	<u>7.50%</u>
Total Annual System Net Consumption/Net Revenue		<u>5,402,454</u>		<u>\$30,431,045</u>		Total Annual System Net Consumption/Net Revenue		<u>5,834,129</u>		<u>\$22,781,177</u>	

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

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

Principal Sewer Customers
Current Fiscal Year and Three Years Ago

Rank	Sewer Customer	2012				Rank	Sewer Customer	2009 *			
		Thousand Gallons	% of System	% of Revenue (\$)	% of Revenue			Thousand Gallons	% of System	% of Revenue (\$)	% of Revenue
1	Town of Wrightsville Beach	207,561	4.18%	\$ 346,627	1.11%	1	Town of Wrightsville Beach	214,743	4.42%	220,364	1.00%
2	UNC Wilmington	102,554	2.06%	421,251	1.35%	2	UNC Wilmington	87,800	1.81%	269,249	1.22%
3	New Hanover Regional Medical Center	57,991	1.17%	263,030	0.84%	3	New Hanover Regional Medical Center	54,042	1.11%	176,741	0.80%
4	New Hanover County Schools	50,996	1.03%	311,645	1.00%	4	New Hanover County Schools	45,665	0.94%	199,592	0.90%
5	Wilmington Housing Authority	37,335	0.75%	171,391	0.55%	5	Wilmington Housing Authority	40,652	0.84%	129,175	0.58%
6	New Hanover County	35,249	0.71%	197,141	0.63%	6	New Hanover County	34,744	0.72%	132,783	0.60%
7	Tribute Properties	32,203	0.65%	286,588	0.92%	7	Lake Forest Apartments	30,080	0.62%	92,040	0.42%
8	College Manor Apartments	31,032	0.62%	134,654	0.43%	8	Mayfaire Complex	25,303	0.52%	125,124	0.57%
9	Lake Forest Apartments	29,306	0.59%	119,139	0.38%	9	Tribute Properties	24,536	0.51%	154,676	0.70%
10	Mayfaire Complex	26,702	0.54%	188,417	0.60%	10	College Manor Apartments	23,411	0.48%	77,352	0.35%
Total Net Consumption/Net Revenue		<u>610,929</u>	<u>12.30%</u>	<u>\$ 2,439,882</u>	<u>7.80%</u>	Total Net Consumption/Net Revenue		<u>580,976</u>	<u>11.96%</u>	<u>1,577,096</u>	<u>7.14%</u>
Total Annual System Net Consumption/Net Revenue		<u>4,966,659</u>		<u>\$ 31,278,202</u>		Total Annual System Net Consumption/Net Revenue		<u>4,856,146</u>		<u>\$ 22,089,335</u>	

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

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

Cape Fear Public Utility Authority

**Consumption by Customer Group
Last Four Fiscal Years**

	2012		2011		2010 (1)		2009 (1)	
	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption
Water Customers								
Residential	3,806,074	70.45%	3,887,894	70.88%	3,652,988	70.13%	4,152,536	71.17%
Commercial	1,059,983	19.62%	1,075,703	19.61%	1,032,322	19.82%	1,094,936	18.77%
Industrial	62,267	1.15%	62,278	1.13%	57,719	1.11%	102,707	1.76%
Institutional and Governmental	474,130	8.78%	459,656	8.38%	465,940	8.94%	483,950	8.30%
 Total	5,402,454	100.00%	5,485,531	100.00%	5,208,969	100.00%	5,834,129	100.00%
 Sewer Customers								
Residential	3,424,127	68.94%	3,497,483	68.98%	3,329,608	69.30%	3,543,624	72.97%
Commercial	941,927	18.97%	957,062	18.88%	842,782	17.54%	869,266	17.90%
Town of Wrightsville Beach	207,561	4.18%	214,479	4.23%	234,303	4.88%	214,743	4.42%
Pender County	11,550	0.23%	16,224	0.32%	13,550	0.28%	14,139	0.30%
Industrial	16,197	0.33%	18,219	0.36%	23,060	0.48%	24,964	0.51%
Institutional and Governmental	365,297	7.35%	366,618	7.23%	361,467	7.52%	189,410	3.90%
 Total	4,966,659	100.00%	5,070,085	100.00%	4,804,770	100.00%	4,856,146	100.00%

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

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

Water includes domestic and irrigation connections.

Cape Fear Public Utility Authority

Schedule of New Connections Last Four Fiscal Years

Fiscal Year Ended June 30	Increase In Available Services Water (1)(2)(3)	Cumulative Available Services Water (2)	% Water Growth - Available Services	Increase In Water Connections (2)	Cumulative Water Connections	% Water Growth - Connections
2012	889	67,489	1.33%	549	65,539	0.84%
2011	1,675	66,600	2.58%	1,877	64,990	2.97%
2010	1,390	64,925	2.19%	485	63,113	0.77%
2009		63,535			62,628	

Fiscal Year Ended June 30	Increase In Available Services Sewer (2)(3)	Cumulative Available Services Sewer (3)	% Sewer Growth - Available Services	Increase In Sewer Connections	Cumulative Sewer Connections	% Sewer Growth - Connections
2012	199	64,529	0.31%	352	63,428	0.56%
2011	537	64,330	0.84%	255	63,076	0.41%
2010	1,497	63,793	2.40%	683	62,821	1.10%
2009		62,296			62,138	

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

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

Cape Fear Public Utility Authority

**Pledged-Revenue Coverage
Water and Sewer Revenue Bonds
Last Four Fiscal Years**

Fiscal Year Ended June 30	Gross Revenues (1)	Less Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Total Debt Service	Debt Coverage Ratio
2012							
Parity Debt Coverage Ratio	\$ 69,045,118	\$ 30,405,567	\$ 38,639,551	\$ 6,919,113	\$ 11,894,186	\$ 18,813,299	2.05
Total Debt Coverage Ratio				\$ 12,006,657	\$ 13,283,201	\$ 25,289,858	1.53
2011 (3)							
Parity Debt Coverage Ratio	\$ 62,820,928	\$ 29,378,869	\$ 33,442,059	\$ 3,329,579	\$ 8,612,881	\$ 11,942,460	2.80
Total Debt Coverage Ratio				\$ 9,147,645	\$ 11,160,138	\$ 20,307,783	1.65
2010 (4)							
Parity Debt Coverage Ratio	\$ 53,457,074	\$ 29,314,125	\$ 24,142,949	\$ 2,320,562	\$ 5,220,454	\$ 7,541,016	3.20
Total Debt Coverage Ratio				\$ 8,706,072	\$ 8,092,789	\$ 16,798,861	1.44
2009 (4)							
Parity Debt Coverage Ratio	\$ 47,783,403	\$ 31,517,799	\$ 16,265,604	\$ 2,232,043	\$ 4,040,421	\$ 6,272,464	2.59
Total Debt Coverage Ratio				\$ 7,987,738	\$ 7,508,261	\$ 15,495,999	1.05

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

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

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

(3) Debt coverage ratios for fiscal year ended June 30, 2011 was restated due to a restatement of investment earnings.

(4) Debt coverage ratios for fiscal years ended June 30, 2010 and 2009 were restated to be consistent with fiscal year ended June 30, 2011.

Cape Fear Public Utility Authority

**Ratios of Outstanding Debt by Type
Last Four Fiscal Years**

Fiscal Year	Revenue Bonds	General	ARRA	Installment Obligations	Capital	Total	% of	Per
		Obligation Bonds	Revolving Loan		Leases		Personal Income (1)	
2012	\$ 293,217,535	\$ 7,759,279	\$ 444,323	\$ 37,297,244	\$ 14,171	\$ 338,732,552	N/A	\$ 1,643
2011	255,556,814	11,712,630	330,545	39,918,647	179,315	307,697,951	N/A	1,518
2010	259,225,928	16,371,000	-	42,475,207	413,381	318,485,516	N/A	1,641
2009	261,888,896	21,605,709	-	45,007,970	155,324	328,657,899	0.014%	1,710

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

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

Cape Fear Public Utility Authority

**Demographic Statistics
Last Four Fiscal Years**

Fiscal Year Ended June 30	City of Wilmington Population (1)	New Hanover County Population (1)	Median Age (1)	Public School Enrollment (2)	Local Unemployment Rate % (3)	Personal Income (4)	Per Capita Income (4)
2012	108,297	206,189	37.54	25,253	9.3%	N/A	N/A
2011	106,476	202,667	36.7	23,934	10.1%	N/A	N/A
2010	102,207	194,054	38.5	23,643	9.4%	N/A	N/A
2009	101,526	192,235	38	23,614	9.0%	\$ 44,719	\$ 29,148

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

(1) US Census Bureau.

(2) Enrollment provided by the NHC Public Schools.

(3) North Carolina Employment Security Commission.

(4) Provided by US Census Bureau; data provided for as many years as available.

Cape Fear Public Utility Authority

**Full Time Equivalent Employees
Last Four Fiscal Years**

Departments	2012	2011	2010	2009
General and Administrative				
Administration	5	5	6	7
Human Resources	4	4	4	4
Finance/Information Technology	14	15	15	16
Engineering	22	22	24	25
Operations				
Administration/Warehouse	9	9	9	9
Utility Services - Lines and Meters	43	43	55	55
Water Treatment	30	30	31	31
Wastewater Treatment	40	40	41	41
Sewer Collections	53	53	49	49
Environmental & Safety Management	29.5	30.5	29.5	30.5
Customer Service	42	41	41	42
Total FTE's	291.5	292.5	304.5	309.5

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

Cape Fear Public Utility Authority

**Water Production and Wastewater Treatment
(thousands of gallons)
Last Seven Fiscal Years**

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

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

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

Cape Fear Public Utility Authority

Operating Statistics Last Four Fiscal Years

	Fiscal Year			
	2012	2011	2010	2009
Water System				
Number of available service connections	67,489	66,600	64,925	63,535
Number of treatment plants - surface water system	1	1	1	1
Treatment capacity (mgd) - surface water	35	27.5	27.5	27.5
Average production (mgd) - surface water	13.5	13.7	13.3	14.3
Number of groundwater systems	3	3	3	3
Number of treatment plants - groundwater system (1)	1	1	1	-
Number of wells - groundwater system	36	36	36	36
Treatment capacity (mgd) - groundwater plant	6	6	6	-
Treatment capacity (mgd) - other groundwater systems	0.7	0.7	0.7	7.0
Average production (mgd) - groundwater	2.95	3.2	3.3	3.1
Miles of water mains	1072	1070 (3)	1,129	1,103
Wastewater System				
Number of available service connections	64,529	64,330	63,793	62,296
Number of treatment plants	3	3	3	3
WPC plant permit (mgd)	22.1	22.1	22.1	22.1
Average annual daily flow (mgd)	15.1	15.8	16.8	15.6
Number of lift stations	141	141	142	142
Miles of sewer gravity mains	840	840	881	877
Miles of sewer force mains (2)	104	104	100	100
Number of Manholes	20,300	20,300	N/A	N/A

Source: Cape Fear Public Utility Authority Records

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

- (1) During FY 2010, a groundwater treatment plant began operations providing advanced treatment for the largest of the three groundwater systems and resulted in a .3 mgd reduction in total treatment capacity.
- (2) Prior years restated based on more accurate data from the Authority's Operations Division.
- (3) Current year number is based on more accurate information as a result of implementing an asset management system.

This Page Was Intentionally Left Blank

Compliance Section

This Page Was Intentionally Left Blank



CERTIFIED PUBLIC ACCOUNTANTS

4024 Oleander Drive Suite 3

Wilmington, North Carolina 28403

Telephone (910) 799-4872

Fax (910) 395-4872

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

In planning and performing our audit of the financial statements of the business-type activities of Cape Fear Public Utility Authority as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Cape Fear Public Utility Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cape Fear Public Utility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cape Fear Public Utility 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

This communication is intended solely for the information and use of those charged with governance within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Thompson, Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A.
October 22, 2012

Cape Fear Public Utility Authority

Schedule of Expenditures of Federal and State Awards For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
<u>U.S. Environmental Protection Agency</u>					
Passed-through the N.C. Dept. of Environment and Natural Resources:					
Division of Environmental Health:					
ARRA - DWSRF Revolving Loan	66.468	DEH-1314	\$ 30,502	\$ -	\$ -
ARRA - DWSRF Principal Forgiveness Loan	66.468	DEH-1314	30,502	-	-
			61,003	-	-
Total U.S. Environmental Protection Agency			61,003	-	-
Total federal awards			\$ 61,003	\$ -	\$ -

Notes to the Schedule of Expenditures of Federal and State Awards:

Note 1. Basis of Presentation

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

Note 2. Loans Outstanding

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 will be drawn down as expenditures are paid on a certain capital project, to a maximum of \$2,716,357. Half of the loan amount is subject to immediate principal forgiveness under an American Recovery and Reinvestment Act of 2009 (ARRA) program awarded by the Environmental Protection Agency (EPA) through the State Revolving Fund program administered by DENR. The remaining \$1,358,179 will be due in 20 equal, annual installments of \$67,909, commencing on May 1 immediately following the completion of the project. The loan does not bear interest. At June 30, 2012, \$888,645 of this loan had been drawn down of which \$444,323 is recorded as an outstanding loan as of June 30, 2012.

Supplemental Schedule - Statement of Revenues and Expenditures
Aquifer Storage Retrieval
Project No. 09W113
For the Period 07/01/2008 to 06/30/2012

Statement of Revenues

Source of Funds:

Federal Funds Received:

ARRA - DWSRF Revolving Loan	\$ 444,323
ARRA - DWSRF Principal Forgiveness Loan	444,322

Federal Funds Not Yet Reimbursed:

ARRA - DWSRF Revolving Loan	55,608
ARRA - DWSRF Principal Forgiveness Loan	55,608

Total Sources of Funds	<u><u>\$ 999,860</u></u>
------------------------	--------------------------

Statement of Expenditures

Construction Cost

1. Sydnor Hydro Inc., Part A-Well Drilling	\$ 570,461
--	------------

Engineering Fees	369,950
------------------	---------

Administrative Expense

1. NCDENR Closing Costs	54,327
2. Administration and Legal	4,821
4. Signage	301

Total Statement of Expenditures	<u><u>\$ 999,860</u></u>
---------------------------------	--------------------------

Note: Total expenditures as reported on the Schedule of Federal and State Awards were as follows:

Fiscal year ended June 30, 2010	\$ 380,407
Fiscal year ended June 30, 2011	558,450
Fiscal year ended June 30, 2012	61,003
	<u><u>\$ 999,860</u></u>

Total Loan reported in Long-Term Debt:

Fiscal year ended June 30, 2011	\$ 330,545
Fiscal year ended June 30, 2012	113,778
	<u><u>\$ 444,323</u></u>

Amount Reimbursed to Date	\$ 888,645
---------------------------	------------

This Page Was Intentionally Left Blank