



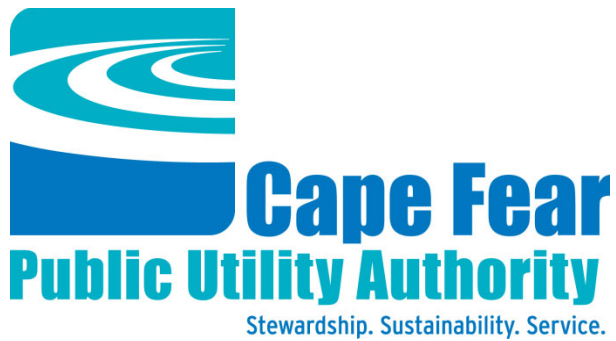
Cape Fear Public Utility Authority

New Hanover County, N.C.



Annual Comprehensive Financial Report

For the Fiscal Year ended June 30, 2022



**CAPE FEAR PUBLIC UTILITY AUTHORITY
NEW HANOVER COUNTY, NORTH CAROLINA**

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2022**

Board Members

Jennifer Adams, Chairman
Wesley P. Corder, Vice Chairman
William Norris, Treasurer
Jessica Cannon, M.D., Secretary
Commissioner Jonathan Barfield, Jr.
Hollis B. Briggs, Jr.
Deans Hackney
Councilman Charlie Rivenbark
Larry Sneed
Councilman Luke Waddell
Commissioner Rob Zapple

Executive Director

Kenneth Waldroup, PE

Deputy Executive Director & Chief Financial Officer

John B. McLean, CPA

This Report Was Prepared By:

**Cape Fear Public Utility Authority
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Cape Fear Public Utility Authority
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INTRODUCTORY SECTION

(Unaudited)



October 4, 2022

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

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) of the Cape Fear Public Utility Authority (the Authority) for the fiscal year ended June 30, 2022. 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, 2022, and to provide further accountability to customers, bondholders, and other stakeholders by providing a more comprehensive report in lieu of the minimum basic financial statement requirements.

The Authority's management is responsible for the completeness and reliability of the information contained in this report and maintains a comprehensive framework of internal control that it has established for this purpose. As noted earlier, the Authority is required by state law to have an annual independent financial audit. Mauldin & Jenkins, LLC conducted the audit and issued an unmodified ("clean") opinion that the financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2022, and changes in financial position and its cash flows in conformity with GAAP. The independent auditor's report on the basic financial statements is located at the beginning of the financial section of this report on pages 18-21.

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 for the year ended June 30, 2022. MD&A complements this letter and should be read in conjunction with it.

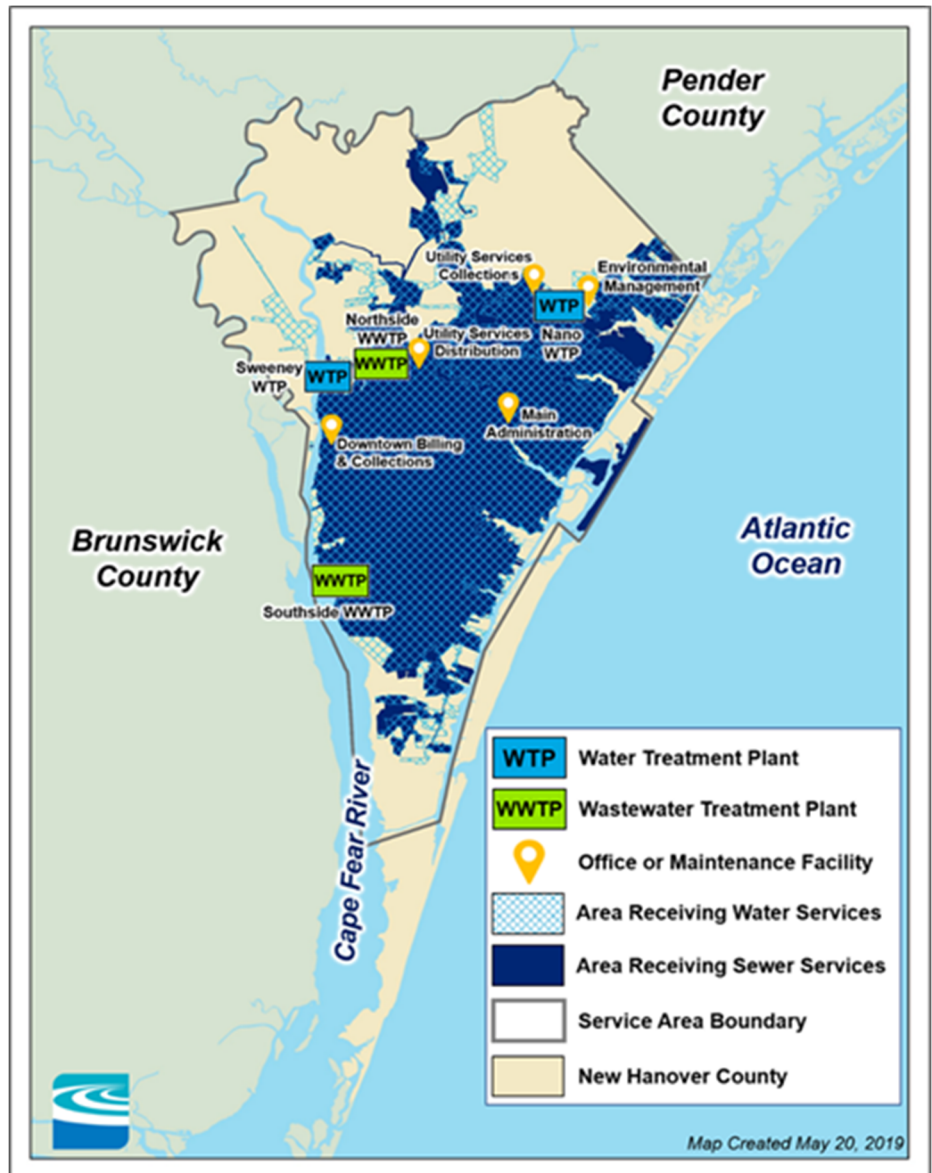
Authority Profile

The Authority was formed by the City of Wilmington and New Hanover County to combine the water and wastewater operations, and began operations on July 1, 2008. The Authority was established pursuant to the Chapter 162A, Article 1 of the North Carolina General Statutes, known as the North Carolina Water and Sewer Authorities Act. The Authority's service area consists of the City of Wilmington and areas of New Hanover County previously served by the New Hanover County Water and Sewer District (District). It does not include the municipalities of Carolina Beach, Kure Beach, and Wrightsville Beach; although by agreement, wastewater flows from Wrightsville Beach and a portion of

Pender County are conveyed to and treated by the Authority. The Authority entered into a wholesale water purchase agreement with the Town of Wrightsville Beach to supplement their water capacity during tourist season up to 1,152,000 gallons per day. New Hanover County's population is approximately 226,000 in an area encompassing approximately 220 square miles. Of this total, 21 square miles consist of water and wetlands. New Hanover County is the second smallest county in North Carolina by land area and is also the third most densely populated of the 100 counties. The County's beaches provide miles of unspoiled natural beauty and are the area's most popular tourist attractions. The County is the eastern terminus of Interstate Highway 40, a transcontinental route ending in Barstow, California.

An eleven-member board governs the Authority. The City and County appoint five members each, with four of those appointments (two each) coming from their respective governing boards. The eleventh member is jointly appointed. The Authority board is responsible for the adoption of the annual budget, setting water and wastewater rates, making policy decisions, and appointing the Executive Director and legal counsel.

The annual budget serves as the foundation for the Authority's financial planning and control. The annual operating budget is adopted by the Authority board at a functional level with capital project ordinances adopted on a multi-year basis. The Authority has a 10-year Capital Improvement Plan (CIP) that is updated and approved each year. 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 similar to a private enterprise, as services are funded by user fees and charges. Budget-to-actual comparisons are provided in this report for the annually appropriated operating fund. Multi-year capital projects are presented on a separate schedule with year to date and project-to-date information.



System Description

The Water System

The water system is composed of a surface water system and two groundwater systems with a combined treatment capacity of 43.31 million gallons per day (MGD) and 1,153 miles of water distribution mains. As of June 30, 2022 there were 74,133 premises with actively billed water and/or irrigation services, an increase of 1,720 compared to the previous year. The Authority also keeps seven wells on standby to supplement the water supply during emergencies or peak demand periods. Water production for the fiscal year totaled 7.34 billion gallons.

The Authority has a needs-based contract to purchase up to 23.0 MGD of raw water from the Lower Cape Fear Water and Sewer Authority (LCFWSA) with a term ending in 2030. Raw surface water is either drawn from the Cape Fear River through the Authority's 10.0 MGD raw water intake at King's Bluff or purchased through a connection with the LCFWSA at U.S. Highway 421. The raw surface water is pumped to the Sweeney Water Treatment Plant (SWTP), which provides potable water to the majority of the Authority's service area. The SWTP has a rated capacity of 35.0 MGD. Average production during the fiscal year ended June 30, 2022 was 16.10 MGD and peak production of 22.18 MGD. The surface water distribution system has been providing water service for more than 100 years and includes 16.0 million gallons of covered finished water storage and 5.5 million gallons of storage in four elevated tanks.

In October 2009, the Authority placed a Membrane-Filtration Groundwater Plant (the Richardson Water Treatment Plant, RWTP) into operation to serve the northeast section of the distribution system. The RWTP has a rated capacity of 7.0 MGD. The source of raw water is from 24 wells drawing from two different aquifers. The Membrane plant softens the groundwater and removes organic and inorganic contaminants to produce a blended groundwater that is followed by disinfection, pH adjustment, fluoridation, and corrosion control treatment. The Richardson Plant had a daily average production during the fiscal year ended June 30, 2022 of 3.15 MGD and peak production of 4.89 MGD. The Richardson distribution system provides water service to customers and includes 2.8 million gallons of covered ground storage and 2.1 million gallons of elevated storage in four elevated tanks. In addition, the Authority operates one smaller groundwater system, known as the Monterey Heights system, providing groundwater directly to customers from five wells and a single 0.5 million gallon elevated storage tank. The groundwater receives disinfection at each well site before being pumped to the distribution system and the storage tanks. Average production of the Monterey Heights system during the fiscal year ended June 30, 2022 was 0.89 MGD with peak production of 1.48 MGD.

The Wastewater System

As of June 30, 2022 there were 74,453 premises with actively billed wastewater service, an increase of 2,036 compared to the previous year. The Authority also provides wholesale wastewater treatment services to the Town of Wrightsville Beach and provides wastewater services to a portion of Pender County. The Authority's collection system consists of 927 miles of gravity lines, 23,067 manholes, 154 pump stations and 160 miles of pressurized wastewater force mains. Wastewater treated during the fiscal year totaled 6.25 billion gallons.

The Authority currently owns and operates the James A. Loughlin, or Northside Wastewater Treatment Plant (NSWWTP) and the M'Kean Maffitt, or Southside Wastewater Treatment Plant (SSWWTP). The NSWWTP is permitted to treat up to 16.0 MGD. The SSWWTP is permitted to treat up to 12.0 MGD. For the fiscal year ended June 30, 2022, the combined average daily flows were 17.11 MGD of the combined 28.0 MGD permitted. The NSWWTP and SSWWTP both use physical, chemical and biological processes to clean the wastewater. After the wastewater flows

are collected and treated, the treated effluent from the SSWWTP and the NSWWTP is discharged into the Cape Fear River. The Authority also has a hauled waste program delivering septage and other non-hazardous wastes to NSWWTP for processing.

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

Economic Condition and Outlook

Local unemployment has recovered since the pandemic. As of June 2022, the unemployment rate for New Hanover County was down to 3.1% from 15.7% in April 2020. Over half of the jobs in New Hanover County are concentrated in four sectors: healthcare and social assistance; retail trade; accommodation and food services; and professional, scientific, and technical services. New Hanover County continues to experience significant population growth. According to the United Van Lines 2021 Annual National Movers Study cited Wilmington as the third most popular city in the United States for in-migration. Primary reasons given for moving to Wilmington include locating near family, new job, choosing a retirement location, and choosing a lifestyle. Over 55% of respondents were 55 years of age or older and nearly 70% earned over \$100,000 annually.

To accommodate this growth, CFPUA has committed to expanding water and wastewater infrastructure to the northern part of New Hanover County. Despite this growth, CFPUA experienced a decrease in building permit reviews and inspections of 16.7% and 10.5%, respectively, during fiscal year 2022 compared to fiscal year 2021. However, both building permit reviews and inspections have trended back up over the past several months. This apparent temporary deceleration in new development may be due to the recent economic uncertainty, inflation, and supply chain issues in procuring building materials.

Long-Term Financial Planning and Relevant Financial Policies

The long-term financial plan is an essential tool to ensure that the Authority will continue to be both operationally and financially sustainable. Operating and capital needs are developed to provide for the highest level of service that is both responsive to the changing needs of our community and responsible to our local environment. The long-term financial plan is the product of a continuous, iterative process that balances these operating and capital needs with financial constraints provided for in the Authority's financial policies. These financial policies are focused on maintaining the balance among debt, cash reserves, and rate affordability. Key financial policies include the following:

- Debt management – The Authority's debt management policy explicitly limits debt in two ways. First, the policy provides specific attributes that projects should generally have to be candidates for debt funding (e.g. for high-dollar projects where funding capital improvement exclusively through rates is impractical or for growth-

oriented projects in which it makes sense for future rate payers to pay for those improvements). Second, the policy establishes a debt limit expressed in terms of the debt-to-capitalization ratio (debt outstanding as a percentage of the value of capital assets). The Authority may not issue debt if such issuance would cause the Authority's debt-to-capitalization ratio to exceed 45%. Measuring the Authority's debt load using the debt-to-capitalization is an appropriate way to quantify the Authority's debt load because the ratio reflects the Authority's long-term mix of debt and rate revenue funding for capital improvements. The policy debt metric limit of 45% was derived considering the Authority's debt service coverage target and its expectation of long-term borrowing costs. Given the Authority's current capital needs, rate revenues must provide for at least \$18 million in pay-as-you-go capital funding each year to remain below the 45% debt limit.

- Cash reserves – The Authority's cash reserve policy is focused on optimizing the level of reserves that provides for a balance between having sufficient amounts to ensure continued service in the event of infrastructure failure or periods of declining revenues and the efficient use of the financial resources provided by rate payers. The reserve policy provides for a periodic determination of appropriate reserve levels that is tailored to the Authority's unique geographic and business environment. The Authority's current reserve target is \$50 million in unassigned fund balance.

Major Initiatives

The Authority measures success in terms of five key intended outcomes. As the regulatory, economic, political, and technical environment changes, management identifies threats and opportunities with respect to these intended outcomes. Strategies are developed in response to adapt the Authority's operations to ensure continued excellence for each intended outcome. Each intended outcome is listed below along with the related initiatives that are currently in progress.

- Customer Satisfaction & Stakeholder Understanding
 - Transforming brand perception – The Authority is committed to providing value to customers and the community. Part of providing value comes from the Authority understanding the community's needs and from the community understanding the value of the services the Authority provides. The Authority is engaged with a consultant to survey customers and benchmark results against other utilities to inform opportunities for improvement. The Authority is also pursuing more efficient and effective avenues for customers to interactions, expanding involvement with local business organizations such as the Cape Fear Craft Beer Alliance, increasing in-person presentations to community organizations, and launching a Citizens Water Academy to provide in-depth information about the Authority and its work.
 - Affordability – The health and well-being of our community depend on access to clean water and sanitary sewer service. The Authority is committed to doing everything possible to ensure that customers are able to afford these critical services. The Authority is currently discussing ways to measure affordability in the community and will discuss actions aimed at improving affordability including implementing an increasing block rate structure and developing a well-funded, efficient customer assistance program.
- Infrastructure Reliability and Product Quality
 - Upgrades to surface water treatment - Meeting regulatory requirements is just the starting point for the Authority. From there, steps are taken to maintain a comprehensive understanding of our source water and invest in technology to achieve the level of water quality that the community demands. In 2017 per- and polyfluoroalkyl substances (PFAS) were detected in the Authority's raw and treated

surface water. The Authority is currently undertaking a \$43.0 million upgrade to the Sweeney Water Treatment Plant to install granular activated carbon (GAC) filtration at the Sweeney Water Treatment Plant to remove PFAS and other emerging contaminants from treated surface water. The upgrades are expected to become operational in December 2022.

- Asset management – The Authority is in the process of improving its asset management program by gathering and leveraging additional data to inform preventative maintenance and prioritize rehabilitation and replacement of infrastructure assets.
 - Optimizing water and wastewater systems – The Authority is currently undertaking the following activities: partnering with the Town of Wrightsville Beach to study a path forward toward utility consolidation; developing a roadmap for funding the expansion and upgrade of the Southside Wastewater Treatment Plant; implementing solutions that reduce the total copper concentration in the SSWWTP effluent; and evaluating options for responsible use of treated wastewater effluent, including bulk water resale and potable reuse strategies.
- Environmental Stewardship and Protection – The Authority draws raw water from the Cape Fear River and two aquifers. Treated wastewater effluent is discharged into the Cape Fear River. Further, these treatment processes also demand a high level of energy consumption. For these reasons it's critical to be good stewards of these natural resources and mindful of environmental impacts. In August, the Board's Sustainability Committee preliminarily adopted a goal to reduce greenhouse gas emissions by 43% from the 2019 baseline by 2030 and approved various implementation activities including electrifying fleet, developing on-site solar arrays, and using biogas from the wastewater treatment process as a source of energy.
 - Employee and Leadership Development – With the imminent retirement of key personnel and high turnover rates, it's critical to retain and develop the next generation of leaders. The Authority has implemented a leadership program involving 80 employees, from foremen to the Executive Director to develop critical leadership skills. The Authority is also pursuing enhancements to its tuition assistance and scholarship program. In addition, the Authority is committed to having diverse, equitable, and inclusive workplace. The Board authorized the solicitation of Requests for Proposals to identify an outside consultant for diversity, equity, and inclusion to identify opportunities and make recommendations.
 - Financial Viability – The Authority is committed to maintaining a balance among long-term debt, operating and capital needs, reserves, and rates to ensure that the financial decisions made today maintain and strengthen its financial position in the future. The Authority's financial policies are aimed at providing boundary conditions for financial decisions. The Authority will continue to evaluate and update these policies to maintain this long-term balance.

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 annual comprehensive financial report for the fiscal year ended June 30, 2021. This was the thirteenth consecutive year that the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year

only. We believe our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,

A handwritten signature in black ink that reads "John B. McLean". The signature is written in a cursive, flowing style.

John B. McLean, CPA
Deputy Executive Director & Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Cape Fear Public Utility Authority
North Carolina**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

CFPUA Board Members



**Jennifer Adams,
Chair**

Appointed by New Hanover County

Seated in 2016, Term ends 2025

Committees: Executive, Finance,
and Sustainability



**Wesley P. Corder,
Vice-Chair**

Jointly appointed by the City of
Wilmington and New Hanover
County

Seated in 2017, Term ends 2023

Committees: Communications,
Executive, and Finance



**Jessica Cannon, M.D.,
Secretary**

Appointed by the City of
Wilmington

Seated in 2019, Term ends 2023

Committees: Communications,
Executive, Long Range Planning,
and Sustainability



**William Norris,
Treasurer**

Appointed by the City of
Wilmington

Seated in 2013, Term ends 2024

Committees: Executive, Finance,
and Human Resources



**Jonathan Barfield, Jr.,
Commissioner**

Appointed by New Hanover County

Seated in 2019, Term ends 2022

Committees: Communications and
Human Resources



**Hollis Briggs, Jr.,
Member**

Appointed by New Hanover County

Seated in 2019, Term ends 2025

Committees: Communications,
Human Resources, and Long Range
Planning



**Deans Hackney,
Member**

Appointed by the City of
Wilmington

Seated in 2018, Term ends 2022

Committees: Finance and Human
Resources



**Charlie Rivenbark,
Councilman**

Appointed by the City of
Wilmington

Seated in 2010, Term ends 2024

Committees: Long Range Planning



**Larry Sneed,
Member**

Appointed by New Hanover County

Seated in 2012, Term ends 2023

Committees: Long Range Planning
and Sustainability



**Luke Waddell,
Councilman**

Appointed by the City of
Wilmington

Seated in 2022, Term ends 2025

Committees: Sustainability



**Rob Zapple,
Commissioner**

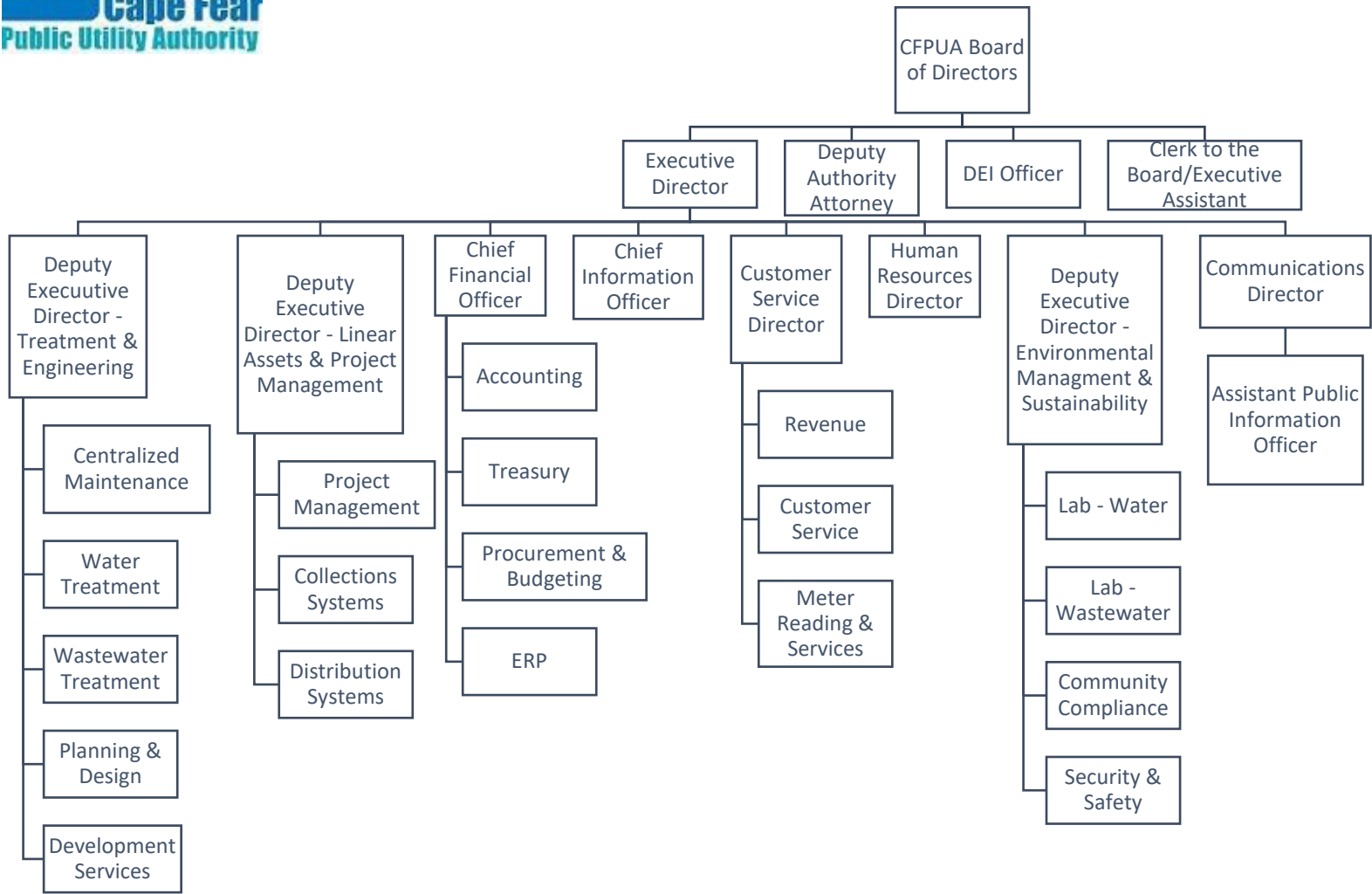
Appointed by New Hanover County

Seated in 2019, Term ends 2022

Committees: Finance, Long Range
Planning, and Sustainability



**Donna Pope,
Clerk to the Board**



Total Budgeted Positions – 335.125

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **Cape Fear Public Utility Authority** (the "Authority") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules related to the Authority's pension and other post-employment benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Operating Fund, the Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Capital Projects Funds – Water, Wastewater and System-Wide, and the schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of North Carolina Single Audit Implementation Act (collectively, "the supplementary information") are presented for purposes of additional analysis and are not a required part of the 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 supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

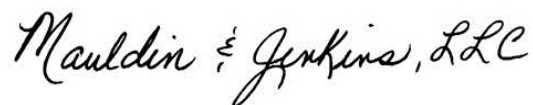
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the title pages, introductory section, and statistical section, but does not include the basic financial statements and our auditor's report thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Raleigh, North Carolina
October 4, 2022

Cape Fear Public Utility Authority 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, 2022. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6 through 12 of this report.

FINANCIAL HIGHLIGHTS

- The overall financial condition of the Authority improved during the year ended June 30, 2022. Assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by approximately \$629.3 million, an increase of \$12.8 million from the prior year.
- The \$12.8 million increase in net position was primarily driven by \$10.3 million in capital contributions.
- Total revenues and total expenses decreased from the prior year due to a decrease in reimbursable costs from Brunswick County related to the construction of a new raw water transmission main from the Lower Cape Fear Water and Sewer Authority King's Bluff intake to the headworks of Brunswick County's surface water treatment plant.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority was created in accordance with NCGS 162A to provide water and wastewater services to the City of Wilmington (City) and the unincorporated areas of New Hanover County (County). The Authority does not provide other general purpose government services or programs and does not have the power of taxation. The Authority's operations, capital expansion program, and debt payments are funded almost entirely through user rates, fees, and other charges for these water and wastewater services similar to a private business. As such, the Authority is considered a special-purpose government engaged only in business-type activities for the purpose of external financial reporting.

The Authority's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position*, and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide information about the Authority's financial position and results of operations during the year. To provide a better understanding of the information contained in these statements, *Notes to Financial Statements* and a *Schedule of Revenues and Expenditures – Budget and Actual (NON-GAAP)* appear immediately following the basic financial statements. In addition to this discussion and analysis, other required supplementary information, general statistical and demographic in nature, is presented.

The *Statement of Net Position* presents information on the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items where the related cash flows occur in a different fiscal year. Finally, the *Statement of Cash Flows* provides information on how the Authority's cash and cash equivalents changed during the year. The basic financial statements can be found on pages 30 through 33 of this report.

The notes provide additional information that is essential to obtain a full understanding of the data provided in the financial statements. The Notes to Financial Statements can be found on pages 34 through 51 of this report.

**Cape Fear Public Utility Authority
Management's Discussion and Analysis (Unaudited)**

FINANCIAL ANALYSIS

Table A presents the Condensed Statement of Net Position for the fiscal years ended June 30, 2022 and June 30, 2021.

Condensed Statement of Net Position		
Table A		
	June 30, 2022	June 30, 2021
Assets		
Current assets	\$ 94,278,247	\$ 134,458,225
Non-current assets - noncapital	26,190,197	4,603,076
Non-current assets - capital	825,042,513	812,970,279
Total assets	\$ 945,510,957	\$ 952,031,580
Deferred Outflows of Resources	\$ 15,736,009	\$ 17,129,828
Liabilities		
Current liabilities	\$ 38,691,904	\$ 41,309,395
Noncurrent liabilities	284,785,064	309,786,614
Total liabilities	\$ 323,476,968	\$ 351,096,009
Deferred Inflows of Resources	\$ 8,464,696	\$ 1,587,457
Net Position		
Net investment in capital assets	\$ 558,779,170	\$ 543,758,699
Restricted	9,516,394	9,192,472
Unrestricted	61,009,738	63,526,771
Total net position	\$ 629,305,302	\$ 616,477,942

Total assets decreased by \$6.5 million during the year. Despite an \$11.6 million increase in cash & cash equivalents from a decrease in net receivables and amounts due to other governments due to the transition from bi-monthly to monthly billing and receipts of grant funds for several projects that are nearing completion, total cash & cash equivalents decreased by \$22.7 million. This decrease was largely driven by purchases of investments to take advantage of the rising interest rate environment resulting in a \$15.7 million increase in investments from the prior year and the spending of \$12.1 million of Series 2019A bond proceeds and cash reserves to fund additions to capital assets. The remaining \$6.5 million decrease was due to the use of Series 2019A bond proceeds and cash reserves to fund outlays that did not qualify for capitalization, mostly related to the construction of the granular-activated carbon filtration facility at the Sweeney Water Treatment Plant. In addition, cash & cash equivalents were used liquidate prior year balances of accounts payable and retainage payable related to the capital program.

Total liabilities decreased by \$27.6 million due mainly to the scheduled retirement of \$14.3 million in outstanding long-term debt; \$3.7 million in amortization of bond premiums; a \$2.7 million reduction in accounts payable, accrued liabilities, and amounts due to other governments; and decreases in the Authority's net pension obligation and total OPEB obligation of \$4.5 million and \$2.8 million, respectively. The reduction to accounts payable, accrued liabilities, and due to other governments is mainly due to the release of retainage payable on two major capital projects and a decrease in vendor accounts payable for related to the capital

Cape Fear Public Utility Authority Management's Discussion and Analysis (Unaudited)

program. The decrease to the Authority's proportionate share of net pension liability was a result of favorable returns on plan assets while the decrease to the total OPEB liability was a result of changes in assumptions that decreased projected benefit payments.

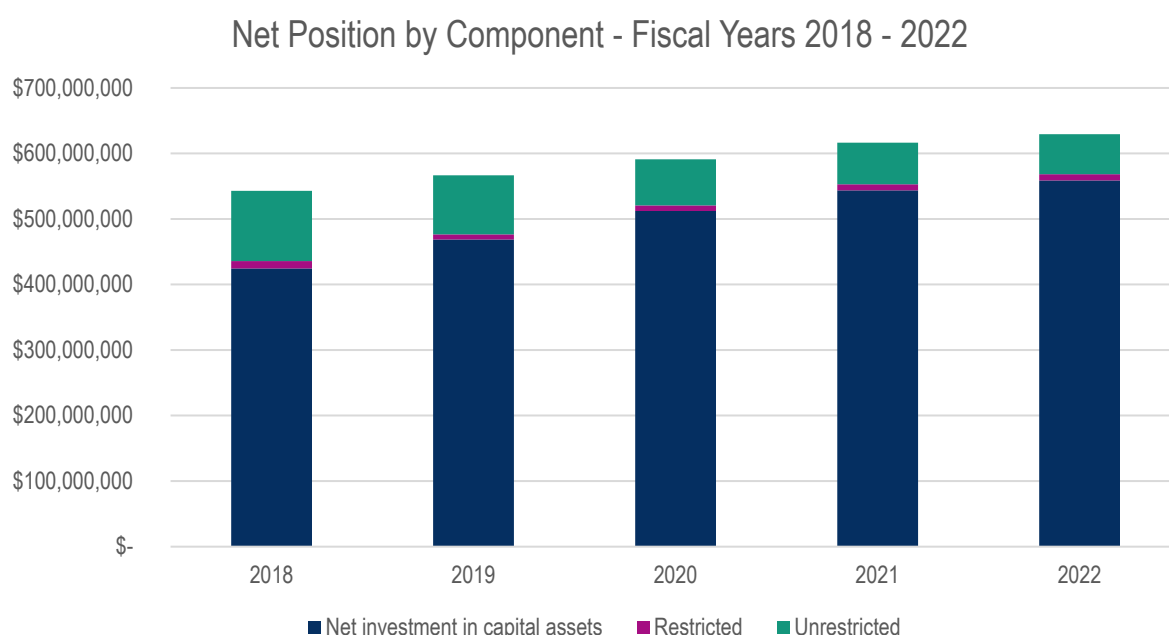
As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$629.3 million at June 30, 2022, which is an increase of \$12.8 million over the prior year. The largest component of the Authority's net position represents the investment in water and wastewater infrastructure and other capital assets net of the outstanding balance of debt issued to acquire and construct these assets. The Authority's net investment in capital assets increased by \$15.0 million due to the following:

- \$12.0 million in net additions to the Authority's capital assets;
- \$15.8 million reduction in the carrying value of capital related debt from the repayment of debt principal and amortization of premiums and deferred amounts related to past debt refunding transactions; and
- \$12.8 million decrease in unspent bond proceeds.

The restricted component of the Authority's net position consists of those resources that are restricted through law or by outside parties for a specific purpose. The Authority's restricted net position consists of assets set aside each month to pre-fund subsequent debt service payments as required by the Authority's bond indenture. During the fiscal year restricted net position increased by \$.3 million, a result of an increase in the current maturities of the Authority's revenue bonds compared to the prior year.

The Authority's remaining net position is unrestricted and can be used to satisfy the Authority's ongoing obligations including debt service, normal operating expenses, and for investment in the Authority's water and wastewater infrastructure. At June 30, 2022 unrestricted net position was \$61.0 million, a \$2.5 million decrease from the prior year. The decrease was due to expenses for personnel, benefits, operations, and maintenance exceeding revenues remaining after funding debt service reserves and net additions to capital assets by \$1.8 million and the use of \$.7 million in unrestricted cash reserves to fund additions to capital assets.

The graph below details the changes in the Authority's net position by component over the past five fiscal years.



Cape Fear Public Utility Authority
Management's Discussion and Analysis (Unaudited)

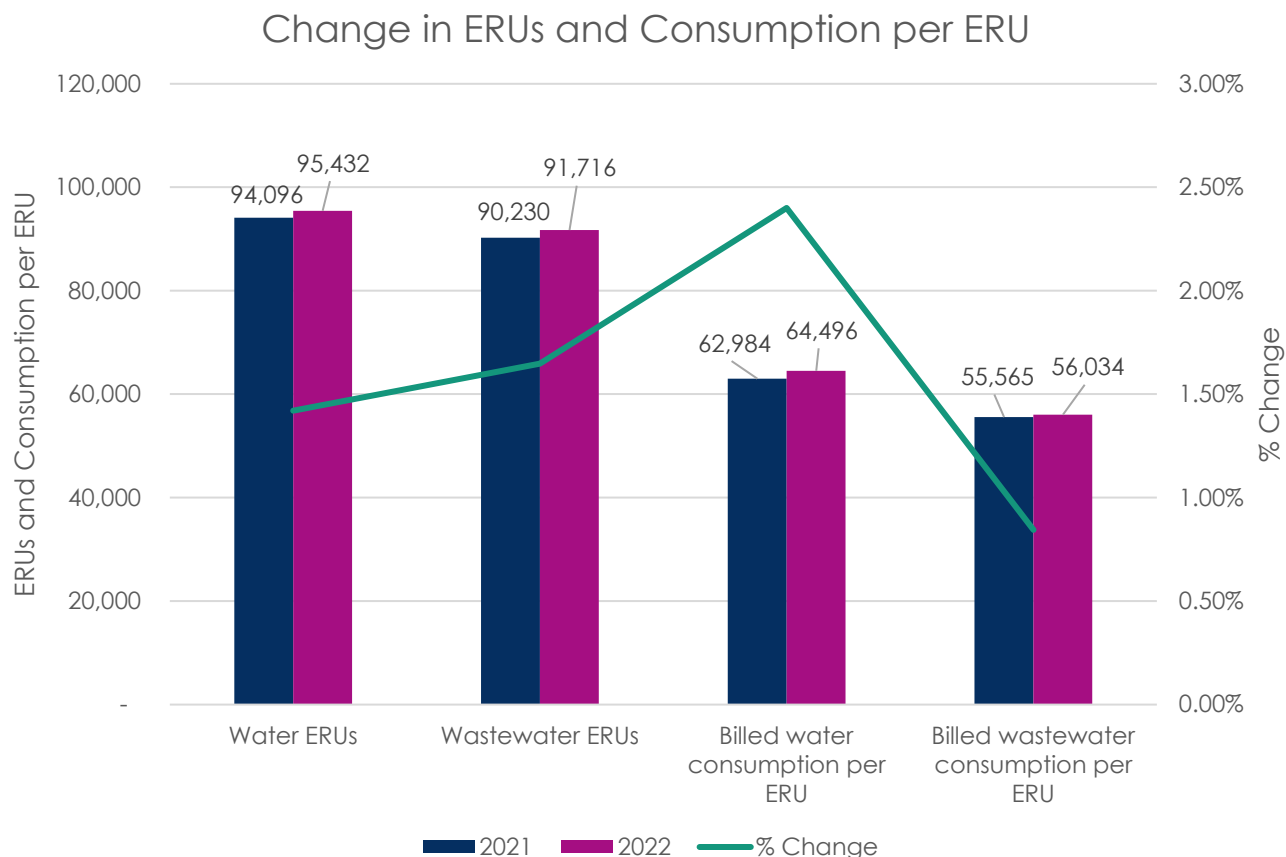
Overall, net position has increased in each of the last five fiscal years driven by an increase in the net investment in capital assets. Over the past 5 years, the Authority's capital investments have exceeded depreciation and amortization expense. In addition, the Authority is funding more of these capital investments with current year revenues and less with debt pursuant to revisions to the Authority's reserves and debt policies. Restricted fund balance has remained relatively constant as annual debt service requirements have remained relatively constant. Unrestricted net position has decreased over the past five years driven by the Authority's reserve policy which provides for maintaining a consistent \$50 million in unrestricted budgetary fund balance. Over time amounts in excess of this minimum fund balance have been invested in the Authority's capital assets or used to retire debt prior to scheduled maturities.

Table B presents the Condensed Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2022 and June 30, 2021.

Condensed Statement of Revenues, Expenses and Changes in Net Position		
Table B		
	Year Ended June 30, 2022	Year Ended June 30, 2021
Revenues		
Operating revenues		
Charges for services	\$ 85,347,270	\$ 95,651,260
System development charges	6,374,040	8,047,468
Other operating revenues	2,568,179	2,671,923
	\$ 94,289,489	\$ 106,370,651
Nonoperating revenues		
Investment earnings	\$ (296,219)	\$ 260,774
Settlement proceeds	-	2,201,617
State & federal grants	1,235,273	2,644,234
Other nonoperating revenue	348,705	342,815
Total revenues	\$ 95,577,248	\$ 111,820,091
Expenses		
Operating expenses	\$ 56,826,256	\$ 64,365,379
Depreciation and amortization	27,657,676	24,711,921
Interest expense	8,562,307	9,016,759
Total expenses	\$ 93,046,239	\$ 98,094,059
Increase in net position before capital contributions	\$ 2,531,009	\$ 13,726,032
Capital contributions	\$ 10,296,351	\$ 11,664,569
Increase in net position	\$ 12,827,360	\$ 25,390,601
Net position, July 1	\$ 616,477,942	\$ 591,087,341
Net position, June 30	\$ 629,305,302	\$ 616,477,942

Cape Fear Public Utility Authority Management's Discussion and Analysis (Unaudited)

Total revenues decreased by \$16.2 million driven mainly by a \$12.9 million decrease in reimbursements from Brunswick County related to the construction of a new raw water transmission main from the Lower Cape Fear Water and Sewer Authority King's Bluff intake to the headworks of Brunswick County's surface water treatment plant; the absence in the current year of \$2.2 million of one-time proceeds that the Authority received as a plaintiff in a class action law suit in the prior year; a \$1.7 million decrease in system development charges due to a slow-down of new construction driven by the overall economic environment; and a \$1.4 million decrease in grant revenues as several grant-funded projects neared substantial completion. These decreases were offset with a \$2.3 million increase in water and wastewater fixed and volumetric charges driven by growth in customers and billed consumption per customer. The following chart details the increase in equivalent residential units (ERUs) and billed consumption per ERU.



Total expenses decreased by \$5.1 million from the prior year. Despite increases in expenses for payroll, contracted services, chemicals, and electricity, overall operating expenses (excluding depreciation) decreased by \$7.4 million. The decreases were attributable to a decrease in pension and OPEB expense and decrease in reimbursable expenses from Brunswick County related to the construction of a new raw water transmission main from the Lower Cape Fear Water and Sewer Authority King's Bluff intake to the headworks of Brunswick County's surface water treatment plant. These decreases were offset with a \$3.0 million increase in depreciation and amortization expense attributable to several high-dollar internally constructed capital assets that were placed into service during the year including the comprehensive replacement of the Authority's network of meters, the comprehensive replacement of gravity wastewater collection lines in downtown Wilmington, new water and wastewater infrastructure placed into service along Highway 421, a new water main in northern New Hanover County, and two new wastewater pump stations.

**Cape Fear Public Utility Authority
Management's Discussion and Analysis (Unaudited)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets include water treatment plants, wastewater treatment plants, pump stations, water distribution systems, and the wastewater collection system. The average remaining useful life of the Authority's depreciable assets is 35.8 years. The carrying value of the Authority's capital assets during the year increased by \$12.0 million (1.5%) to \$825.0 million. The increase was due to capitalization of \$29.4 million in internally constructed or acquired assets and the addition of \$10.3 million in infrastructure constructed by other parties conveyed to the Authority during the year. These additions were offset with depreciation and amortization expense of \$27.7 million.

Table C presents capital asset balances at June 30, 2022 and June 30, 2021. Additional information on the Authority's capital assets can be found in Note 4 on page 40 of this report.

Capital Assets Net of Depreciation and Amortization Table C			
	2022		2021
Nondepreciable capital assets:			
Land	\$ 4,310,915	\$	4,061,750
Intangible Asset - Easements	6,071,757		5,893,830
Construction in progress	91,234,330		95,856,235
Total capital assets not being depreciated or amortized	\$ 101,617,002	\$	105,811,815
Depreciable capital assets, net:			
Plant, Structures and Improvements	\$ 264,766,713	\$	256,066,085
Water and Sewer Lines	425,500,979		420,801,685
Furniture, Fixtures and Machinery	22,555,892		24,410,911
Intangible Asset - Leased Facilities	5,805,955		5,015,384
Intangible Asset - Computer Software	4,018,014		-
Intangible Asset - Water Availability Rights	777,958		864,399
Total capital assets being depreciated or amortized	\$ 723,425,511	\$	707,158,464
Capital assets, net	\$ 825,042,513	\$	812,970,279

**Cape Fear Public Utility Authority
Management's Discussion and Analysis (Unaudited)**

Debt Administration

The Authority's long-term debt, presented in Table D below, totaled \$284.4 million at June 30, 2022. The Authority's total debt coverage for fiscal year 2022 was 1.52, remaining above the required 1.0 ratio. Coverage on revenue bond debt was 1.68, well above the required 1.2 ratio.

Outstanding Long-Term Obligations		
Table D		
	2022	2021
Revenue Bonds	\$ 264,873,714	\$ 280,969,614
Installment Obligations:		
Locality compensation payment	5,760,000	6,750,000
ARRA Revolving Loan	622,338	678,914
DWSRF Revolving Loan	105,551	114,347
Clean Water State Revolving Loans	13,065,411	13,932,898
Totals	\$ 284,427,014	\$ 302,445,773

The Authority's debt policy includes specific criteria that capital projects should generally meet to be candidates for debt funding. These criteria include whether the project is high-dollar where it would be impractical to fund through current year rate revenues; whether the project is growth-oriented where spreading costs through debt payments to future customers who will benefit from the capital improvements is equitable; or whether the project is emergency-related where an immediate source of funding is necessary to quickly restore system functionality. The Authority's debt policies also include an explicit debt limitation that is reflective of the Board's target debt service coverage and expectation of borrowing costs. Debt may not be issued if such issuance would cause the Authority's debt-to-capitalization ratio to exceed 45%. As of June 30, 2022 the Authority's debt-to-capitalization ratio was 34.5%, or \$86.6 million in additional debt capacity.

The Authority maintains credit ratings of AA+ and Aa2 from Standard and Poor's and Moody's, respectively. Both ratings are one level below the highest possible ratings.

Additional information on the Authority's long-term debt can be found in Note 8, Long-Term Debt beginning on page 49 of this report.

REQUESTS FOR ADDITIONAL INFORMATION

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be addressed to the Cape Fear Public Utility Authority, Finance Department, 235 Government Center Drive Suite 201 (Second Floor), Wilmington, NC 28403. You can also call 910-332-6668, visit our website at www.cfpua.org or send an email to john.mclean@cfpua.org.

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Cape Fear Public Utility Authority
Statement of Net Position
June 30, 2022

ASSETS

Current assets

Cash and cash equivalents	\$ 21,382,109
Investments	23,642,309
Receivables, net	16,842,574
Due from other governments	2,968,678
Restricted:	
Cash and cash equivalents	29,409,779
Prepays	32,798
Total current assets	\$ 94,278,247

Noncurrent assets

Investments	\$ 26,190,197
Capital assets:	
Land, easements and construction in progress	101,617,002
Other capital assets, net	723,425,511
Total capital assets	\$ 825,042,513
Total noncurrent assets	\$ 851,232,710
Total assets	\$ 945,510,957

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding	\$ 8,659,018
Amounts related to pensions	5,987,082
Amounts related to OPEB	1,089,909
Total deferred outflows of resources	\$ 15,736,009

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$ 11,144,309
Restricted:	
Accrued interest payable	3,639,831
Due to other governments	3,819,763
Unearned revenue	799,145
Customer and escrow deposits	3,141,085
Long-term obligations, current maturities	16,147,771
Total current liabilities	\$ 38,691,904

Noncurrent liabilities

Net pension liability	3,708,235
Total OPEB liability	4,385,580
Long-term obligations, net of current maturities	276,691,249
Total noncurrent liabilities	\$ 284,785,064
Total liabilities	\$ 323,476,968

DEFERRED INFLOWS OF RESOURCES

Amounts related to pensions	\$ 5,297,954
Amounts related to OPEB	3,166,742
Total deferred inflows of resources	\$ 8,464,696

NET POSITION

Net investment in capital assets	\$ 558,779,170
Restricted for:	
Debt service	9,516,394
Unrestricted	61,009,738
Total net position	\$ 629,305,302

See Notes to Financial Statements.

Cape Fear Public Utility Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2022

Operating revenues

Charges for services	\$ 85,347,270
System development charges	6,374,040
Other operating revenues	2,568,179
Total operating revenues	\$ 94,289,489

Operating expenses

Personnel and benefits	\$ 25,955,963
Operations and maintenance	30,870,293
Depreciation and amortization	27,657,676
Total operating expenses	\$ 84,483,932
Operating income	\$ 9,805,557

Nonoperating revenues (expenses)

Investment earnings	\$ (296,219)
Interest expense	(8,562,307)
State & federal grants	1,235,273
Gain on disposal of capital assets	248,329
Insurance proceeds	100,376
Total nonoperating revenues (expenses)	\$ (7,274,548)
Income before capital contributions	\$ 2,531,009

Capital contributions

\$ 10,296,351

Change in net position

\$ 12,827,360

Net position

Beginning of year	\$ 616,477,942
End of year	\$ 629,305,302

See Notes to Financial Statements.

Cape Fear Public Utility Authority
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2022

Cash Flows From Operating Activities	
Cash received from customers	\$ 98,345,807
Cash paid to suppliers	(28,820,153)
Cash paid to or on behalf of employees	(26,177,955)
Cash received on behalf of others	21,134,874
Cash payments held on behalf of others	(21,010,111)
Cash received for deposits	808,795
Cash returned for deposits	(586,115)
Net cash provided by operating activities	\$ 43,695,142
Cash Flows from Noncapital Financing Activities	
State grants	\$ 8,000
Net cash provided by noncapital financing activities	\$ 8,000
Cash Flows From Capital and Related Financing Activities	
Cash paid to acquire, construct and improve capital assets	\$ (29,706,990)
Grants and contributions received from others	4,109,996
Principal paid on long-term obligations	(14,327,860)
Interest paid on long-term obligations	(10,856,495)
Proceeds from sale of capital assets	269,603
Proceeds from insurance	100,376
Net cash used for capital and related financing activities	\$ (50,411,370)
Cash Flows From Investing Activities	
Purchases of investments	\$ (49,076,998)
Proceeds from investment maturities	32,800,000
Proceeds from investment earnings	256,722
Net cash used for investing activities	\$ (16,020,276)
Net decrease in cash and cash equivalents	\$ (22,728,504)
Cash and cash equivalents, beginning of year	\$ 73,520,392
Cash and cash equivalents, end of year	\$ 50,791,888
Reconciliation to the Statement of Net Position:	
Cash and cash equivalents	\$ 21,382,109
Restricted cash and cash equivalents	29,409,779
	\$ 50,791,888

(Continued)

Cape Fear Public Utility Authority
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2022

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 9,805,557
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	27,657,676
Decrease in deferred outflows of resources related to pensions and OPEB	48,506
Increase in deferred inflows of resources related to pensions and OPEB	6,877,239
Changes in assets and liabilities:	
Decrease in receivables, net and due from other governments	9,826,894
(Increase) in prepaids	(3,898)
(Decrease) in operating accounts payable, accrued liabilities and due to other governments	(2,972,893)
(Decrease) in unearned revenue	(390,314)
Increase in customer and escrow deposits	223,826
(Decrease) in compensated absences	(85,366)
(Decrease) in net pension liability	(4,456,686)
(Decrease) in total OPEB liability	(2,835,399)
Total adjustments	<u>\$ 33,889,585</u>
Net cash provided by operating activities	<u><u>\$ 43,695,142</u></u>

Supplemental Schedule of Noncash Activities

Contributions of capital assets from developers	<u><u>\$ 10,249,084</u></u>
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See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

The accounting policies and financial statements of the Cape Fear Public Utility Authority (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.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The Authority is a special-purpose government engaged only in business-type activities. Therefore, the Authority's enterprise fund and government-wide data are presented in a single set of financial statements. 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.

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, includes grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers including those for water and wastewater service, system development charges, connection fees, penalties, and others. Operating expenses for the Authority include the cost of materials and services, administrative expenses, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. These include but are not limited to grant revenues, investment earnings, gains/losses on the sale of capital assets, and interest expense.

Budgets

Budgets are adopted utilizing the modified accrual basis of accounting as required by State statute. An annual budget ordinance is adopted for operating and capital appropriations. All operating appropriations lapse at the end of the fiscal year, while capital appropriations continue until project completion.

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

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

Assets, Liabilities, Deferred Outflows and Inflows and Net Position

Cash, Cash Equivalents, Deposits and Investments

For financial statement presentation, the Authority defines “cash and cash equivalents” as demand deposits and investments (including restricted assets) purchased with an original maturity of 3 months or less. Investments in the North Carolina Capital Management Trust (NCCMT) Government portfolio are considered cash and cash equivalents because the weighted-average maturity of the investments in the portfolio is less than 3 months. The Authority’s certificates of deposit are considered investments, rather than cash and cash equivalents, because the original maturities were greater than 3 months at the time of purchase. Certificates of deposit are valued at cost plus the amount of accreted interest as of the reporting date. All other Investments are valued at fair market value.

Restricted Assets and Liabilities

Restricted assets and liabilities are those that have constraints imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through state statute. The Authority is required by its bond indenture to irrevocably deposit 1/6 of the next interest payment and 1/12 of the next principal payment with its trustee each month. These amounts less accrued interest payable on the related debt are considered restricted. Unspent bond proceeds are considered restricted assets since these proceeds are restricted for use for certain capital projects.

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 historical revenue collection rates to determine the percentage uncollectible.

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 increase utility or capacity or do not materially extend lives of existing capital assets are expensed in the period incurred. Conveyed capital assets are recorded at acquisition value at the time of the conveyance, which is the value on the acquisition date. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources and deferred inflows of resources which are defined as consumption and acquisition of net assets that applies to a future reporting period, respectively. The Authority has several items that meet this definition – a deferred charges on debt refunding equal to the difference between the reacquisition price and the net carrying value of the old debt; deferrals related to changes in the net pension liability and total OPEB liability; and deferrals related to employer pension and OPEB plan contribution plans made subsequent to the measurement date and the end of the fiscal year.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates to the financial statements include unbilled receivables, allowance for doubtful accounts, and estimated useful lives of capital assets, compensated absences, workers' compensation self-insurance, and the net pension and total OPEB liabilities and related deferrals.

Long-Term Obligations

Long-term obligations are reported as liabilities in the Statement of Net Position, net of bond premiums and discounts. Bond premiums and discounts are amortized into interest expense over the life of the bonds using the effective interest method. Bond issuance costs are expensed in the period incurred.

Compensated Absences

The vacation leave policy of the Authority provides for the maximum accumulation of 320 hours accrued vacation leave in any fiscal year with such leave being fully vested when accrued. Vacation leave is accrued by regular full-time and part-time employees working each pay period (limited to 26 pay periods per calendar year) and based on years of service to the Authority. Eligible employees begin accruing vacation leave on the employee's hire date; however, the employee must be employed six (6) months before the employee is eligible to take paid vacation leave, unless authorized and approved by the Executive Director. The accrued value is based on each employee's rate of pay as of June 30 of each fiscal year. Vacation leave accrued over the 320 hour limit is converted to sick leave annually.

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

Note 2. Cash, Cash Equivalents, Deposits and Investments

A reconciliation of the Authority's cash, deposits, and investments for disclosure purposes and cash, cash equivalents, and investments for financial statement presentation as of June 30, 2022 is included below:

Cash on hand	\$ 4,200
Deposits	15,402,436
Investments	85,217,758
Total	\$ 100,624,394
Presentation on the Statement of Net Position	
Current Assets	
Cash and cash equivalents	\$ 21,382,109
Investments	23,642,309
Restricted cash and cash equivalents	29,409,779
Noncurrent Assets	
Investments	\$ 26,190,197
Total	\$ 100,624,394

Deposits

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

Custodial Credit Risk for Deposits. All of the Authority's deposits are to be either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are separately collateralized with securities held by the Authority's agent in the Authority's name. Under the Pooling Method, uninsured deposits are collateralized with securities in a statewide collateral pool held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the participating Authority's agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of

high cash flows. However, the State Treasurer of North Carolina enforces strict financial stability standards for each depository that collateralizes public deposits under the Pooling Method, including minimum capitalization standards. The Authority relies on the State Treasurer to monitor those financial institutions.

At June 30, 2022, the carrying amount of the Authority's deposits was \$15,402,436 and the bank balance was \$16,565,361. Of the bank balance, \$250,000 was covered by FDIC insurance and \$16,315,361 was covered by collateral held under the Pooling Method.

Investments

At June 30, 2022, the Authority's investment balances were as follows:

Investments by Type	Fair Value	Valuation Method	Credit Rating	Weighted Average Days to Maturity
Commercial Paper	\$ 8,816,893	Fair value - Level 2	P1	13
U.S. Treasuries	26,749,653	Fair value - Level 1	AAA	163
Government-sponsored Entities:				
Federal Home Loan Bank	7,382,641	Fair value - Level 2	AAA	58
Fannie Mae	1,168,223	Fair value - Level 2	AAA	9
Federal Farm Credit Bank	1,093,574	Fair value - Level 2	AAA	5
North Carolina Capital Management Trust:				
Government Portfolio	40,006,774	Fair value - Level 1	AAAm	N/A
	<u>\$ 85,217,758</u>			

All investments are measured using the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

Interest rate risk. The Authority projects daily cash flows to inform investment opportunities and required maturities. The cash flow model assumes a minimum of \$20 million of liquidity which reduces that risk the Authority will be required to sell investments prior to maturity and exposure to interest rate risk. In addition, the Authority's investment policy prohibits investments in single securities maturing more than 5 years from the purchase date. In addition, the weighted average maturity of the Authority's portfolio including cash and certificates of deposit may not exceed 360 days. At June 30, 2022, the weighted average maturity of the Authority's portfolio was 248 days.

Credit risk. The Authority is limited by G.S. 159-30(c) to highly rated investments including 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") Governmental Portfolio.

Concentration of Credit Risk. With the exception of U.S. treasury securities, money market funds and authorized pools, no more than 25% of the Authority's total investment portfolio including cash and certificates of deposit will be invested in a single security type. At June 30, 2022, the Authority's single largest investment

other than investments in U.S. treasuries and investments in NCCMT was in government-sponsored entities which comprised 9.48% of the Authority's total portfolio.

Custodial Credit Risk. For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority engages a third party custodial agent for book entry transactions, all of which are held in the Authority's name.

Note 3. Receivables/Payables

Amounts for receivables and payables are aggregated in the Statement of Net Position. Below is the detail of these amounts.

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

Receivables - Authority customers	\$	14,622,781
Allowance for doubtful accounts - Authority		(1,258,219)
Receivables - Stormwater & Solid waste billed on behalf of the City of Wilmington		3,478,012
Total	\$	16,842,574

At June 30, 2022 amounts due from other governments consisted of the following:

State of North Carolina-Sales & Use Tax		1,317,595
State of North Carolina-Grants		989,248
Brunswick County		131,548
Wrightsville Beach		530,287
Total	\$	2,968,678

At June 30, 2022 the Authority's accounts payable, accrued liabilities and amounts due to other governments consisted of the following:

Vendor accounts payable	\$	7,591,578
Retainage payable		1,683,001
Accrued salaries & benefits		1,420,267
Other payroll liabilities		286,945
Other accrued liabilities		162,518
Total accounts payable and accrued liabilities	\$	11,144,309
Due to State of North Carolina-Use Tax	\$	8,917
Due to City of Wilmington-Stormwater & Solid Waste		3,810,846
Total amounts due to other governments	\$	3,819,763

Note 4. Capital Assets

Capital assets activity consists of the following for the fiscal year ended June 30, 2022. Depreciation and amortization expense for the year was \$26,918,728 and \$738,948, respectively.

	Beginning Balances July 1, 2021	Increases	Decreases	Ending Balances June 30, 2022
Capital assets not being depreciated:				
Land	\$ 4,061,750	\$ 249,165	\$ -	\$ 4,310,915
Intangible Asset - Easements	5,893,830	177,927	-	6,071,757
Construction in progress	95,856,235	25,373,075	(29,994,980)	91,234,330
Total capital assets not being depreciated or amortized	105,811,815	25,800,167	(29,994,980)	101,617,002
Capital assets being depreciated or amortized:				
Plant, Structures and Improvements	350,737,416	18,905,910	-	369,643,326
Water and Sewer Lines	537,142,317	17,333,468	-	554,475,785
Furniture, Fixtures and Machinery	42,613,607	2,245,527	(531,328)	44,327,806
Intangible Asset - Leased Facilities	9,594,013	1,232,915	-	10,826,928
Intangible Asset - Computer Software	3,837,880	4,228,177	-	8,066,057
Intangible Asset - Water Availability Rights	1,988,116	-	-	1,988,116
Total capital assets being depreciated or amortized	945,913,349	43,945,997	(531,328)	989,328,018
Less accumulated depreciation or amortization for:				
Plant, Structures and Improvements	94,671,331	10,205,282	-	104,876,613
Water and Sewer Lines	116,340,632	12,634,174	-	128,974,806
Furniture, Fixtures and Machinery	18,202,696	4,079,272	(510,054)	21,771,914
Intangible Asset - Leased Facilities	4,578,629	442,344	-	5,020,973
Intangible Asset - Computer Software	3,837,879	210,164	-	4,048,043
Intangible Asset - Water Availability Rights	1,123,718	86,440	-	1,210,158
Total accumulated depreciation and amortization*	238,754,885	27,657,676	(510,054)	265,902,507
Total capital assets being depreciated or amortized, net*	707,158,464			723,425,511
Capital assets, net*	\$ 812,970,279			\$ 825,042,513

Note 5. Leases

The Authority leases office and warehouse facilities under two lease arrangements. The lease for the Administration Building expires July 25, 2032, with an option to extend the lease for an additional five-year period. Beginning August 1, 2021, the lease for the Operations Center was modified to include a new five-year term, with the option to extend the lease for one additional five-year period. Both leases require the Authority to pay a portion of common area maintenance items and property taxes. These amounts vary from year to year and are not included in the measurement of the lease liabilities and assets. During the year, the Authority recognized \$186,448 of these variable payments as outflows of resources.

At June 30, 2022 principal and interest requirements to maturity for the Authority's lease liability were as follows:

Year Ending June 30,	Principal	Interest
2023	\$ 333,720	\$ 263,919
2024	355,749	250,169
2025	378,843	235,520
2026	403,050	219,926
2027	433,555	203,258
2028-2032	2,422,201	728,798
2033-2037	2,376,120	262,853
2038	45,665	152
Total	\$6,748,903	\$2,164,595

Note 6. Post-employment Benefits

Local Governmental Employees' Retirement System

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2022, was 11.35% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$2,127,981 for the year ended June 30, 2022.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the Authority reported a net pension liability of \$3,708,235 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2021, the Authority's proportion was 0.2418%, which was an increase of 0.0133% from its proportion measured as of June 30, 2020.

Several changes were made to key assumptions included in the valuation that affected the measurement of the total pension liability since the prior measurement date. These changes include a decrease in the discount rate from 7.00% to 6.50%; a decrease in the inflation assumption from 3.00% to 2.50%; an increase in the real wage growth assumption from 0.50% to 0.75%; and decrease in the payroll growth assumption from 3.50% to 3.25%.

For the year ended June 30, 2022, the Authority recognized pension expense of \$1,752,686. Deferred outflows and deferred inflows of resources related to pensions were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,179,723	\$ -
Difference between projected and actual earnings on pension plan investments	-	5,297,954
Changes in assumptions	2,329,719	-
Changes in proportion and difference between Authority contributions and proportionate share of contributions	349,659	-
Contributions subsequent to the measurement date	2,127,981	-
Total pension-related deferred outflows/inflows of resources	\$ 5,987,082	\$ 5,297,954

Deferred outflows of resources resulting from \$2,127,981 of contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense in future years as follows:

Year ended June 30:	
2023	480,069
2024	14,366
2025	(312,082)
2026	(1,621,206)
Total	(1,438,853)

Actuarial Assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 8.25%, including a 3.25% inflation and productivity factor
Investment rate of return	6.50%, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The mortality rates included in the actuarial valuation dated December 31, 2020 use Pub-2010 amount-weighted tables. All mortality rates are projected from 2010 using generational improvement with Scale MP-2019. The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience review for the period

January 1, 2015 through December 31, 2019. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	0.0%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.50%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 6.50%, a decrease of .50% from discount rate of 7.00% used in the prior valuation. The projection of cash flows used to determine the discount rate assumed that for fiscal year ending 2022, plan contributions will follow the Employer Contribution Rate Stabilization Policy as adopted by the Board of Trustees on January 31, 2019, and "direct-rate smoothing" as adopted by the Board of Trustees on April 26, 2018. It is assumed that for fiscal years ending 2023 through 2027, plan contributions will follow the Employer Contribution Rate Stabilization Policy as adopted by the Board of Trustees on April 29, 2021, and "direct-rate smoothing" as adopted by the Board of Trustees on January 28, 2021. It is assumed that for fiscal years 2028 and beyond, plan contributions will be based on the actuarially determined contribution rates with a minimum employer contribution rate of 6.00% of payroll in accordance with G.S. 128-30(d)(10). Based on those policies, the plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Authority's proportionate share of the net pension liability (asset)	\$ 14,395,060	\$ 3,708,235	\$ (5,086,401)

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

Supplemental Retirement Income Plan and Deferred Compensation Plan

Plan Descriptions. The Authority offers its employees the opportunity to participate in the NC-401(k) Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to employees of the Authority. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Authority also offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457: the NC 457 Plan administered by the State Treasurer and an Authority-sponsored 457 plan. The plans, available to all Authority employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries.

Funding Policy. The Authority makes contributions on behalf of all employees to the NC-401(k) Supplemental Retirement Income 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.

The Authority's expense related to the NC-401(k) Supplemental Retirement Income Plan totaled \$677,352 for the fiscal year ended June 30, 2022.

Other Post-Employment Benefits (OPEB)

Plan Description. The Interlocal Agreement that created the Authority requires that post-retirement healthcare benefits be provided to certain employees that transferred from the City of Wilmington and New Hanover County at inception. The Authority provides post-employment health care benefits to retirees of the Authority through a single-employer, defined benefit plan. The Board is authorized to amend the terms of postemployment health care benefits. The plan is closed to new entrants as benefits are only provided to

certain employees that were employed by the City of Wilmington (City) or New Hanover County (County) prior to July 1, 2008 as defined in the Interlocal Agreement. To be eligible for post-retirement health care benefits, employees must retire under the Local Government Employees' Retirement System and attain the minimum service requirements under the Plan (five years of creditable service for former City employees and 15 years of creditable service for former County employees). The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. As of the measurement date, membership consisted of 88 active plan members and 19 retirees or retiree dependents.

Benefits Provided. Post-employment health benefits under the plan consist of premium subsidies equal to the difference between the total cost of individual health insurance policies purchased for each retiree and the share paid by the retiree based on years of service at retirement.

Contributions. Employees do not contribute to the plan during their active service. The Authority contributes amounts sufficient to cover OPEB payments as they become due from an initial balance of \$4.2 million that was transferred from the City and County upon the formation of the Authority based on an actuarial valuation. This balance may be supplemented by operating surpluses with approval from the Board. Once the balance is exhausted, OPEB benefits will be paid from operating revenues in the year the benefits become due. At June 30, 2022 the remaining balance designated for OPEB benefits was \$1,147,485.

Actuarial Assumptions. The Authority's total OPEB liability as of June 30, 2022 was \$4,385,580. The total OPEB liability was measured as of December 31, 2021 based on an actuarial valuation as of that date. The total OPEB liability in the December 31, 2021 actuarial valuation was determined using entry age normal cost method and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00%
Salary increases	1.50%
Discount Rate	2.25%
Healthcare cost trend rates	5.50% for 2022, decreasing .10% per year to an ultimate rate of 4.50% for 2027 and subsequent years

The discount rate was based on Bond Buyer's 20-Bond GO Index for December 2021. Mortality rates were based on PubG.H-2020-General Table for males and females.

The plan does not issue a stand-alone financial report.

Changes in the Total OPEB Liability.

	Total OPEB Liability
Balance at June 30, 2021	<u>\$ 7,220,979</u>
Changes for the year:	
Service cost	-
Interest	139,365
Differences between expected and actual experience	-
Changes in assumptions and other inputs	(2,718,890)
Benefit payments	(255,874)
Net changes	<u>(2,835,399)</u>
Balance at June 30, 2022	<u><u>\$ 4,385,580</u></u>

Changes to the total OPEB liability attributable to changes in assumptions and other inputs reflect an increase in the discount rate from 1.93% to 2.25%, a decrease in the salary growth assumption from 2.50% to 1.50%, and a decrease in health care cost trend rates.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total OPEB liability	\$ 4,748,883	\$ 4,385,580	\$ 4,067,602

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Health Care Trend Rate	1% Increase
Total OPEB liability	\$ 4,090,325	\$ 4,385,580	\$ 4,714,929

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2022, the Authority recognized OPEB expense of \$257,447. Deferred outflows and inflows of resources related to OPEB as of June 30, 2022 are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 157,396	\$ 697,277
Changes in assumptions and other inputs	799,287	2,469,465
Contributions subsequent to the measurement date	133,226	-
Total OPEB-related deferred outflows/inflows of resources	\$ 1,089,909	\$ 3,166,742

Deferred outflows of resources resulting from \$133,226 of contributions subsequent to the measurement date will be recognized as a decrease to the total OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2023	(326,959)
2024	(700,136)
2025	(596,536)
2026	(533,116)
2027	(53,312)
Total	(2,210,059)

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; natural disasters and cyber-attacks. The largest risk that the Authority faces are natural disasters and cybersecurity threats. Because the Authority is located on the Atlantic Coast, hurricanes pose a substantial risk to the Authority infrastructure. The Authority carries wind and hail insurance in the amount of \$50 million for each occurrence. The Authority recognizes the risk of floods due to hurricanes and mitigates this risk through infrastructure design in addition to insurance. The Authority carries flood insurance in the amount of \$1 million for each occurrence and \$1 million aggregate for the policy period. Cybersecurity threats also pose a substantial risk. In addition to internal cybersecurity controls, the Authority maintains cyber liability insurance for all claims with various coverages and limits underneath the aggregate limit. Other coverages include Auto (\$1 million each occurrence), General Liability (\$1 million each occurrence), Excess Liability (\$10 million each occurrence), Inland Marine (replacement cost), Public Officers and Management Liability Coverage (\$1 million each occurrence), and Directors and Officer Liability (\$5 million each occurrence).

The Authority self-insures risks associated with workers' compensation for the first \$500,000 per incident, transfers risk for the next \$1 million per incident through the purchase of insurance and retains all risks thereafter. The Authority carries commercial coverage or bonds for all other risks of loss including property, general liability, auto, crime, public official liability. In accordance with NCGS 159-29(a), the Authority's Chief Financial Officer is individually bonded and remaining employees that have access to funds are bonded under a blanket bond of \$1,000,000. Claims did not exceed coverage for any category for the fiscal years ended June 30, 2022, 2021, or 2020.

For the retained portion of the risk related to workers' compensation, 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. The Authority carried a worker's compensation reserve of \$140,000 at June 30, 2021 and June 30, 2022. Incurred claims during the year equaled worker's compensation claim payments of \$25,992.

Changes to the balance of claims liabilities during the past two years are as follows.

	<u>Workers' Compensation</u>
Liability - June 30, 2020	\$140,000
Claims incurred	15,662
Claims payments	(15,662)
Changes to prior year Estimates	-
Liability - June 30, 2021	<u>\$140,000</u>
Claims incurred	25,992
Claims payments	(25,992)
Changes to prior year Estimates	-
Liability - June 30, 2022	<u><u>\$140,000</u></u>

Note 8. Long-term Debt

G.S. 162A-8 gives the Authority the power to periodically issue revenue bonds in accordance with the provisions of G.S. 159-80 through G.S. 159-98. Pursuant to the interlocal agreement transferring the City's and the County's water and wastewater system to the Authority, the Authority assumed responsibility for all of the related debt. The General Trust Indenture dated as of December 1, 1998 and four series indentures under which the City had issued revenue bonds were assigned to the Authority on July 1, 2008 as provided for in Section 6.11(a) of the General Trust Indenture. Some debt instruments could not be transferred to the Authority or refinanced due to the nature of the agreements. Accordingly, the City and the County retained and continued to service 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. All City obligations have been retired. Periodically, the Authority applies for low-interest loan funding under the Capitalization Grants for Clean Water State Revolving Funds and the Capitalization Grants for Drinking Water State Funds programs through the North Carolina Department of Environmental Quality.

Changes in the Authority's long-term debt during the fiscal year were as follows:

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022	Current Maturities
Revenue Bonds	\$249,660,000	-	\$12,405,000	\$237,255,000	\$12,850,000
Installment Obligations:					
Locality compensation payment	6,750,000	-	990,000	5,760,000	980,000
Unamortized Premiums/(Discounts)	31,309,614	-	3,690,900	27,618,714	-
Total Bonds and Installment Obligations	287,719,614	-	17,085,900	270,633,714	13,830,000
Other Installment Obligations:					
ARRA Revolving Loan	678,914	-	56,576	622,338	56,576
DWSRF Revolving Loan	114,347	-	8,796	105,551	8,796
Clean Water State Revolving Loans	13,932,898	-	867,488	13,065,411	867,488
Total Other Installment Obligations	14,726,159	-	932,860	13,793,300	932,860
Total Bonds, Installment, and Other Obligations	\$ 302,445,773	\$ -	\$ 18,018,760	\$ 284,427,014	\$ 14,762,860
Compensated Absences	\$ 1,748,469	\$ 965,825	\$ 1,051,191	\$ 1,663,103	\$ 1,051,191
Leases	\$ 5,832,353	\$ 1,232,915	\$ 316,365	\$ 6,748,903	\$ 333,720
Total Long-Term Obligations	\$ 310,026,595	\$ 2,198,740	\$ 19,386,316	\$ 292,839,020	\$ 16,147,771

The Authority's revenue bonds issued under the General Trust Indenture are secured by a pledge of all "net revenues" as defined in the General Trust Indenture Section 1.1. Revenue bonds are issued to make improvements to the Authority's water and wastewater system. The total principal and interest remaining to be paid on the bonds is \$319,352,877 with the last payment due August 1, 2044. Principal and interest paid on the Authority's revenue bonds and net revenues pledged for repayment during the year were \$22,751,847 and \$38,573,951, respectively. In accordance with the General Trust Indenture, the Authority is subject to various covenants including the required debt service coverage to be no less than 120% or 1.20 times including 50% of surplus funds and to be no less than 100% or 1.00 times excluding surplus funds. Under the General Trust Indenture, the Authority's revenue bonds are subject to acceleration in the event of default. The Authority is compliant with the covenants of the General Trust Indenture. The debt service coverage ratio calculation for the fiscal year ended June 30, 2022 was 1.68 for parity indebtedness and 1.52 for all indebtedness.

At June 30, 2022 the Authority carried total deferred outflows of resources related to the difference between the reacquisition price of refunding debt and the net carrying value of refunded debt in the amount of \$8,659,018. This amount will be amortized as a component of interest expense in future years. At June 30, 2022 the outstanding amount of defeased debt consisted of \$13,090,000 of Series 2014A Revenue Refunding Bonds.

The debt service requirements to maturity for the Authority's outstanding revenue bonds and other installment obligations are as follows:

Year Ending June 30	Revenue Bonds		Other Installment Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 12,850,000	\$ 9,723,908	\$ 1,912,860	\$ 456,085	\$ 14,762,860	\$ 10,179,993
2024	13,510,000	9,073,653	1,902,860	400,497	15,412,860	9,474,150
2025	12,740,000	8,458,731	1,892,860	342,909	14,632,860	8,801,640
2026	13,355,000	7,847,679	1,887,860	283,271	15,242,860	8,130,950
2027	13,985,000	7,211,683	1,882,860	221,482	15,867,860	7,433,165
2028-2032	79,840,000	26,159,041	5,609,298	563,591	85,449,298	26,722,632
2033-2037	64,965,000	9,617,315	3,402,479	206,072	68,367,479	9,823,387
2038-2042	16,800,000	3,443,267	1,062,224	22,307	17,862,224	3,465,574
2043-2045	9,210,000	562,600	-	-	9,210,000	562,600
Total	\$237,255,000	\$82,097,877	\$19,553,298	\$2,496,213	\$256,808,298	\$84,594,090

Note 9. Construction and Other Significant Commitments

Encumbrance accounting is utilized to ensure effective budgetary control and accountability and to facilitate effective cash planning and control. The Authority periodically enters into agreements with other parties in order to provide construction, professional, maintenance, and support services. Funds are encumbered at the time of the agreement. At June 30, 2022 the amount of outstanding encumbrances were as follows:

Budgetary Fund	Remaining Commitment
Operating Fund	\$ 234,617
Capital Project Fund	35,937,702
	<u>\$ 36,172,319</u>

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

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**Cape Fear Public Utility Authority
Required Supplementary Information**

**Schedule of the Authority's Proportionate Share of the Net Pension Liability (Asset)
Local Government Employees' Retirement System
2014-2022 ***

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Authority's proportion of the net pension liability (asset)	0.2096%	0.2133%	0.2190%	0.2261%	0.2215%	0.2218%	0.2328%	0.2285%	0.2418%
Authority's proportionate share of the net pension liability (asset)	\$ 2,526,485	\$ (1,258,105)	\$ 982,683	\$ 4,797,538	\$ 3,383,448	\$ 5,260,906	\$ 6,358,133	\$ 8,164,921	\$ 3,708,235
Authority's covered payroll	\$ 12,624,256	\$ 13,060,438	\$ 13,374,328	\$ 14,196,327	\$ 14,232,400	\$ 15,095,827	\$ 16,463,303	\$ 17,301,028	\$ 18,362,335
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	20.01%	-9.63%	7.35%	33.79%	23.77%	34.85%	38.62%	47.19%	20.19%
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.35%	102.64%	98.09%	91.47%	94.18%	91.63%	90.86%	88.61%	95.51%

* The amounts presented for each fiscal year were measured as of the prior fiscal year ending June 30 based on an actuarial valuation dated the previous December 31. Information is not available for years prior to 2014.

**Cape Fear Public Utility Authority
Required Supplementary Information**

**Schedule of Authority Contributions
Local Government Employees' Retirement System
2014-2022 ***

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Statutorily required contribution	\$ 923,373	\$ 945,565	\$ 946,895	\$ 1,031,849	\$ 1,132,187	\$ 1,275,906	\$ 1,548,442	\$ 1,863,777	\$ 2,127,981
Contributions in relation to the statutorily required contribution	923,373	945,565	946,895	1,031,849	1,132,187	1,275,906	1,548,442	1,863,777	2,127,981
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 13,060,438	\$ 13,374,328	\$ 14,196,327	\$ 14,232,400	\$ 15,095,827	\$ 16,463,303	\$ 17,301,028	\$ 18,362,335	\$ 18,748,731
Contributions as a percentage of covered payroll	7.07%	7.07%	6.67%	7.25%	7.50%	7.75%	8.95%	10.15%	11.35%

* Information is not available for years prior to 2014.

**Cape Fear Public Utility Authority
Required Supplementary Information**

**Schedule of Changes in the Total OPEB Liability and Related Ratios
2018-2022 ***

	2018	2019	2020	2021	2022
Total OPEB liability					
Service cost	\$ 206,698	\$ 178,078	\$ 150,107	\$ 153,641	\$ -
Interest	112,153	260,720	279,902	237,811	139,365
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	1,736,751	(143,522)	(621,802)	(673,623)	-
Changes in assumptions or other inputs	3,140,531	(443,556)	253,829	401,442	(2,718,890)
Benefit payments	(521,626)	(497,362)	(401,752)	(386,205)	(255,874)
Net change in total OPEB liability	4,674,507	(645,642)	(339,716)	(266,934)	(2,835,399)
Total OPEB liability - beginning	3,798,764	8,473,271	7,827,629	7,487,913	7,220,979
Total OPEB liability - ending	\$ 8,473,271	\$ 7,827,629	\$ 7,487,913	\$ 7,220,979	\$ 4,385,580
Covered-employee payroll	\$ 6,128,784	\$ 6,250,591	\$ 6,222,451	\$ 6,142,534	\$ 5,702,148
Total OPEB liability as a percentage of covered-employee payroll	138.25%	125.23%	120.34%	117.56%	76.91%

* The amounts presented for each fiscal year were measured as of the previous December 31. Information is not available for years prior to 2018.

Notes to Required Supplementary Information

1) No assets have been accumulated in a qualifying trust to pay benefits of the Authority's OPEB plan.

Cape Fear Public Utility Authority
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) -
Operating Fund
For the Fiscal Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water/wastewater fixed charges	\$ 31,387,935	\$ 31,387,935	\$ 33,383,322	\$ 1,995,387
Water/wastewater volumetric charges	47,348,560	47,348,560	51,232,279	3,883,719
System development charges	7,095,000	7,095,000	6,374,040	(720,960)
Investment earnings	200,000	200,000	(296,219)	(496,219)
Grants from other governments	-	-	8,000	8,000
Other charges for service	4,507,000	4,507,000	5,294,473	787,473
Total revenues	\$ 90,538,495	\$ 90,538,495	\$ 95,995,895	\$ 5,457,400
Expenditures				
Authority Board				
Salaries & Benefits	\$ 49,563	\$ 37,785	\$ 37,785	\$ -
Operating	19,794	19,794	15,119	4,675
Total Authority Board	\$ 69,357	\$ 57,579	\$ 52,904	\$ 4,675
Administration				
Salaries & Benefits	\$ 363,011	\$ 390,544	\$ 390,544	\$ -
Operating	571,880	1,055,061	1,055,061	-
Total Administration	\$ 934,891	\$ 1,445,605	\$ 1,445,605	\$ -
Communications				
Salaries & Benefits	\$ 243,192	\$ 246,681	\$ 246,681	\$ -
Operating	65,676	114,076	112,822	1,254
Total Communications	\$ 308,868	\$ 360,757	\$ 359,503	\$ 1,254
Finance				
Salaries & Benefits	\$ 1,253,034	\$ 1,229,459	\$ 1,229,459	\$ -
Operating	147,714	162,714	155,187	7,527
Total Finance	\$ 1,400,748	\$ 1,392,173	\$ 1,384,646	\$ 7,527
Human Resources				
Salaries & Benefits	\$ 510,050	\$ 443,353	\$ 443,353	\$ -
Operating	134,960	148,960	145,221	3,739
Total Human Resources	\$ 645,010	\$ 592,313	\$ 588,574	\$ 3,739
Public & Environmental Policy				
Salaries & Benefits	\$ 323,145	\$ 74,690	\$ 74,690	\$ -
Operating	23,294	4,660	4,660	-
Capital Outlay	-	17,750	17,750	-
Total Public & Environmental Policy	\$ 346,439	\$ 97,100	\$ 97,100	\$ -
Information Technology				
Salaries & Benefits	\$ 989,912	\$ 931,515	\$ 931,515	\$ -
Operating	2,503,609	2,336,609	2,325,775	10,834
Total Information Technology	\$ 3,493,521	\$ 3,268,124	\$ 3,257,290	\$ 10,834

Cape Fear Public Utility Authority
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) -
Operating Fund
For the Fiscal Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Treatment & Engineering Services:				
Centralized Maintenance				
Salaries & Benefits	\$ 1,617,612	\$ 1,405,804	\$ 1,405,804	\$ -
Operating	1,795,141	1,835,360	1,814,559	20,801
Capital Outlay	69,000	-	-	-
Total Centralized Maintenance	\$ 3,481,753	\$ 3,241,164	\$ 3,220,363	\$ 20,801
Water Treatment				
Salaries & Benefits	\$ 2,433,385	\$ 2,398,401	\$ 2,398,401	\$ -
Operating	5,159,071	5,162,713	5,135,314	27,399
Total Water Treatment	\$ 7,592,456	\$ 7,561,114	\$ 7,533,715	\$ 27,399
Wastewater Treatment				
Salaries & Benefits	\$ 2,496,300	\$ 2,397,450	\$ 2,397,450	\$ -
Operating	2,581,201	2,887,610	2,840,827	46,783
Total Wastewater Treatment	\$ 5,077,501	\$ 5,285,060	\$ 5,238,277	\$ 46,783
Engineering				
Salaries & Benefits	\$ 2,327,590	\$ 2,295,289	\$ 2,295,289	\$ -
Operating	131,650	95,750	91,572	4,178
Total Engineering	\$ 2,459,240	\$ 2,391,039	\$ 2,386,861	\$ 4,178
Linear Assets & Project Management				
Administration				
Salaries & Benefits	\$ 563,985	\$ 582,063	\$ 582,063	\$ -
Operating	11,254	11,254	10,232	1,022
Total Administration	\$ 575,239	\$ 593,317	\$ 592,295	\$ 1,022
Project Management				
Salaries & Benefits	\$ 647,252	\$ 648,192	\$ 648,192	\$ -
Operating	14,728	14,728	13,693	1,035
Total Project Management	\$ 661,980	\$ 662,920	\$ 661,885	\$ 1,035
Operations - Utility Services				
Salaries & Benefits	\$ 6,717,824	\$ 6,827,026	\$ 6,827,026	\$ -
Operating	4,097,950	4,111,199	3,978,006	133,193
Capital Outlay	-	16,339	16,339	-
Total Operations - Utility Services	\$ 10,815,774	\$ 10,954,564	\$ 10,821,371	\$ 133,193
Environmental Management				
Salaries & Benefits	\$ 2,600,460	\$ 2,644,695	\$ 2,644,695	\$ -
Operating	803,014	683,566	667,983	15,583
Total Environmental Management	\$ 3,403,474	\$ 3,328,261	\$ 3,312,678	\$ 15,583
Customer Service				
Salaries & Benefits	\$ 3,420,003	\$ 3,275,665	\$ 3,275,665	\$ -
Operating	1,170,054	1,556,129	1,378,922	177,207
Capital Outlay	6,720	-	-	-
Total Customer Service	\$ 4,596,777	\$ 4,831,794	\$ 4,654,587	\$ 177,207

Cape Fear Public Utility Authority
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) -
Operating Fund
For the Fiscal Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Nondepartmental				
Salaries & Benefits	\$ 500,000	\$ 500,000	\$ 304,393	\$ 195,607
Operating	2,420,943	2,330,013	2,329,333	680
Total Nondepartmental	<u>\$ 2,920,943</u>	<u>\$ 2,830,013</u>	<u>\$ 2,633,726</u>	<u>\$ 196,287</u>
Debt Service				
Principal	\$ 14,327,859	\$ 14,327,859	\$ 14,327,860	\$ (1)
Interest	10,856,495	10,856,495	10,856,495	-
Total Debt Service	<u>\$ 25,184,354</u>	<u>\$ 25,184,354</u>	<u>\$ 25,184,355</u>	<u>\$ (1)</u>
Total expenditures	<u>\$ 73,968,325</u>	<u>\$ 74,077,251</u>	<u>\$ 73,425,735</u>	<u>\$ 651,516</u>
Other financing sources (uses)				
Sale of capital assets	\$ 150,000	\$ 150,000	\$ 269,603	\$ 119,603
Appropriated fund balance	1,279,830	1,388,756	-	(1,388,756)
Transfers out - Capital Projects Funds	(18,000,000)	(18,000,000)	(18,000,000)	-
Total financing (uses)	<u>\$ (16,570,170)</u>	<u>\$ (16,461,244)</u>	<u>\$ (17,730,397)</u>	<u>\$ (1,269,153)</u>
Revenues and other financing (uses) over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,839,763</u>	<u>\$ 4,839,763</u>

Reconciliation of modified accrual basis to full accrual basis:

Revenues and other financing sources over expenditures -	
Capital Projects Funds - Water, Wastewater & Sytem-Wide	\$ (15,550,474)
Capital contributions - conveyed infrastructure	10,294,084
Capitalized expenditures	28,269,186
Excess of the carrying value of disposed capital assets over sale proceeds	(21,274)
Depreciation and amortization on capital assets	(27,657,676)
Pension expense	(1,752,686)
Contributions to pension plans	2,127,981
OPEB expense	(257,447)
Contributions to OPEB plan	248,492
Interest expense:	
Decrease in accrued interest liability	221,312
Amortization of deferred amount on refunding	(1,345,313)
Amortization of premium	3,690,900
Accrued revenue and uncollectible amounts	(4,871,825)
Decrease in compensated absences liability	85,366
Proceeds from long-term obligations	(87,604)
Principal on lease liability	266,715
Principal on long-term obligations	14,327,860
Change in net position	<u>\$ 12,827,360</u>

Cape Fear Public Utility Authority
Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP) -
Capital Projects Funds - Water, Wastewater & System-Wide
From Inception and For the Fiscal Year Ended June 30, 2022

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue				
Capital grants and contributions	\$ 75,016,714	\$ 43,016,855	\$ 1,274,539	\$ 44,291,394
Charges for services	30,469,876	23,791,956	2,287,116	26,079,072
Investment earnings	6,965,723	6,965,762	-	6,965,762
Total revenue	\$ 112,452,313	\$ 73,774,573	\$ 3,561,655	\$ 77,336,228
Expenditures				
Water projects	\$ 328,609,461	\$ 272,012,787	\$ 21,486,325	\$ 293,499,112
Wastewater projects	342,739,011	257,195,623	13,253,603	270,449,226
System-wide projects	21,139,872	15,629,763	2,560,181	18,189,944
Total expenditures	\$ 692,488,344	\$ 544,838,173	\$ 37,300,109	\$ 582,138,282
Other financing sources				
Long-term obligations issued	\$ 324,048,861	\$ 299,741,226	\$ 87,604	\$ 299,828,830
Insurance proceeds	1,084,771	1,084,771	100,376	1,185,147
Transfers in - Operating Fund	205,715,467	155,733,539	18,000,000	173,733,539
Appropriated fund balance	49,186,932	-	-	-
Total other financing sources	\$ 580,036,031	\$ 456,559,536	\$ 18,187,980	\$ 474,747,516
Revenue and other financing sources over expenditures	\$ -	\$ (14,504,064)	\$ (15,550,474)	\$ (30,054,538)

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STATISTICAL SECTION

(Unaudited)

Cape Fear Public Utility Authority Statistical Section (Unaudited)

Financial Trends

These schedules identify the trends in changes over time of the Authority's financial functional effectiveness and financial strength.

Net Position by Component
Changes in Net Position

Revenue Capacity

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

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

Debt Capacity

These schedules represent the ratio of debt to revenue.

Pledged-Revenue Coverage
Ratios of Outstanding Debt by Type

Demographic and Economic Information

These schedules show the demographic and economic picture of the environment in which the authority provides its services.

Demographic Statistics
Principal Employers
Full Time Equivalent Employees

Operating Information

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

Water Production and Wastewater Treatment
Operating Statistics

Sources

Unless otherwise noted, the information included in these schedules is derived from the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018 and is provided for additional analysis purposes only and has not been verified by audit as presented.

Cape Fear Public Utility Authority
Net Position By Component
Current Fiscal Year and Last Nine Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018(1)	Fiscal Year 2017(1)	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014 (1)	Fiscal Year 2013
Net investment in capital assets	\$ 558,779,170	\$ 543,758,699	\$ 512,151,108	\$ 468,755,415	\$ 424,502,362	\$ 390,620,064	\$ 359,084,362	\$ 335,218,505	\$ 304,634,404	\$ 295,343,987
Restricted for:										
Debt service	9,516,394	9,192,472	8,488,245	7,642,752	11,092,065	10,966,309	2,916,717	-	-	-
Unrestricted	61,009,738	63,526,771	70,447,988	90,130,249	107,257,047	111,961,957	122,820,678	108,678,499	104,968,819	95,959,547
Total net position	\$ 629,305,302	\$ 616,477,942	\$ 591,087,341	\$ 566,528,416	\$ 542,851,474	\$ 513,548,330	\$ 484,821,757	\$ 443,897,004	\$ 409,603,223	\$ 391,303,534

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

(1) Net Position was restated in fiscal years 2018, 2017, and 2014 to reflect a change in accounting principle.

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

	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013
Operating revenues										
Charges for services	\$ 85,347,270	\$ 95,651,260	\$ 86,038,040	\$ 77,413,386	\$ 73,276,538	\$ 72,952,927	\$ 68,627,099	\$ 67,429,021	\$ 65,495,922	\$ 63,061,317
System development charges	6,374,040	8,047,468	6,570,775	5,222,171	6,014,920	6,277,464	6,068,284	4,740,567	4,396,198	3,832,586
Other operating revenues	2,568,179	2,671,923	3,269,113	3,334,896	3,448,795	4,223,916	3,873,167	3,835,966	3,344,807	3,152,075
Total operating revenues	94,289,489	106,370,651	95,877,928	85,970,453	82,740,253	83,454,307	78,568,550	76,005,554	73,236,927	70,045,978
Operating expenses										
Personnel and benefits	25,955,963	26,766,088	26,223,970	23,420,453	21,673,141	17,850,409	16,598,873	15,944,834	16,128,971	15,253,963
Operations and maintenance	30,870,293	37,599,291	31,388,356	27,505,928	22,789,586	23,650,622	16,393,895	14,633,728	14,051,693	14,643,018
Depreciation and amortization	27,657,676	24,711,921	23,985,127	22,863,858	22,024,805	20,880,300	20,076,373	18,776,391	17,729,409	17,591,990
Total operating expenses	84,483,932	89,077,300	81,597,453	73,790,239	66,487,532	62,381,331	53,069,141	49,354,953	47,910,073	47,488,971
Operating income (loss)	9,805,557	17,293,351	14,280,475	12,180,214	16,252,721	21,072,976	25,499,409	26,650,601	25,326,854	22,557,007
Nonoperating revenues (expenses)										
Investment earnings	(296,219)	260,774	2,046,294	2,204,682	1,567,523	880,543	3,312,744	1,012,470	993,737	959,408
Interest expense	(8,562,307)	(9,016,759)	(8,990,462)	(8,660,674)	(8,660,925)	(9,321,091)	(8,274,675)	(8,332,023)	(11,919,549)	(13,213,771)
Bond issuance costs and other debt service fees	-	-	(617,332)	-	(142,708)	-	(717,165)	(683,650)	(85,243)	(316,120)
State and federal grants	1,235,273	2,644,234	8,157,813	5,433,834	2,786,821	220,254	-	-	-	-
Settlement proceeds	-	2,201,617	-	-	-	-	-	-	-	-
Gain (Loss) on disposal of capital assets	248,329	(116,450)	131,623	132,953	152,213	88,899	53,691	77,599	73,780	(202,214)
Insurance proceeds	100,376	459,265	250,690	623,491	-	-	-	-	-	-
Gain (Loss) on extinguishment of debt	-	-	-	-	-	-	93,020	-	-	-
Contributions from the City of Wilmington and New Hanover County	-	-	-	-	304,000	627,000	950,000	1,254,000	1,577,000	1,900,000
Total nonoperating revenues (expenses)	(7,274,548)	(3,567,319)	978,626	(265,714)	(3,993,076)	(7,504,395)	(4,582,385)	(6,671,604)	(9,360,275)	(10,872,697)
Income before capital contributions, special items and extraordinary items	2,531,009	13,726,032	15,259,101	11,914,500	12,259,645	13,568,581	20,917,024	19,978,997	15,966,579	11,684,310
Capital contributions-other	10,296,351	11,664,569	9,299,824	11,762,442	11,538,622	17,654,167	20,007,729	14,314,784	3,936,222	6,911,587
Total capital contributions, special and extraordinary items	10,296,351	11,664,569	9,299,824	11,762,442	11,538,622	17,654,167	20,007,729	14,314,784	3,936,222	6,911,587
Increase in net position	12,827,360	25,390,601	24,558,925	23,676,942	23,798,267	31,222,748	40,924,753	34,293,781	19,902,801	18,595,897
Net position										
Beginning of year	616,477,942	591,087,341	566,528,416	537,346,597	513,548,330	484,821,757	443,897,004	411,206,335	391,303,534	372,707,637
Cumulative effect of change in accounting principle	-	-	-	5,504,877	-	(2,496,175)	-	(1,603,112)	-	-
End of year, restated	\$ 629,305,302	\$ 616,477,942	\$ 591,087,341	\$ 566,528,416	\$ 537,346,597	\$ 513,548,330	\$ 484,821,757	\$ 443,897,004	\$ 411,206,335	\$ 391,303,534

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

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

	2022 ⁽²⁾	2021	2020	2019	2018	2017	2016	2015 ⁽¹⁾	2014 ⁽¹⁾	2013 ⁽¹⁾
Water Rates										
Water fixed rate	\$ 13.78	\$ 27.56	\$ 27.56	\$ 27.56	\$ 26.67	\$ 25.81	\$ 25.81	\$ 25.81	\$ 25.81	\$ 25.81
Water rate per 1,000 gallons (domestic & irrigation)	\$ 4.02	\$ 4.02	\$ 4.02	\$ 4.02	\$ 3.85	\$ 3.67	\$ 3.67	\$ 3.67	\$ 3.67	\$ 3.42
Average residential consumption per customer per bill (gallons)	4,100	8,200	8,200	8,100	8,400	8,400	8,600	8,600	8,400	9,200
Average residential bill	\$ 30.26	\$ 60.52	\$ 60.52	\$ 60.12	\$ 59.01	\$ 56.64	\$ 57.37	\$ 57.37	\$ 56.64	\$ 57.27
Wastewater Rates										
Wastewater fixed rate	\$ 14.55	\$ 29.10	\$ 29.10	\$ 29.10	\$ 29.10	\$ 29.10	\$ 29.10	\$ 29.10	\$ 29.10	\$ 29.10
Wastewater rate per 1,000 gallons ⁽³⁾	\$ 4.63	\$ 4.63	\$ 4.63	\$ 4.63	\$ 4.58	\$ 4.56	\$ 4.56	\$ 4.56	\$ 4.56	\$ 4.21
Wastewater residential flat rate ⁽⁴⁾	\$ 33.53	\$ 67.07	\$ 67.07	\$ 66.60	\$ 67.58	\$ 138.54	\$ 138.54	\$ 138.54	\$ 138.54	\$ 130.14
Average residential consumption per customer per bill (gallons)	4,100	8,200	8,200	8,100	8,400	8,400	8,600	8,600	8,400	9,200
Average residential bill	\$ 33.53	\$ 67.07	\$ 67.07	\$ 66.60	\$ 67.58	\$ 67.40	\$ 68.32	\$ 68.32	\$ 67.40	\$ 67.83

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

⁽²⁾ The Authority began billing on a monthly basis beginning in October 2021. Prior to this date, billing was on a bi-monthly basis.

⁽³⁾ Wastewater volume charges are capped at 30,000 gallons for residential customers.

⁽⁴⁾ Wastewater flat rate charged when Authority water is not available. Beginning in Fiscal Year 2018, residential customers were charged based on average

Cape Fear Public Utility Authority
Principal Water Customers
Current Fiscal Year and Nine Years Prior

2022					2013				
Ten Largest Users of the Water System Annual Consumption	Thousands of Gallons	% of System	Revenues (\$)	% of Revenues	Ten Largest Users of the Water System Annual Consumption	Thousands of Gallons	% of System	Revenues (\$)	% of Revenues
1 UNC Wilmington	132,716	2.02%	\$ 606,740	1.42%	1 UNC Wilmington	148,310	2.94%	\$ 616,844	2.07%
2 Tribute Properties	73,651	1.12%	463,066	1.08%	2 New Hanover Regional Medical Center	55,933	1.11%	264,990	0.89%
3 Novant Health	62,115	0.94%	327,309	0.76%	3 New Hanover County Schools	43,103	0.85%	286,412	0.96%
4 Wilmington Housing Authority	61,329	0.93%	291,765	0.68%	4 New Hanover County	38,793	0.77%	230,450	0.77%
5 Town of Wrightsville Beach	58,587	0.89%	93,264	0.22%	5 Wilmington Housing Authority	38,697	0.77%	183,127	0.62%
6 New Hanover County	49,964	0.76%	288,351	0.67%	6 Tribute Properties	33,355	0.66%	268,137	0.90%
7 New Hanover County Schools	40,042	0.61%	285,420	0.67%	7 Lake Forest Apartments	28,826	0.57%	126,128	0.42%
8 Bedrock Holdings	32,612	0.50%	195,777	0.46%	8 Mayfaire Complex	27,630	0.55%	196,995	0.66%
9 Lake Forest Apartments	31,848	0.48%	145,499	0.34%	9 College Manor Apartments	26,527	0.53%	123,189	0.41%
10 NC State Port Authority	27,235	0.41%	246,393	0.58%	10 City of Wilmington	20,366	0.40%	179,006	0.60%
Total Net Consumption / Net Revenue	570,099	8.67%	\$ 2,943,584	6.87%	Total Net Consumption / Net Revenue	461,539	9.15%	\$ 2,475,277	8.31%
Total Annual System Net Consumption / Net Revenue	6,577,455		\$ 42,831,003		Total Annual System Net Consumption / Net Revenue	5,042,733		\$ 29,770,387	

**Cape Fear Public Utility Authority
Principal Wastewater Customers
Current Fiscal Year and Nine Years Prior**

2022					2013				
Ten Largest Users of the Wastewater System Annual Consumption	Thousands of Gallons	% of System	Revenues (\$)	% of Revenues	Ten Largest Users of the Wastewater System Annual Consumption	Thousands of Gallons	% of System	Revenues (\$)	% of Revenues
1 Town of Wrightsville Beach	212,429	3.63%	\$ 382,372	0.90%	1 Town of Wrightsville Beach	203,370	4.29%	\$ 357,931	1.09%
2 UNC Wilmington	169,480	2.90%	508,461	1.20%	2 UNC Wilmington	88,768	1.87%	378,962	1.16%
3 Tribute Properties	64,563	1.10%	465,281	1.10%	3 New Hanover Regional Medical Center	55,078	1.16%	275,525	0.84%
4 Wilmington Housing Authority	60,836	1.04%	327,536	0.78%	4 New Hanover County Schools	42,756	0.90%	299,665	0.91%
5 Novant Health	58,248	1.00%	343,804	0.81%	5 Wilmington Housing Authority	38,599	0.81%	191,869	0.58%
6 New Hanover County	43,167	0.74%	276,497	0.65%	6 New Hanover County	36,870	0.78%	227,115	0.69%
7 North Carolina State Ports Authority	39,790	0.68%	195,039	0.46%	7 Tribute Properties	32,532	0.69%	304,049	0.93%
8 New Hanover County Schools	36,391	0.62%	289,585	0.69%	8 Lake Forest Apartments	28,826	0.61%	132,614	0.40%
9 Bedrock Holdings	32,450	0.55%	208,967	0.49%	9 Mayfaire Complex	27,006	0.57%	203,378	0.62%
10 Lake Forest Apartments	31,848	0.54%	165,903	0.39%	10 College Manor Apartments	26,527	0.56%	129,447	0.39%
Total Net Consumption / Net Revenue	749,202	12.80%	\$ 3,163,445	7.49%	Total Net Consumption / Net Revenue	580,333	12.25%	\$ 2,500,555	7.62%
Total Annual System Net Consumption / Net Revenue	5,852,310		\$ 42,260,234		Total Annual System Net Consumption / Net Revenue	4,737,719		\$ 32,802,745	

Cape Fear Public Utility Authority
Consumption by Customer Group
Current Fiscal Year and Last Nine Fiscal Years

	2022		2021		2020		2019		2018		2017		2016		2015		2014		2013	
	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption	Thousand Gallons	% of Consumption
Water Customers																				
Residential	4,538,801	69.01%	4,155,305	70.87%	4,107,969	69.05%	3,718,024	67.27%	3,614,451	68.57%	3,651,875	69.45%	3,630,541	69.20%	3,461,812	68.80%	3,415,831	69.87%	3,522,531	69.85%
Commercial	1,469,151	22.34%	1,222,972	20.86%	1,284,322	21.59%	1,238,734	22.41%	1,175,036	22.29%	1,151,382	21.90%	1,128,569	21.51%	1,053,502	20.94%	1,006,253	20.58%	1,026,039	20.35%
Town of Wrightsville Beach ⁽¹⁾	58,587	0.89%	45,689	0.78%	47,968	0.81%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Industrial	76,570	1.16%	70,801	1.21%	69,941	1.18%	109,343	1.98%	90,719	1.72%	68,109	1.30%	74,645	1.42%	65,334	1.30%	63,349	1.30%	59,116	1.17%
Institutional and Government	434,346	6.60%	368,363	6.28%	439,476	7.39%	460,658	8.34%	391,058	7.42%	386,583	7.35%	413,036	7.87%	451,090	8.96%	403,523	8.25%	435,048	8.63%
Total	6,577,455	100.00%	5,863,130	100.00%	5,949,676	100.00%	5,526,758	100.00%	5,271,263	100.00%	5,257,949	100.00%	5,246,790	100.00%	5,031,738	100.00%	4,888,957	100.00%	5,042,734	100.00%
Wastewater Customers																				
Residential	3,817,961	65.92%	3,628,685	67.60%	3,524,127	66.88%	3,312,519	66.11%	3,259,728	66.14%	3,277,428	67.57%	3,287,280	67.36%	3,171,068	67.33%	3,184,447	68.27%	3,246,521	68.52%
Commercial	1,314,078	22.69%	1,099,639	20.48%	1,173,859	22.28%	1,143,289	22.82%	1,078,506	21.88%	1,048,627	21.62%	1,019,892	20.90%	956,150	20.30%	922,045	19.77%	923,952	19.50%
Town of Wrightsville Beach	212,429	3.67%	228,198	4.25%	234,896	4.46%	223,691	4.46%	254,728	5.17%	184,695	3.81%	227,370	4.66%	207,905	4.41%	210,681	4.52%	203,370	4.29%
Pender County	16,397	0.28%	15,172	0.28%	8,296	0.16%	12,715	0.25%	14,374	0.29%	11,291	0.23%	10,562	0.22%	10,033	0.21%	9,008	0.19%	10,473	0.22%
Industrial	26,578	0.46%	24,304	0.45%	17,330	0.33%	16,613	0.33%	17,144	0.35%	15,470	0.32%	18,257	0.37%	21,027	0.45%	19,468	0.42%	16,296	0.34%
Institutional and Government	404,389	6.98%	372,066	6.93%	311,014	5.90%	302,154	6.03%	303,850	6.17%	312,907	6.45%	316,946	6.49%	343,878	7.30%	318,809	6.83%	337,107	7.12%
Total ⁽²⁾	5,791,832	100.00%	5,368,064	100.00%	5,269,523	100.00%	5,010,981	100.00%	4,928,329	100.00%	4,850,418	100.00%	4,880,306	100.00%	4,710,062	100.00%	4,664,457	100.00%	4,737,719	100.00%

(1) Beginning in Fiscal Year 2020, CFPUA entered into a bulk water sales contract with the Town of Wrightsville Beach.

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

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

Fiscal Year Ended June 30	Water			Wastewater		
	Locations with Actively Billed Services	Increase/ (Decrease)	% Increase/ (Decrease)	Locations with Actively Billed Services	Increase/ (Decrease)	% Increase/ (Decrease)
2022	74,133	1,720	2.38%	74,453	2,036	2.81%
2021	72,413	1,428	2.01%	72,417	1,311	1.84%
2020	70,985	421	0.60%	71,106	1,106	1.58%
2019	70,564	930	1.34%	70,000	865	1.25%
2018	69,634	1,022	1.49%	69,135	1,512	2.24%
2017	68,612	1,260	1.87%	67,623	1,239	1.87%
2016	67,352	1,216	1.84%	66,384	654	0.99%
2015	66,136	1,072	1.65%	65,730	731	1.12%
2014	65,064	391	0.60%	64,999	1,195	1.87%
2013	64,673	1,224	1.93%	63,804	448	0.71%

Cape Fear Public Utility Authority
Pledged-Revenue Coverage
Water and Sewer Revenue Bonds
Current Fiscal Year and Last Nine 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
2022							
Parity Debt Coverage Ratio	\$ 95,577,248	\$ 57,277,962	\$ 38,299,286	\$ 12,405,000	\$ 10,346,847	\$ 22,751,847	1.68
Total Debt Coverage Ratio				\$ 14,327,860	\$ 10,856,495	\$ 25,184,355	1.52
2021							
Parity Debt Coverage Ratio	\$ 111,820,092	\$ 62,645,961	\$ 49,174,131	\$ 11,330,000	\$ 11,720,500	\$ 23,050,500	2.13
Total Debt Coverage Ratio				\$ 13,262,860	\$ 12,322,339	\$ 25,585,198	1.92
2020							
Parity Debt Coverage Ratio	\$ 106,464,348	\$ 55,684,442	\$ 50,779,906	\$ 11,405,000	\$ 8,749,039	\$ 20,154,039	2.52
Total Debt Coverage Ratio				\$ 12,489,159	\$ 9,034,824	\$ 21,523,983	2.36
2019							
Parity Debt Coverage Ratio	\$ 93,741,922	\$ 49,528,402	\$ 44,213,520	\$ 11,124,000	\$ 9,899,165	\$ 21,023,165	2.10
Total Debt Coverage Ratio				\$ 12,707,047	\$ 10,471,871	\$ 23,178,918	1.91
2018							
Parity Debt Coverage Ratio	\$ 87,550,810	\$ 43,319,161	\$ 44,231,649	\$ 10,795,000	\$ 9,957,801	\$ 20,752,801	2.13
Total Debt Coverage Ratio				\$ 13,294,847	\$ 11,067,081	\$ 24,361,928	1.82
2017							
Parity Debt Coverage Ratio	\$ 85,271,003	\$ 40,961,133	\$ 44,309,870	\$ 12,825,000	\$ 8,617,881	\$ 21,442,881	2.07
Total Debt Coverage Ratio				\$ 15,300,761	\$ 9,328,777	\$ 24,629,538	1.80
2016							
Parity Debt Coverage Ratio	\$ 82,884,985	\$ 33,299,149	\$ 49,585,836	\$ 5,945,000	\$ 12,944,573	\$ 18,889,573	2.63
Total Debt Coverage Ratio				\$ 9,075,790	\$ 14,296,359	\$ 23,372,149	2.12
2015							
Parity Debt Coverage Ratio	\$ 78,349,623	\$ 31,053,037	\$ 47,296,586	\$ 6,850,000	\$ 13,056,801	\$ 19,906,801	2.38
Total Debt Coverage Ratio				\$ 12,747,145	\$ 14,633,342	\$ 27,380,487	1.73
2014							
Parity Debt Coverage Ratio	\$ 74,317,342	\$ 30,508,462	\$ 43,808,880	\$ 7,210,000	\$ 13,209,678	\$ 20,419,678	2.15
Total Debt Coverage Ratio				\$ 11,652,876	\$ 14,833,732	\$ 26,486,608	1.65
2013							
Parity Debt Coverage Ratio	\$ 71,023,046	\$ 30,068,015	\$ 40,955,031	\$ 8,105,000	\$ 13,525,578	\$ 21,630,578	1.89
Total Debt Coverage Ratio				\$ 11,989,171	\$ 14,590,085	\$ 26,579,256	1.54

(1) Gross revenues includes all revenues other than extraordinary items

(2) Operating expenses do not include depreciation and amortization expense, OPEB expense, pension expense, and the change in compensated absences. Operating expenses include pension and OPEB contributions.

Cape Fear Public Utility Authority
Ratios of Outstanding Debt by Type
Current Fiscal Year and Last Nine Fiscal Years

Fiscal Year	Revenue Bonds	General Obligation Bonds	Installment Obligations	ARRA Revolving Loan	DWSRF Revolving Loan	CWSRF Revolving Loans	Total	Net Carrying Value of Capital Assets	Debt-to-Capitalization Ratio	Locations with Actively Billed Water Service	Total Outstanding Debt per Location
2022	\$ 264,873,714	-	\$ 5,760,000	\$ 622,338	\$ 105,551	\$ 13,065,411	\$ 284,427,014	825,042,513	34.47%	74,133	\$ 3,837
2021	280,969,614	-	6,750,000	678,914	114,347	13,932,898	302,445,773	812,970,279	37.20%	72,413	4,177
2020	296,364,361	-	7,750,000	735,490	123,142	16,767,280	321,740,273	776,654,240	41.43%	70,985	4,533
2019	250,034,259	-	8,765,000	792,065	131,937	13,582,207	273,305,468	736,730,114	37.10%	70,564	3,873
2018	264,372,354	-	9,795,000	848,642	140,733	9,320,528	284,477,257	697,182,242	40.80%	69,634	4,085
2017	278,443,921	-	11,741,800	905,219	149,529	8,139,178	299,379,647	676,771,310	44.24%	68,612	4,363
2016	294,031,807	-	13,679,800	961,795	158,325	8,611,567	317,443,294	658,491,656	48.21%	67,352	4,713
2015	291,532,167	-	29,044,491	1,018,371	167,121	8,696,154	330,458,304	635,714,148	51.98%	66,136	4,997
2014	277,272,935	2,355,000	32,259,698	1,074,947	-	8,653,524	321,616,104	609,590,516	52.76%	65,064	4,943
2013	285,309,582	5,255,000	35,410,732	1,131,523	-	2,442,453	329,549,290	592,264,909	55.64%	64,673	5,096

**Cape Fear Public Utility Authority
Demographic Statistics
Current Fiscal Year and Last Nine Fiscal Years**

Fiscal Year Ended June 30	City of Wilmington Population (1)	New Hanover County Population (1)	Median Age (2)	Local Unemployment Rate % (2)	Median Household Income (2)
2022	117,247	225,730	39.0	3.1%	\$ 56,689
2021	115,465	237,448	39.8	4.6%	56,689
2020	122,891	239,272	39.3	8.8%	56,689
2019	121,910	237,689	38.8	3.8%	54,891
2018	121,150	230,919	38.5	4.0%	52,716
2017	117,255	226,410	38.4	4.5%	51,457
2016	115,498	223,260	38.2	5.0%	51,232
2015	113,910	218,510	37.9	5.8%	50,088
2014	111,773	215,497	37.7	6.2%	49,582
2013	109,689	212,484	37.5	7.8%	49,835

(1) North Carolina Office of State Budget and Management's certified municipal and county estimates

(2) Statistics are for New Hanover County from the North Carolina Department of Commerce

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

2022				2013			
Employers	Employees (1)	Rank	Percentage of Total County Employment	Employers	Employees (3)	Rank	Percentage of Total County Employment
Novant (Formally New Hanover Regional Medical Center)	8,424	1	6.62%	New Hanover Regional Medical Center	4,890	1	5.10%
New Hanover County Schools	3,517	2	2.77%	New Hanover County Schools	4,130	2	4.30%
GE Hitachi Nuclear Energy and GE Aviation	3,100	3	2.44%	GE Wilmington	3,000	3	3.13%
University of North Carolina Wilmington	2,540	4	2.00%	University of North Carolina at Wilmington	1,810	4	1.89%
New Hanover County Government	1,924	5	1.51%	New Hanover County	1,670	5	1.74%
Thermo Fisher Scientific (Formally PPD)	1,800	6	1.42%	PPD	1,420	6	1.48%
Duke Energy	1,441	7	1.13%	Cape Fear Community College	1,260	7	1.31%
City of Wilmington	1,137	8	0.89%	Verizon Wireless	1,200	8	1.25%
Corning, Inc.	1,000	9	0.79%	City of Wilmington	1,200	9	1.25%
Wilmington Health	1,000	10	0.79%	Corning Inc.	1,000	10	1.04%
			20.35%				22.49%
Total # Employed at June 30 of the respective FY (2)			127,159	Total # Employed at June 30 of the respective FY (3)			95,964

(1) Source: 2022 Book on Business; www.wilmingtonbiz.com

(2) Source: www.nccommerce.com

(3) Source: CFPUA ACFR for the fiscal year ended June 30, 2013

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

Departments	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
General - Administrative										
Administration	3	2	4	3	4	5	5	5	5	6
Communications	2	2	-	-	-	-	-	-	-	-
Finance	14	12	12	12	12	12	12	12	12	12
Human Resources	4	4	4	4	4	4	4	4	4	4
Public & Environmental Policy	0	3	3	3	-	-	-	-	-	-
Information Technology	9	9	9	9	9	6	6	6	6	6
Treatment & Engineering										
Administration	5	5	3	3	3	3	3	3	3	3
Engineering	17	17	19	19	19	19	19	17	16	14
Centralized Maintenance	22	22	21	21	19	19	14	14	-	-
Water Treatment	30	28	28	27	26	25	25	24	30	30
Wastewater Treatment	33	32	32	29	31	30	30	30	40	40
Linear Assets and Project Management										
Administration	4	4	3	3	3	3	3	3	3	3
Utility Services	94	94	93	90	90	85	90	87	96	96
Project Management	6	6	5	5	5	5	5	5	5	5
Environmental Management/Safety	33	30	30	29	30	30	30	30	29	30
Customer Service	55	54	57	57	54	53	53	50	42	41
Total FTE's	330	324	323	314	309	299	299	290	291	290

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

Fiscal Year Ended June 30	Water Processed and Pumped to System	Wastewater Treated
2022	7,336,305	6,245,760
2021	7,066,400	6,639,350
2020	7,041,169	6,089,721
2019	6,917,279	7,151,000
2018	6,628,000	6,382,135
2017	6,488,231	6,266,178
2016	6,353,470	6,865,851
2015	6,038,539	6,379,565
2014	6,016,143	6,004,110
2013	5,970,000	5,900,239

Cape Fear Public Utility Authority
Operating Statistics
Current Year and Last Nine Fiscal Years

	Fiscal Year									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Water System										
Locations with actively billed services	74,133	72,413	70,985	70,564	69,634	68,612	67,352	66,136	65,064	64,673
Number of treatment plants - surface water system	1	1	1	1	1	1	1	1	1	1
Treatment capacity (mgd) - surface water	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00
Average production (mgd) - surface water	16.06	15.47	15.34	15.44	14.49	14.63	14.35	13.56	13.44	13.20
Number of groundwater systems	2	2	2	2	2	2	3	3	3	3
Number of treatment plants - groundwater system	1	1	1	1	1	1	1	1	1	1
Number of active wells - groundwater system	43	41	39	37	38	37	34	36	36	36
Treatment capacity (mgd) - groundwater plant	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Treatment capacity (mgd) - other groundwater systems	1.31	1.02	1.02	1.02	1.02	0.90	0.70	0.70	0.70	0.70
Average production (mgd) - groundwater	4.04	3.89	3.49	3.49	3.07	3.08	3.04	2.94	2.48	2.95
Miles of water mains	1,153	1,160	1,150	1,142	1,131	1,113	1,114	1,089	1,041 ⁽²⁾	1,078
Wastewater System										
Locations with actively billed services	74,453	72,417	71,106	70,000	69,135	67,623	66,384	65,730	64,999	63,804
Number of treatment plants	2	2	2	2	2	2	3	3	3	3
WPC plant permit (mgd)	28.00	28.00	28.00	28.00	28.10	28.10	28.10	28.10	22.10	22.10
Average annual daily flow (mgd)	17.11	18.19	16.85	19.59	17.49	17.16	18.76	17.48	16.45	16.17
Number of lift stations	154	151	150	147	148	146	142	143	141	141
Miles of wastewater gravity mains	927	917	907	912	892	877	848	844	827 ⁽²⁾	850
Miles of wastewater force mains	160	155	154	144	143	142	131	131	112	110
Number of manholes	23,067	22,729	22,395	22,134	22,097	22,017	21,221	21,049	20,918	20,300

COMPLIANCE SECTION



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Cape Fear Public Utility Authority** (the "Authority") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 4, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The script is cursive and fluid, with the company name written in a professional, yet personal, style.

Raleigh, North Carolina
October 4, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF THE OMB UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

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

Report on Compliance for the Major State Program

Opinion on the Major State Program

We have audited the **Cape Fear Public Utility Authority's** (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Authority, that could have a direct and material effect on each of the Authority's state programs for the year ended June 30, 2022. The Authority's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major state program for the year ended June 30, 2022.

Basis for Opinion on the Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on compliance for the major state program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's state programs.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Raleigh, North Carolina
October 4, 2022

CAPE FEAR PUBLIC UTILITY AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

There was not an audit of major federal award programs as of June 30, 2022, due to the total amount expended being less than \$750,000.

State Awards

Internal control over major state programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major state programs?

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

☐ Yes ☒ No

Identification of major State program:

Connect NC Bond Tax Exempt Program

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported

SECTION III STATE AWARDS FINDINGS AND QUESTIONED COSTS

None reported

CAPE FEAR PUBLIC UTILITY AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

None reported in the prior year.

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Cape Fear Public Utility Authority
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2022

Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing or Other <u>Identifying Number</u>	State/ Pass-through Grantor's <u>Number</u>	Federal (Direct & Pass-through) <u>Expenditures</u>	State <u>Expenditures</u>
Federal Awards:				
Cash Assistance				
<u>Department of the Treasury</u>				
Passed-through the North Carolina Department of Environmental Quality:				
Coronavirus State and Local Fiscal Recovery Funds	21.027		\$ 530,025	\$ -
Total Department of the Treasury			530,025	-
Non-cash Assistance				
<u>U.S. Environmental Protection Agency</u>				
Passed-through the N.C. Dept. of Environmental Quality:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS370923-12	\$ 29,128	
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS370923-13	58,476	-
Total U.S. Environmental Protection Agency			87,604	-
Total Federal Awards			\$ 617,629	\$ -
State Awards:				
<u>North Carolina Department of Transportation</u>				
Utility Relocation Agreement		B-4590	\$ -	\$ 13,671
Total North Carolina Department of Transportation			-	13,671
<u>North Carolina Department of Environmental Quality</u>				
Volkswagen Mitigation Settlement		2000047611	\$ -	\$ 8,000
Connect NC Bond "Tax Exempt" Program - Pump Station Replacement & Rehabilitation		E-SRP-W-17-0027	-	449,102
Connect NC Bond "Tax Exempt" Program - Find-It, Fix-It Gravity Sewer Rehabilitation		E-SRP-W-17-0028	-	166,550
Total North Carolina Department of Environmental Quality			-	623,652
Total State Awards			-	637,323
Total Assistance			\$ 617,629	\$ 637,323

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

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 (SEFSA) includes the federal and State grant activity of the Cape Fear Public Utility Authority under the programs of the federal government and the State of North Carolina for the year ended June 30, 2022. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the SEFSA presents only the expenditures of federal and state awards, it is not intended to and does not present the Authority's financial position, changes in net position, or cash flows.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.