

**Onslow Water and Sewer Authority  
Jacksonville, North Carolina**

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2014**

**Prepared by:**

**Finance Department of Onslow Water and Sewer Authority**



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Onslow Water & Sewer Authority

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November 24, 2014

**To the ONWASA Board of Directors, Bondholders, and Customers:**

We are pleased to present our Comprehensive Annual Financial Report for the Fiscal Year from July 1, 2013 through June 30, 2014 (FY 2014). This report conforms with the reporting and accounting standards of the Governmental Accounting Standards Board (“GASB”), the Financial Accounting Standards Board, and the Government Finance Officers Association’s (“GFOA’s”) *Governmental Accounting, Auditing and Financial Reporting* document.

ONWASA is responsible for the accuracy, completeness and fairness of the information presented, including all disclosures.

The financial reporting entity of ONWASA consists of a single enterprise fund.

For financial reporting purposes GASB Statement No. 14 has been considered and there are no agencies or entities which should be presented with the Authority. Also, the Authority is not included in any other reporting entity. The Authority is a jointly governed organization, i.e. an entity governed primarily by representatives from other governments. The participants do not retain any ongoing financial interest in or financial responsibility for the Authority.

**BACKGROUND**

***Creation and Governance of ONWASA***

Onslow Water and Sewer Authority (the “Authority” or “ONWASA”) was created pursuant to Chapter 162A of the North Carolina General Statutes by the governing bodies of Onslow County, the Towns of Richlands, Holly Ridge, Swansboro and North Topsail Beach and the City of Jacksonville for the purpose of providing water and sewer services to all residents of Onslow County. The Authority is empowered to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency. The Governing Board consists of eight directors who hold office for staggered terms. The directors are appointed by the governing bodies of the County of Onslow, Town of Richlands, Town of Holly Ridge, North Topsail Beach, Town of Swansboro, and the City of Jacksonville.

While we do not serve all residents of Onslow County, ONWASA serves approximately 152,800 people. Our 48,143 meters makes us the 3<sup>rd</sup> largest water and sewer authority in North Carolina. We serve a unique community, one that consists of a large military base and a high number of seasonal visitors to the coastal areas. This is a highly transient population, and we are expecting a substantial increase in residents in the coming years, partly due to military base realignment that will bring additional military members and their families to Onslow County. In addition to preparing for the increase in demand for utility services, we are dealing with areas that do not presently have sewer systems in place, or have outdated/undersized systems that need updating and expansion. Last year, our operating and capital budgets were just over \$115 million, and the upcoming budget year will be approximately \$107 million.

Starting July 1, 2005, ONWASA assumed full control including billing and collections, capital maintenance and general operations of the water operations from Onslow County, Town of Richlands, and the Town of Holly Ridge in Onslow County, North Carolina. ONWASA also assumed the wastewater operations of Onslow County and Town of Richlands as of July 1, 2005. The Town of Holly Ridge's wastewater operations were assumed by ONWASA on January 1, 2006. The Town of Swansboro's water and wastewater operations were assumed by ONWASA on January 1, 2007.

As a Water and Sewer Authority, ONWASA has no taxing power, nor land use or zoning regulatory functions. These powers continue to reside with Onslow County and the local governments in their corporate limits and zoning jurisdictions.

ONWASA is a regional water and sewer utility based upon the self proposed cooperative merger of the systems of local governments who desire to achieve the economies of scale and obtain the ability to negotiate and operate as one unified entity. This innovative achievement has been supported by federal, state and military officials throughout ONWASA's formation and is a testament to the inter-local government cooperation and a spirit of unity for progressive public service to all these citizens of Onslow County.

### ***Water System***

Our raw water comes from three aquifer sources: Castle Hayne Aquifer which supplies up to 10.0 million gallons per day (MGD); and, the combined Black Creek and PeeDee Aquifers can supply an additional 5.6 MGD. ONWASA utilizes four ground storage tanks that have a capacity of 3 million gallons each and 10 elevated tanks with a total capacity of 4.2 million gallons.

The raw water is processed into drinking water at the Hubert Water Treatment Plant and the Dixon Water Treatment Plant and they are able to treat 6 MGD and 4 MGD, respectively. The drinking water is then pumped to the water storage and distribution system, which has a storage capacity of approximately 16.3 million gallons and 1,141 miles of water lines serving approximately 152,800 people in the ONWASA service area. The raw water from Black Creek and PeeDee Aquifers only requires minimal treatment processing consisting of disinfecting and ortho phosphate feed at the well heads.

### ***Wastewater System***

ONWASA maintains approximately 144 miles of sewer lines and 64 pump stations to collect and carry the communities' wastewater to one of their eight wastewater treatment facilities. The wastewater treatment process and the daily capacity vary for seven treatment plants. Holly Ridge Wastewater Treatment Plant (WWTP) can process .241 MGD using the lagoon and spray field treatment process. Richlands Wastewater Treatment Plant can process .250 MGD using oxidation ditch process. Kenwood Wastewater Treatment Plant can process .049 MGD using a package plant treatment process. Swansboro's Wastewater Treatment Plant can process .600 MGD using activated sludge extended air with tertiary treated effluent. Summerhouse Wastewater Treatment Plant can process .400 MGD using biological nutrient removal process. Hickory Grove Wastewater Treatment Plant can process .022 MGD using a facultative lagoon process. Webb Wastewater Treatment Plan can process .025 MGD using activated sludge with secondary clarifier. The other two treatment facilities where wastewater is conveyed are Marine Corps Base Camp Lejeune French's Creek Wastewater treatment facility and the City of Jacksonville Land Treatment Site (LTS). Marine Corps Base Camp Lejeune French's Creek Wastewater treatment facility is an activated sludge tertiary sludge, which allows 3.5 MGD to be sent for treatment. The City of Jacksonville LTS which consists of an aerated lagoon and spray irrigation timber has an average flow of .06 MGD.

### ***Economic Condition and Outlook***

The economy of Onslow County continues to grow, despite the weak economy nationwide, mainly due to the steady growth and support of Marine Corps Base Camp Lejeune. The current local unemployment rate and the State- wide rate are the same, 7.2%. Approximately 1,413 residential permits and 347 commercial building permits were issued by Onslow County in FY13-14. The approximate population of Onslow County in 2014 was 185,220.

The economic outlook for Onslow County indicates continued growth over the coming years. Residential development, while still occurring, has slowed somewhat due to the expansion of available housing on Marine Corps Base Camp Lejeune. Commercial growth continues to be strong with several new hotel chains, restaurants and manufacturing plants expanding into Onslow County. Armstrong Marine, Inc, a manufacturer of welded aluminum boats, is reopening the old Hatteras Yachts location in Swansboro, which will bring over 200 new jobs to the area. Wal-Mart is currently constructing a store in Richlands and will bring over 300 jobs to the area. Onslow County sold the shell building at Burton Park to Hendricks Commercial Properties, LLC. Hendricks will be leasing the building to American Builders and Contractors Supply Company, Inc. (ABC Supply Company), the largest wholesale distributor of roofing materials and a leading distributor of siding, windows, and other building supplies and tools. This will bring approximately 17 jobs to the area.

### **Major Initiatives and Accomplishments**

Below is a summary of priority issues and items for the coming fiscal year. Some are continuations of previous projects and others are new.

#### ***Piney Green Phase 3 Sewer Trunk Line***

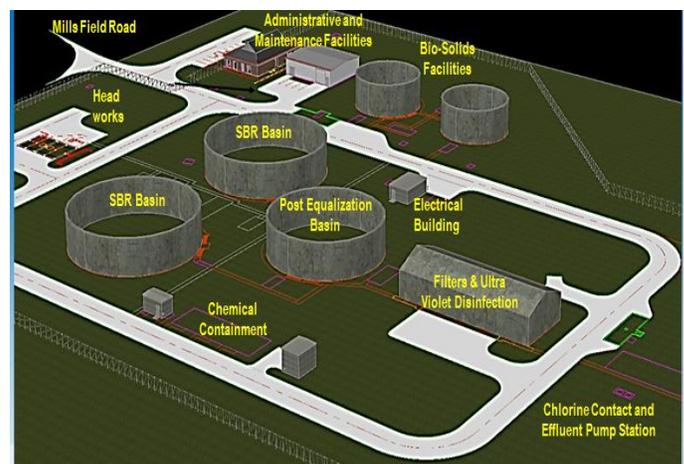
The purpose of this project is to install gravity sewer, force main, and a pump station on the west side of Piney Green Road in conjunction with North Carolina Department of Transportation (NCDOT) Project U-3810, which will widen Piney Green Road. This project will extend sewer from the existing Hunter's Creek Main Pump Station to the north side of the Northeast Creek on Piney Green Road. This project will be built as part of NCDOT's road widening project, and ONWASA formed an interlocal agreement with the City of Jacksonville to share in the costs. The contract deadline for the Project as a whole is April 29, 2016; however, the subcontractor has completed the installation of the trunk sewer infrastructure, and the associated pump station, and the outfall line to Hunter's Creek Main Pump Station have been completed as well. It is anticipated that the newly-installed infrastructure will be approved by North Carolina Department of Environment and Natural Resources (NCDENR) for use in November 2014.

#### ***Piney Green Phase 2 Elimination of Hickory Grove WWTP and Webb Apartments WWTP***

The project will enable the decommissioning of the Webb Apartments WWTP and Hickory Grove WWTP (treatment lagoon), both located in the Piney Green Service Area. These WWTPs were identified as cost effective eliminations due to ONWASA's ownership and operation costs, as well as their close proximity to the proposed Piney Green Sewer trunk line. The elimination of the Hickory Grove WWTP will necessitate the installation of a new lift station that is capable of 180 gallons per minute (gpm) and 1,800 linear feet of sewer force main, and the Webb Apartments WWTP elimination will also require a new lift station (100 gpm) and 360 linear feet of sewer force main. Both force mains will connect the aforementioned pump stations to the proposed Piney Green Sewer Trunk Line. The infrastructure was being designed to accommodate future improvement projects in areas where there are existing inadequate/failing collection systems adjacent to this area. Construction began in June 2014, and is anticipated to be completed by February 2015. Following the completion of the pump stations, the closure of the Hickory Grove treatment lagoon will take place. It is anticipated that the closure will take 8 months to complete.

#### ***Northwest Regional Water Reclamation Facility***

The Northwest Regional Water Reclamation Facility located near Richlands is currently under construction. The construction contract was awarded to Archer Western Construction LLC in Atlanta, GA in March 2013. The initial phase of the facility will provide 1.0 MGD of tertiary treatment and effluent disposal. Once the new facility is constructed and operational, the existing 0.25 MGD Richlands Waste Water Treatment Plant will be decommissioned. Construction of this project is scheduled



to be substantially complete in November 2014, with final completion in January 2015.

### ***Dixon Water Treatment Plant Improvements – Reverse Osmosis***

To resolve the silica problem, at the Dixon Water Treatment Plant (WTP), in the water as well as to meet Environmental Protection Agency's 2012 limits for disinfection byproducts, the existing treatment process is being altered to include reverse osmosis. The project involved a pilot study of different reverse osmosis membranes, and the design and construction of three one million gallon per day reverse osmosis units. To plan for the future, the plant's electrical systems are being upgraded to potentially treat six million gallons per day through reverse osmosis. This project was awarded to T. A. Loving Construction Company located in Goldsboro, NC in September 2013. Construction completion date is expected in late 2014.

### ***Highway 53 Waterline***

Due to falling pressures that are insufficient to establish adequate fire flows in the southwest area of Onslow County, it was previously determined through a study that the existing 6-inch waterline on Burgaw Highway cannot adequately supply the southwest portion of the County. This project includes the extension of a 12-inch waterline to serve the southwest portion of the County and allow for continued development. This project was awarded to Tony E. Hawley Construction Company located in Kenly, NC in July 2014. Construction is currently underway and anticipated to be complete in March 2015.

### ***Summerhouse Water Reclamation Facility Rehabilitation***

The Summerhouse Water Reclamation Facility (WRF) has excess capacity that is available to process wastewater from the Holly Ridge and Summerhouse areas, and the demand for wastewater treatment in these areas is increasing for ONWASA. The project is providing facility repairs and upgrades to bring the Summerhouse WRF online and alleviate current capacity issues at the existing Holly Ridge WWTP as the current and allocated flows exceed 90% of the treatment capacity at the Holly Ridge WWTP. This project was awarded to T. A. Loving Construction Company located in Goldsboro, NC in August 2014. Construction is currently underway and anticipated to be complete by May 2015.

### ***Stump Sound Force Main***

The Stump Sound Force Main project involves the construction of a force main from the existing Jenkins Street Pump Station in Holly Ridge to the Summerhouse WRF. Upon completion, the pump station and force main will be used to convey wastewater from Holly Ridge to the Summerhouse WRF, which will allow additional connections to the Holly Ridge wastewater collection system and alleviate capacity concerns at the existing Holly Ridge WWTP. Construction is scheduled to start in the fall of 2014 and is anticipated to be complete by May 2015.

### ***Union Chapel Water Treatment Plant***

The intent of this project is to create an alternative water supply in the Castle Hayne Aquifer in part by using the Marten Marietta Aggregates (MMA) dewatering water as raw water. Phase 1 will consist of two wells in the Castle Hayne Aquifer, one of which will have screens in the Beaufort Aquifer. It will also consist of a three million gallon clear well, pumps, a chemical feed system, water distribution mains and raw water mains. These wells will be located on former MMA property that has been deeded to ONWASA. In an effort to supplement the ground water currently being withdrawn from the Black Creek Aquifer that will no longer be available due to the Central Coastal Plain Plan Capacity Use Area requirements, water from the existing Black Creek Well Field will be blended with the two new MMA wells. Phase 2 of the project is the design and construction of the Union Chapel Water Treatment Plant (UCWTP). The raw water will be treated at the UCWTP, which is anticipated to be designed and built with an initial phase of 1.5 MGD, an intermediate phase of 4 MGD, and an ultimate build-out phase of approximately 8 MGD. This project is currently in the design and permitting phase. Completion of the construction of the wells and treatment plant is anticipated in spring 2016.

## ***NC Highway 50 Wells***

The additional water supply provided by this project will supplement the current supply to the Dixon WTP to allow for the predicted 85% recovery from the Dixon Water Treatment Plant's Reverse Osmosis (RO) Process. An engineering services task order has been awarded to Groundwater Management Associates, Inc. (GMA) to design two wells and a raw water line to the Folkstone area to increase the volume of raw water being conveyed to the Dixon WTP. GMA has been a regular consultant to ONWASA on groundwater supply, well design, and aquifer management. Design efforts are currently underway and completion of the construction of the wells and raw water main are scheduled for spring 2016.

## ***Western Onslow Trunk Sewer Main***

The intent of the project is to improve sewer services to the western portion of Onslow County from Burton Park to Richlands. Phase 1 of the Western Onslow Trunk Sewer (WOTS) includes construction of 48,489 feet of 12-inch force main from Burton Industrial Park to a new regional pump station, located on Onslow County Schools' property in Richlands, which will convey wastewater to the Northwest Regional Water Reclamation Facility. The existing pump station at Burton Industrial Park will be upgraded and connected into the new force main. In Phase 2, the Kenwood Waste Water Treatment Plant will be replaced with a pump station and connected into the WOTS main. This project was awarded to Sanford Contractors Inc. located in Sanford, NC in August 2014. Construction for Phase 1 is currently underway and scheduled to be complete in July 2015. Phase 2 is currently in the design phase and will begin construction in the near future.

## ***Customer Service***

ONWASA offers several methods of payment functions to better serve their customers. Customers can pay in person at any of our 4 locations, pay by mail, pay by check or credit card online, pay by bank draft or recurring credit card draft or pay over the phone with a credit card. The ONWASA website allows customers to view their account balance and make payments. The Integrated Voice Response (IVR) service allows customers to make payments through an automated system. We recently added the option to allow customers to receive their bill electronically. ONWASA's bills have a water usage chart which shows 13 months of consumption to assist our customers with tracking their consumption and assisting with conservation. The website gives customers the ability to email customer service representatives to obtain information regarding their existing account or to open a new account. Newsletters are inserted in the bills quarterly to inform customers of changes, to answer frequently asked questions and to update the status of ongoing projects.

## ***Community Relations***

During the year, ONWASA organized and presented several presentations on the status of projects. These included presentations to various Rotary Clubs, Chamber of Commerce, Governmental Affairs Committee and Forum Onslow settings, and updates for local developers and local civic/volunteer organizations.

ONWASA continues to use their website to feature comprehensive information. Available features for customers include on-line service application, reports, bidding information, and emergency notices. The website has had a steady increase in daily users. ONWASA continues to educate customers about the website's features, specifically the "Contact Us" module that allows customers to email questions directly to the Departments. We have continually added more information for our customers, including an E-Bill Program, an 888 number giving customers 24/7 account access and to make payments, as well as online forms for address changes and account disconnections.

The Public Affairs Department again focused throughout the year on the delivery of information to as many customers as possible. Monthly Board of Director's meetings are open to the public, and we have also continued to deliver our Board meetings through online and television. To improve efficiency, production capabilities, and reduce expenses the Board meetings were moved to Jacksonville City Hall. Their onsite production capabilities produce better quality video, and through their technology we are able to offer streaming online content as well as broadcast of the meetings live on Government Channel 10. We continue to receive positive feedback from the public, Board members and staff.

Overall community relations efforts included quarterly employee newsletters and monthly customer newsletters, the annual water quality report, the annual wastewater report, as well as periodic press releases and notices. We produced a series of informational commercials on how to properly dispose of fats, oils and grease (FOG) as well as FOG articles. During the American Water Works Association's Drinking Water Week in May we provided conservation information to customers in the lobby along with conservation kits as well as educational kit packets on FOG. We participated and supported various school demonstrations on FOG education. We were involved in community projects such as the 2014 Festival of Trees, and 2014 Business Expo in Jacksonville and Swansboro. We also participated in National Night Out, and other various local sponsorships such as Red Cross blood drives, food drive for the local shelter, the Marine Corps Reserve Toys for Tots, and Socks for Seniors program.



Brought to you by 

**Credit Ratings**

In June 2004, ONWASA sold Revenue Bonds in the amount of \$8,305,000. The Combined Enterprise System Revenue Bonds, Series 2004A, were issued to pay a portion of the cost of the acquisition of the Combined Enterprise System consisting of the water and sewer system of the County of Onslow, North Carolina, and the Town of Richlands, North Carolina plus bond issuance expenses.

In December 2004, ONWASA sold Revenue Bonds in the amount of \$18,870,000. The Combined Enterprise System Revenue Bonds, Series 2004B, were issued to pay the cost of expansion of the Authority's Dixon and Hubert water treatment plants and related facilities, plus bond issuance expenses.

In January 2008, ONWASA sold Revenue Bonds in the amount of \$37,025,000. The Combined Enterprise System Revenue Bonds, Series 2008A, were issued to pay the cost of the Piney Green Sewer connection, Marine Corps Air Station Waterline connection, various waterline extensions, land and the Swansboro reimbursement loan, plus bond issuance expenses.

In March 2014, ONWASA sold Revenue Bond Anticipation notes in the amount of \$24,541,000. The Combined Enterprise System Revenue Bond Anticipation Notes, Series 2014, were issued for the interim financing for the Northwest Water Reclamation Facility.

ONWASA's previous two revenue bond sales, Series 2004A and 2004B, were insured and, therefore had credit ratings of:

Standard & Poor's	AAA
Moody's Investors Service	Aaa

ONWASA's most recent revenue bond sales, Series 2008A was insured and, therefore had a credit rating of:

Standard & Poor's	AAA
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**Financial Information**

The annual budget is an integral part of ONWASA's accounting system and financial operations. Appropriations are set at the division level. The annual budget and capital project ordinances are adopted by the ONWASA Board of Directors, creating a legal limit on annual spending. Multi-year project ordinances may be adopted for capital projects. ONWASA's operations are accounted for, and reported as, an enterprise fund because our operations are currently funded with user fees.

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

Management believes that ONWASA's system of internal controls adequately protects assets and provides reasonable assurance of the proper recording of financial transactions.

Because ONWASA is a self-supporting and self-sustaining entity, the measurement focus of its financial accounting systems is on the flow of total economic resources. With this measurement focus, all assets and liabilities associated with our operations are included in the Statement of Net Assets. Closely related to the measurement focus is the basis of accounting, which determines when transactions are recognized. ONWASA uses the accrual basis of accounting, in which revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the actual date of receipt or disbursement of cash.

During the budget process for FY 15, no water and sewer rate increases were approved.

Please refer to Management's Discussion and Analysis and the basic financial statements for detailed information on ONWASA's financial performance in FY 2014.

### ***Independent Audit***

ONWASA is required by State Law (G.S. 159-34) to have an annual independent financial audit. ONWASA's auditor, McGladrey LLP, was retained following an open, competitive qualifications-based selection process. The auditor's report on the Basic Financial Statements is included in the Financial Section of this report.

### ***Certificate of Achievement for Excellence in Financial Reporting***

ONWASA prepared this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014, using the GFOA's guidelines. To receive a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and legal requirements. Onslow Water and Sewer Authority applied for its eighth Certificate of Achievement for FY 2013 and was awarded the certificate.

We believe that our current comprehensive annual financial report meets the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for our Ninth certificate.

### ***Memberships***

ONWASA maintains an active membership in the following organizations: American Water Works Association, North Carolina Rural Water Association, North Carolina Waterworks Operators Association, Government Finance Officer's Association, North Carolina Government Finance Officer's Association and Carolina Association of Government Purchasing.

### ***Acknowledgements***

Preparation of this report could not have been accomplished without the efficient and dedicated work of the ONWASA staff.

We express our appreciation to the independent certified public accountants, McGladrey LLP, who assisted and contributed to this report.

We thank the ONWASA Board of Directors for their guidance in financial management and of ONWASA's overall services to our existing and future customers.

**Conclusion**

We believe the accompanying financial statements fairly present ONWASA's financial position as of June 30, 2014, and the financial results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,



Billy Joe Farmer  
Executive Director



Tiffany J. Riggs  
Finance Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

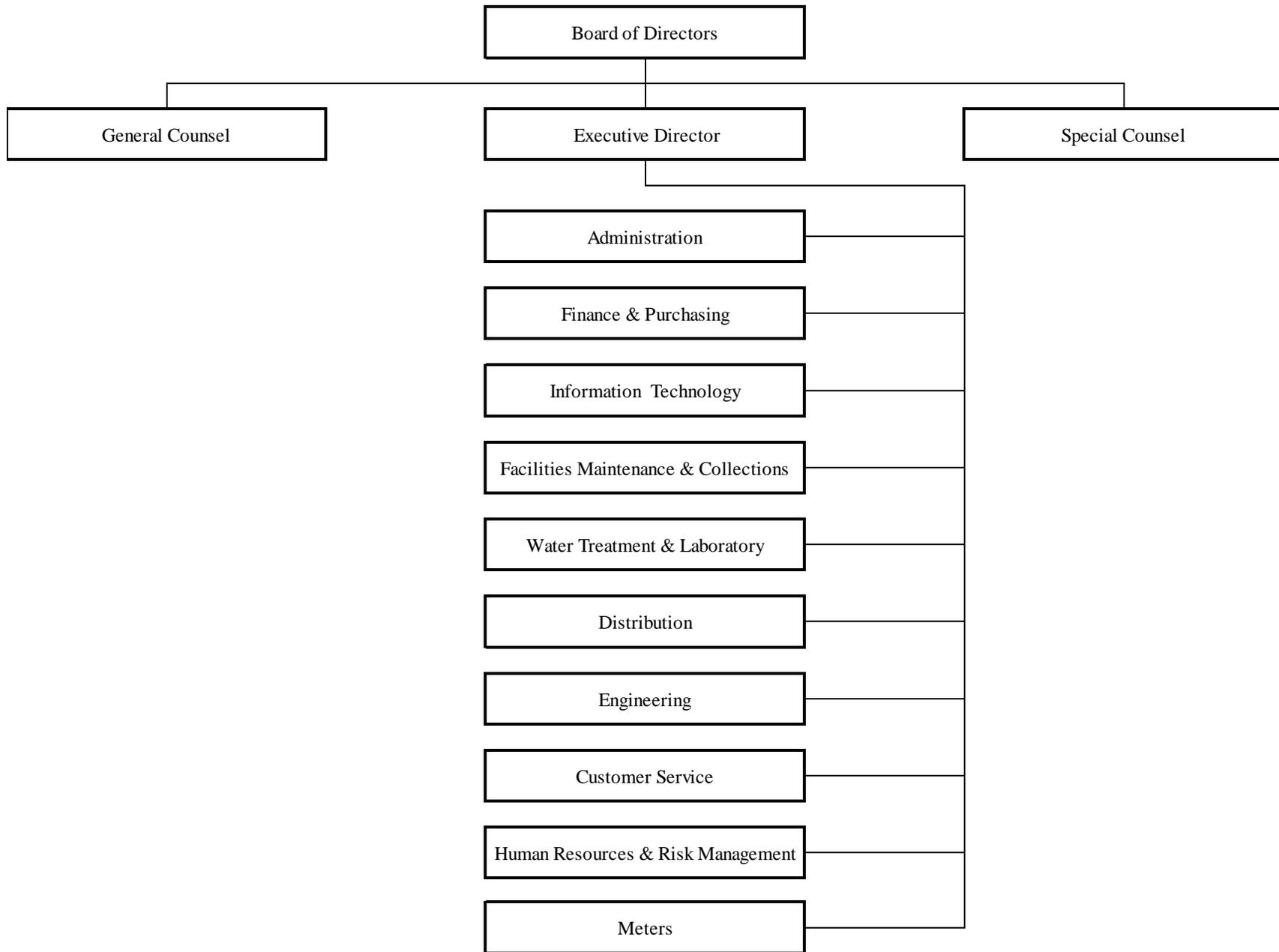
**Onslow Water and Sewer Authority  
North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

# ONWASA Organizational Chart



**ONSLow WATER AND SEWER AUTHORITY**

**FISCAL YEAR 2013-2014**

**OFFICERS**

WC Jarman, Chairman – Commissioner Onslow County  
Gregory Hines, Vice Chairman – Councilman, Town of Holly Ridge  
Barbara Ikner, Secretary-Treasury – Vice Chairman, Onslow County

**BOARD OF DIRECTORS**

<b>Member</b>	<b>Appointed By</b>	<b>Term Expiration</b>
Paul Connor, Alderman	Richlands	2016
James Allen, Commissioner	Swansboro	2016
Michael Lazzara, Mayor Pro-Tem	Jacksonville	2015
Dan Tuman, Mayor	North Topsail Beach	2016
Jerry Bittner, Councilman	Jacksonville	2016

**SENIOR MANAGEMENT TEAM**

Billy Joe Farmer, Executive Director  
Tiffany Riggs, Finance Director  
David Bergman, IT Director  
Robin Hayes, Customer Service Director  
Teresa Zavala, Public Affairs Director  
Matthew Hypes, Engineering Director  
Joetta Guist, HR/Administration Services Director  
Kelly Richmond, Executive Assistant/Clerk  
Tim Webb, Utility Planning Manager  
Matthew Padgett, Distribution Superintendent  
Karen Wallace, Water Production Superintendent

**GENERAL COUNSEL**

Turrentine Law Firm, PLLC

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# **Independent Auditor's Report**

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## Independent Auditor's Report

To the Honorable Chairman and  
Members of the Board of Directors  
Onslow Water and Sewer Authority  
Jacksonville, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of Onslow Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Onslow Water and Sewer Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Onslow Water and Sewer Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions on pages 15 through 20 and pages 45 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Onslow Water and Sewer Authority's basic financial statements. The individual fund financial schedules listed in the table of contents, as well as the Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial schedules and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical tables of the Comprehensive Annual Financial Report are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of Onslow Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Onslow Water and Sewer Authority's internal control over financial reporting and compliance.



Morehead City, North Carolina  
November 24, 2014

## **Management's Discussion and Analysis**

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## **Management's Discussion and Analysis - Unaudited (Onslow Water and Sewer Authority)**

The management of Onslow Water and Sewer Authority (the Authority) offers the readers of Onslow Water and Sewer Authority's financial statements this narrative overview and analysis of the financial activities of Onslow Water and Sewer Authority for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's Financial Statements, which follow this narrative.

### **Financial Highlights**

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$120,903,360.
- The Authority's total net position increased by \$5,673,634 primarily due to contributions from non-related parties during the year ended June 30, 2014.
- The Authority's total long-term debt decreased (net of amortized bond premium) by \$3,229,571 (5.4%) during the current fiscal year.

### **Overview of the Financial Statements**

Onslow Water and Sewer Authority's primary mission is to provide our customers with high-quality water and wastewater services through responsible, sustainable, and creative stewardship of the resources and assets we manage. We will do this with a productive, empowered, talented, and diverse work force that strives for excellence. The Authority's administration, operations, capital expansion programs and debt payments are funded entirely through rates, fees and other charges for these water and wastewater services. With this, the Authority is considered to be, and therefore, presents its financial report as a stand-alone enterprise fund.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Basic Financial Statements are prepared on the accrual basis. 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 (see Figure 1). In addition to the Basic Financial Statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition and activities of the Authority.

The Statement of Net Position presents the Authority's assets and liabilities classified between current and long-term. Net position represents the difference between total assets plus deferred outflows of resources and total liabilities. This statement provides a summary of the Authority's investments in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The Statement of Revenues, Expenses and Changes in Net Position provides information regarding the Authority's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net position, which links this statement to the Statement of Net Position. This statement is used in evaluating whether the Authority has recovered all of its costs through revenue during a fiscal period. Its information is used in determining credit worthiness.

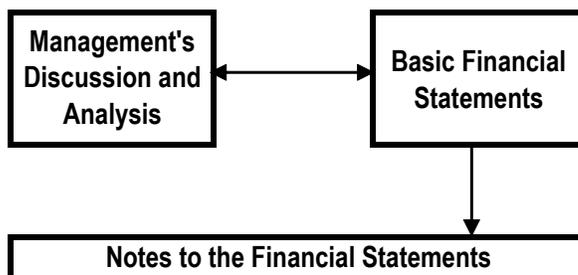
The Statement of Cash Flows deals specifically with the flow of cash and cash equivalents arising from operating, capital, noncapital financing and investing activities. Because the Authority's Statement of Revenues, Expenses and Changes in Net Position is a measurement of the flow of total economic resources, operating income usually differs from net cash flow from operations. To enhance the reader's understanding of this difference, the Statement of Cash Flows also includes reconciliation between these two amounts. In accordance with the accounting principles generally accepted in the United States of America, a reconciliation of cash and cash equivalents is also presented in this statement.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements.

**Management's Discussion and Analysis - Unaudited  
(Onslow Water and Sewer Authority)**

**Required Components of Annual Financial Report**

Figure 1



**Financial Analysis**

Onslow Water and Sewer Authority's net assets increased by \$5,673,634 or 4.9%, between June 30, 2013 and June 30, 2014, with insignificant changes in the various categories of assets and liabilities.

**The Onslow Water and Sewer Authority's Condensed Statement of Net Position**

Figure 2

	June 30,	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 53,786,825	\$ 66,016,754
Capital assets	163,116,120	141,428,370
<b>Total assets</b>	<b>216,902,945</b>	<b>207,445,124</b>
Defined outflows of resources	173,508	182,640
Current liabilities	41,480,368	34,582,529
Noncurrent liabilities	54,692,725	57,815,509
<b>Total liabilities</b>	<b>96,173,093</b>	<b>92,398,038</b>
<b>Net Position</b>		
Net investment in capital assets	85,473,214	80,685,811
Restricted by bond order for Reserve Fund	2,572,773	2,572,773
Unrestricted	32,857,373	31,971,142
<b>Total net position</b>	<b>\$ 120,903,360</b>	<b>\$ 115,229,726</b>

A comparison of the statement of net position to the prior year reveals some strengthening of the Authority's financial position primarily due to a positive change in net position during the year ended June 30, 2014. Total assets have increased approximately \$9.5 million due mainly to contributions from non-related parties and the ongoing construction of capital assets. Current liabilities increased \$6.9 million due mainly to increases in current maturities, and for accounts payable for operations and construction. The decrease in noncurrent liabilities of \$3.1 million is due to the reduction in revenue bonds payable. Accordingly, total net position is up by \$5.7 million from the increase in assets and the reduction in noncurrent liabilities.

**Management's Discussion and Analysis - Unaudited  
(Onslow Water and Sewer Authority)**

The statement of revenues, expenses, and changes in net position shows revenues more than covered expenses. When the statement of revenues, expenses and changes in net position is compared to the previous year the change in net position increased significantly less due to a decrease in customer impact fees, contributions from Jacksonville, NC and NCDOT, and contributions from non-related parties.

**Condensed Statement of Revenues, Expenses and Change in Net Position**

**Figure 3**

	Years Ended June 30,	
	2014	2013
Revenue		
Operating revenue		
Water	\$ 15,872,861	\$ 15,279,458
Waste water	3,003,551	2,812,169
Service initiation fees	756,809	898,153
Miscellaneous income	861,846	1,409,428
Nonoperating revenue		
Customer impact fees	3,331,097	4,576,500
Interest income	8,915	29,935
Contributions from Jacksonville, NC and NCDOT	2,006,527	8,323,474
<b>Total revenue</b>	<b>25,841,606</b>	<b>33,329,117</b>
Expenses		
Operating expenses: operations	12,736,842	12,417,127
Operating expenses: general and administrative expenses	1,473,406	1,450,621
Operating expenses: depreciation	4,850,306	4,887,460
Nonoperating expense		
Interest expense	2,669,841	3,010,777
<b>Total expenses</b>	<b>21,730,395</b>	<b>21,765,985</b>
Increase in net assets before capital contributions:	4,111,211	11,563,132
Capital contributions from non-related parties	1,562,423	3,087,708
<b>Increase in net position</b>	<b>5,673,634</b>	<b>14,650,840</b>
Net position, July 1	115,229,726	100,578,886
Net position, June 30	<b>\$ 120,903,360</b>	<b>\$ 115,229,726</b>

Total operating revenue is up from the prior year because of the increase water and sewer user fees. Non-operating income decreased \$9.1 million mainly due to a reduction in contributions from non-related parties, contributions from Jacksonville and impact fees. Total operating expenses are up mainly due to an increase in operations in this fiscal year. Net position increased \$5.7 million.

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal and budgetary requirements.

**Management's Discussion and Analysis - Unaudited  
(Onslow Water and Sewer Authority)**

**Capital Asset and Debt Administration**

**Capital assets.** The Authority's investment in capital assets as of June 30, 2014, totals \$163,116,120 (net of accumulated depreciation). These assets include buildings, water lines, wells, booster stations, lift stations, wastewater treatment plants, land, machinery, equipment and vehicles.

**Onslow Water and Sewer Authority's Capital Assets**

**Figure 4**

	June 30,	
	2014	2013
Land	\$ 5,742,106	\$ 5,742,106
Other improvements	102,278,974	104,575,197
Buildings	5,329,684	5,801,245
Equipment	942,543	1,000,547
Vehicles	226,230	182,787
Heavy equipment	163,339	243,401
Construction in progress	48,433,244	23,883,087
<b>Total</b>	<b>\$ 163,116,120</b>	<b>\$ 141,428,370</b>

Assets acquired from member governments are operated by the Authority under 30-year capital lease agreements with member governments. The agreements include successive 15-year options to renew. Assets purchased and constructed by the Authority are depreciated according to the Authority's capital asset policy. Additional information on the Authority's capital assets can be found in Note 4 of the Basic Financial Statements.

**Management's Discussion and Analysis - Unaudited  
(Onslow Water and Sewer Authority)**

**Long-Term Debt.** As of June 30, 2014, the Authority had total debt outstanding of \$56,928,806. Revenue bonds which are secured by specified revenue sources total \$54,202,296.

**Onslow Water and Sewer Authority's Long-Term Debt**

**Figure 5**

	June 30,	
	2014	2013
Revenue bonds held by bondholders	<b>\$ 54,202,296</b>	\$ 57,262,312
Unamortized revenue bond premium	<b>731,188</b>	780,965
Loans payable	<b>1,995,322</b>	2,115,100
<b>Total</b>	<b>\$ 56,928,806</b>	<b>\$ 60,158,377</b>

The Authority's total net debt has decreased by \$3,229,571 (5.4%) during the current fiscal year. The decrease was due to principal payments of \$3,179,794 and \$49,777 in amortization of bond premium.

Additional information regarding the Authority's long-term debt can be found in Note 8 of the Basic Financial Statements.

**Economic Factors**

ONWASA serves customers in Onslow County, North Carolina. The Marine Corps Base Camp Lejeune is the largest employer in the county and has a substantial impact on the economy.

- Property taxes levied in 2014 totaled \$78 million, up 86% from the year 2005.
- Estimated real estate values have increased at an annual rate of 10% since 2005.
- The population of Onslow County was 185,220 in 2014 up 18% from 2005.
- The per capita income has increased at an annual rate of 7.0% since 2005.
- The unemployment rate at June 30, 2014 was 7.2%.

Onslow County's growth should continue over the coming years. As Marine Corps Base Camp Lejeune increases availability of residential units on base, residential growth in the county may decrease in the coming years. However, commercial growth in the county is strong as new hotels, restaurants, manufacturing and retail stores come into the area.

**Budget Highlights for Fiscal Year Ending June 30, 2015**

Fiscal year 2013-2014 was the eighth year of full operations for the Authority. General operating expenses will have a minimal increase to cover personnel costs and general operating expenses. Highlights of fiscal year 2015's budget are as follows:

- Increase in personnel salaries due to a 2.5% COLA
- One new position was approved and some positions were reclassified
- No water and sewer rate increases
- Increase in capital and a decrease in non-capital outlay

**Management's Discussion and Analysis - Unaudited  
(Onslow Water and Sewer Authority)**

***Requests for Information***

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Tiffany Riggs, Finance Director, 228 Georgetown Road, Jacksonville, North Carolina 28540, (910) 455-0722, [triggs@onwasa.com](mailto:triggs@onwasa.com), or [www.onwasa.com](http://www.onwasa.com)

# **Basic Financial Statements**

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## Onslow Water and Sewer Authority

### Statement of Net Position

June 30, 2014

<b>Assets</b>	
Current assets	
Cash and cash equivalents (Note 2)	\$ 33,604,531
Receivables, net (Note 3)	3,374,002
Restricted cash and cash equivalents, trustee - available to pay construction and retainage payables (Note 2)	8,314,125
Inventories	400,357
<b>Total current assets</b>	<b>45,693,015</b>
Noncurrent assets	
Cash and cash equivalents including replacement fund and waste water impact capital reserve fund (Note 2)	3,266,910
Restricted cash and cash equivalents, trustee (Note 2)	3,826,900
Certificate of deposit (Note 2)	1,000,000
Capital assets (Note 4):	
Land and nondepreciable assets	54,175,350
Other capital assets, net of accumulated depreciation	108,940,770
Total capital assets	163,116,120
<b>Total noncurrent assets</b>	<b>171,209,930</b>
<b>Total assets</b>	<b>216,902,945</b>
<b>Deferred Outflows of Resources</b>	<b>173,508</b>
<b>Liabilities</b>	
Current liabilities	
Current maturities of long-term debt (Note 8)	3,316,274
Current maturities of BANS (Note 8)	24,541,000
Accrued interest payable	215,884
Customer deposits	3,657,607
Accounts payable and accrued liabilities, operations	1,435,478
Accounts payable from restricted assets:	
Accounts payable, construction	7,290,330
Retainage payable	1,023,795
<b>Total current liabilities</b>	<b>41,480,368</b>
Long-term Liabilities	
Revenue bonds and construction loan payable (Note 8)	53,612,532
Other postemployment benefits (Notes 6 and 8)	1,080,193
<b>Total long-term liabilities</b>	<b>54,692,725</b>
<b>Total liabilities</b>	<b>96,173,093</b>
Commitments and contingencies (Notes 4, 5, 6, 8 and 10)	

(Continued)

**Onslow Water and Sewer Authority**

**Statement of Net Position (Continued)**

**June 30, 2014**

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<b>Net Position</b>	
Net investment in capital assets	\$ 85,473,214
Restricted by bond order for Reserve Fund	2,572,773
Unrestricted	<u>32,857,373</u>
<b>Total net position</b>	<b><u><u>\$ 120,903,360</u></u></b>

**Onslow Water and Sewer Authority**

**Statement of Revenue, Expenses and Changes in Net Position**

**For the Year Ended June 30, 2014**

**(Page 1 of 2)**

<b>Operating revenue (Note 8)</b>	
Water	\$ 15,872,861
Waste water	3,003,551
Service initiation fees	756,809
Miscellaneous income	861,846
<b>Total operating revenue</b>	<b>20,495,067</b>
<b>Operating expenses (Note 8)</b>	
Hubert water treatment plant	1,164,330
Dixon water treatment plant	1,064,154
Meters	864,512
Distribution	1,423,647
Facilities maintenance & Collections	1,158,615
Kenwood wastewater plant	25,850
Richlands wastewater plant	303,136
Holly Ridge wastewater plant	256,716
Swansboro wastewater plant	286,482
SCADA	232,565
Hickory Grove wastewater plant	2,434
Webb wastewater plant	14,116
General and administrative	1,473,406
Information technology services	788,583
Engineering	884,282
Customer service and billing	1,297,398
Laboratory	366,835
Water and wastewater purchases	439,056
Nondepartmental	605,482
Repairs and maintenance	1,558,649
Depreciation	4,850,306
<b>Total operating expenses</b>	<b>19,060,554</b>
<b>Operating income</b>	<b>1,434,513</b>
<b>Nonoperating revenue (expense)</b>	
Customer impact fees	3,331,097
Contributions from Jacksonville, NC	2,006,527
Interest income	8,915
Interest expense	(2,669,841)
<b>Total nonoperating revenue</b>	<b>2,676,698</b>
<b>Income before capital contributions</b>	<b>4,111,211</b>

(Continued)

**Onslow Water and Sewer Authority**

**Statement of Revenue, Expenses and Changes in Net Position (Continued)**

**For the Year Ended June 30, 2014**

**(Page 2 of 2)**

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Capital contributions from non-related parties	<u>\$ 1,562,423</u>
<b>Increase in net position</b>	<b>5,673,634</b>
<b>Net position</b>	
Beginning	<u>115,229,726</u>
Ending	<u><u>\$ 120,903,360</u></u>

See Notes to Financial Statements.

**Onslow Water and Sewer Authority**

**Statement of Cash Flows  
For the Year Ended June 30, 2014  
(Page 1 of 2)**

<hr/>	
Cash Flows From Operating Activities	
Cash received from customers	\$ 19,643,617
Cash paid for goods and services	(6,766,069)
Cash paid to or on behalf of employees for services	(7,396,782)
Miscellaneous income	861,846
<b>Net cash provided by operating activities</b>	<u>6,342,612</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(18,105,362)
Principal paid on debt	(3,179,794)
Interest paid on capital debt	(2,722,581)
<b>Net cash used in capital and related financing activities</b>	<u>(24,007,737)</u>
Cash Flows From Noncapital and Related Financing Activities	
Contributions from NCDOT and Jacksonville, NC	2,519,230
Customer impact fees	3,331,097
<b>Net cash provided by noncapital and related financing activities</b>	<u>5,850,327</u>
Cash Flows From Investing Activities	
Interest	8,915
<b>Net cash provided by investing activities</b>	<u>8,915</u>
<b>Net decrease in cash and cash equivalents</b>	(11,805,883)
Cash and Cash Equivalents:	
Balances, beginning	<u>60,818,349</u>
Balances, ending	<u>\$ 49,012,466</u>
<b>Reconciliation to statement of net position:</b>	
Cash and cash equivalents (current and noncurrent)	\$ 36,871,441
Restricted cash and cash equivalents (current and noncurrent)	12,141,025
<b>Total cash and cash equivalents</b>	<u>\$ 49,012,466</u>

(Continued)

**Onslow Water and Sewer Authority**

**Statement of Cash Flows (Continued)**

**For the Year Ended June 30, 2014**

**(Page 2 of 2)**

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Reconciliation of Operating Income to Net Cash	
Provided By Operating Activities	
Operating income	<u>\$ 1,434,513</u>
Adjustments to reconcile operating income to net cash	
provided by operating activities:	
Depreciation	4,850,306
Changes in assets and liabilities:	
Increase in receivables, net	(124,984)
Decrease in inventory	36,327
Increase in accounts payable and accrued liabilities, operating	11,070
Increase in customer deposits	<u>135,381</u>
<b>Total adjustments</b>	<u>4,908,100</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 6,342,612</u></u>
Supplemental Schedule of Noncash Activities	
Increase in construction and retainage payable	<u>\$ 7,120,271</u>
Non-cash capital contributions	<u><u>\$ 1,562,423</u></u>

See Notes to Financial Statements.

## **Notes to Financial Statements**

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## Onslow Water and Sewer Authority

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

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

#### Reporting Entity:

The Authority was created pursuant to Chapter 162A of the North Carolina General Statutes by the governing bodies of Onslow County, the Towns of Richlands, Holly Ridge, Swansboro and North Topsail Beach and the City of Jacksonville for the purpose of providing water and wastewater services to all residents of Onslow County. The Authority is empowered to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency. The Governing Board consists of eight directors who hold office for staggered terms. The directors are appointed by the governing bodies of the County of Onslow, Town of Richlands, Town of Holly Ridge, North Topsail Beach, Town of Swansboro, and the City of Jacksonville.

The Authority is in its ninth year of operations of providing water and wastewater services. The Authority assumed the operations of the Holly Ridge Water System on July 1, 2005, and their Wastewater System on January 1, 2006. The Authority assumed the operations of the Swansboro Water System on January 1, 2007, and the Swansboro Wastewater System on July 1, 2007.

GAAP require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement Nos. 14 and 61 have been considered and there are no agencies or entities which should be presented with the Authority. Also, the Authority is not included in any other reporting entity. The Authority is a jointly governed organization, i.e. an entity governed primarily by representatives from other governments. The participants do not retain any ongoing financial interest in or financial responsibility for the Authority.

#### Basis of Presentation:

All activities of the Authority are accounted for within a single business-type activity and within a single proprietary (enterprise) fund. Enterprise Funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. (a) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity. (b) Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues. (c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Measurement Focus and Basis of Accounting:**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Concurrent with the commencement of providing water/wastewater services on July 1, 2004, the Authority elected to be treated as a “special-purpose government engaged only in business-type activities” as described in GAAP. The Authority’s business-type activities are considered to be undertaken in a single enterprise fund. Enterprise activities are accounted for on the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives or (receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

**Budgets**

Budgets are adopted utilizing the modified accrual basis of accounting as required by State statute. An annual budget ordinance is adopted for the operating subfund. All annual appropriations lapse at fiscal year end.

Expenditures may not legally exceed appropriations at the expenditure object level for the operating subfund. The budget may be amended as necessary by the governing board. During the year, several amendments to the original budget became necessary. A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

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

## **Onslow Water and Sewer Authority**

### **Notes to Financial Statements**

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

##### **Assets, Liabilities, and Net Position**

###### **Deposits and Investments**

All deposits of the Authority are made in board-designated official depositories and are collateralized as required by State statute. Official depositories may be established with 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 deposits.

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

###### **Cash and Cash Equivalents**

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

###### **Allowance for Doubtful Accounts**

All trade receivables are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is determined by management based on their knowledge of collection history for similar customers.

###### **Restricted Assets**

The unexpended bond proceeds of revenue bonds and bond anticipation notes issued by the Authority are classified as restricted assets under Restricted - cash and cash equivalents, trustee because their use is completely restricted to the purpose for which the bonds were originally issued. These bond proceeds may only be used for the construction and design of North West Regional Reclamation Facility. The balance of current and noncurrent restricted cash for this purpose is \$8,314,125 and \$3,826,900, respectively, as of June 30, 2014.

The Authority's Series 2004A and 2004B Revenue Bonds require a fund (the Reserve Fund) to be established to help ensure that sufficient monies are available for payment of bond principal and interest. The Reserve Fund is to be funded according to certain requirements of the bond trust indenture. The Reserve Fund at June 30, 2014 totaled \$3,266,910.

###### **Inventories**

Materials and supplies are valued at cost (first-in, first-out) which approximates market value.

# Onslow Water and Sewer Authority

## Notes to Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### 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. All purchased capital assets are valued at original cost at the time of acquisition. The cost of normal maintenance and repairs which do not add to the value of the asset or materially extend assets' lives are not capitalized.

Onslow County, the Town of Richlands, the Town of Holly Ridge, and the Town of Swansboro have entered into capital lease agreements with ONWASA whereby their water and wastewater system assets were constructively leased in perpetuity to ONWASA. The terms of the leases are 30 years, with successive 15-year options to renew. Total lease payments equaled existing outstanding bond indebtedness on the systems and were paid or assumed in total at the inception of the leases. ONWASA funded these lease payments by issuing revenue bonds. The capital lease agreements specify the value of assets and liabilities to be assumed. The difference between the specified value of the leased assets and the specified lease payments (i.e. the debt assumed or issued) is recognized as a capital contribution. Since the assets are leased from the member governments and not titled in the name of the Authority, the carrying values of the lessor/member government are used to record the assets under these capital leases. By policy, the Authority records new assets under capital leases at the gross amounts previously recorded by the lessor/governmental member.

Capital assets contributed by developers are recorded at fair market value which is generally the cost to construct these assets. Capital assets contributed by developers totaled \$1,562,423 for the year ended June 30, 2014.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest that has been capitalized is \$3,522,367.

Capital assets, which include property, plant, equipment and infrastructure assets, are depreciated using the straight-line method by groups or classes of property over the following expected service lives (including the lives at the member government who leases the assets to the Authority):

	<u>Years</u>
Water treatment and distribution	20 - 60
Wastewater collection and treatments	40 - 60
Fixtures and equipment	5 - 20

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.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has one item that meets this criterion, unamortized bond insurance. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority does not have any of these items.

**Long-Term Debt**

Long-term debt is reported as a liability in the statement of net position, net of applicable bond premium or discount which are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method.

**Net Position**

Net Position is classified as net investment in capital assets, restricted and unrestricted. Net investment in capital assets represents the amounts invested in capital assets less any outstanding debt used in the acquisition of those assets. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. Unrestricted net position consists of net position that does not meet the definition of "invested in capital assets" or "restricted".

The Authority's Series 2004A and 2004B Revenue Bonds require certain monies to be segregated to help ensure sufficient monies are available for debt service payments (the Reserve Fund). These assets are segregated in the statement of net position and the total is identified as restricted in the net position of the statement of net position.

The Authority's Series 2004A and 2004B Revenue Bonds required a fund (the Replacement Fund) to be established to hold monies for paying the cost of extensions, additions and capital improvements to, or the renewal and replacement of capital assets of, or purchasing and installing new equipment for, the Combined Enterprise System, or for paying any extraordinary maintenance and repair or any expenses which are not Current Expenses. Additionally, monies in this reserve can be used for certain transfers or payment of certain indebtedness. Amounts deposited in the Replacement Fund are determined pursuant to certain provisions of the bond indenture, but amounts can also be deposited at the discretion of the Board. The Replacement Fund at June 30, 2014 totaled \$2,504,151 and is included in noncurrent cash and cash equivalents. These monies are Board designated funds that are included in Unrestricted Net Position.

In July 2006, the Authority Board of Directors established a fund (the Waste Water Impact Capital Reserve Fund) to be accumulated from waste water impact fees and to be used for waste water system repairs, upgrades, extensions/expansions, related debt service payments, and/or transfers to the Replacement Fund, for a period of three years. The Capital Reserve Fund at June 30, 2014 totaled \$762,759 and is included in noncurrent cash and cash equivalents. These monies are Board designated funds that are included in Unrestricted Net Position.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Compensated Absences**

The vacation policy of the Authority provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. The Authority had 127 full-time employees as of June 30, 2014. Accrued vacation at year end totaled \$429,909 and is included in accounts payable and accrued liabilities – operations.

The Authority has adopted a last-in, first-out method of using accumulated compensated time. The portion of the accumulated vacation pay which is expected to be liquidated after the next fiscal year is not considered to be material and, therefore, no provision for noncurrent compensated absences has been made in the financial statements.

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.

**Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations, which is the sale of water and treatment of wastewater for its customers. Operating expenses for the Authority include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Note 2. Cash, Cash Equivalents and Investments**

At June 30, 2014, cash, cash equivalents and certificates of deposit were comprised of the following:

**Deposits**

All the deposits of North Carolina local governments are to be either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are separately collateralized with securities held by the governments' agents in the governments' names. Under the Pooling Method, which is a statewide collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the governments, these deposits are considered to be held by the governments' agents in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the governments or the escrow agents. Because of the inability to measure the exact amounts of collateral pledged for governments under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling method. The Authority has no policy regarding custodial credit risk for deposits. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifies that deposits are properly secured.

## Onslow Water and Sewer Authority

### Notes to Financial Statements

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

At June 30, 2014, the carrying amount of the Authority deposits, including certificate of deposits of \$1,000,000, was \$1,693,875 and the bank balance was \$1,972,162. Of the bank balance, \$518,925 was covered by FDIC insurance and \$1,453,237 was collateralized using the Pooling Method.

The Authority had one certificate of deposit totaling \$1,000,000, which is noninterest bearing and is a requirement from the bank in return for providing business checking accounts with no service charge. The \$1,000,000 certificate of deposit has a three-year term which matures in July 2017.

#### Investments

At June 30, 2014, the Authority had \$48,318,591 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Authority has no formal policy regarding credit risk.

#### Note 3. Receivables

The Authority estimates the revenue value of water consumed by its customers near year end but not billed by the last day of the fiscal year. This is done by multiplying the estimated unbilled water usage by the appropriate rates. This amount is reported below as Unbilled receivable – customers.

The amounts presented in the Statement of Net Position at June 30, 2014 are as follows:

Sales tax receivables	\$ 494,798
Accounts receivable - customers	1,476,405
Unbilled receivable - customers	1,514,745
Accounts receivable - Scientific	269,785
<b>Total receivables</b>	<b>3,755,733</b>
Allowance for doubtful accounts	(381,731)
<b>Total receivables, net of allowance</b>	<b>\$ 3,374,002</b>

**Onslow Water and Sewer Authority**

**Notes to Financial Statements**

**Note 4. Capital Assets**

Assets acquired from member governments are operated by the Authority under capital lease agreements with member governments. The terms of the leases are 30 years, with successive 15 year options to renew. More information on these capital leases may be found in Note 1 under Capital Assets. Capital assets activity consists of the following, for the year ended June 30, 2014. Current depreciation expense was \$4,850,306.

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 5,742,106	\$ -	\$ -	\$ 5,742,106
Construction in progress	23,883,087	24,550,157	-	48,433,244
<b>Total capital assets not being depreciated</b>	<b>29,625,193</b>	<b>24,550,157</b>	<b>-</b>	<b>54,175,350</b>
Capital assets being depreciated:				
Other improvements	151,115,640	1,591,691	-	152,707,331
Buildings	14,322,811	-	-	14,322,811
Equipment	3,652,204	278,452	-	3,930,656
Vehicles	1,900,608	117,756	55,610	1,962,754
Heavy equipment	1,228,077	-	-	1,228,077
<b>Total capital assets being depreciated</b>	<b>172,219,340</b>	<b>1,987,899</b>	<b>55,610</b>	<b>174,151,629</b>
Less accumulated depreciation for:				
Other improvements	46,540,443	3,887,914	-	50,428,357
Buildings	8,521,566	471,561	-	8,993,127
Equipment	2,651,657	336,456	-	2,988,113
Vehicles	1,717,821	74,313	55,610	1,736,524
Heavy equipment	984,676	80,062	-	1,064,738
<b>Total accumulated depreciation</b>	<b>60,416,163</b>	<b>4,850,306</b>	<b>55,610</b>	<b>65,210,859</b>
<b>Total capital assets being depreciated, net</b>	<b>111,803,177</b>			<b>108,940,770</b>
<b>Capital assets, net</b>	<b>\$ 141,428,370</b>			<b>\$ 163,116,120</b>

## Onslow Water and Sewer Authority

### Notes to Financial Statements

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#### Note 4. Capital Assets (Continued)

##### Construction/Engineering Commitments

The Authority has active construction/engineering projects as of June 30, 2014:

##### Construction commitments

Project	Spent-to-date	Remaining Commitment
Northwest Regional WWTP	\$ 35,992,822	\$ 7,794,077
Dixon Reverse Osmosis	2,421,417	1,453,427
Piney Green Phase 3 Trunk Line	4,623,071	2,193,455
Piney Green Phase 2 Elimination of Hickory Grove and Web Apartments WWTP design and construction	-	882,057
	<u>\$ 43,037,310</u>	<u>\$ 12,323,016</u>

At year-end, the Authority's commitments with contractors and professional firms related to these projects are as follows: Per agreement with the North Carolina Environmental Management Commission "Special Order By Consent", there is a commitment to build the Northwest Regional Reclamation Facility. The United States Department of Agriculture ("USDA") has approved loans in the amount of \$24,541,000 and a grant in the amount of \$9,816,000. The loans are funded by ARRA and the grant is Non-ARRA funding. These monies will fund the construction of the Northwest Regional Reclamation Facility. The Authority has received temporary financing through PNC Bank of \$24,541,000. This loan will be financed through USDA once the project is complete. Dixon Reverse Osmosis project is being financed by the NC Department of Environmental and Natural Resources. A NC Drinking Water State Revolving Fund (DWSRF) loan has been approved for \$5,585,276 to complete this project. Piney Green Phase 2 is partially funded by a grant from NC Department of Environmental and Natural Resources.

#### Note 5. Pension Plan Obligations

##### Local Governmental Employees' Retirement System

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

Funding policy: Plan members are required to contribute 6% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 8.46% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$455,470, \$415,594, and \$442,073, respectively. The contributions made by the Authority equaled the required contributions for the year.

## Onslow Water and Sewer Authority

### Notes to Financial Statements

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#### Note 5. Pension Plan Obligations (Continued)

##### Supplemental Retirement Income Plan

Plan description: The Authority contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan with services provided by Prudential, administered by the Department of State Treasurer. The Plan provides retirement benefits to all full-time and qualified part-time employees of the Authority. Authority to establish and amend benefit provisions is assigned to the Board of Directors.

Funding Policy: The adopted plan requires the Authority to match an employees' contribution each pay period by an amount not to exceed two percent (2%) of each employee's salary. The Authority's contributions for each employee (and interest allocated to the employee's account) are fully vested immediately. All covered employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014, were \$247,932, which consisted of \$90,657 from the Authority and \$157,275 from the employees.

#### Note 6. Other Postemployment Benefits

##### *Plan Description*

According to the Authority's personnel policy, the Authority provides post-employment health care benefits to retirees of the Authority, provided they participate in the North Carolina Local Governmental Employees' Retirement System and have at least ten consecutive years of creditable service with the Authority. This benefit is provided to employees hired prior to April 17, 2014, or if they are already in the system. Years of service are transferable from participating member governments during the initial transition phase of the Authority. The Authority pays the full cost of coverage for these benefits through private insurers. Also, spouses of Authority retirees can purchase coverage at the Authority's group rates until the spouse is eligible for other health coverage or Medicare. For the fiscal year ended June 30, 2014, the Authority paid \$17,433 in post-employment health benefit premiums. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	2
Active plan members	124
Total	<u>126</u>

##### *Funding Policy*

The Authority pays the full cost of coverage for the healthcare benefits paid to qualified retirees under the Authority's personnel policy. The Authority obtains healthcare coverage through private insurers. There were no contributions made by retirees or employees. The Authority has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution (ARC) rate is 5.70% of annual covered payroll. The Authority's obligation to contribute to the plan is established and may be amended by the Authority's Board.

## Onslow Water and Sewer Authority

### Notes to Financial Statements

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#### Note 6. Other Postemployment Benefits (Continued)

##### *Summary of Significant Accounting Policies*

Postemployment benefit costs are recognized on the accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These costs are paid as they come due.

##### *Annual OPEB Cost and Net OPEB Obligation*

The Authority's annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for the healthcare benefits:

Annual Required Contribution	\$ 250,566
Interest on net OPEB obligation	33,477
Adjustment to annual required contribution	(23,342)
Annual OPEB cost (expense)	<u>260,701</u>
Contribution made	<u>(17,433)</u>
Increase (decrease) in net OPEB obligation	243,268
Net OPEB obligation, beginning of year	836,925
Net OPEB obligation, end of year	<u><u>\$ 1,080,193</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

For Year Ended June 30	Three Year Trend		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$260,701	6.69%	\$1,080,193
2013	\$249,622	2.55%	\$836,925
2012	\$243,268	0.00%	\$593,657

##### *Funding Status and Funding Progress*

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits, and thus, the unfunded actuarial accrued liability (UAAL) was \$2,582,619. The covered payroll (annual payroll of active employees covered by the plan) was \$5,128,164, and the ratio of the UAAL to the covered payroll was 50.4 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the

**Note 6. Other Postemployment Benefits (Continued)**

plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule for funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.*

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

In the December 31, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend rate of 7.75 to 5.00 percent annually through 2019. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, are planned to be determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2013 was 30 years.

**Note 7. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities (the "NCLM"). Through these pools, the Authority obtains property and equipment coverage, general liability and auto liability coverage of \$2 million per occurrence with no aggregate. Public officials' liability coverage of \$2 million per each claim with a \$3 million aggregate and worker's compensation with statutory limits are also obtained from the NCLM. These pools are reinsured through commercial companies for single occurrence claims against general liability in excess of \$1,000,000.

The Authority also obtains flood insurance coverage through the NCLM in the amount of \$5 million per occurrence with an annual aggregate limit of \$5 million. Property owned by the Authority located in areas designated by the Federal Emergency Management Agency ("FEMA") as certain types of flood zones is not covered.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$1,000,000. The remaining employees that have access to funds are bonded under a blanket bond of \$20,000 for forgery and \$75,000 for theft. Employees' health insurance is provided by a commercial provider.

## Onslow Water and Sewer Authority

### Notes to Financial Statements

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#### Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2014 is summarized as follows:

	Balance July 1, 2013	Principal Increases	Principal Decreases	Premium Amortized	Balance June 30, 2014	Current Portion of Balance
Revenue Bonds	\$ 57,262,312	\$ -	\$ 3,060,016	\$ -	\$ 54,202,296	\$ 3,196,496
Construction Loans	2,115,100	-	119,778	-	1,995,322	119,778
Unamortized Premiums	780,965	-	-	49,777	731,188	-
Bond Anticipation Notes	24,541,000	-	-	-	24,541,000	24,541,000
Other Postemployment Benefits	836,925	243,268	-	-	1,080,193	-
<b>Totals</b>	<b>\$ 85,536,302</b>	<b>\$ 243,268</b>	<b>\$ 3,179,794</b>	<b>\$ 49,777</b>	<b>\$ 82,549,999</b>	<b>\$ 27,857,274</b>

#### Revenue Bonds

\$8,305,000 Combined Enterprise System Revenue Bonds, Series 2004A, were issued June, 2004 to fund the capital lease of the Combined Enterprise System consisting of the water and sewer system of the County of Onslow, North Carolina, and the Town of Richlands, North Carolina plus bond issuance expenses. The Authority sold the bonds at a premium of \$111,402. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at annual varying interest rates from 2% to 5%. The bonds are secured by a pledge of the net revenues of the Authority.

\$18,870,000 Combined Enterprise System Revenue Bonds, Series 2004B, were issued December, 2004 to pay the cost of expansion of the Authority's Dixon and Hubert water treatment plants and related facilities, plus bond issuance expenses. The Authority sold the bonds at a premium of \$213,539. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at annual varying interest rates from 2% to 5%. The bonds are secured by a pledge of the net revenues of the Authority.

\$5,100,000 Combined Enterprise System Revenue Bonds, Series 2006, were issued November 5, 2006 to provide funds primarily for expenditures related to Holly Ridge sewer system debt retirement and engineering for the Piney Green sewer expansion project. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate of 3.98%. The bonds are secured by a pledge of the net revenues of the Authority.

\$37,025,000 Combined Enterprise System Revenue Bonds, Series 2008A, were issued January, 2008 to fund various ONWASA waterline extension projects, the Piney Green collection system, the Swansboro debt payoff and loan reimbursement, the MCAS waterline extension, and land acquisition plus bond issuance expenses. The Authority sold the bonds at a premium of \$789,461. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at annual varying interest rates from 4% to 5%. The bonds are secured by a pledge of the net revenues of the Authority.

\$4,515,000 Combined Enterprise System Revenue Bonds, Series 2008B, were issued July, 2008 to fund the Hubert/Bear Creek Transmission Water Main Project. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at annual interest rate of 4.68%. The bonds are secured by a pledge of the net revenues of the Authority.

# Onslow Water and Sewer Authority

## Notes to Financial Statements

### Note 8. Long-Term Obligations (Continued)

The payments of the revenue bonds for the future years are as follows:

June, 30	2004 A and B		2006		2008A		2008B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,585,000	\$ 730,894	\$ 335,214	\$ 122,844	\$ 1,085,000	\$ 1,528,000	\$ 191,282	\$ 170,022	\$ 3,196,496	\$ 2,551,760
2016	695,000	658,344	348,556	109,503	1,140,000	1,473,750	200,340	160,964	2,383,896	2,402,561
2017	730,000	623,594	362,428	95,630	1,200,000	1,416,750	209,827	151,477	2,502,255	2,287,451
2018	770,000	587,094	376,853	81,206	1,260,000	1,356,750	219,763	141,540	2,626,616	2,166,590
2019	805,000	548,594	391,852	66,207	1,320,000	1,293,750	230,170	131,134	2,747,022	2,039,685
2020-2024	4,685,000	2,095,720	1,271,636	102,539	7,580,000	5,491,226	1,325,037	481,481	14,861,673	8,170,966
2025-2029	5,935,000	838,795	-	-	9,375,000	3,701,963	1,304,338	140,875	16,614,338	4,681,633
2030-2033	-	-	-	-	9,270,000	1,187,000	-	-	9,270,000	1,186,999
<b>Total</b>	<b>15,205,000</b>	<b>\$ 6,083,035</b>	<b>3,086,539</b>	<b>\$ 577,929</b>	<b>32,230,000</b>	<b>\$ 17,449,189</b>	<b>3,680,757</b>	<b>\$ 1,377,493</b>	<b>54,202,296</b>	<b>\$ 25,487,645</b>
Unamortized bond premium	131,197	-	-	-	599,991	-	-	-	731,188	-
<b>Net carrying value</b>	<b>\$ 15,336,197</b>	<b>\$ 3,086,539</b>	<b>\$ 3,086,539</b>	<b>\$ 577,929</b>	<b>\$ 32,829,991</b>	<b>\$ 17,449,189</b>	<b>\$ 3,680,757</b>	<b>\$ 1,377,493</b>	<b>\$ 54,933,484</b>	<b>\$ 25,487,645</b>

### Construction Loans Payable

The Authority has a \$1,908,853 construction loan payable to the State of North Carolina to finance Richlands Sewer Rehabilitation and gravity sewer in Holly Ridge and Hunter's Creek, repayable over a fixed term once construction is completed. The note is payable from water and sewer revenue and bears an annual interest rate of 2.480%.

The Authority has a \$490,096 construction loan payable to the State of North Carolina to finance the Dixon Raw Waterline and Well, repayable over a fixed term once construction is completed. The note is payable from water and sewer revenue and bears an annual interest rate of 0%.

The payments of the loans payable for the future years are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 119,778	\$ 38,844	\$ 158,622
2016	119,778	36,482	156,260
2017	119,778	34,118	153,898
2018	119,778	31,756	151,534
2019	119,778	29,393	149,171
2020-2024	598,878	111,529	710,407
2025-2029	598,890	52,459	651,349
2030-2034	198,664	4,965	203,629
	<b>\$ 1,995,322</b>	<b>\$ 339,546</b>	<b>\$ 2,334,868</b>

## Onslow Water and Sewer Authority

### Notes to Financial Statements

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#### Note 8. Long-Term Obligations (Continued)

##### Bond Anticipation Notes

The Authority has received \$24,541,000 in bond anticipation notes, to fund the Northwest Regional Reclamation Facility, payable to PNC Bank at .64% maturing December 18, 2014. At maturity, the bond anticipation notes are expected to be refinanced by USDA as noted in note 4.

##### Rate Covenants:

The Series 2004A and 2004B bonds are secured by a pledge of the net revenues of the Authority. The rate covenant for the Water and Sewer Revenue Bonds, Series 2004A and Series 2004B, states, in summary, that the Authority establish rates and charges for the provision of services of the Combined Enterprise Systems as such Revenue plus 20% of the balance in the General Fund at the end of the preceding Fiscal Year at least equal to the total of Current Expenses budgeted plus 120% of the Principal and Interest requirements on outstanding debt and Revenue at least equal to Current Expenses budgeted plus 100% of the Principal and Interest requirements on outstanding debt. The Authority met its covenants for the fiscal year ended June 30, 2014.

The Authority's revenue bonds contains rate covenants as to rates and requires the debt service coverage ratio to be no less than 100% for all debt. The Authority has met its covenants for the year ended June 30, 2014. The debt service coverage ratio calculation for the fiscal year ended June 30, 2014 is as follows:

Operating revenues		\$ 20,495,067
Operating expenses (1)		14,210,248
Operating income		6,284,819
Non-operating revenues (expenses)		
Interest income		8,915
Miscellaneous revenue (2)		3,331,097
Income available for debt service		\$ 9,624,831
Revenue bond and construction loan debt service		\$ 5,754,555
Revenue bond and construction loan debt service coverage ratio		1.67

(1) excludes depreciation of \$4,850,306

(2) excludes restricted revenues and revenues received in the capital project funds.

## **Onslow Water and Sewer Authority**

### **Notes to Financial Statements**

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#### **Note 9. Pending GASB Statements**

The GASB has issued several pronouncements prior to June 30, 2014 that have effective dates applicable to future fiscal years and may impact future financial presentations. Of these pronouncements, the following may have an impact on future financial presentations:

GASB Statement Number 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" will be effective for the Authority beginning with its year ending June 30, 2015.

GASB Statement Number 69, "Government Combinations and Disposal of Government Operations" will be effective for the Authority beginning with its year ending June 30, 2015.

GASB Statement Number 71, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 68" will be effective for the Authority beginning with its year ending June 30, 2015.

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

#### **Note 10. Commitments and Contingencies**

##### **Federal and State Assisted Programs**

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

##### **Fines and Fees**

The Authority is subject to various federal and State agencies oversight for operations of its water and sewer systems. These agencies could impose fines and fees as a result of non-compliance with regulations and permit requirements. Management believes that any required fines and fees to be immaterial as of June 30, 2014.

#### **Note 11. Claims and Judgments**

The Authority is a defendant in litigation incidental to carrying out its functions. In the opinion of the Authority's chief legal counsel, this claim should not result in a judgment which would have a material adverse effect on the Authority's financial statements.

**Onslow Water and Sewer Authority**

**Notes to Financial Statements**

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**Note 12. Subsequent Events**

The Authority has entered into construction and design contracts subsequent to June 30, 2014 and prior to the date of this report. The projects include the following:

**Subsequent Events**

<b>Project</b>	<b>Contract Commitment</b>
Highway 53 Waterline construction and design	\$ 2,582,225
Summerhouse Water Reclamation Facility Rehabilitation Construction and design	1,916,255
Stump Sound Force Main construction and design	775,245
Western Onslow Trunk Sewer Main construction and design	5,546,410
	<u>\$ 10,820,135</u>

The Authority expects these projects to be funded by loans, grants and available fund balance.

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**Required Supplemental  
Financial Information**

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**Onslow Water and Sewer Authority**

**Other Postemployment Benefits  
Required Supplementary Information  
Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
12/31/2007	\$ -	\$ 1,329,311	\$ 1,329,311	0.0%	\$ 3,892,688	34.2%
12/31/2009	-	1,101,413	1,101,413	0.0%	5,107,196	21.6%
12/31/2011	-	2,009,736	2,009,736	0.0%	5,257,829	38.2%
12/31/2013	-	2,582,619	2,582,619	0.0%	5,128,164	50.4%

**Onslow Water and Sewer Authority**

**Other Postemployment Benefits  
Required Supplementary Information  
Schedule of Employer Contributions**

<b>Year Ended June 30,</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
2014	\$250,566	6.96%
2013	\$174,015	2.55%
2012	\$174,015	0.0%

**Notes to the Required Schedules:**

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

Valuation date	12/31/2013
Actuarial cost	Projected unit cost
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market value

Actuarial assumptions:

Investment rate of return	4.0%
Medical cost trend:	7.75% - 5.00%
* Includes inflation at	3.00%

\* June 30, 2010 was the year of implementation of GASB Statement No. 45.

**Onslow Water and Sewer Authority**

**Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund  
For Year Ended June 30, 2014  
(Page 1 of 2)**

	Final Budget	Actual	Variance With Final Budget
<b>Operating revenues</b>			
Water		\$ 15,574,812	
Waste water		2,891,464	
Service initiation fees		825,167	
Miscellaneous revenue		861,846	
<b>Total operating revenues</b>	<b>\$ 20,135,000</b>	<b>20,153,289</b>	<b>\$ 18,289</b>
<b>Nonoperating revenues</b>			
Customer impact fees		3,331,097	
Interest income		6,730	
<b>Total nonoperating revenues</b>	<b>2,650,000</b>	<b>3,337,827</b>	<b>687,827</b>
<b>Total revenues</b>	<b>22,785,000</b>	<b>23,491,116</b>	<b>706,116</b>
<b>Expenditures</b>			
<b>Water Divisions</b>			
Hubert Water Treatment Plant		1,311,818	
Dixon Water Treatment Plant		1,354,087	
Meters		1,153,855	
Distribution		1,729,345	
Facilities Maintenance & Collections		1,606,718	
<b>Total Water Divisions</b>	<b>8,070,778</b>	<b>7,155,823</b>	<b>914,955</b>
<b>Sewer Divisions</b>			
Kenwood Wastewater Plant		32,713	
Richlands Wastewater Plant		306,842	
Holly Ridge Wastewater Plant		287,003	
Swansboro Wastewater Plant		309,397	
Hickory Grove Wastewater Plant		2,434	
Webb Wastewater Plant		16,819	
<b>Total Sewer Divisions</b>	<b>1,190,985</b>	<b>955,208</b>	<b>235,777</b>
<b>Administrative Divisions</b>			
General and administration		1,466,982	
Information technology services		774,949	
Engineering		898,581	
Customer Service		1,298,246	
Lab		368,161	
Water & Wastewater Purchases		439,056	
SCADA		231,838	
Nondepartmental		605,482	
<b>Total Administrative Divisions</b>	<b>7,094,144</b>	<b>6,083,295</b>	<b>1,010,849</b>

(Continued)

Onslow Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund  
 For Year Ended June 30, 2014  
 (Page 2 of 2)

	Final Budget	Actual	Variance With Final Budget
Capital outlay	\$ 672,583	\$ 425,475	\$ 247,108
<b>Total operating expenditures</b>	<b>17,028,490</b>	<b>14,619,801</b>	<b>2,408,689</b>
<b>Debt service</b>			
Principal		3,179,794	
Interest		2,731,713	
<b>Total debt service</b>	<b>5,915,541</b>	<b>5,911,507</b>	<b>4,034</b>
<b>Capital contributions</b>			
Contributions from non-related parties		1,562,423	
<b>Total capital contributions</b>	<b>-</b>	<b>1,562,423</b>	<b>1,562,423</b>
<b>Other financing sources (uses)</b>			
Transfer (out)			
To Capital Fund Expansion Projects	(228,000)	(228,000)	-
Contingency for salaries	(17,893)	-	17,893
Appropriated fund balance	404,924	-	(404,924)
<b>Total financing sources (uses)</b>	<b>159,031</b>	<b>(228,000)</b>	<b>(387,031)</b>
<b>Revenue and other financing sources over other financing uses</b>	<b>\$ -</b>	<b>4,294,231</b>	<b>\$ 4,294,231</b>
<b>Reconciliation of modified accrual to full accrual basis</b>			
Depreciation		(4,850,306)	
Capital outlay		425,475	
Adjust for doubtful accounts		242,188	
Adjust for unbilled services		99,590	
Interest earned - Capital projects		2,185	
Accrued interest expense		12,095	
Accrued vacation		(15,922)	
Bond premium		49,777	
Principal payment on bonded debt		3,179,794	
Non-capitalized revenue in the capital project funds		2,006,527	
Transfer out to capital project fund expansion projects		228,000	
<b>Increase in net assets</b>		<b>\$ 5,673,634</b>	

Onslow Water and Sewer Authority

Capital Projects Fund - Various Projects

Schedule of Revenue and Expenditures - Budget and Actual (Modified Accrual Basis)

From Inception and For the Fiscal Year Ended June 30, 2014

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
<b>Revenue</b>				
Dixon Reverse Osmosis Loan	\$ 6,167,615	\$ -	\$ -	\$ -
Summerhouse	4,093,060	-	-	-
Union Chapel WTP	3,310,000	-	-	-
Clean Water Trust Grant	600,000	-	-	-
<b>Total revenue</b>	<b>14,170,675</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditures</b>				
Piney Green Sewer Phase 2	1,158,790	64,084	30,425	94,509
Dixon Reverse Osmosis	6,167,615	-	2,421,417	2,421,417
Summerhouse WWTP Rehab Project	4,131,060	30,656	153,367	184,023
Regional Aquifer Study	125,000	-	50,767	50,767
Union Chapel WTP	4,285,830	343,639	403,626	747,265
HWY 50 Wells	190,000	-	155,901	155,901
<b>Total expenditures</b>	<b>16,058,295</b>	<b>438,379</b>	<b>3,215,503</b>	<b>3,653,882</b>
<b>Revenue under expenditures</b>	<b>(1,887,620)</b>	<b>(438,379)</b>	<b>(3,215,503)</b>	<b>(3,653,882)</b>
<b>Other financing sources</b>				
Transfer from operating fund	1,887,620	1,659,620	228,000	1,887,620
<b>Total other financing sources</b>	<b>1,887,620</b>	<b>1,659,620</b>	<b>228,000</b>	<b>1,887,620</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 1,221,241</b>	<b>\$ (2,987,503)</b>	<b>\$ (1,766,262)</b>

Onslow Water and Sewer Authority

Capital Projects Fund - Water and Sewer Expansion Projects  
 Schedule of Revenue and Expenditures - Budget and Actual (Modified Accrual Basis)  
 From Inception and For the Fiscal Year Ended June 30, 2014

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
<b>Revenue</b>				
City of Jacksonville	\$ 6,000,000	\$ 176,732	\$ 2,006,527	\$ 2,183,259
Interest earnings	-	937,684	2,185	939,869
<b>Total revenue</b>	<b>6,000,000</b>	<b>1,114,416</b>	<b>2,008,712</b>	<b>3,123,128</b>
<b>Expenditures</b>				
Northwest Regional Reclamation Facility	-	18,505,048	17,487,774	35,992,822
Piney Green Phase 3	-	1,144,818	3,478,253	4,623,071
Southwest Water Main	-	404,985	21,420	426,405
Western Onslow Trunk Sewer	-	-	347,207	347,207
Capitalizable interest	-	3,394,574	-	3,394,574
<b>Total expenditures</b>	<b>77,225,226</b>	<b>23,449,425</b>	<b>21,334,654</b>	<b>44,784,079</b>
<b>Revenue under expenditures</b>	<b>(71,225,226)</b>	<b>(22,335,009)</b>	<b>(19,325,942)</b>	<b>(41,660,951)</b>
<b>Other financing sources (uses)</b>				
Transfer from operating fund	5,911,000	5,911,000	-	5,911,000
Debt issued	63,213,226	38,507,223	-	38,507,223
Fund balance appropriated	2,101,000	-	-	-
Transfer to operating fund	-	(3,678,117)	-	(3,678,117)
<b>Total other financing sources</b>	<b>71,225,226</b>	<b>40,740,106</b>	<b>-</b>	<b>40,740,106</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>\$ -</b>	<b>\$ 18,405,097</b>	<b>\$ (19,325,942)</b>	<b>\$ (920,845)</b>

## **Statistical Section**

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## **Statistical Section (Unaudited)**

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### Financial Course:

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

- Net Position By Component
- Change In Net Position
- Expenses By Functions

### Revenue Capacity:

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

- Revenue By Source
- Principal Water Customers
- Principal Sewer Customers

### Debt Capacity:

This schedule represents the ratio of debt to revenues.

- Ratio of Bonded Debt to Operating Revenues and Net Bonded Debt per Customer

### Demographic and Economic Information:

These schedules show the demographic and economic picture of the environment in which Onslow Water and Sewer Authority provides its services.

- Onslow County, NC Demographic Statistics
- Miscellaneous Statistical Data
- Onslow County, NC Property Tax Levies and Collections
- Onslow County, NC Taxable Property Assessed Value
- Onslow County, NC Taxable Property Tax Rates
- ONWASA Full Time Equivalent Employees
- Onslow County, NC Principal Employers

### Operating Information:

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

- Water Processed and Wastewater Treated
- Operating Indicators by Function
- Capital Asset Statistics by Function

### Sources:

Unless otherwise noted, the information included in these schedules and charts is derived for the comprehensive annual financial reports (CAFR) for GASB 34 in the fiscal year ending June 30, 2014 and is provided for additional analysis purposes only and has not been verified by audit as presented.

**Onslow Water and Sewer Authority**

**Net Position By Component  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)**

	<b>2014</b>	2013	2012	2011
Investment in Capital Assets	<b>\$ 85,473,214</b>	\$ 80,685,811	\$ 73,139,306	\$ 58,404,315
Restricted by bond order	<b>2,572,773</b>	2,572,773	2,572,773	2,572,773
Unrestricted	<b>32,857,373</b>	31,971,142	24,866,807	28,281,076
<b>Total net position</b>	<b>\$ 120,903,360</b>	<b>\$ 115,229,726</b>	<b>\$ 100,578,886</b>	<b>\$ 89,258,164</b>

Source: Onslow Water and Sewer Authority's Accounting Records.

(1) ONWASA began operations after July 2004

Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ 56,888,432	\$ 62,104,115	\$ 34,239,204	\$ 28,140,597	\$ 30,078,675	\$ 22,576,536
2,572,773	2,572,773	2,572,773	2,572,773	2,572,773	2,572,773
24,627,754	15,910,536	21,096,080	18,320,055	13,336,347	16,034,155
<u>\$ 84,088,959</u>	<u>\$ 80,587,424</u>	<u>\$ 57,908,057</u>	<u>\$ 49,033,425</u>	<u>\$ 45,987,795</u>	<u>\$ 41,183,464</u>

**Onslow Water and Sewer Authority**

**Change in Net Position  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)**

	2014	2013	2012	2011
<b>Operating revenue</b>				
Operating revenue from member governments	\$ -	\$ -	\$ -	\$ -
Water	15,872,861	15,279,458	14,914,720	15,274,164
Wastewater	3,003,551	2,812,169	2,678,748	2,530,105
Service initiation fees	756,809	898,153	941,220	920,549
Miscellaneous income	861,846	1,409,428	1,261,700	1,000,969
<b>Total operating revenue</b>	<b>20,495,067</b>	<b>20,399,208</b>	<b>19,796,388</b>	<b>19,725,787</b>
<b>Operating expenses</b>				
Contracted services - Onslow County	-	-	-	-
Contracted services - Town of Richlands	-	-	-	-
Professional services	-	-	-	-
Hubert Water Treatment Plant	1,164,330	1,120,024	1,125,146	1,356,395
Dixon Water Treatment Plant	1,064,154	1,207,929	1,125,585	993,899
Water meter service	864,512	767,628	798,755	1,083,491
Distribution	1,423,647	1,742,693	1,634,377	1,388,779
Water distribution	-	-	-	426,876
Facilities Maintenance	1,158,615	807,425	496,891	435,198
SCADA	232,565	194,461	-	90,153
Kenwood Wastewater Plant	25,850	34,461	112,256	118,270
Richlands Wastewater Plant	303,136	270,234	186,316	200,240
Richlands and Kenwood Wastewater Plants	-	-	-	-
Holly Ridge Wastewater Plant	256,716	281,633	289,193	288,383
Swansboro Wastewater Plant	286,482	286,924	267,711	252,334
Hunter's Creek Wastewater Plant	-	-	-	-
Springdale Wastewater Plant	-	-	73,993	84,048
Hickory Grove Wastewater Plant	2,434	2,278	7,953	10,441
Webb Wastewater Plant	14,116	13,190	927	-
General administrative and finance	1,473,406	1,450,621	1,259,345	1,419,801
Information technology services	788,583	549,940	480,766	458,527
Engineering	884,282	933,908	1,271,383	1,099,745
Billings and collections	1,297,398	1,272,172	1,320,445	1,217,398
Waste water collections	-	-	-	330,307
Laboratory	366,835	453,140	391,072	353,857
Nondepartmental	605,482	606,567	538,665	705,802
Water & Wastewater Purchases	439,056	464,302	576,370	688,189
Repairs and maintenance	1,558,649	1,408,218	1,543,784	-
Impairment of capital assets	-	-	-	-
Depreciation	4,850,306	4,887,460	4,611,710	4,457,013
<b>Total operating expenses</b>	<b>19,060,554</b>	<b>18,755,208</b>	<b>18,112,643</b>	<b>17,459,146</b>
<b>Operating income (loss)</b>	<b>1,434,513</b>	<b>1,644,000</b>	<b>1,683,745</b>	<b>2,266,641</b>

(Continued)

Fiscal Year					
2010	2009	2008	2007	2006	2005
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,427,119
14,527,600	12,764,795	12,624,769	9,455,643	8,735,056	-
2,451,995	2,043,536	1,399,518	799,800	372,110	-
664,518	478,984	532,824	1,554,912	681,201	-
735,566	613,928	621,765	447,679	404,203	2,204
18,379,679	15,901,243	15,178,876	12,258,034	10,192,570	10,429,323
-	-	-	-	-	6,386,273
-	-	-	-	-	304,613
-	-	-	-	-	987,236
831,538	845,621	730,041	958,808	518,577	-
906,118	802,318	772,721	838,899	502,930	-
1,030,833	991,808	959,891	747,161	505,816	-
-	-	-	-	-	-
1,066,327	1,068,802	1,116,741	1,052,820	921,762	-
916,023	1,076,869	988,468	1,411,028	1,549,091	-
230,453	231,776	227,324	-	-	-
134,292	154,098	109,833	107,282	-	-
177,644	199,111	221,839	221,941	-	-
-	-	-	-	441,917	-
266,176	261,370	304,500	260,783	135,258	-
354,982	257,137	289,465	183,670	-	-
70,426	138,860	9,504	-	-	-
60,671	93,108	-	-	-	-
5,367	1,984	-	-	-	-
-	-	-	-	-	-
1,606,485	1,853,631	1,717,986	1,972,342	1,640,669	304,983
390,407	387,816	318,692	276,858	233,123	-
1,090,983	706,401	620,083	438,515	459,968	-
908,710	914,335	833,921	847,019	897,854	-
753,767	735,511	464,490	365,566	-	-
307,527	287,835	265,540	265,101	300,634	-
672,712	597,903	658,067	542,089	517,552	-
98,263	-	-	-	-	-
-	-	-	-	-	-
2,207,744	-	-	-	-	-
4,213,579	3,476,174	2,940,191	2,752,536	2,589,471	2,232,647
18,301,027	15,082,468	13,549,297	13,242,418	11,214,622	10,215,752
78,652	818,775	1,629,579	(984,384)	(1,022,052)	213,571

**Onslow Water and Sewer Authority**

**Change in Net Position (Continued)  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)**

	2014	2013	2012	2011
<b>Nonoperating revenue (expense)</b>				
Customer impact fees	\$ 3,331,097	\$ 4,576,500	\$ 4,595,674	\$ 4,353,932
Interest income	8,915	29,935	41,669	74,296
Interest expense	(2,669,841)	(3,010,777)	(2,959,753)	(3,115,952)
Amortization	-	-	(41,609)	(41,609)
Contributions from non-related parties	2,006,527	8,323,474	51,375	558,024
Gain/loss on disposal of assets	-	-	-	-
<b>Total nonoperating revenue</b>	<b>2,676,698</b>	<b>9,919,132</b>	<b>1,687,356</b>	<b>1,828,691</b>
<b>Income before capital contributions</b>	<b>4,111,211</b>	<b>11,563,132</b>	<b>3,371,101</b>	<b>4,095,332</b>
Capital contributions from member governments	-	-	-	463,861
Capital contributions from non-related parties	1,562,423	3,087,708	7,949,621	610,012
<b>Increase in net assets</b>	<b>5,673,634</b>	<b>14,650,840</b>	<b>11,320,722</b>	<b>5,169,205</b>
<b>Net assets</b>				
Beginning	115,229,726	100,578,886	89,258,164	84,088,959
Ending	<b>\$ 120,903,360</b>	<b>\$ 115,229,726</b>	<b>\$ 100,578,886</b>	<b>\$ 89,258,164</b>

Source: Onslow Water and Sewer Authority's Accounting Records.

(1) ONWASA began operations after July 2004

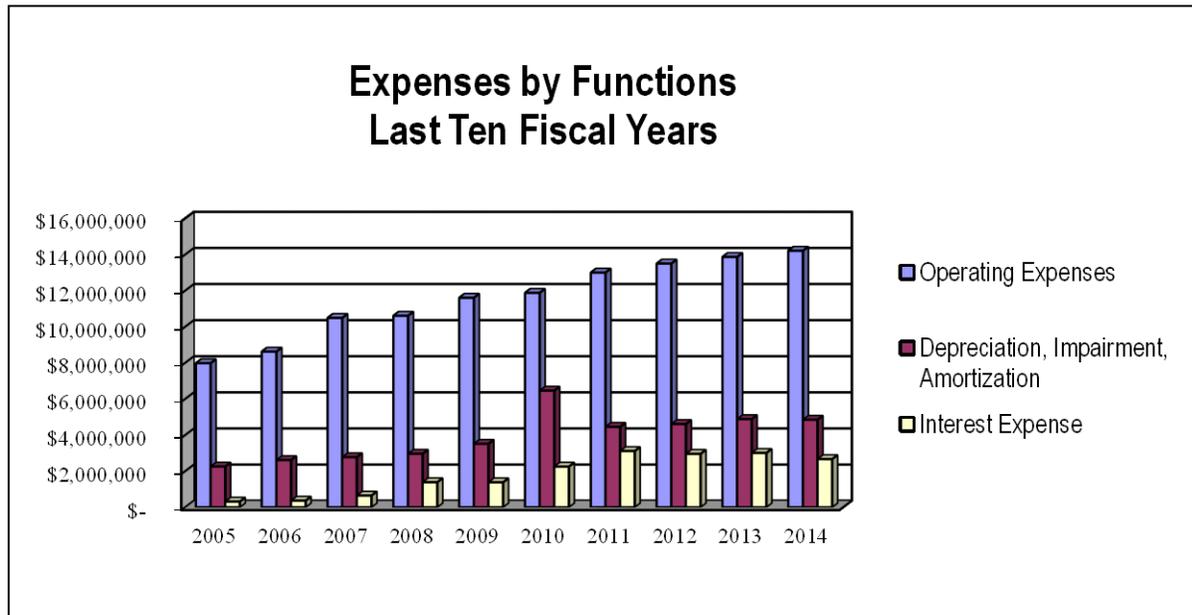
		Fiscal Year									
		2010	2009	2008	2007	2006	2005				
\$	4,819,605	\$	2,086,330	\$	1,121,553	\$	2,964,803	\$	438,750	\$	-
	147,107		871,152		1,360,831		1,147,600		1,034,762		260,530
	(2,255,051)		(1,383,963)		(1,388,120)		(652,075)		(369,200)		(316,201)
	(41,609)		(41,609)		(26,007)		(26,007)		(26,007)		(26,007)
	882,477		1,472,845		-		87,886		590,907		11,178,647
	-		-		-		-		-		(13,929)
	3,552,529		3,004,755		1,068,257		3,522,207		1,669,212		11,083,040
	3,631,181		3,823,530		2,697,836		2,537,823		647,160		11,296,611
	(209,646)		8,419,793		1,093,780		507,807		4,157,171		22,630,138
	80,000		10,436,044		5,083,016		-		-		-
	3,501,535		22,679,367		8,874,632		3,045,630		4,804,331		33,926,749
	80,587,424		57,908,057		49,033,425		45,987,795		41,183,464		7,256,715
\$	84,088,959	\$	80,587,424	\$	57,908,057	\$	49,033,425	\$	45,987,795	\$	41,183,464

## Onslow Water and Sewer Authority

### Expenses By Functions Last Ten Fiscal Years

Fiscal Year Ended June 30,	Operating Expenses	Depreciation, Impairment, Amortization	Interest Expense	Total
2005	\$ 7,983,105	\$ 2,258,654	\$ 316,201	\$ 10,557,960
2006	8,625,151	2,615,478	369,200	11,609,829
2007	10,489,882	2,778,543	652,075	13,920,500
2008	10,609,106	2,966,198	1,388,120	14,963,424
2009	11,606,294	3,517,783	1,383,963	16,508,040
2010	11,879,704	6,462,932	2,255,051	20,597,687
2011	13,002,133	4,457,013	3,115,952	20,575,098
2012	13,500,933	4,611,710	2,959,753	21,072,396
2013	13,867,748	4,887,460	3,010,777	21,765,985
<b>2014</b>	<b>14,210,248</b>	<b>4,850,306</b>	<b>2,669,841</b>	<b>21,730,395</b>

Source: Onslow Water and Sewer Authority's Accounting Records

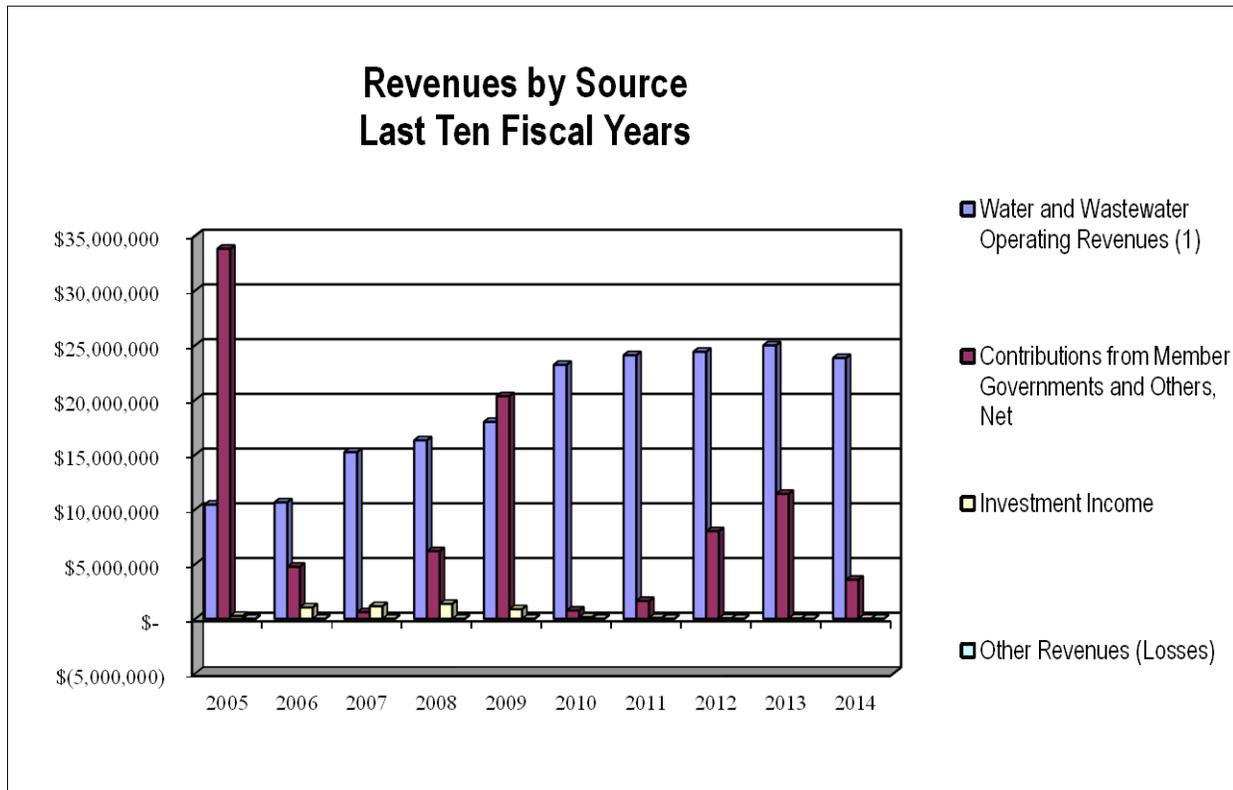


## Onslow Water and Sewer Authority

### Revenues By Sources Last Ten Fiscal Years

Fiscal Year Ended June 30,	Water and Wastewater Operating Revenues (1)	Contributions from Member Governments and Others, Net	Investment Income	Other Revenues (Losses)	Total
2005	\$ 10,429,323	\$ 33,808,785	\$ 260,530	\$ (13,929)	\$ 44,484,709
2006	10,631,320	4,748,078	1,034,762	-	16,414,160
2007	15,222,837	595,693	1,147,600	-	16,966,130
2008	16,300,429	6,176,796	1,360,831	-	23,838,056
2009	17,987,573	20,328,682	871,152	-	39,187,407
2010	23,199,284	752,831	147,107	-	24,099,222
2011	24,079,719	1,631,897	74,296	-	25,785,912
2012	24,392,062	8,000,896	41,669	-	32,434,627
2013	24,975,708	11,411,182	29,935	-	36,416,825
<b>2014</b>	<b>23,826,166</b>	<b>3,568,950</b>	<b>8,915</b>	-	<b>27,404,031</b>

Source: Onslow Water and Sewer Authority's Accounting Records



**Onslow Water and Sewer Authority**

**Principal Water Customers  
Last Nine Fiscal Years**

	Percent of Water Sales*								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
Scientific Water	1.2%	1.2%	1.5%	1.7%	1.8%	2.1%	2.3%	3.8%	2.3%
Commanding General (All MCBL Accounts)	1.9%	1.7%	1.7%	4.1%	1.6%	1.8%	1.5%	1.2%	1.3%
Onslow County Schools	1.1%	1.1%	1.2%	1.1%	1.2%	1.3%	1.2%	<1%	<1%
J & J Snack Foods	<1%	<1%	<1%	-	-	-	-	-	<1%
Gatlins Trailer Park	-	-	<1%	<1%	<1%	<1%	<1%	<1%	<1%
St. Regis HOA	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Stanadyne	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Conagra	-	-	-	<1%	<1%	<1%	<1%	<1%	<1%
Villa Capriani HOA	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Rogers Bay HOA	-	-	-	-	<1%	-	-	-	-
Royal Valley Mobile Home Park	-	-	-	-	-	<1%	<1%	<1%	<1%
Military/Student Housing	<1%	<1%	<1%	<1%	-	-	-	-	<1%
Market Rate, LLC	<1%	<1%	<1%	-	-	-	-	-	-
Sherwood MHP	-	-	-	<1%	<1%	<1%	<1%	<1%	-
Town of Swansboro	-	-	-	-	-	-	-	-	1.9%
Swansboro Ventures	<1%	<1%	-	-	-	-	-	-	-
Ramseys Trl Park	<1%	<1%	-	-	-	-	-	-	-

\* Approximate

Source: Onslow Water and Sewer Authority's Records.

(1) ONWASA began operations after July 2004

**Onslow Water and Sewer Authority**

**Principal Sewer Customers  
Last Nine Fiscal Years**

	Percent of Sewer Sales*								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
Onslow County Schools	4.0%	4.5%	6.2%	3.2%	3.2%	3.5%	6.1%	2.3%	1.5%
Conagra	-	-	-	1.9%	1.9%	2.1%	4.2%	2.6%	1.6%
J & J Snack Foods	1.9%	1.7%	2.6%	-	-	-	-	-	-
Arnolds	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Wilco/Hess	1.5%	1.1%	1.4%	<1%	<1%	<1%	<1%	-	-
Hardees	-	-	-	<1%	<1%	<1%	<1%	-	-
Nanco	-	-	-	<1%	<1%	<1%	<1%	-	-
Captain Charlie's	-	-	-	-	<1%	<1%	<1%	-	-
Careamerica	-	-	-	-	-	-	-	<1%	<1%
Richlands Car Wash	-	-	-	-	-	-	-	<1%	<1%
Betty's Smokehouse	-	-	-	-	-	-	-	<1%	<1%
Piggly Wiggly	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Market Rate LLC	1.4%	<1%	<1%	-	-	-	-	-	-
McDonalds - Richlands	-	-	-	-	-	-	-	-	<1%
Richlands Laundry	-	-	-	-	-	-	-	<1%	<1%
Food Lion	-	-	-	-	<1%	<1%	<1%	<1%	<1%
Coastal Dry Cleaners	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	-
Blue Creek Mobile Home Park	<1%	<1%	<1%	<1%	<1%	<1%	-	-	-
Military/Student Housing	1.0%	2.6%	1.6%	<1%	-	-	-	-	-
Swansboro Ventures	<1%	<1%	-	-	-	-	-	-	-

\* Approximate

Source: Onslow Water and Sewer Authority's Records.

(1) ONWASA began operations after July 2004

**Onslow Water and Sewer Authority**

**Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Customer Estimate	Net Operating Revenues	Debt Service Requirements	Net Bonded Debt	Ratio of Net Operating Revenues to Debt Service Requirements	Net Bonded Debt Per Customer
2005	28,763	\$ 2,706,748	\$ 1,151,600	\$ 26,809,987	2.35	\$ 932.10
2006	31,626	3,040,931	1,019,200	27,491,788	2.98	869.28
2007	34,050	5,880,555	3,182,075	30,043,589	1.85	882.34
2008	36,029	7,052,154	2,888,466	66,369,773	2.44	1,842.12
2009	37,055	7,252,431	2,956,936	69,314,764	2.45	1,870.59
2010	38,378	11,337,041	4,889,195	67,971,867	2.32	1,771.12
2011	39,654	11,634,864	5,751,771	63,886,919	2.02	1,611.11
2012	41,244	10,932,798	5,803,346	61,017,474	1.88	1,479.43
2013	42,250	11,137,895	5,881,723	58,043,277	1.89	1,373.81
<b>2014</b>	<b>43,614</b>	<b>10,932,799</b>	<b>5,754,555</b>	<b>54,933,484</b>	<b>1.90</b>	<b>1,259.54</b>

Note: "Net Operating Revenues" includes full accrual operating income (loss) plus impact fees plus depreciation plus interest income. "Debt service" includes full accrual interest expense plus principal paid during the year.

Source: Onslow Water and Sewer Authority's Accounting Records  
(1) ONWASA began operations after July 2004

**Onslow Water and Sewer Authority**

**Onslow County, North Carolina Demographic Statistics  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Population (3)	Personal Income (1) (thousands of dollars)	Per Capita Income (3)	Median Age (4)	Public School Enrollment (2)	Unemployment Rate % (3)
2005	156,912	3,871,043	24,670	23.78	22,940	5.70%
2006	162,165	4,338,174	26,752	23.85	23,854	4.80%
2007	159,853	4,894,559	30,619	24.01	24,063	4.50%
2008	161,974	5,173,724	31,942	24.00	23,227	5.09%
2009	165,938	5,752,998	37,159	25.00	23,659	7.57%
2010	179,455	7,102,417	42,528	25.25	23,493	8.18%
2011	175,844	7,348,781	42,463	24.80	23,365	9.60%
2012	189,964	7,895,564	43,990	26.08	24,161	9.20%
2013	177,772	8,296,419	46,163	26.14	24,657	8.60%
<b>2014</b>	<b>185,220</b>	<b>8,421,526</b>	<b>45,953</b>	<b>26.16</b>	<b>25,428</b>	<b>7.20%</b>

(1) Bureau of Economic Analysis, U.S. Department of Commerce.

(2) North Carolina Department of Public Instruction, Average Daily Membership

(3) N. C. Employment Security Commission, Workforce In-Depth.

(4) North Carolina Office of State Budget and Management.

## Onslow Water and Sewer Authority

### Miscellaneous Statistical Data For the Year Ended June 30, 2014

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Year Founded and Incorporated	2000
Size of Service Area:	
Square Miles	756
Miles of Water Pipe	1,147
Miles of Wastewater Collection Pipe	144
Wastewater Pump Stations	64
Customer Accounts	43,614
Budgeted Full Time Employees	128
Water Treatment Plants Capacity:	
Million gallons per day (MGD)	13.9
Production Peak, FY 2012 - 2013 (MGD)	10.8
Production Average, FY 2012 - 2013(MGD)	8.0
Wastewater Treatment Plants Capacity:	
Million gallons per day (MGD)	1.6
Highest Average Daily Flow, FY 2012 - 2013 (MGD)	0.8
Highest Max Daily Flow, FY 2012 - 2013 (MGD)	1.6
Number of Water Supply Resources	17.0
Total Capacity of Water Supply Resources:	
Black Creek & PeeDee Aquifers (MGD)	2.8
Castle Hayne Aquifer (MGD)	9.6

Source: Onslow Water and Sewer Authority Records

**Onslow Water and Sewer Authority**  
**Onslow County, North Carolina Taxable Property Assessed Value**  
**Last Ten Fiscal Years**

Fiscal Year Ended	Residential	Commercial	Industrial	Present-use	Personal	Public Service		Total Taxable	Total	Estimated	Assessed
June 30,	Property	Property	Property	Value (1)	Property	Companies (2)	Exemptions	Assessed	Direct	Actual	Value as a
								Value	Tax	Taxable	Percentage of
									Rate (3)	Value (4)	Actual Value
2005	3,865,901,186	950,881,418	15,551,566	100,508,756	1,101,713,194	162,597,762	35,207,514	6,161,946,368	0.670	6,161,946,368	100%
2006	4,110,064,998	965,711,436	15,662,864	96,658,196	1,245,776,737	176,170,423	34,733,081	6,575,311,573	0.670	6,575,311,573	100%
2007	7,841,821,854	1,133,417,526	23,760,243	125,622,941	1,254,504,194	195,587,024	48,821,245	10,525,892,537	0.503	10,525,892,537	100%
2008	8,369,829,108	1,188,805,228	23,276,253	126,971,941	1,353,919,680	200,800,969	48,599,408	11,215,003,771	0.503	11,215,003,771	100%
2009	8,671,876,229	1,280,097,134	23,384,753	126,876,581	1,417,077,837	211,714,953	56,305,503	11,674,721,984	0.503	11,674,721,984	100%
2010	8,857,276,521	1,367,404,373	24,408,576	130,066,492	1,512,175,299	218,132,906	84,036,122	12,025,428,045	0.590	12,025,428,045	100%
2011	8,891,552,353	1,594,443,809	24,554,930	146,074,040	1,529,407,049	221,310,911	98,526,412	12,308,816,680	0.585	12,308,816,680	100%
2012	9,245,167,973	1,682,814,273	24,394,430	142,138,096	1,568,270,434	235,265,035	105,140,261	12,792,909,980	0.585	12,792,909,980	100%
2013	9,780,653,503	1,774,523,012	24,394,430	143,861,236	1,680,109,281	237,905,066	292,394,369	13,349,052,159	0.585	13,349,052,159	100%
<b>2014</b>	<b>10,235,251,673</b>	<b>1,742,233,183</b>	<b>23,753,560</b>	<b>140,333,245</b>	<b>1,232,945,777</b>	<b>245,936,849</b>	<b>304,430,612</b>	<b>13,316,023,675</b>	<b>0.585</b>	<b>13,316,023,675</b>	<b>100%</b>

Source: Onslow County Tax Office

Notes:

- (1) Present use value property is agricultural, horticultural and forestland for which the owner has applied for the property to be taxed at its present use. The difference in taxes on the present use basis and the taxes that would have been payable are a lien on the property and are deferred. The taxes become due if the property ceases to qualify for present use value. The preceding three fiscal years taxes are then required to be paid.
- (2) Public service companies valuations are provided to the County by the North Carolina Department of Revenue. These amounts include both real and personal property.
- (3) Per \$100 of value.
- (4) The estimated market value is calculated by dividing the assessed value by and assessment-to-sales ratio determined by the State Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (5) Property in Onslow County is reassessed every six to eight years. The last reassessment was on January 1, 2006 and will be the basis for fiscal 2006 taxes.

**Onslow Water and Sewer Authority  
Onslow County, NC Taxable Property Tax Rates  
Direct and Overlapping Governments  
Last Ten Fiscal Years**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Onslow County	0.6700	0.6700	0.5030	0.5030	0.5030	0.5850	0.5850	0.5850	0.5850	<b>0.6750</b>
Municipality rates:										
Holly Ridge	0.5000	0.5000	0.3800	0.3800	0.3800	0.4150	0.4150	0.4150	0.4150	<b>0.4150</b>
Jacksonville	0.5900	0.5900	0.5316	0.6260	0.6260	0.5380	0.5380	0.5380	0.5380	<b>0.6420</b>
North Topsail Beach	0.4500	0.4500	0.1300	0.1600	0.1400	0.2355	0.2355	0.2355	0.3755	<b>0.3932</b>
Richlands	0.4500	0.4500	0.3800	0.3800	0.3800	0.3700	0.3700	0.3700	0.3600	<b>0.3800</b>
Surf City (1)	0.3500	0.3500	0.3100	0.3100	0.3100	0.3100	0.2826	0.3100	0.4100	<b>0.4100</b>
Swansboro	0.3800	0.3800	0.3130	0.3530	0.3930	0.3930	0.3930	0.3930	0.3500	<b>0.3500</b>

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(1) This municipality became a multi-county town through annexation in 1988

Note:

- a. Property was revalued in 2010
- b. For each government, certain motor vehicles were taxed at the preceding year's rates.

Source: Onslow County Tax Administration

**Onslow Water and Sewer Authority**

**Onslow County, North Carolina Property Tax Levies and Collections  
Last Ten Fiscal Years  
(Amounts Expressed in Thousands)**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collections Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy Collected		Amount	Percent of Levy Collected
2005	42,135	40,052	95.06%	373	41,762	99.11%
2006	45,158	42,631	94.40%	502	44,656	98.89%
2007	54,326	51,940	95.61%	317	54,009	99.42%
2008	57,074	54,766	95.96%	302	56,772	99.47%
2009	59,478	56,049	94.23%	413	59,065	99.31%
2010	71,587	66,822	93.34%	506	71,081	99.29%
2011	72,816	69,982	96.11%	554	72,262	99.24%
2012	75,432	72,491	96.10%	840	74,592	98.89%
2013	79,022	75,998	96.17%	1,327	77,695	98.32%
<b>2014</b>	<b>78,566</b>	<b>76,061</b>	<b>96.81%</b>	-	76,061	<b>96.81%</b>

Source: Onslow County Tax Administration.

**Onslow Water and Sewer Authority**

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

Division	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>General and Administrative</b>										
Office of the Executive Director	3	3	3	3	3	3	2	2	2	2
Administration/Human Resources	7	5	5	7	7	10	9	7	9	3
Finance	5	5	5	6	6	6	6	5	3	2
Information Technology Services	6	3	3	3	3	3	3	2	2	1
<b>Operations</b>										
Engineering	13	13	14	15	15	12	11	10	5	-
Meters	14	14	14	15	15	15	16	16	13	-
Distribution	18	24	18	16	16	16	16	18	15	-
Customer Service	15	16	18	13	13	12	13	12	13	-
Facilities Maintenance & Collections	12	8	14	19	19	19	19	19	18	-
Water Treatment	16	16	17	14	14	14	14	15	14	-
Wastewater Treatment	9	9	10	10	10	10	10	9	6	-
Laboratory	4	6	5	4	4	3	3	3	2	-
SCADA	5	5	-	-	-	-	-	-	-	-
<b>Total FTE's</b>	<b>127</b>	<b>127</b>	<b>126</b>	<b>125</b>	<b>125</b>	<b>123</b>	<b>122</b>	<b>118</b>	<b>102</b>	<b>8</b>

(1) ONWASA began operations after July 2004.

**Onslow Water and Sewer Authority  
Principal Employers  
Current Year and Five Years Ago**

	<u>2014</u>		<u>2010</u>	
<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
USMC Base, Camp Lejeune	1000+	1	1000+	1
Onslow County Board of Education	1000+	2	1000+	3
Camp Lejeune Civil Service	1000+	3	1000+	2
Onslow County Government	1000+	4	1000+	5
Onslow Memorial Hospital	1000+	5	1000+	4
Wal-Mart Associates Inc.	1000+	6	500-999	6
Coastal Community College	500-999	7		
Food Lion LLC	500-999	8		
Convergys Customer Mgmt Group	500-999	9	500-999	7
City of Jacksonville	500-999	10	500-999	9
Camp Lejeune Dependent Schools			500-999	10
Coastal Enterprises			500-999	8

Source: Onslow County from NC Employment Security Commission - Workforce In-Depth

**Onslow Water and Sewer Authority**

**Water Processed and Wastewater Treated  
(Thousands of Gallons)  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Water Processed and Pumped to System	Wastewater Treated (1)(2)(3)(4)
2005	2,360,008	
2006	2,615,672	123,243
2007	2,623,799	221,535
2008	2,607,482	189,100
2009	2,690,469	278,444
2010	2,805,070	328,772
2011	3,079,084	254,574
2012	2,961,202	249,062
2013	2,880,760	278,165
<b>2014</b>	<b>2,920,407</b>	<b>282,702</b>

Source: Onslow Water And Sewer Authority's Records

(1) 2007 data only includes 6 months of Swansboro.

(2) 2008 includes one month of Hunter's Creek.

(3) 2010 includes 8 months of Hunter's Creek.

(4) 2013 includes 8 months of Hickory Grove

\*ONWASA began operations after July 2004

**Onslow Water and Sewer Authority  
Operating Indicators by Function/Program  
Last Nine Fiscal Years\***

<b>Function/Program</b>	<b>2014</b>	2013	2012	2011	2010	2009	2008	2007	2006
<b>Administrative</b>									
Number of accounts billed for entire FY	<b>500,787</b>	525,433	444,352	467,981	443,185	428,148	421,718	394,129	368,712
Turn on service orders processed	<b>13,048</b>	17,801	18,708	18,230	18,180	17,652	15,901	14,072	12,445
Percentage actual expenditures to budget	<b>99%</b>	88%	83%	85%	95%	86%	93%	77%	95%
Percentage of safety incidents to employees	<b>2.0%</b>	2.0%	1.2%	1.0%	1.50%	3.20%	2.40%	1.80%	2.00%
Number of ITS helpdesk calls	<b>1000</b>	1000	750	600	625	650	550	490	425
<b>Water</b>									
Number of meters read throughout the year	<b>564,370</b>	544,370	525,404	502,963	476,072	465,069	458,376	432,430	407,437
Number of water line miles maintained	<b>1,147</b>	1,094	1,094	1,060	1,033	1,021	1,000	1,000	1,000
Amount of water from wells to the Dixon/Hubert WPs	<b>2,054,136,000</b>	1,157,239,000	1,628,632,000	1,305,756,457	1,485,360,000	1,372,791,133	1,543,444,694	1,456,079,900	1,509,487
Number of quality control analysis performed	<b>15,000</b>	11,652	13,378	13,131	13,000	11,200	8,460	5,760	3,960
Total number of gallons of water treated at Dixon Water Plant	<b>886,136,000</b>	874,323,000	832,328,000	780,709,078	709,735,526	645,214,115	575,936,685	521,960,000	473,042,000
Number of water quality checks for water treated at Dixon WP	<b>0</b>	0	0	14	12	14	48	47	54
Total number of gallons of water treated at Hubert Water Plant	<b>1,168,000,000</b>	802,726,000	793,447,000	693,535,000	682,674,000	686,668,000	740,581,421	633,143,000	541,291,000
Number of water quality checks for water treated at Hubert WP	<b>0</b>	0	0	66	48	32	96	51	61
<b>Wastewater</b>									
Number of miles maintained by Wastewater Collections	<b>124</b>	124	124	125	120	91	81	67	40
Number of pump stations maintained	<b>64</b>	58	59	59	55	50	37	36	19
Number of million gallons treated at Holly Ridge Wastewater Plant	<b>83,885,000</b>	62,700,170	54,941,050	50,000,000	45,000,000	39,412,022	36,000,000	44,052,000	17,756,169
Total operation cost per thousand gallons treated at Holly Ridge WWTP	<b>\$3.62</b>	\$8.70	\$10.71	\$7.51	\$7.92	\$6.66	\$9.21	\$7.11	\$7.62
Number of million gallons treated at Kenwood Wastewater Plant	<b>9,500,000</b>	18,969,882	10,279,187	15,728,383	15,118,632	14,508,851	9,859,600	12,488,418	N/A
Total operation cost per thousand gallons treated at Kenwood WWTP	<b>\$3.47</b>	\$11.30	\$10.27	\$9.80	\$8.47	\$7.14	\$14.93	\$8.40	N/A
Number of million gallons treated at Richlands Wastewater Plant	<b>76,299,270</b>	80,870,077	65,914,835	64,341,074	53,000,000	55,451,644	122,848,600	84,341,513	N/A
Total operation cost per thousand gallons treated at Richlands WWTP	<b>\$4.02</b>	\$3.30	\$4.11	\$3.26	\$3.70	\$3.40	\$2.09	\$2.14	N/A
Number of million gallons treated at Swansboro Wastewater Plant	<b>108,288,000</b>	108,725,251	89,596,630	95,000,000	88,000,000	85,052,000	93,000,000	45,034,000	N/A
Total operation cost per thousand gallons treated at Swansboro WWTP	<b>\$2.93</b>	\$3.66	\$3.24	\$3.19	\$3.73	\$2.78	\$3.82	\$3.94	N/A

Source: Onslow Water and Sewer Authority departments

\*ONWASA was not in operation in prior years

**Onslow Water and Sewer Authority  
 Operating Indicators by Function/Program  
 Last Nine Fiscal Years\***

<b>Function/Program</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Administrative</b>									
Number of administrative vehicles	18	9	12	10	12	10	10	9	8
Number of buildings maintained	2	2	2	2	2	2	2	2	2
<b>Water</b>									
Number of vehicles maintained for water use	37	39	38	38	48	60	57	53	46
Miles of water lines	1147	1094	1094	1081	1,020	1,020	1,000	1000	950
Number of water treatment plants	2	2	2	2	2	2	2	2	2
<b>Wastewater</b>									
Number of vehicles maintained for wastewater use	14	20	23	28	16	21	18	16	14
Miles of wastewater lines	124	124	124	128	120	83	81	67	35
Number of wastewater treatment plants	7	7	7	7	7	8	5	4	3

Source: Onslow Water and Sewer Authority departments

\*ONWASA was not in operation in prior years

## COMPLIANCE SECTION

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The Compliance Section contains various schedules and Auditor opinions reflecting Federal, State and Local matching participation in various projects and programs of the Authority. The Single Audit Act Amendments of 1996 established audit requirements for State and Local governments that receive Federal assistance. The audit requirements were established to insure that audits are conducted on an organization-wide basis, rather than on a grant-by-grant basis.

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**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

To the Honorable Chairman and  
Members of the Board of Directors  
Onslow Water and Sewer Authority  
Jacksonville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Onslow Water and Sewer Authority, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Onslow Water and Sewer Authority's basic financial statements, and have issued our report thereon dated November 24, 2014.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "McGladrey LLP".

Morehead City, North Carolina  
November 24, 2014



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

**Independent Auditor's Report**

To the Honorable Chairman and  
Members of the Board of Directors  
Onslow Water and Sewer Authority  
Jacksonville, North Carolina

**Report on Compliance for Each Major Federal Program**

We have audited Onslow Water and Sewer Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on Onslow Water and Sewer Authority's major federal programs for the year ended June 30, 2014. Onslow Water and Sewer Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of Onslow Water and Sewer Authority's compliance.

***Opinion on Major Federal Program***

In our opinion, Onslow Water and Sewer Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

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

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

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

### Purpose of this Report

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



Morehead City, North Carolina  
November 24, 2014



**Report on Compliance  
For Each Major State Program  
and on Internal Control Over Compliance in Accordance With  
Applicable Sections of OMB Circular A-133 and the State  
Single Audit Implementation Act**

**Independent Auditor's Report**

To the Honorable Chairman and  
Members of the Board of Directors  
Onslow Water and Sewer Authority  
Jacksonville, North Carolina

**Report on Compliance for its Major State Program**

We have audited Onslow Water and Sewer Authority's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on Onslow Water and Sewer Authority's major state program for the year ended June 30, 2014. Onslow Water and Sewer Authority's major state program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state Program. However, our audit does not provide a legal determination on Onslow Water and Sewer Authority's compliance.

***Opinion on Major State Program***

In our opinion, Onslow Water and Sewer Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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 a 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 first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

This 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 applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purposes.



Morehead City, North Carolina  
November 24, 2014

**Onslow Water and Sewer Authority**

**Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2014**

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**Section 1. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes        X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes        X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes        X   no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ yes        X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes        X   none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

\_\_\_\_\_ yes        X   no

Identification of major federal programs:

<u>CFDA #</u>	<u>Program Name</u>
10.781	Water and Waste Disposal Systems for Rural Communities – ARRA
66.468	Capitalization Grants for Drinking Water State Revolving Loan Funds

(Continued)

**Onslow Water and Sewer Authority**

**Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014**

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Dollar threshold used to distinguish  
between Type A and Type B Programs

\$ 300,000

Auditee qualified as low-risk auditee?

           yes                        X   no

State Awards

Internal control over state program:

• Material weakness(es) identified?

           yes                        X   no

• Significant deficiency(ies) identified?

           yes                        X   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 State Single Audit  
Implementation Act?

           yes                        X   no

Identification of major state program:

Drinking Water State Revolving Loan – state match

**Section 2. Financial Statement Findings**

None

**Section 3. Findings and Questioned Costs for Federal Awards**

None

**Section 4. Findings and Questioned Costs for State Awards**

None

**Onslow Water and Sewer Authority**

**Corrective Action Plan  
For the Fiscal Year Ended June 30, 2014**

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**Section 2. Financial Statement Findings**

No corrective action plan is required for the current year.

**Section 3. Findings and Questioned Costs for Federal Awards**

No corrective action plan is required in the current year.

**Section 3. Findings and Questioned Costs for State Awards**

No corrective action plan is required in the current year.

**Onslow Water and Sewer Authority**

**Summary Schedule of Prior Year Audit Findings  
For the Fiscal Year Ended June 30, 2014**

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There are no prior audit findings (as that term is defined in OMB Circular A-133) that require reporting in the schedule.

**Onslow Water & Sewer Authority**

**Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2014**

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number		Expenditures		
			Federal	State	Local
<b>Federal Awards</b>					
<b>U. S. Department of Agriculture</b>					
Direct Program:					
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	M	\$ 17,487,774	\$ -	\$ -
<b>U. S. Environmental Protection Agency</b>					
Pass through: NC Department of Environment and Natural Resources					
Drinking Water State Revolving Loan	66.468	M	1,937,134	484,283	-
<b>Totals</b>			<b>\$ 19,424,908</b>	<b>\$ 484,283</b>	<b>\$ -</b>

M indicates major program

See Notes to the Schedule of Expenditures of Federal Awards.

## **Onslow Water and Sewer Authority**

### **Notes to the Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2014**

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#### **Note 1. Basis of Presentation**

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

#### **Note 2. Outstanding Loans**

Onslow Water and Sewer Authority has outstanding loan balances from state funding sources that are not required to be presented within the Schedule of Expenditures of Federal and State Awards because there are no continuing requirements beyond repayment of the loan balances in accordance with loan agreement provisions. The outstanding balances of the State of North Carolina Construction Loan and State of North Carolina Dixon Raw Waterline and Well at June 30, 2014 were \$1,566,340 and \$428,982, respectively.

#### **Note 3. Water and Waste Systems Disposal Systems for Rural Communities**

The Authority's Northwest Regional Reclamation Facility construction project is expected to be funded with Water and Waste Systems Disposal Systems for Rural Communities loans and grants. The Authority has received temporary financing through PNC Bank for \$24,541,000 (bond anticipation notes). The Authority can also draw down up to \$9,816,000 in grant monies after the \$24,541,000 has been expended on this project. USDA is expected to refinance the \$24,541,000 after the project is complete and provide the additional grant monies committed, as needed. As such, the Authority has chosen to report the project expenditures during the fiscal year ended June 30, 2014 on its Schedule of Expenditures of Federal Awards and subject the expenditures to compliance testing as it proceeds with the project.