

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

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2015**

Prepared by:

Finance Department of Onslow Water and Sewer Authority

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Onslow Water & Sewer Authority

December 7, 2015

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, 2014 through June 30, 2015 (FY 2015). This report conforms with the reporting and accounting standards of the Governmental Accounting Standards Board ("GASB") 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 138,383 people. Our 49,090 meters makes us the 3rd 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 \$113 million, and the upcoming budget year will be approximately \$126 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 14.0 million gallons per day (MGD); and, the combined Black Creek and PeeDee Aquifers can supply on average an additional 2.8 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 16.2 million gallons and 1,200 miles of water lines serving approximately 138,383 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 146 miles of sewer lines and 67 pump stations to collect and carry the communities' wastewater to one of the four wastewater treatment facilities. The wastewater treatment process and the daily capacity vary for each of the four treatment plants. Holly Ridge Wastewater Treatment Plant (WWTP) can process 0.241 MGD using the lagoon and spray field treatment process. Summerhouse Wastewater Treatment Plant can process 0.400 MGD using biological nutrient removal process. Both of these plants were combined into the Southeast Regional Wastewater Treatment system and offer a combined process of 0.641 MGD. Northwest Regional Water Reclamation Facility (WRF) can process and dispose 1.0 MGD using a Sequential Batch Reactor (SBR) process. Kenwood Wastewater Treatment Plant can process 0.049 MGD using a package plant treatment process. Swansboro's Wastewater Treatment Plant can process 0.600 MGD using activated sludge extended air with tertiary treated effluent. 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 plant, 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 which allows an average flow of .06 MGD to be sent for treatment.

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 of 5.9% is slightly higher than the current state-wide rate of 5.8%. Approximately 1,849 residential permits and 400 commercial building permits were issued by Onslow County in FY14-15. The approximate population of Onslow County in 2014 was 196,612.

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. Sneads Ferry and Holly Ridge are the major areas in the county experiencing residential growth. Commercial growth continues to be strong throughout the county with the opening of several new hotel chains, restaurants and manufacturing plants expanding into Onslow County. Jacksonville continues to expand with many new retailers coming to the area, such as Burlington Outlet store which opened in October 2015. Wal-Mart opened in Richlands in April 2015 and several new restaurants are coming to the area as a result. Wal-Mart continues to expand in other areas with a Wal-Mart Neighborhood Market opening in Jacksonville late 2015 and a Super Wal-Mart in Swansboro late 2015 as well. Gulfstream Steel & Supply, employing approximately 140 people, moved into a former food processing plant in Holly Ridge. Armstrong Marine, a boat manufacturer, in Hubert was awarded a contract to construct three ferries for use in the Hampton Roads area. Onslow County government moved its offices to Burton Park this past year and this will most likely attract additional businesses to the area. Farm Bureau of Onslow County has already relocated to the Burton Park area. Albert J Ellis Airport has recently opened a new airport terminal building, which will be able to accommodate more and larger aircraft, as well as an additional commercial carrier in addition to the current Delta and American Airlines.

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 is currently underway to 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 was 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 was 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 enabled the decommissioning of the Webb Apartments WWTP and the abandonment of 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 abandonment of the Hickory Grove WWTP necessitated 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 also required a new lift station (100 gpm) and 360 linear feet of sewer force main. Both force mains connected to the aforementioned pump stations to the recently constructed 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 was completed in February 2015. Following the completion of the pump stations, the closure of the Hickory Grove treatment lagoon is planned to proceed. It is anticipated that the closure will take 8 months to complete.

Northwest Regional Water Reclamation Facility

The Northwest Regional Water Reclamation Facility (NWRWRF) was constructed to provide additional wastewater treatment capacity to the Northwest region of Onslow County due to capacity issues at the existing 0.25 million gallon per day (MGD) wastewater treatment plant (WWTP). The NWRWRF is a 2 MGD Sequential Batch Reactor (SBR) facility with effluent disposal through four high-rate infiltration basins permitted for 1.27 MGD of disposal capacity. The new facility is constructed and operational and the existing 0.25 MGD Richlands WWTP has been

decommissioned. Substantial completion was achieved on May 1, 2015, however, final completion is still pending due to a few relatively minor outstanding issues.

Dixon Water Treatment Plant Improvements – Reverse Osmosis

To resolve the silica problem at the Dixon Water Treatment Plant (WTP), 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 and they completed their portion of the project in March 2015. Final construction completion date is expected in late 2016.

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 approximately 4 miles 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 November 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 January 2016.

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 currently underway and is anticipated to be completed by December 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 Martin 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 reverse osmosis process. Final completion of Phase 1 of the HWY 50 Wells Project, which entailed only the drilling and testing of these wells, was achieved in August 2015. Testing conducted during Phase 1 construction indicated that Production Well D10 will yield 1,500 gpm or more, and Production Well D11 will likely yield just over 1,300 gpm. These yields are much higher than the anticipated 600 to 800 gpm based on a report by our consultant, GMA, from February 2014. We will likely operate these wells as originally planned at around 800 gpm most of the time, but will certify them for the increased capacities to enable the operational flexibility when additional water is needed during peak demands.

The second phase of the project will include the well site development and the installation of approximately 25,000 LF of 12-inch diameter raw water main. It is anticipated that the construction of the second phase of the project will be complete by late spring 2016, in advance of the peak summer usage period.

Western Onslow Trunk Sewer Main

The purpose of the project is to increase the availability of 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 October 2015. Phase 2 is currently in the design phase and will begin construction in February 2016.

North Topsail Bridge Waterline Replacement

ONWASA currently owns and maintains a 10-inch ductile iron water main that is located on the NC Highway 210 high rise bridge, which provides access over the Intracoastal Waterway to North Topsail Beach. The water main, installed in 1980, is suspended from the eastern section of the bridge utilizing a series of supports and hangers and provides the primary source of potable water for North Topsail Beach. Failure would result in an extensive water outage to the community pending repair or replacement.

Due to prolonged exposure to the environment, the existing water main and associated hanger/support assemblies are exhibiting visible signs of corrosion, and water leaks have occurred due to the deterioration of the joints assemblies and bolts. Subsequently, ONWASA contracted with McKim & Creed in August 2014 to evaluate the water main, expansion connections and hanger assemblies and to prepare a technical report that will include inspection results, evaluation of alternatives to repair or replace the water line and hanger assemblies, a cost for each alternative and a detailed description of the recommended alternative. The

recommended alternative was to replace the waterline with a directionally-drilled water main underneath the Intracoastal Waterway. This project is currently in the design and permitting phase and is anticipated to begin construction in early spring 2016.



Holly Ridge Gravity Sewer Improvements

We recently negotiated a concept design contract with our consultant for this project, Highfill Infrastructure Engineering, Inc. (Highfill) out of Wilmington, to help address suspected gravity sewer grade/sizing issues upstream of the Jenkins Street Pump Station. For this project, Highfill will collect survey data to verify elevations and to design appropriate improvements that will alleviate operational issues within this area of our system. The contract recently negotiated will only involve the preparation of the Engineering Report and Environmental Information Document (ER/EID) as required by the funding agency, the Clean Water State Revolving Fund. The contracts for additional professional services (i.e. design, permitting, construction observation/administration, etc.) will be negotiated in the near future. The anticipated total project cost, including construction, is approximately \$500,000.

Maysville Bypass Project (NCDOT TIP No. R-2514B)

This project will necessitate the relocation of ONWASA's existing 4-inch waterline from just north of the intersection of Springhill Road and Deppe Loop Road along the Highway 17 corridor to a point approximately 4,500 linear feet north, along the west side of Highway 17. ONWASA currently has an existing 8-inch waterline just south of the project corridor, so it was determined to replace the existing 4-inch waterline with a new 8-inch waterline in an effort to improve service in this area and better accommodate potential development in the region. Earlier this year, ONWASA negotiated a reimbursement agreement with NCDOT to cover the cost to increase the size of the waterline. Because we are only paying for the upsizing of this line, we are essentially getting an extension of the existing 8-inch line, already upstream of the project corridor, at a fraction of the cost if were to install this line ourselves. There is also approximately 2,000 linear feet of existing 12-inch waterline along the north side of White Oak River Road that will be relocated as part of this project. The project corridor will become available to the contractor to begin work on October 1, 2015, and the NCDOT project is to be completed by December 2020. The contractor's anticipated timeframe to begin work on ONWASA's waterline relocations is not yet known.

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 24 hours a day and seven days a week. 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

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24 hours a day and 7 days a week 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 2015 Festival of Trees, and 2015 Business Expo in 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.

Credit Ratings

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 16, 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 2015.

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, 2015, 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 ninth Certificate of Achievement for FY 2014 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 Tenth 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, 2015, 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

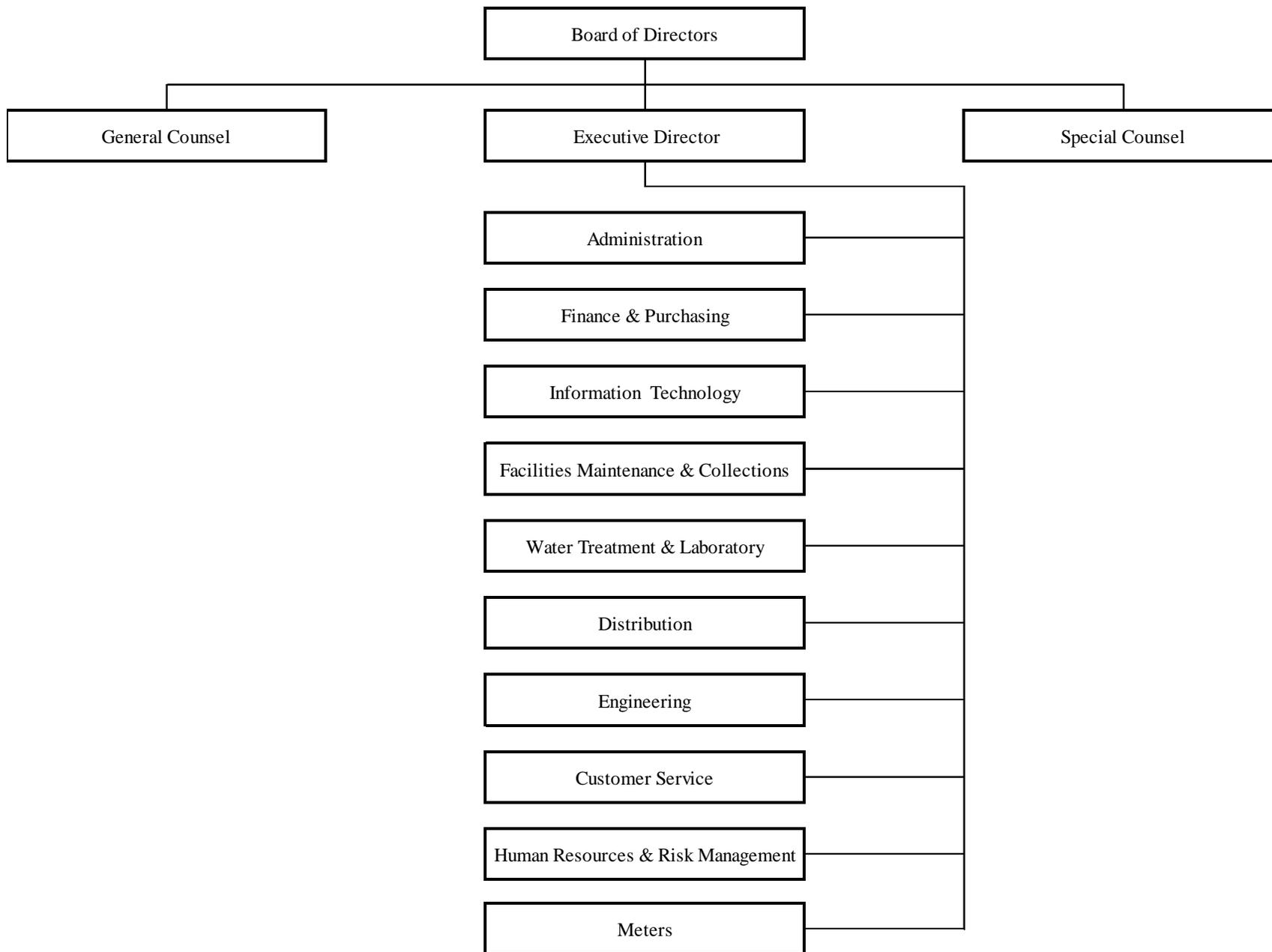
**Onslow Water and Sewer Authority
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

ONWASA Organizational Chart



ONslow WATER AND SEWER AUTHORITY

FISCAL YEAR 2014-2015

OFFICERS

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

BOARD OF DIRECTORS

Member	Appointed By	Term Expiration
Gregory Hines, Councilman	Holly Ridge	2017
WC Jarman, Commissioner	Onslow County	2016
Barbara Ikner, Chairwoman	Onslow County	2016
Paul Conner, Alderman	Richlands	2016
James Allen, Commissioner	Swansboro	2017
Michael Lazzara, Mayor Pro-Tem	Jacksonville	2018
Dan Tuman, Mayor	North Topsail Beach	2015
Jerry Bittner, Councilman	Jacksonville	2016

SENIOR MANAGEMENT TEAM

Billy Joe Farmer, Executive Director
Tiffany Riggs, Finance Director
David Bergman, IT Director
Gail Osbeck, Customer Service Director
Teresa Zavala, Public Affairs Director
Frank Sanders, Interim Engineering Director
Joetta Guist, HR/Administration Services Director
Eddie Caron, Interim Utility Planning Manager
Matthew Padgett, Distribution Superintendent
Seth Brown, Interim Water Production Superintendent

GENERAL COUNSEL

Turrentine Law Firm, PLLC

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, 2015, 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 entity'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 entity'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, 2015, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, in the year ending June 30, 2015, the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement Number 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27*, and Governmental Accounting Standards Board Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions on pages 17 through 22 and pages 51 through 52, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Authority Contributions on pages 53 through 54, 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 introductory section, individual fund schedules, and statistical section listed in the table of contents, as well as the Schedule of Expenditures of Federal and State Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund 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 section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, 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
December 7, 2015

RSM US LLP, an Iowa limited liability partnership, is doing business as McGladrey LLP in the state of North Carolina and is a CPA firm registered with the North Carolina State Board of Certified Public Accountants under the name McGladrey LLP. Rules permitting the use of RSM US LLP have been published in the North Carolina Register and are pending final approval.

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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, 2015. 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 and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$128,601,249.
- The Authority's total net position increased by \$8,451,520 primarily due to contributions from non-related parties during the year ended June 30, 2015.
- The Authority's total long-term debt increased (net of amortized bond premium) by \$26,310,678 (46.8%) 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 plus deferred inflows. 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.

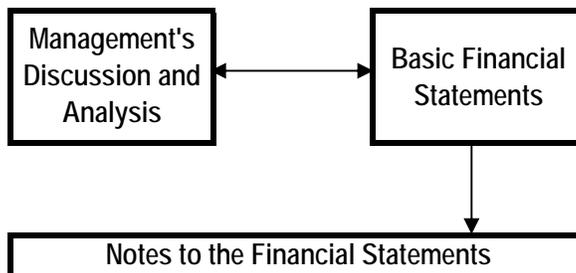
The Statement of Cash Flows deals specifically with the flow of cash and cash equivalents arising from operating, capital, noncapital financing and investing activities. Because the Authority's Statement of Revenues, Expenses and Changes in Net Position is a measurement of the flow of total economic 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 position increased by \$8,451,520 or 7.0%, between June 30, 2014 and June 30, 2015, 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,	
	2015	2014
Current and other assets	\$ 43,589,589	\$ 53,960,333
Capital assets	178,963,674	163,116,120
Total assets	222,553,263	217,076,453
Deferred outflows of resources	491,332	-
Current liabilities	11,255,161	41,480,368
Noncurrent liabilities	81,804,442	54,692,725
Total liabilities	93,059,603	96,173,093
Deferred Inflows of Resources	1,383,743	-
Net Position		
Net investment in capital assets	95,773,968	85,473,214
Restricted by bond order for Replacement Fund	2,504,151	2,504,151
Restricted by bond order for Reserve Fund	2,572,773	2,572,773
Unrestricted	27,750,357	30,353,222
Total net position	\$ 128,601,249	\$ 120,903,360

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, 2015. Total assets have increased approximately \$5.5 million due mainly to contributions from non-related parties and the ongoing construction of capital assets. Current liabilities decreased \$30.1 million due mainly to decreases in current maturities, and for accounts payable for operations and construction. The increase in noncurrent liabilities of \$27

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

million is due to the increase in revenue bonds and construction loans payable. Total net position is up by \$8.5 million from the increase in contributed capital. Also, ONWASA implemented GASB Statement 68 and 71 this year. With the new reporting change, the Authority is allocated its proportionate share of the Local Government Employees' Retirement System net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$753,631. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Onslow Water and Sewer Authority's management.

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 and contributions from non-related parties.

Condensed Statement of Revenues, Expenses and Change in Net Position

Figure 3

	Years Ended June 30,	
	2015	2014
Revenue		
Operating revenue		
Water	\$ 15,519,240	\$ 15,872,861
Waste water	3,278,001	3,003,551
Service initiation fees	738,335	756,809
Miscellaneous income	939,654	861,846
Nonoperating revenue		
Customer impact fees	2,601,426	3,331,097
Interest income	7,823	8,915
Contributions from Jacksonville, NC and NCDOT	946,938	2,006,527
Total revenue	24,031,417	25,841,606
Expenses		
Operating expenses: operations	13,022,290	12,736,842
Operating expenses: general and administrative expenses	1,244,587	1,473,406
Operating expenses: depreciation	4,953,323	4,850,306
Nonoperating expense		
Piney Green project - Jacksonville's portion	3,130,197	-
Interest expense	2,839,651	2,669,841
Total expenses	25,190,048	21,730,395
Increase (decrease) in net position before capital contributions:	(1,158,631)	4,111,211
Capital contributions from non-related parties	1,978,051	1,562,423
Clean Water Management Trust Fund Grant	444,131	-
USDA Rural Development Grant	7,187,969	-
Increase in net position	8,451,520	5,673,634
Net position, July 1	120,903,360	115,229,726
Restatement for accounting change	(753,631)	-
Net position, as restated, July 1	120,149,729	115,229,726
Net position, June 30	\$ 128,601,249	\$ 120,903,360

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

Total operating revenue is down minimally from the prior year because of the decrease water user fees and service initiation fees. Non-operating income decreased \$1.8 million mainly due to a reduction in 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 \$8.5 million.

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

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2015, totals \$178,963,674 (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,	
	2015	2014
Land	\$ 5,854,780	\$ 5,742,106
Other improvements	104,056,037	102,278,974
Buildings	4,466,399	5,329,684
Equipment	976,928	942,543
Vehicles	373,781	226,230
Heavy equipment	90,720	163,339
Construction in progress	63,145,029	48,433,244
Total	\$ 178,963,674	\$ 163,116,120

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, 2015, the Authority had total debt outstanding of \$83,189,706. Revenue bonds which are secured by specified revenue sources total \$75,546,800.

Onslow Water and Sewer Authority's Long-Term Debt

Figure 5

	June 30,	
	2015	2014
Revenue bonds held by bondholders	\$ 75,546,800	\$ 54,202,296
Unamortized revenue bond premium	681,410	731,188
Loans payable	6,961,496	1,995,322
Total	\$ 83,189,706	\$ 56,928,806

The Authority's total net debt has increased by \$26,260,900 (46.1%) during the current fiscal year. The net increase was due to refinancing of bond anticipation notes to revenue bonds of \$24,541,000 by USDA and additional principal of \$5,085,951 from construction loans.

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 2015 totaled \$82 million, up 82% from the year 2006.
- Estimated real estate values have increased at an annual rate of 2% since 2006.
- The population of Onslow County was 196,612 in 2015 up 21% from 2006.
- The per capita income has increased at an annual rate of 6.2% since 2006.
- The unemployment rate at June 30, 2015 was 5.9%.

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, 2016

Fiscal year 2014-2015 was the tenth 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 2016's budget are as follows:

- Increase in personnel salaries due to a 1.5% COLA
- An additional 401k match of 1%, bring the total match to 3%
- No new positions were approved but some positions were reclassified
- No water and sewer rate increases
- Increases in capital and 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, or www.onwasa.com

Basic Financial Statements

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Onslow Water and Sewer Authority

Statement of Net Position

June 30, 2015

Assets	
Current assets	
Cash and cash equivalents (Note 2)	\$ 31,847,064
Receivables, net (Note 3)	3,721,552
Inventories	449,166
Total current assets	<u>36,017,782</u>
Noncurrent assets	
Cash and cash equivalents designated for capital reserve fund	762,759
Restricted cash and cash equivalents under bond order	5,076,924
Restricted net pension asset (Note 5)	567,748
Certificate of deposit (Note 2)	1,000,000
Bond insurance, net of amortization	164,376
Capital assets (Note 4):	
Land and nondepreciable assets	68,999,809
Other capital assets, net of accumulated depreciation	109,963,865
Total capital assets	<u>178,963,674</u>
Total noncurrent assets	<u>186,535,481</u>
Total assets	<u>222,553,263</u>
 Deferred Outflows of Resources (Note 5)	 <u>491,332</u>
Liabilities	
Current liabilities	
Current maturities of long-term debt (Note 8)	2,757,971
Accrued interest payable	251,824
Customer deposits	3,810,420
Accounts payable and accrued liabilities, operations	1,411,207
Accounts payable, construction	2,039,413
Retainage payable	984,326
Total current liabilities	<u>11,255,161</u>
Long-term Liabilities	
Revenue bonds and construction loan payable (Note 8)	80,431,735
Other postemployment benefits (Notes 6 and 8)	1,372,707
Total long-term liabilities	<u>81,804,442</u>
Total liabilities	<u>93,059,603</u>

(Continued)

Onslow Water and Sewer Authority

Statement of Net Position (Continued)

June 30, 2015

Deferred Inflows of Resources

Pension deferrals (Note 5)

1,383,743

Total deferred inflows of resources

1,383,743

Commitments and contingencies (Notes 4, 5, 6, 8 and 10)

Net Position

Net investment in capital assets

\$ 95,773,968

Restricted by bond order for Replacement Fund

2,504,151

Restricted by bond order for Reserve Fund

2,572,773

Unrestricted

27,750,357

Total net position

\$ 128,601,249

Onslow Water and Sewer Authority

Statement of Revenue, Expenses and Changes in Net Position

For the Year Ended June 30, 2015

(Page 1 of 2)

Operating revenue (Note 8)	
Water	\$ 15,519,240
Waste water	3,278,001
Service initiation fees	738,335
Miscellaneous income	939,654
Total operating revenue	<u>20,475,230</u>
Operating expenses (Note 8)	
Hubert water treatment plant	1,366,700
Dixon water treatment plant	917,126
Meters	897,641
Distribution	1,359,140
Facilities maintenance & collections	1,280,361
Kenwood wastewater plant	26,128
Northwest Regional water reclamation facility	377,653
Southeast Regional wastewater plant	265,688
Swansboro wastewater plant	333,367
SCADA	249,006
Hickory Grove wastewater plant	1,702
Webb wastewater plant	15,023
General and administrative	1,244,587
Information technology services	811,267
Engineering	885,832
Customer service and billing	1,339,446
Laboratory	383,092
Water and wastewater purchases	514,076
Nondepartmental	567,576
Repairs and maintenance	1,431,467
Depreciation	4,953,323
Total operating expenses	<u>19,220,201</u>
Operating income	<u>1,255,029</u>
Nonoperating revenue (expense)	
Customer impact fees	2,601,426
Contributions from Jacksonville, NC for Piney Green project	946,938
Piney Green project - Jacksonville's portion	(3,130,196)
Interest income	7,823
Interest expense	(2,839,651)
Total nonoperating revenue (expense)	<u>(2,413,660)</u>
Loss before capital contributions	<u>(1,158,631)</u>

(Continued)

Onslow Water and Sewer Authority

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

For the Year Ended June 30, 2015

(Page 2 of 2)

Capital contributions from non-related parties	\$ 1,978,051
Clean Water Management Trust Fund Grant	444,131
USDA Rural Development Grant	<u>7,187,969</u>
Increase in net position	8,451,520
Net position	
Beginning	120,903,360
Restatement for accounting change-Note 13	<u>(753,631)</u>
Beginning of year, as restated	<u>120,149,729</u>
Ending	<u><u>\$ 128,601,249</u></u>

See Notes to Financial Statements.

Onslow Water and Sewer Authority

Statement of Cash Flows
 For the Year Ended June 30, 2015
 (Page 1 of 2)

<hr/>	
Cash Flows From Operating Activities	
Cash received from customers	\$ 19,353,273
Cash paid for goods and services	(6,628,494)
Cash paid to or on behalf of employees for services	(7,847,919)
Miscellaneous income	939,654
Net cash provided by operating activities	<u>5,816,514</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(27,284,053)
Debt issued	29,626,951
Principal paid on debt	(27,857,273)
Interest paid on capital debt	(2,803,711)
Net cash used in capital and related financing activities	<u>(28,318,086)</u>
Cash Flows From Noncapital and Related Financing Activities	
USDA Rural Development Grant	7,187,969
Clean Water Management Trust Fund Grant	444,131
Contributions from Jacksonville, NC	934,504
Customer impact fees	2,601,426
Net cash provided by noncapital and related financing activities	<u>11,168,030</u>
Cash Flows From Investing Activities	
Interest	7,823
Net cash provided by investing activities	<u>7,823</u>
Net decrease in cash and cash equivalents	(11,325,719)
Cash and Cash Equivalents:	
Balances, beginning	49,012,466
Balances, ending	<u>\$ 37,686,747</u>
Reconciliation to statement of net position:	
Cash and cash equivalents	\$ 31,847,064
Restricted cash and cash equivalents	5,839,683
Total cash and cash equivalents	<u>\$ 37,686,747</u>

(Continued)

Onslow Water and Sewer Authority

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2015

(Page 2 of 2)

Reconciliation of Operating Income to Net Cash	
Provided By Operating Activities	
Operating income	\$ 1,255,029
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,953,323
Pension expense	62,364
Changes in assets and liabilities:	
Increase in receivables, net	(335,116)
Increase in inventory	(48,810)
Increase in accounts payable and accrued liabilities, operating	268,243
Increase in deferred outflows of resources	(491,332)
Increase in customer deposits	152,813
Total adjustments	<u>4,561,485</u>
Net cash provided by operating activities	<u>\$ 5,816,514</u>
Supplemental Schedule of Noncash Activities	
Decrease in construction and retainage payable	<u>\$ (5,290,386)</u>
Non-cash capital contributions	<u>\$ 1,978,051</u>

See Notes to Financial Statements.

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 tenth 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. |

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 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, 2015 totaled \$2,572,773.

The Authority's Series 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, 2015 totaled \$2,504,151.

Inventories

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

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 \$1,978,051 for the year ended June 30, 2015.

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. Interest of \$117,361 was capitalized during the year ending June 30, 2015.

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>
Buildings and other improvements	2 - 50
Equipment, heavy equipment, and vehicles	3 - 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 net 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, contributions made to the pension plan in 2015 fiscal year. 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 has one item that meets the criterion for this category - deferrals of pension expense that result from the implementation of GASB statement 68.

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 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 2004B Revenue Bonds required certain monies to be segregated to help ensure sufficient monies are available 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 (the Replacement Fund). Additionally, monies in this fund can be used for certain transfers or payment of certain indebtedness. 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.

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, 2015 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 126 full-time employees as of June 30, 2015. Accrued vacation at year end totaled \$428,354 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.

Pension

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

Note 2. Cash, Cash Equivalents and Investments

At June 30, 2015, 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

Onslow Water and Sewer Authority

Notes to Financial Statements

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

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.

At June 30, 2015, the carrying amount of the Authority deposits, including a certificate of deposit of \$1,000,000, was \$1,758,220 and the bank balance was \$1,920,993. Of the bank balance, \$509,169 was covered by FDIC insurance and \$1,411,824 was collateralized using the Pooling Method. At June 30, 2015, the Authority's petty cash fund totaled \$400.

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, 2015, the Authority had \$36,928,127 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, 2015 are as follows:

Sales tax receivables	\$	860,430
Accounts receivable - customers		1,437,779
Unbilled receivable - customers		1,519,142
Accounts receivable Other - City of Jacksonville		282,219
Total receivables		4,099,570
Allowance for doubtful accounts		(378,018)
Total receivables, net of allowance	\$	3,721,552

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, 2015. Current depreciation expense was \$4,953,323. The Authority and the City of Jacksonville entered into an interlocal cooperation agreement to construct the Piney Green Trunk Line in January 2012. This project was completed this fiscal year and the City's portion of \$3,130,196 was removed from construction in progress and transferred to the City.

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 5,742,106	\$ 112,674	\$ -	\$ 5,854,780
Construction in progress	48,433,244	21,242,739	6,530,954	63,145,029
Total capital assets not being depreciated	54,175,350	21,355,413	6,530,954	68,999,809
Capital assets being depreciated:				
Other improvements	152,707,331	5,360,848	-	158,068,179
Buildings	14,322,811	-	2,439,610	11,883,201
Equipment	3,930,656	372,013	196,169	4,106,500
Vehicles	1,962,754	243,557	213,737	1,992,574
Heavy equipment	1,228,077	-	-	1,228,077
Total capital assets being depreciated	174,151,629	5,976,418	2,849,516	177,278,531
Less accumulated depreciation for:				
Other improvements	50,428,357	3,583,785	-	54,012,142
Buildings	8,993,127	863,286	2,439,610	7,416,803
Equipment	2,988,113	337,626	196,169	3,129,570
Vehicles	1,736,524	96,007	213,737	1,618,794
Heavy equipment	1,064,738	72,619	-	1,137,357
Total accumulated depreciation	65,210,859	4,953,323	2,849,516	67,314,666
Total capital assets being depreciated, net	108,940,770			109,963,865
Capital assets, net	<u>\$ 163,116,120</u>			<u>\$ 178,963,674</u>

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 4. Capital Assets (Continued)

Construction/Engineering Commitments

The Authority has active construction/engineering projects as of June 30, 2015:

Construction commitments

Project	Spent-to-date	Remaining Commitment
Northwest Regional WRF	\$ 43,539,219	\$ 315,589
Dixon Reverse Osmosis	3,792,044	527,436
HWY 53 Waterline	2,617,169	484,601
Union Chapel WTP	871,418	225,117
Summerhouse/Stump Sound	3,067,895	343,227
Western Onslow Trunk Sewer Phase I & II	4,462,623	1,523,169
HWY 50 Wells	354,835	335,269
Piney Green Phase 2 Elimination of Hickory Grove WWTP and Webb Apartments WWTP	984,452	77,366
	<u>\$ 59,689,655</u>	<u>\$ 3,831,774</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 issued revenue bonds 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. 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 is a participating employer in the statewide Local Governmental Employees' Retirement System ("LGERS"), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex officio members. The 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Note 5. Pension Plan Obligations (Continued)

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Authority's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2015, was 8.46% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$469,929 for the year ended June 30, 2015.

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

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 5. Pension Plan Obligations (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Authority reported an asset of \$567,748 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension asset was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Authority's proportion was .09627%, which was an increase of .00217% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Authority recognized pension income of \$428,968. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 62,037
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,321,706
Changes in proportion and differences between Authority contributions and proportionate share of contributions	21,403	-
Authority contributions subsequent to the measurement date	469,929	-
Total	<u>\$ 491,332</u>	<u>\$ 1,383,743</u>

\$469,929 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (340,610)
2017	(340,610)
2018	(340,610)
2019	(340,510)
2020	-
Thereafter	-

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 5. Pension Plan Obligations (Continued)

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

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100.00%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 5. Pension Plan Obligations (Continued)

are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

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

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Authority's proportionate share of the net pension liability (asset)	\$ 1,927,185	\$ (567,748)	\$ (2,668,402)

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

Supplemental Retirement Income Plan

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, 2015, were \$255,002, which consisted of \$93,166 from the Authority and \$161,836 from the employees.

Onslow Water and Sewer Authority

Notes to Financial Statements

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, 2015, 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, 2015, the Authority paid \$30,207 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 contributions totaled \$30,207 in fiscal year 2015. The Authority's obligation to contribute to the plan is established and may be amended by the Authority's Board.

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.

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 6. Other Postemployment Benefits (Continued)

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	\$ 292,514
Interest on net OPEB obligation	43,208
Adjustment to annual required contribution	(13,001)
Annual OPEB cost (expense)	<u>322,721</u>
Contribution made	(30,207)
Increase (decrease) in net OPEB obligation	<u>292,514</u>
Net OPEB obligation, beginning of year	1,080,193
Net OPEB obligation, end of year	<u><u>\$ 1,372,707</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2015, 2014 and 2013 were as follows:

For Year Ended June 30	Three Year Trend		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$322,721	5.70%	\$1,372,707
2014	\$260,701	6.69%	\$1,080,193
2013	\$249,622	2.55%	\$836,925

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 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.

Note 6. Other Postemployment Benefits (Continued)

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

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2015 is summarized as follows:

	Balance July 1, 2014	Principal Increases	Principal Decreases	Premium Amortized	Balance June 30, 2015	Current Portion of Balance
Revenue Bonds	\$ 54,202,296	\$ 24,541,000	\$ 3,196,496	\$ -	\$ 75,546,800	\$ 2,383,896
Construction Loans	1,995,322	5,085,951	119,777	-	6,961,496	374,075
Unamortized Premiums	731,188	-	-	49,778	681,410	-
Bond Anticipation Notes	24,541,000	-	24,541,000	-	-	-
Net Pension Liability (LIGERS)	1,134,266	-	1,134,266	-	-	-
Other Postemployment Benefits	1,080,193	292,514	-	-	1,372,707	-
Totals	\$ 83,684,265	\$ 29,919,465	\$ 28,991,539	\$ 49,778	\$ 84,562,413	\$ 2,757,971

Revenue Bonds

\$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.

\$9,000,000, \$8,000,000, and \$7,541,000 Water and Sewer System Revenue Bonds, Series 2014A, 2014B, and 2014C, respectively were issued December 16, 2014 by USDA to fund Northwest Regional Waste Water Treatment Plant. These bonds were issued to replace the bond anticipation notes of the same amount. Principal installments are due annually beginning on June 1, 2017 at the rate of 2.375%. 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 B		2006		2008 A and B		2014 A, B, and C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 695,000	\$ 658,344	\$ 348,556	\$ 109,503	\$ 1,340,340	\$ 1,634,714	\$ -	\$ 582,849	\$ 2,383,896	\$ 2,985,410
2017	730,000	623,594	362,428	95,630	1,409,827	1,568,227	404,000	582,849	2,906,255	2,870,300
2018	770,000	587,094	376,853	81,206	1,479,763	1,498,290	414,000	573,254	3,040,616	2,739,844
2019	805,000	548,594	391,852	66,207	1,550,170	1,424,884	424,000	563,421	3,171,022	2,603,106
2020	850,000	508,344	407,447	50,611	1,626,069	1,347,984	434,000	553,351	3,317,516	2,460,290
2021-2025	4,915,000	1,861,470	864,189	51,928	9,297,783	5,581,060	2,332,000	2,607,038	17,408,972	10,101,496
2026-2030	4,855,000	564,701	-	-	10,810,523	3,350,000	2,622,000	2,316,670	18,287,523	6,231,371
2031-2054	-	-	-	-	7,120,000	124,500	17,911,000	5,794,382	25,031,000	5,918,882
Total	13,620,000	\$ 5,352,141	2,751,325	\$ 455,085	34,634,475	\$ 16,529,659	24,541,000	\$ 13,573,814	75,546,800	35,910,699
Unamortized bond premium	112,998	-	-	-	568,412	-	-	-	681,410	-
Net carrying value	<u>\$ 13,732,998</u>		<u>\$ 2,751,325</u>		<u>\$ 35,202,887</u>		<u>\$ 24,541,000</u>		<u>\$ 76,228,210</u>	

Construction Loans Payable

The Authority has a \$1,471,067 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 \$404,461 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 Authority has a \$5,585,276 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%. As of June 30, 2015, \$3,836,932 has been drawn from the \$5,585,276 of available funds and is repayable to the State. The total remaining funds available for use is \$1,748,344.

The Authority has a \$1,895,618 construction loan payable to the State of North Carolina to finance the Summerhouse WWTP Rehab Project, 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%. As of June 30, 2015, \$1,249,019 has been drawn from the \$1,895,618 of available funds and is repayable to the State. The total remaining funds available for use is \$646,599.

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 374,075	\$ 36,482	\$ 410,557
2017	374,075	34,120	408,195
2018	374,075	31,757	405,832
2019	374,075	29,394	403,469
2020	374,075	27,031	401,106
2021-2025	1,870,375	99,716	1,970,091
2026-2030	1,870,375	40,647	1,911,022
2031-2035	1,350,371	1,562	1,351,933
	\$ 6,961,496	\$ 300,709	\$ 7,262,205

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, 2015.

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, 2015. The debt service coverage ratio calculation for the fiscal year ended June 30, 2015 is as follows:

Operating revenues	\$ 20,475,230
Operating expenses (1)	14,266,878
Operating income	6,208,352
Non-operating revenues (expenses)	
Interest income	7,823
Miscellaneous revenue (2)	2,601,426
Income available for debt service	\$ 8,817,601
Revenue bond and construction loan debt service	\$ 6,119,984
Revenue bond and construction loan debt service coverage ratio	1.44

(1) excludes depreciation of \$4,953,323

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

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 9. Pending GASB Statements

The GASB has issued several pronouncements prior to June 30, 2015 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 72, "Fair Value Measurement and Application" will be effective for the Authority beginning with its year ending June 30, 2016.

GASB Statement Number 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68" will be effective for the Authority beginning with its year ending June 30, 2017.

GASB Statement Number 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", will be effective for the Authority beginning with its year ending June 30, 2017.

GASB Statement Number 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," will be effective for the Authority beginning with its year ending June 30, 2018.

GASB Statements Nos. 74 and 75 parallel the pension standards issued in 2012—GASB Statement No. 67, Financial Reporting for Pension Plans, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Together, the pension and OPEB standards provide consistent and comprehensive guidance for all postemployment benefits.

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, 2015.

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

Note 12. Subsequent Events

During the fiscal year ended June 30, 2015, the Authority was approved for loan assistance from the Clean Water State Revolving Fund in the amount of \$2,063,600 to fund the Western Onslow Trunk Sewer Phase II Project. As of the date of this report, the project has not gone out for bid and no loan drawdowns have occurred.

Note 13. Change in Accounting Principles/Restatement

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*, in the fiscal year ending June 30, 2015. The implementation of these statements required the Authority to record beginning net pension liability and the effects on net position of contributions made by the Authority during the measurement period (fiscal year ending June 30, 2014). As a result, beginning net position decreased by \$753,631.

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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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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

Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2015	\$292,514	5.70%
2014	\$250,566	6.96%
2013	\$174,015	2.55%

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 Authority's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Two Fiscal Years ***

Local Government Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset) %	0.0963%	0.0941%
Authority's proportionate share of the net pension liability (asset) \$	\$ (567,748)	\$ 1,134,266
Authority's covered-employee payroll	\$ 5,383,806	\$ 5,221,548
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(10.55%)	21.72%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

Onslow Water and Sewer Authority

**Schedule of Authority's Contributions
Required Supplementary Information
Last 2 Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 469,929	\$ 380,635
Contributions in relation to the contractually required	469,929	380,635
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 5,554,704	\$ 5,383,806
Contributions as a percentage of covered-employee	8.46%	7.07%

Onslow Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund
 For Year Ended June 30, 2015
 (Page 1 of 2)

	Final Budget	Actual	Variance With Final Budget
Operating revenues			
Water		\$ 15,504,562	
Waste water		3,284,568	
Service initiation fees		738,335	
Miscellaneous revenue		939,654	
Total operating revenues	\$ 20,684,291	20,467,119	\$ (217,172)
Nonoperating revenues			
Customer impact fees		2,601,426	
Interest income		7,250	
Total nonoperating revenues	2,650,000	2,608,676	(41,324)
Total revenues	23,334,291	23,075,795	(258,496)
Expenditures			
Water Divisions			
Hubert water treatment plant		1,594,221	
Dixon water treatment plant		1,021,805	
Meters		1,194,271	
Distribution		1,640,511	
Facilities maintenance & collections		1,703,992	
Total Water Divisions	8,112,848	7,154,800	958,048
Sewer Divisions			
Kenwood wastewater plant		28,711	
Northwest Regional water reclamation facility		386,676	
Southeast Regional wastewater plant		302,596	
Swansboro wastewater plant		379,626	
Hickory Grove wastewater plant		1,702	
Webb wastewater plant		16,025	
Total Sewer Divisions	1,480,559	1,115,336	365,223
Administrative Divisions			
General and administration		1,664,856	
Information technology services		808,467	
Engineering		889,222	
Customer service		1,347,765	
Laboratory		387,296	
Water & wastewater purchases		514,076	
SCADA		248,005	
Nondepartmental		567,576	
Total Administrative Divisions	7,578,245	6,427,263	1,150,982

(Continued)

Onslow Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund
 For Year Ended June 30, 2015
 (Page 2 of 2)

	Final Budget	Actual	Variance With Final Budget
Capital outlay	\$ 1,017,302	\$ 711,733	\$ 305,569
Total operating expenditures	<u>18,188,954</u>	<u>15,409,132</u>	<u>2,779,822</u>
Debt service			
Principal		3,316,273	
Interest		2,853,487	
Total debt service	<u>6,198,303</u>	<u>6,169,760</u>	<u>28,543</u>
Capital contributions			
Contributions from non-related parties		1,978,051	
Total capital contributions	<u>-</u>	<u>1,978,051</u>	<u>1,978,051</u>
Other financing sources (uses)			
Transfer (out)			
To Capital Fund Expansion Projects	(2,425,000)	-	2,425,000
Contingency for salaries	(16,390)	-	16,390
Appropriated fund balance	3,494,356	-	(3,494,356)
Total financing sources (uses)	<u>1,052,966</u>	<u>-</u>	<u>(1,052,966)</u>
Revenue and other financing sources over other financing uses	<u>\$ -</u>	<u>3,474,954</u>	<u>\$ 3,474,954</u>
Reconciliation of modified accrual to full accrual basis			
Depreciation		(4,953,323)	
Capital outlay		711,733	
Adjust for doubtful accounts		3,713	
Adjust for unbilled services		4,396	
Interest earned - Capital projects		573	
Accrued interest income		0	
Accrued interest expense		(35,941)	
Accrued vacation		1,555	
Pension expense		(62,364)	
Contributions to the pension plan in the current year		491,332	
Bond premium		49,777	
Piney Green project - Jacksonville's portion		(3,130,196)	
Principal payment on bonded debt		3,316,273	
Non-capitalized revenue in the capital project funds		8,579,038	
Increase in net assets		<u>\$ 8,451,520</u>	

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, 2015

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue				
Union Chapel WTP	\$ 3,310,000	\$ -	\$ -	\$ -
Clean Water Trust Grant	600,000	-	444,131	444,131
Total revenue	3,910,000	-	444,131	444,131
Expenditures				
Piney Green Sewer Phase 2	1,158,790	94,509	889,943	984,452
Dixon Reverse Osmosis	6,167,615	2,421,417	1,370,627	3,792,044
Summerhouse WWTP Rehab Project	4,131,060	184,023	2,883,872	3,067,895
Regional Aquifer Study	125,000	50,767	10,316	61,083
Union Chapel WTP	4,285,830	747,265	124,153	871,418
Total expenditures	15,868,295	3,497,981	5,278,911	8,776,892
Revenue under expenditures	(11,958,295)	(3,497,981)	(4,834,780)	(8,332,761)
Other financing sources				
Transfer from operating fund	1,697,620	1,887,620	-	1,887,620
Debt issued	10,260,675	-	5,085,951	5,085,951
Total other financing sources	11,958,295	1,887,620	5,085,951	6,973,571
Revenue and other financing sources over (under) expenditures	\$ -	\$ (1,610,361)	\$ 251,171	\$ (1,359,190)

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, 2015

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue				
City of Jacksonville	\$ 6,000,000	\$ 2,183,259	\$ 946,938	\$ 3,130,197
USDA Grant	9,816,000	-	7,187,969	7,187,969
Interest earnings	-	939,869	573	940,442
Total revenue	15,816,000	3,123,128	8,135,480	11,258,608
Expenditures				
Northwest Regional Reclamation Facility	-	35,992,822	7,546,397	43,539,219
Piney Green Phase 3	-	4,623,071	1,907,883	6,530,954
Hwy 53 Waterline	-	426,405	2,190,764	2,617,169
Hwy 50 Wells	-	155,901	198,934	354,835
Western Onslow Trunk Sewer	-	347,207	4,115,416	4,462,623
Capitalizable interest	-	3,394,574	-	3,394,574
Total expenditures	77,225,226	44,939,980	15,959,394	60,899,374
Revenue under expenditures	(61,409,226)	(41,816,852)	(7,823,914)	(49,640,766)
Other financing sources (uses)				
Transfer from operating fund	5,911,000	5,911,000	-	5,911,000
Debt issued	53,397,226	38,507,223	-	38,507,223
Fund balance appropriated	2,101,000	-	-	-
Transfer to operating fund	-	(3,678,117)	-	(3,678,117)
Total other financing sources	61,409,226	40,740,106	-	40,740,106
Revenue and other financing sources over (under) expenditures	\$ -	\$ (1,076,746)	\$ (7,823,914)	\$ (8,900,660)

Statistical Section

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Statistical Section (Unaudited)

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 Taxable Property Assessed Value
- Onslow County, NC Taxable Property Tax Rates
- Onslow County, NC Property Tax Levies and Collections
- 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

Sources:

Unless otherwise noted, the information included in these schedules and charts is derived for the

Onslow Water and Sewer Authority

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

	2015	2014	2013	2012
Investment in Capital Assets	\$ 95,773,968	\$ 85,473,214	\$ 80,685,811	\$ 73,139,306
Restricted by bond order for Replacement Fund	2,504,151	2,504,151	2,504,151	2,504,151
Restricted by bond order for Reserve Fund	2,572,773	2,572,773	2,572,773	2,572,773
Unrestricted	27,750,357	30,353,222	29,466,991	22,362,656
Total net position	<u>\$ 128,601,249</u>	<u>\$ 120,903,360</u>	<u>\$ 115,229,726</u>	<u>\$ 100,578,886</u>

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

Fiscal Year					
2011	2010	2009	2008	2007	2006
\$ 58,404,315	\$ 56,888,432	\$ 62,104,115	\$ 34,239,204	\$ 28,140,597	\$ 30,078,675
2,504,151	2,504,151	2,504,151	2,504,151	2,504,151	2,504,151
2,572,773	2,572,773	2,572,773	2,572,773	2,572,773	2,572,773
25,776,925	22,123,603	13,406,385	18,591,929	15,815,904	10,832,196
<u>\$ 89,258,164</u>	<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>

Onslow Water and Sewer Authority

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

	2015	2014	2013	2012
Operating revenue				
Water	\$ 15,519,240	\$ 15,872,861	\$ 15,279,458	\$ 14,914,720
Wastewater	3,278,001	3,003,551	2,812,169	2,678,748
Service initiation fees	738,335	756,809	898,153	941,220
Miscellaneous income	939,654	861,846	1,409,428	1,261,700
Total operating revenue	20,475,230	20,495,067	20,399,208	19,796,388
Operating expenses				
Hubert water treatment plant	1,366,700	1,164,330	1,120,024	1,125,146
Dixon water treatment plant	917,126	1,064,154	1,207,929	1,125,585
Meters	897,641	864,512	767,628	798,755
Distribution	1,359,140	1,423,647	1,742,693	1,634,377
Water distribution	-	-	-	-
Facilities maintenance & collections	1,280,361	1,158,615	807,425	496,891
SCADA	249,006	232,565	194,461	-
Kenwood wastewater plant	26,128	25,850	34,461	112,256
Northwest Regional water reclamation facility	377,653	303,136	270,234	186,316
Richlands and Kenwood wastewater plants	-	-	-	-
Southeast wastewater plants	265,688	256,716	281,633	289,193
Swansboro wastewater plant	333,367	286,482	286,924	267,711
Hunter's Creek wastewater plant	-	-	-	-
Springdale wastewater plant	-	-	-	73,993
Hickory Grove wastewater plant	1,702	2,434	2,278	7,953
Webb wastewater plant	15,023	14,116	13,190	927
General administrative and finance	1,244,587	1,473,406	1,450,621	1,259,345
Information technology services	811,267	788,583	549,940	480,766
Engineering	885,832	884,282	933,908	1,271,383
Customer service & billing	1,339,446	1,297,398	1,272,172	1,320,445
Waste water collections	-	-	-	-
Laboratory	383,092	366,835	453,140	391,072
Nondepartmental	567,576	605,482	606,567	538,665
Water & wastewater purchases	514,076	439,056	464,302	576,370
Repairs and maintenance	1,431,467	1,558,649	1,408,218	1,543,784
Impairment of capital assets	-	-	-	-
Depreciation	4,953,323	4,850,306	4,887,460	4,611,710
Total operating expenses	19,220,201	19,060,554	18,755,208	18,112,643
Operating income (loss)	1,255,029	1,434,513	1,644,000	1,683,745

(Continued)

		Fiscal Year									
		2011	2010	2009	2008	2007	2006				
\$	15,274,164	\$	14,527,600	\$	12,764,795	\$	12,624,769	\$	9,455,643	\$	8,735,056
	2,530,105		2,451,995		2,043,536		1,399,518		799,800		372,110
	920,549		664,518		478,984		532,824		1,554,912		681,201
	1,000,969		735,566		613,928		621,765		447,679		404,203
	19,725,787		18,379,679		15,901,243		15,178,876		12,258,034		10,192,570
	1,356,395		831,538		845,621		730,041		958,808		518,577
	993,899		906,118		802,318		772,721		838,899		502,930
	1,083,491		1,030,833		991,808		959,891		747,161		505,816
	1,388,779		-		-		-		-		-
	426,876		1,066,327		1,068,802		1,116,741		1,052,820		921,762
	435,198		916,023		1,076,869		988,468		1,411,028		1,549,091
	90,153		230,453		231,776		227,324		-		-
	118,270		134,292		154,098		109,833		107,282		-
	200,240		177,644		199,111		221,839		221,941		-
	-		-		-		-		-		441,917
	288,383		266,176		261,370		304,500		260,783		135,258
	252,334		354,982		257,137		289,465		183,670		-
	-		70,426		138,860		9,504		-		-
	84,048		60,671		93,108		-		-		-
	10,441		5,367		1,984		-		-		-
	-		-		-		-		-		-
	1,419,801		1,606,485		1,853,631		1,717,986		1,972,342		1,640,669
	458,527		390,407		387,816		318,692		276,858		233,123
	1,099,745		1,090,983		706,401		620,083		438,515		459,968
	1,217,398		908,710		914,335		833,921		847,019		897,854
	330,307		753,767		735,511		464,490		365,566		-
	353,857		307,527		287,835		265,540		265,101		300,634
	705,802		672,712		597,903		658,067		542,089		517,552
	688,189		98,263		-		-		-		-
	-		-		-		-		-		-
	-		2,207,744		-		-		-		-
	4,457,013		4,213,579		3,476,174		2,940,191		2,752,536		2,589,471
	17,459,146		18,301,027		15,082,468		13,549,297		13,242,418		11,214,622
	2,266,641		78,652		818,775		1,629,579		(984,384)		(1,022,052)

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

	2015	2014	2013	2012
Nonoperating revenue (expense)				
Customer impact fees	\$ 2,601,426	\$ 3,331,097	\$ 4,576,500	\$ 4,595,674
Interest income	7,823	8,915	29,935	41,669
Interest expense	(2,839,651)	(2,669,841)	(3,010,777)	(2,959,753)
Amortization	-	-	-	(41,609)
Piney Green project - Jacksonville's portion	(3,130,196)	-	-	-
Contributions from non-related parties	946,938	2,006,527	8,323,474	51,375
Total nonoperating revenue	(2,413,660)	2,676,698	9,919,132	1,687,356
Income before capital contributions	(1,158,631)	4,111,211	11,563,132	3,371,101
Clean Water Management Trust Fund Grant	444,131	-	-	-
USDA Rural Development Grant	7,187,969	-	-	-
Capital contributions from member governments	-	-	-	-
Capital contributions from non-related parties	1,978,051	1,562,423	3,087,708	7,949,621
Increase in net assets	8,451,520	5,673,634	14,650,840	11,320,722
Net assets				
Beginning	120,903,360	115,229,726	100,578,886	89,258,164
Restatement for accounting change - Note 12	(753,631)	-	-	-
Beginning, as restated	120,149,729	115,229,726	100,578,886	89,258,164
Ending	\$ 128,601,249	\$ 120,903,360	\$ 115,229,726	\$ 100,578,886

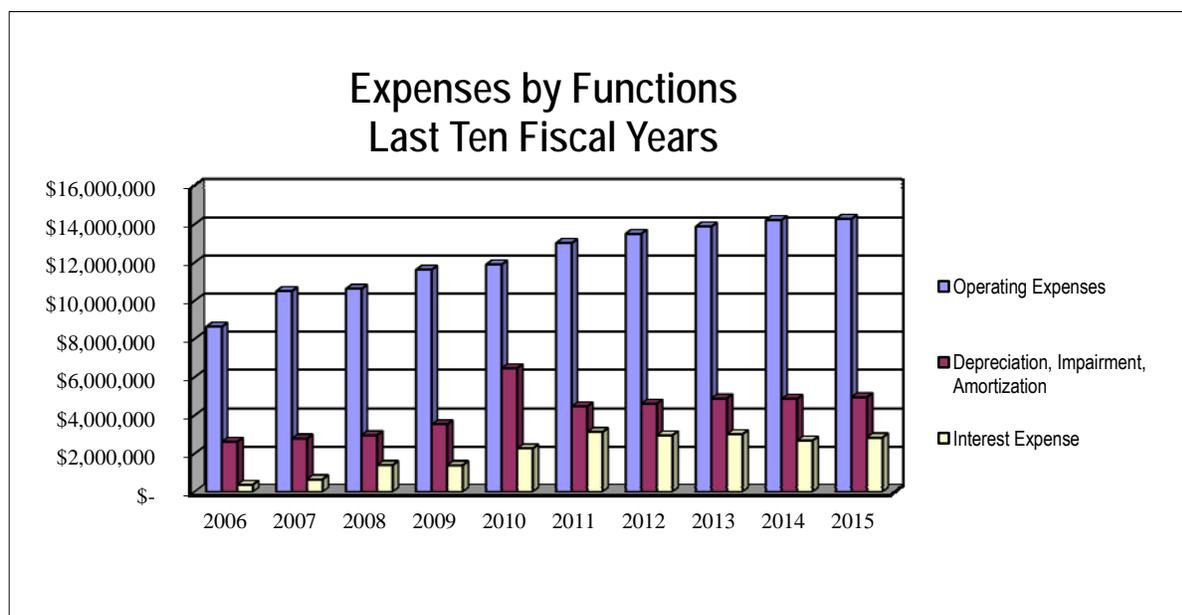
Source: Onslow Water and Sewer Authority's Accounting Records.

		Fiscal Year									
		2011	2010	2009	2008	2007	2006				
\$	4,353,932	\$	4,819,605	\$	2,086,330	\$	1,121,553	\$	2,964,803	\$	438,750
	74,296		147,107		871,152		1,360,831		1,147,600		1,034,762
	(3,115,952)		(2,255,051)		(1,383,963)		(1,388,120)		(652,075)		(369,200)
	(41,609)		(41,609)		(41,609)		(26,007)		(26,007)		(26,007)
	-		-		-		-		-		-
	558,024		882,477		1,472,845		-		87,886		590,907
	1,828,691		3,552,529		3,004,755		1,068,257		3,522,207		1,669,212
	4,095,332		3,631,181		3,823,530		2,697,836		2,537,823		647,160
	-		-		-		-		-		-
	-		-		-		-		-		-
	463,861		(209,646)		8,419,793		1,093,780		507,807		4,157,171
	610,012		80,000		10,436,044		5,083,016		-		-
	5,169,205		3,501,535		22,679,367		8,874,632		3,045,630		4,804,331
	84,088,959		80,587,424		57,908,057		49,033,425		45,987,795		41,183,464
	-		-		-		-		-		-
	84,088,959		80,587,424		57,908,057		49,033,425		45,987,795		41,183,464
\$	89,258,164	\$	84,088,959	\$	80,587,424	\$	57,908,057	\$	49,033,425	\$	45,987,795

Expenses By Functions
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Operating Expenses	Depreciation, Impairment, Amortization	Interest Expense	Total
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
2014	14,210,248	4,850,306	2,669,841	21,730,395
2015	14,266,878	4,953,323	2,839,651	22,059,852

Source: Onslow Water and Sewer Authority's Accounting Records

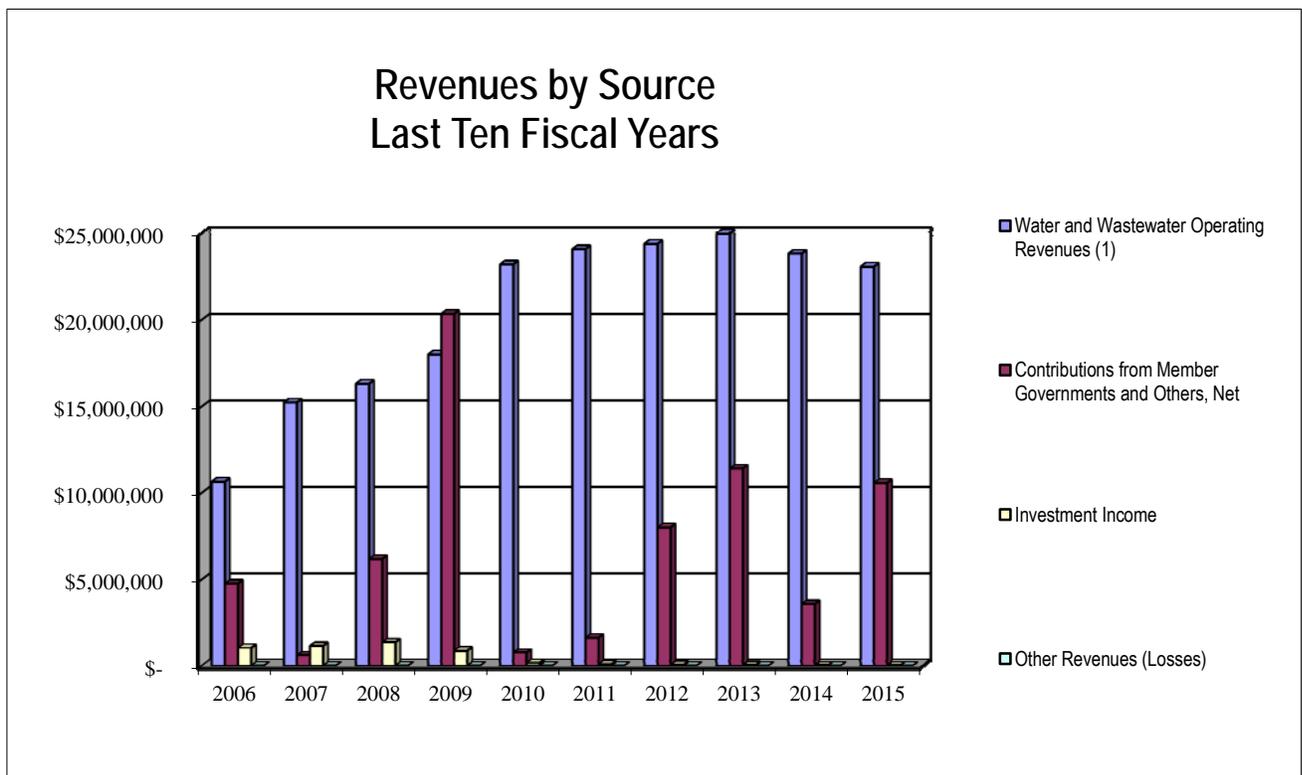


Onslow Water and Sewer Authority

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
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
2014	23,826,166	3,568,950	8,915	-	27,404,031
2015	23,076,656	10,557,089	7,823	-	33,641,568

Source: Onslow Water and Sewer Authority's Accounting Records



Onslow Water and Sewer Authority

Principal Water Customers
Last Ten Fiscal Years

	Percent of Water Sales*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Scientific Water	<1%	1.2%	1.2%	1.5%	1.7%	1.8%	2.1%	2.3%	3.8%	2.3%
Commanding General (All MCBL Accounts)	2.1%	1.9%	1.7%	1.7%	4.1%	1.6%	1.8%	1.5%	1.2%	1.3%
Onslow County Schools	1.2%	1.1%	1.1%	1.2%	1.1%	1.2%	1.3%	1.2%	<1%	<1%
J & J Snack Foods	<1%	<1%	<1%	<1%	-	-	-	-	-	<1%
Gatlins Trailer Park	<1%	-	-	<1%	<1%	<1%	<1%	<1%	<1%	<1%
St. Regis HOA	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Stanadyne	<1%	<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%	<1%
Rogers Bay HOA	-	-	-	-	-	<1%	-	-	-	-
Royal Valley Mobile Home Park	-	-	-	-	-	-	<1%	<1%	<1%	<1%
Military/Student Housing	<1%	<1%	<1%	<1%	<1%	-	-	-	-	<1%
Market Rate, LLC	<1%	<1%	<1%	<1%	-	-	-	-	-	-
Sherwood MHP	-	-	-	-	<1%	<1%	<1%	<1%	<1%	-
Town of Swansboro	-	-	-	-	-	-	-	-	-	1.9%
Swansboro Ventures	<1%	<1%	<1%	-	-	-	-	-	-	-
Ramseys Trl Park	-	<1%	<1%	-	-	-	-	-	-	-

* Approximate

Source: Onslow Water and Sewer Authority's Records.

Onslow Water and Sewer Authority

Principal Sewer Customers
Last Ten Fiscal Years

	Percent of Sewer Sales*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Onslow County Schools	3.9%	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	1.7%	1.9%	1.7%	2.6%	-	-	-	-	-	-
Arnolds	-	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Wilco/Hess	1.1%	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%	<1%
Market Rate LLC	1.6%	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%	<1%	-
Blue Water Association	<1%	-	-	-	-	-	-	-	-	-
Blue Creek Mobile Home Park	<1%	<1%	<1%	<1%	<1%	<1%	<1%	-	-	-
Military/Student Housing	1.1%	1.0%	2.6%	1.6%	<1%	-	-	-	-	-
Swansboro Ventures	<1%	<1%	<1%	-	-	-	-	-	-	-

* Approximate

Source: Onslow Water and Sewer Authority's Records.

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
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
2014	43,614	10,932,799	5,754,555	54,933,484	1.90	1,259.54
2015	44,267	8,817,601	6,205,702	51,687,211	1.42	1,167.62

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

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 (1)	Median Age (3)	Public School Enrollment (2)	Unemployment Rate % (3)
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%
2014	185,220	8,421,526	45,953	26.16	25,428	7.20%
2015	196,612	8,342,524	45,041	27.00	25,106	5.90%

(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, AccessNC.

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

Onslow Water and Sewer Authority

Miscellaneous Statistical Data For the Year Ended June 30, 2015

Year Founded and Incorporated	2000
Size of Service Area:	
Square Miles	756
Miles of Water Pipe	1,200
Miles of Wastewater Collection Pipe	146
Wastewater Pump Stations	67
Customer Accounts	44,267
Budgeted Full Time Employees	128
Water Treatment Plants Capacity:	
Million gallons per day (MGD)	12.8
Production Peak, FY 2014 - 2015 (MGD)	10.7
Production Average, FY 2014 - 2015(MGD)	7.7
Wastewater Treatment Plants Capacity:	
Million gallons per day (MGD)	2.3
Highest Average Daily Flow, FY 2014 - 2015 (MGD)	1.7
Highest Max Daily Flow, FY 2014 - 2015 (MGD)	3.1
Number of Water Supply Resources	17.0
Total Capacity of Water Supply Resources:	
Black Creek & PeeDee Aquifers (MGD)	2.8
Castle Hayne Aquifer (MGD)	14.0

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
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%
2014	10,235,251,673	1,742,233,183	23,753,560	140,333,245	1,232,945,777	245,936,849	304,430,612	13,316,023,675	0.585	13,316,023,675	100%
2015	9,588,509,048	1,818,264,946	21,282,240	129,609,455	570,229,594	243,106,513	295,631,090	12,075,370,706	0.675	12,075,370,706	100%

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Onslow County	0.6700	0.5030	0.5030	0.5030	0.5850	0.5850	0.5850	0.5850	0.6750	0.6750
Municipality rates:										
Holly Ridge	0.5000	0.3800	0.3800	0.3800	0.4150	0.4150	0.4150	0.4150	0.4150	0.4150
Jacksonville	0.5900	0.5316	0.6260	0.6260	0.5380	0.5380	0.5380	0.5380	0.6420	0.6420
North Topsail Beach	0.4500	0.1300	0.1600	0.1400	0.2355	0.2355	0.2355	0.3755	0.3932	0.3932
Richlands	0.4500	0.3800	0.3800	0.3800	0.3700	0.3700	0.3700	0.3600	0.3800	0.3800
Surf City (1)	0.3500	0.3100	0.3100	0.3100	0.3100	0.2826	0.3100	0.4100	0.4100	0.4100
Swansboro	0.3800	0.3130	0.3530	0.3930	0.3930	0.3930	0.3930	0.3500	0.3500	0.3500

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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
2006	\$ 45,158	\$ 42,631	94.40%	\$ 497	\$ 44,661	98.90%
2007	54,326	51,940	95.61%	250	54,076	99.54%
2008	57,074	54,766	95.96%	267	56,807	99.53%
2009	59,478	56,049	94.23%	365	59,113	99.39%
2010	71,587	66,822	93.34%	427	71,160	99.40%
2011	72,816	69,982	96.11%	443	72,373	99.39%
2012	75,432	72,491	96.10%	581	74,851	99.23%
2013	79,022	75,998	96.17%	928	78,094	98.83%
2014	78,566	76,061	96.81%	1,097	77,469	98.60%
2015	82,177	80,139	97.52%	-	80,139	97.52%

Source: Onslow County Tax Administration.

Onslow Water and Sewer Authority

Full Time Equivalent Employees
Last Ten Fiscal Years

Division	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General and Administrative										
Office of the Executive Director	3	3	3	3	3	3	3	2	2	2
Administration/Human Resources	7	7	5	5	7	7	10	9	7	9
Finance	6	5	5	5	6	6	6	6	5	3
Information Technology Services	6	6	3	3	3	3	3	3	2	2
Operations										
Engineering	11	13	13	14	15	15	12	11	10	5
Meters	15	14	14	14	15	15	15	16	16	13
Distribution	18	18	24	18	16	16	16	16	18	15
Customer Service	15	15	16	18	13	13	12	13	12	13
Facilities Maintenance & Collections	12	12	8	14	19	19	19	19	19	18
Water Treatment	15	16	16	17	14	14	14	14	15	14
Wastewater Treatment	9	9	9	10	10	10	10	10	9	6
Laboratory	4	4	6	5	4	4	3	3	3	2
SCADA	5	5	5	-	-	-	-	-	-	-
Total FTE's	126	127	127	126	125	125	123	122	118	102

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

Employer	2015		2011	
	Employees	Rank	Employees	Rank
USMC Base, Camp Lejeune	1000+	1	1000+	1
Onslow County Board of Education	1000+	2	1000+	2
Camp Lejeune Civil Service	1000+	3	1000+	3
Wal-Mart Associates Inc.	1000+	4	1000+	5
Onslow County Government	1000+	5	1000+	4
Onslow Memorial Hospital	1000+	6	500-999	6
Coastal Community College	500-999	7	500-999	7
Food Lion LLC	500-999	8	500-999	10
Convergys Customer Mgmt Group	500-999	9	500-999	8
City of Jacksonville	500-999	10	500-999	9

Source: Onslow County from NC Employment Security Commission -AccessNC

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)
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
2014	2,920,407	282,702
2015	2,821,879	332,637

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

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

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Administrative										
Number of accounts billed for entire FY	523,713	500,787	525,433	444,352	467,981	443,185	428,148	421,718	394,129	368,712
Turn on service orders processed	15,727	13,048	17,801	18,708	18,230	18,180	17,652	15,901	14,072	12,445
Percentage actual expenditures to budget	95%	99%	88%	83%	85%	95%	86%	93%	77%	95%
Percentage of safety incidents to employees	3.0%	2.0%	2.0%	1.2%	1.0%	1.50%	3.20%	2.40%	1.80%	2.00%
Number of ITS helpdesk calls	1000	1000	1000	750	600	625	650	550	490	425
Water										
Number of meters read throughout the year	571,124	564,370	544,370	525,404	502,963	476,072	465,069	458,376	432,430	407,437
Number of water line miles maintained	1,200	1,147	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	2,171,770,000	2,054,136,000	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	17,469	15,000	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	874,770,000	886,136,000	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	0	0	0	0	14	12	14	48	47	54
Total number of gallons of water treated at Hubert Water Plant	1,297,000,000	1,168,000,000	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	0	0	0	0	66	48	32	96	51	61
Wastewater										
Number of miles maintained by Wastewater Collections	146	124	124	124	125	120	91	81	67	40
Number of pump stations maintained	67	64	58	59	59	55	50	37	36	19
Number of million gallons treated at Southeast Regional Wastewater Plant	86,000,000	83,885,000	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 Southeast Regional WWTP	\$4.76	\$3.62	\$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	9,500,000	9,500,000	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	\$5.53	\$3.47	\$11.30	\$10.27	\$9.80	\$8.47	\$7.14	\$14.93	\$8.40	N/A
Number of million gallons treated at Northwest WRF	76,503,056	76,299,270	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 Northwest WRF	\$7.30	\$4.02	\$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	100,000,000	108,288,000	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	\$4.15	\$2.93	\$3.66	\$3.24	\$3.19	\$3.73	\$2.78	\$3.82	\$3.94	N/A

Source: Onslow Water and Sewer Authority departments

Onslow Water and Sewer Authority
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Administrative										
Number of administrative vehicles	17	18	9	12	10	12	10	10	9	8
Number of buildings maintained	2	2	2	2	2	2	2	2	2	2
Water										
Number of vehicles maintained for water use	40	37	39	38	38	48	60	57	53	46
Miles of water lines	1200	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	2
Wastewater										
Number of vehicles maintained for wastewater use	15	14	20	23	28	16	21	18	16	14
Miles of wastewater lines	146	124	124	124	128	120	83	81	67	35
Number of wastewater treatment plants	4	7	7	7	7	7	8	5	4	3

Source: Onslow Water and Sewer Authority departments

COMPLIANCE SECTION

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, 2015, 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 December 7, 2015.

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, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding 2015-001 and finding 2015-002, that we consider to be significant deficiencies.

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*.

Authority's Response to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Morehead City, North Carolina
December 7, 2015

RSM US LLP, an Iowa limited liability partnership, is doing business as McGladrey LLP in the state of North Carolina and is a CPA firm registered with the North Carolina State Board of Certified Public Accountants under the name McGladrey LLP. Rules permitting the use of RSM US LLP have been published in the North Carolina Register and are pending final approval.

**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**

RSM US LLP

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 each of Onslow Water and Sewer Authority's major federal programs for the year ended June 30, 2015. 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 each of 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 each major federal program. However, our audit does not provide a legal determination of Onslow Water and Sewer Authority's compliance.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2015.

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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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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.

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.

The signature of McGladrey LLP is written in a cursive, handwritten style.

Morehead City, North Carolina
December 7, 2015

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**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**

RSM US LLP

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 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 each of Onslow Water and Sewer Authority's major state programs for the year ended June 30, 2015. Onslow Water and Sewer Authority's major state 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 state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Onslow Water and Sewer Authority's major state 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; 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 each major state program. However, our audit does not provide a legal determination on Onslow Water and Sewer Authority's compliance.

Opinion on Each 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 each of its major state programs for the year ended June 30, 2015.

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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 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.

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
December 7, 2015

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Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

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 no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes 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 no

Identification of major federal programs:

CFDA #	Program Name
10.760	Water and Waste Disposal Systems for Rural Communities
10.781	Water and Waste Disposal Systems for Rural Communities – ARRA
66.458	Capitalization Grants for Clean Water State Revolving Funds

(Continued)

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section 1. Summary of Auditor's Results (Continued)

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

\$ 300,000

Auditee qualified as low-risk auditee?

X yes 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:
Clean Water State Revolving Funds—state match
Clean Water Management Trust Fund

Section 2. Financial Statement Findings

Finding 2015-001 – Year-end accrual accounting for debt proceeds not executed (significant deficiency in internal control)

Criteria: According to Governmental Accounting Standards Board (GASB) Statement No. 34, special-purpose governments such as public utilities are required to present Government-wide financial statements prepared using the economic resources measurement focus and the accrual basis of accounting. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government.

Condition and Context: The Authority did not record a liability for new construction loans aggregating approximately \$5.1 million received during the fiscal year.

Effect: The amount recorded in the Authority's trial balance for debt was incorrect.

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section 2. Financial Statement Findings (Continued)

Cause: Human error. The Authority maintains its general ledger on the modified accrual basis and makes accrual basis adjustments at year end for reporting purposes. This adjustment was overlooked.

Recommendation: We recommend a year end procedure be put in place to reconcile debt proceeds within the capital projects fund with debt per the enterprise fund.

Views of Responsible Management: Management agrees with recommendation and will comply. Year-end closing procedures will be reviewed and revised if necessary.

Finding 2015-002 – Segregation of duties – customer service department (significant deficiency in internal control)

Criteria: To the extent possible, duties should be segregated to serve as a check and balance on an employee's integrity and to maintain the best control system as possible.

Condition and Context: During the audit, it was discovered that an employee in the customer service department transports deposits to the bank while also having the duty of posting payments to customer accounts and reconciling cash report to deposit slip. In addition, this employee also has the ability to void transactions.

Effect: Potential exists for an individual within customer service department to misappropriate a significant amount of cash collections.

Cause: Lack of segregation of duties within customer service department.

Recommendation: Customer service department employee transporting cash to bank can only be an employee who did not handle cash that day; when an employee has to void a transaction at counter, he/she must print void receipt and supervisor will review all voids at end of day; if employee has to void a transaction away from counter, have supervisor approve/sign off on void at occurrence; finance department will perform a documented review of voids monthly with bank reconciliations.

Views of Responsible Management: Management agrees with finding and recommendation.

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, 2015

Section 2. Financial Statement Findings

Finding 2015-001 – Year-end accrual accounting for debt proceeds not executed

Corrective Action: The Authority agrees with the recommendation and will comply. The Authority will add the following procedure to its current year end checklist: reconcile debt proceeds within the capital projects fund with debt per the enterprise fund.

Effective Date: July 1, 2015

Finding 2015-002 – Segregation of duties – customer service department

Corrective Action: The Authority agrees with the recommendation and will comply. The Authority will update its current cash balancing policy to reflect this recommendation.

Effective Date: July 1, 2015

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 Audit Findings
For the Fiscal Year Ended June 30, 2015

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, 2015

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Expenditures				
		Federal	State	Local	Total	
Federal Awards						
U. S. Department of Agriculture (Note 3)						
Direct Program:						
Water and Waste Disposal Systems for Rural Communities	10.760	M	\$ 7,187,969	\$ -	\$ (6,877,380)	\$ 310,589
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	M	6,329,648	-	906,160	7,235,808
Total U.S. Department of Agriculture			<u>13,517,617</u>	<u>-</u>	<u>(5,971,220)</u>	<u>7,546,397</u>
U. S. Environmental Protection Agency (Note 4)						
Pass through: NC Department of Environment and Natural Resources						
Clean Water State Revolving Funds	66.458	M	999,215	249,804	1,634,853	2,883,872
Drinking Water State Revolving Loan	66.468		1,132,412	283,103	(44,887)	1,370,628
Total U.S. Environmental Protection Agency			<u>2,131,627</u>	<u>532,907</u>	<u>1,589,966</u>	<u>4,254,500</u>
State Awards						
NC Department of Environment and Natural Resources:						
Clean Water Management Trust Fund	N/A	M	-	444,131	2,353,695	2,797,826
Technical Assistance Grant	N/A		-	43,800	92,753	136,553
			<u>-</u>	<u>487,931</u>	<u>2,446,448</u>	<u>2,934,379</u>
Totals			<u>\$ 15,649,244</u>	<u>\$ 1,020,838</u>	<u>\$ (1,934,806)</u>	<u>\$ 14,735,276</u>

M indicates major program

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

Onslow Water and Sewer Authority

Notes to the Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (SEFSA) 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, State of North Carolina Dixon Raw Waterline and Well, and State of North Carolina Summerhouse WWTP Rehab Project at June 30, 2015 were \$1,471,065, 4,241,412, and \$1,249,019, respectively. In addition, the outstanding balance of the USDA was \$24,541,000 at June 30, 2015 (See Note 3 below).

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

The Authority's Northwest Regional Reclamation Facility construction project is funded with Water and Waste Systems Disposal Systems for Rural Communities loans and grants. The Authority received temporary financing through PNC Bank for \$24,541,000 (bond anticipation notes). On December 16, 2014, the USDA issued Water and Sewer Revenue Bonds, Series 2014A, 2014B, and 2014C, in the amount of \$9,000,000, \$8,000,000, and \$7,541,000, respectively, which replaced the bond anticipation notes. The Authority can also draw down up to \$9,816,000 in grant monies after the above loan funds of \$24,541,000 have been expended on this project. As of June 30, 2015, the Authority had drawn down \$7,187,969 in grant monies of which \$6,877,380 was a partial reimbursement for land purchases paid by the Authority in 2008 and 2011, which leaves a remaining balance of \$2,628,031 for draw down upon final completion of the project and approval of expenditures by USDA. The Authority has reported the related loan funds for project expenditures during the fiscal year ended June 30, 2015 on its Schedule of Expenditures of Federal and State Awards and subject the expenditures to compliance testing as it proceeds with the project and included on the data collection form.

The following schedule shows the loan expenditures from 2013 to 2015 as reported on the SEFSA in those years. In each year, the loan expenditures were tested as a major program.

Year ended June 30,	USDA Program:	CFDA Number	Expenditures		
			Federal	State	Local
2013	Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	\$ 723,578	\$ -	\$ 276,518
2014	Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	17,487,774	-	-
2015	Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	6,329,648	-	906,160
		Total	\$ 24,541,000	\$ -	\$ 1,182,678

Onslow Water and Sewer Authority (Continued)

Notes to the Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2015

Note 4. Drinking Water State Revolving Loan

The Dixon Raw Waterline and Well construction project is funded by the NC Department of Environment and Natural Resources through the Drinking Water State Revolving Loan. The Authority was approved for a loan of \$5,585,276 on June 20, 2014. During the fiscal year ended June 30, 2015, the Authority had drawn down \$3,836,932 of this loan of which \$2,421,417 in related project expenditures was reported on the Schedule of Expenditures of Federal and State Awards, subject to compliance testing, and included on the data collection form during the fiscal year ended June 30, 2014. The Authority has reported loan funds for project expenditures of \$1,415,515 for the fiscal year ended June 30, 2015 on its Schedule of Expenditures of Federal and State Awards, of which were subject to compliance testing and included on the data collection form.