

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

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016**

Prepared by:

Finance Department of Onslow Water and Sewer Authority

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Onslow Water & Sewer Authority

December 29, 2016

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, 2015 through June 30, 2016 (FY 2016). This report conforms with the reporting and accounting standards of the Governmental Accounting Standards Board ("GASB"), the Financial Accounting Standards Board, and the Government Finance Officers Association's ("GFOA's") *Governmental Accounting, Auditing and Financial Reporting* document.

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

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

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

BACKGROUND

Creation and Governance of ONWASA

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

While we do not serve all residents of Onslow County, ONWASA serves approximately 139,863 people. Our 49,897 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 \$126 million, and the upcoming budget year will be approximately \$62 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 139,863 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, mainly due to the steady growth and support of Marine Corps Base Camp Lejeune. The current local unemployment rate of 5.5% is slightly higher than the current state-wide rate of 5.2%. Approximately 1,699 residential permits and 409 commercial building permits were issued by Onslow County in FY15-16. The approximate population of Onslow County in 2015 was 198,578.

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 Academy Sports + Outdoors which will open in late 2016. Since Wal-Mart opened in Richlands in April 2015, several new restaurants have come into the area, such as Taco Bell and Bojangles. Wal-Mart continues to expand in other areas with a Wal-Mart Neighborhood Market, which opened in Jacksonville late 2015 and a Super Wal-Mart, which should open in Swansboro early 2017. Onslow County government moved its offices to Burton Park in the previous year and is still marketing for more businesses to join them.

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 2 Elimination of Hickory Grove WWTP and Webb Apartments WWTP

This project enabled the decommissioning of two outdated wastewater treatment facilities located in the Piney Green Service Area. This work was identified as cost effective due to ONWASA's ownership, ongoing operational costs and both facilities' close proximity to the newly constructed Piney Green Sewer trunk line. New lift stations and sewer force mains were installed at both former plant locations, and these were then connected directly to the trunk line. The new infrastructure was designed to accommodate future improvement projects, including other inadequate/failing collection systems adjacent to this area. Both stations were completed in February 2015 and are in operation. The remaining item of work under this project is the formal closure of the Hickory Grove treatment lagoon, which will involve removal of accumulated sludge from the bottom of a 2.9 acre pond, demolition of treatment plant features and site restoration. A schedule for completion of this work has not been established at this time.

Dixon Water Treatment Plant Improvements – Reverse Osmosis

To resolve issues related to the presence of silica in the treated water from the Dixon Water Treatment Plant (WTP), as well as to meet the Environmental Protection Agency's 2012 limits for disinfection byproducts, the existing treatment process is being altered to include the capability for reverse osmosis (RO). This project involved a pilot study of different reverse osmosis membranes, with the subsequent design and construction of three 1.0 MGD reverse osmosis units within the existing water plant. To prepare for future expansion, the plant's electrical systems were also upgraded to treat up to six million gallons per day through reverse osmosis. An initial construction project to install the three RO units began in September 2013 and was completed in March 2015, and a second project to modify the process to run both RO and conventional treatment will be completed later this year. Start-up of the RO system is planned before the end of 2016.

Highway 53 Waterline

As a result of water system modeling and analysis completed in 2011, it was determined that the existing 6-inch water main along Highway 53 (the Burgaw Highway) could not provide sufficient pressure to support fire flows or address future development demands in the southwest service area of Onslow County. Construction of the first of three phases of water main upgrades necessary to correct these issues, including installation of almost 25,000 LF of 12-inch waterline to replace the existing 6-inch line, was completed in early 2016 and is now in service. Design work for Phase 2, which will further extend the 12-inch main along Haws Run Road and provide increased capacity along Scott Jenkins Road, is scheduled to begin in FY 2016-17 with bidding and construction the following year. A schedule for Phase 3, which interconnects the two previous phase and completes these improvements, has not been determined at this time.

Summerhouse Water Reclamation Facility Rehabilitation

The Summerhouse Water Reclamation Facility, originally built by a private developer and now owned by ONWASA, has sufficient capacity to process wastewater from both the Holly Ridge and Summerhouse areas, and the demand for wastewater treatment in these areas is steadily increasing. This project consists of facility repairs and upgrades to the existing plant, which had been idle for several years, in order to bring the Summerhouse WRF online and alleviate capacity issues at the existing Holly Ridge WWTP as the current and allocated flows exceed 90% of treatment capacity. A construction contract to complete the majority of the required work was executed in August 2014 and should be completed in July 2016. ONWASA staff is finishing additional repairs and control system upgrades, and we anticipate the facility will be operational by the end of 2016.

Stump Sound Force Main

This project involves the construction of a new wastewater force main from the existing Jenkins Street Pump Station in Holly Ridge to the Summerhouse Water Reclamation Facility. Upon completion, the pump station and force main will convey wastewater from the Holly Ridge area to the Summerhouse plant and alleviate capacity concerns at the existing Holly Ridge Wastewater Treatment Plant. Construction work started in late 2014 and has been completed; final testing and closeout of the construction contract will occur once the Summerhouse WRF is fully operational.

Union Chapel Water Treatment Plant

The purpose of this project is to create an alternative raw water supply through interception of groundwater before it enters the Martin Marietta Aggregates (MMA) quarry in Onslow County. Phase 1 will consist of two wells in the Castle Hayne Aquifer and one well in the Beaufort Aquifer, in the vicinity of the quarry on property deeded to ONWASA by MMA. This effort is necessary to supplement the ground water currently being withdrawn from the Black Creek Aquifer that will no longer be available due to pending Central Coastal Plain Plan Capacity Use Area restrictions. In addition to the new wells, supporting infrastructure will be constructed to include raw and finished water mains, a chemical feed system, and a small treatment building. Additional phases would involve the construction of a new Union Chapel Water Treatment Plant (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. A contract for drilling and construction of the new well sites was issued in June 2015 and should be completed in spring 2017. Design of the supporting infrastructure is approximately 50% complete but a construction schedule has not been determined at this time.

NC Highway 50 Wells

This project is being constructed in concert with the Dixon Water Treatment Plant reverse osmosis (RO) improvements, in order to provide additional water supply necessary to compensate for a predicted 15% water loss during treatment via the RO process. Final completion of Phase 1, which entailed the drilling and testing of the two new wells, was achieved in August 2015. Testing conducted during Phase 1 indicated that both wells are very good producers of raw water (1,300 – 1,500 gpm) and will be operated at a reduced rate, but they will be certified for their full capacities to enable operational flexibility when additional water is needed during peak demand periods. Design and permitting for the second phase of the project, will include well site build-out and the installation of approximately 25,000 LF of 12-inch diameter raw water main, is nearing completion and we anticipate construction will be completed by the end of 2017.

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 the Richlands area. Phase 1 of the Western Onslow Trunk Sewer (WOTS) project, completed in early 2016, and included construction of 48,489 feet of 12-inch force main from the Burton Industrial Park to a new regional pump station located on Onslow County Schools' property in Richlands. This pump station will then convey wastewater to ONWASA's Northwest Regional Water Reclamation Facility. The existing pump station at Burton Industrial Park was also upgraded and connected into the new force main. In Phase 2, the Kenwood Waste Water Treatment Plant will be replaced with a new pump station and connected into the WOTS system through 7,500 LF of

new force main. The construction contract for Phase 2 was awarded in March 2016 and construction is currently underway. Contract completion date for this work is in February 2017.

North Topsail Bridge Waterline Replacement

The purpose of this project is to replace a 35 year old ductile iron water main suspended from the NC Highway 210 high rise bridge, which provides access over the Intracoastal Waterway to North Topsail Beach. This water main is the primary source of potable water for Topsail Island and exhibits visible signs of corrosion and deterioration of joints and hangers. Based on a 2014 condition survey and subsequent feasibility study, it was determined the most cost effective approach was to replace the suspended waterline with a horizontal directionally-drilled water main underneath the Intracoastal Waterway parallel to the bridge. A contract for design and construction administration services for the replacement water main will be executed in July 2016 and we anticipate construction to be completed by the end of 2017.

Holly Ridge Gravity Sewer Improvements

Due to repeated operational issues (clogging, sewer overflows and excessive infiltration) an engineering services contract was executed in August 2015 to assess and make recommendations for improvements to the gravity sewer system upstream of the Jenkins Street Pump Station in the town of Holly Ridge. Based on the findings of this work, a subsequent design and construction administration services contract was executed in March 2016 and final design is underway for replacement of approximately 2,400 LF of gravity sewer line and 7 manholes. Work will be performed within existing utility easements or road right-of-way to reduce impacts to residents. Based on the current schedule, construction should be completed by Fall 2017.

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

This project consists of the relocation of approximately 4,500 LF of 4-inch and 2,000 LF of 12-inch water main to facilitate construction of the NCDOT Highway 17, Maysville Bypass Project. ONWASA currently has an existing 8-inch waterline just south of the project corridor, so it was decided as part of this project to replace the existing 4-inch waterline with a new 8-inch waterline to improve service in this area, add fire hydrants and better accommodate potential development in the region. Design and construction would be managed and paid for by NCDOT, so a reimbursement agreement was negotiated to cover material and design costs to increase the size of the 4-inch waterline. This is effect provided an extension of the existing 8-inch line at a fraction of the cost of ONWASA installing this line on our own. Work on the overall project began in October 2015, and the new lines were tested and put into service in June 2016.

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. Customers can receive their bill either through the mail or 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 the Chamber of Commerce and Governmental Affairs Committee. Public Information meetings were also held for public, 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 continues to have 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 a link to follow us on Social Media.

The Public Affairs Department again focused throughout the year on the delivery of information to as many customers as possible through local news and radio stations, newspaper, and social media. Monthly Board of Director's meetings are open to the public, and we to provide our Board meetings online and television. To improve efficiency, production capabilities, and to keep expenses low, the Board meetings have continued to be held at the 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 information regarding where *ONWASA Water Comes From* to customers in the lobby along with educational kits 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 the 2016 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, United Way, the Marine Corps Reserve Toys for Tots, and Socks for Seniors program



Credit Ratings

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.

ONWASA's previous revenue bond sale, Series 2008A was insured and, therefore had a credit rating of:

Standard & Poor's	AAA
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ONWASA's most recent revenue bond sale, Series 2016 was issued a credit rating of:

Standard & Poor's	A+
Moody's Investors Service	Aa3

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 2017, 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 2016.

Independent Audit

ONWASA is required by State Law (G.S. 159-34) to have an annual independent financial audit. ONWASA's auditor, RSM US 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, 2016, 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 tenth Certificate of Achievement for FY 2015 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 Eleventh 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, RSM US 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, 2016, 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

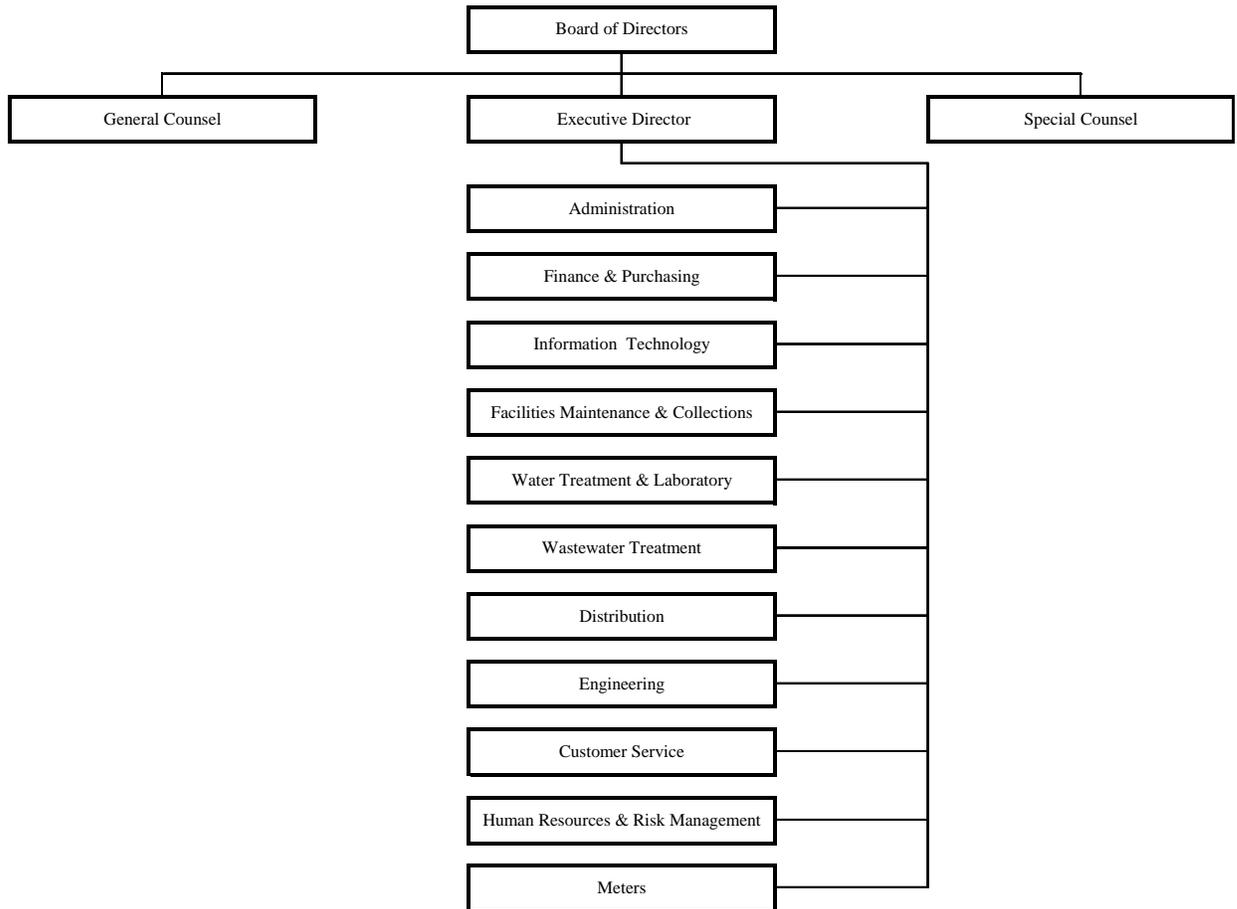
**Onslow Water and Sewer Authority
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

ONWASA Organizational Chart



ONslow WATER AND SEWER AUTHORITY

FISCAL YEAR 2015-2016

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
John Lister, Commissioner	Swansboro	2017
Michael Lazzara, Mayor Pro-Tem	Jacksonville	2018
Fred Burns, Mayor	North Topsail Beach	2017
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 Stanley, Public Affairs Director/Clerk
David Mohr, Engineering Director
Joetta Guist, HR/Administration Services Director
Eddie Caron, Utility Planning Manager
Matthew Padgett, Distribution Superintendent
Seth Brown, Water Production Superintendent

GENERAL COUNSEL

Turrentine Law Firm, PLLC

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Onslow Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2016, 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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions, Local Governmental Employees' Retirement System's (LGERS) Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Authority Contributions on pages 15 through 20 and pages 47 through 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Onslow Water and Sewer Authority's basic financial statements. The individual fund schedules, the Schedule of Expenditures of Federal and State Awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act, and the introductory section and statistical section, 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 of the Comprehensive Annual Financial Report 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 29, 2016, 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.

RSM US LLP

Morehead City, North Carolina

December 29, 2016

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, 2016. 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 \$133,692,732.
- The Authority's total net position increased by \$5,091,483 primarily due to contributions from non-related parties and grant funding during the year ended June 30, 2016.
- The Authority's total long-term debt increased by \$754,593 (0.9%) during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

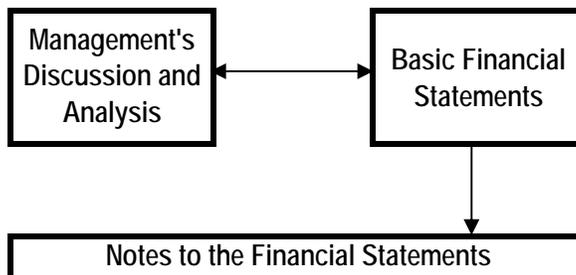
The Statement of Cash Flows deals specifically with the flow of cash and cash equivalents arising from operating, capital, noncapital financing and investing activities. Because the Authority's Statement of Revenues, Expenses and Changes in Net Position is a measurement of the flow of total economic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

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

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

Required Components of Annual Financial Report

Figure 1



Financial Analysis

Onslow Water and Sewer Authority's net position increased by \$5,091,483 or 4.0%, between June 30, 2015 and June 30, 2016, 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,	
	2016	2015
Current and other assets	\$ 44,179,711	\$ 43,589,589
Capital assets	180,701,824	178,963,674
Total assets	224,881,535	222,553,263
Defined outflows of resources	1,818,032	491,332
Current liabilities	10,336,338	11,255,161
Noncurrent liabilities	82,441,641	81,804,442
Total liabilities	92,777,979	93,059,603
Deferred Inflows of Resources	228,856	1,383,743
Net Position		
Net investment in capital assets	95,949,138	95,773,968
Restricted by bond order for Replacement Fund	2,504,151	2,504,151
Restricted by bond order for Reserve Funds	2,729,515	2,572,773
Unrestricted	32,509,928	27,750,357
Total net position	\$ 133,692,732	\$ 128,601,249

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, 2016. Total assets have increased approximately \$2.3 million due mainly to contributions from non-related parties and the ongoing construction of capital assets. Deferred outflows have increased by approximately \$1.3 million due the debt

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

refunding that occurred during the current year. Liabilities experienced an insignificant decrease from prior year. Net position is up by \$5.1 million from the increase in assets, the increase in deferred outflows, and the reduction in liabilities.

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 grant funding.

Condensed Statement of Revenues, Expenses and Change in Net Position

Figure 3

	Years Ended June 30,	
	2016	2015
Revenue		
Operating revenue		
Water	\$ 15,854,573	\$ 15,519,240
Waste water	3,404,606	3,278,001
Service initiation fees	703,561	738,335
Miscellaneous income	926,649	939,654
Nonoperating revenue		
Customer impact fees	2,266,101	2,601,426
Interest income	88,508	7,823
Contributions from Jacksonville, NC and NCDOT	-	946,938
Total revenue	23,243,998	24,031,417
Expenses		
Operating expenses: operations	13,003,429	13,022,290
Operating expenses: general and administrative expenses	1,404,154	1,244,587
Operating expenses: depreciation	4,894,381	4,953,323
Nonoperating expense	554,731	-
Piney Green project - Jacksonville's portion	-	3,130,197
Interest expense	3,263,647	2,839,651
Total expenses	23,120,342	25,190,048
Increase (decrease) in net position before capital contributions:	123,656	(1,158,631)
Capital contributions from non-related parties	2,339,796	1,978,051
Clean Water Management Trust Fund Grant	-	444,131
USDA Rural Development Grant	2,628,031	7,187,969
Increase in net position	5,091,483	8,451,520
Net position, July 1	128,601,249	120,903,360
Restatement for accounting change	-	(753,631)
Net position, as restated, July 1	128,601,249	120,149,729
Net position, June 30	\$ 133,692,732	\$ 128,601,249

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

Total operating revenue is up minimally from the prior year because of the increase in water processed and wastewater treated. Non-operating income increased \$949,891 mainly due to Piney Green project being completed in the prior year. Total operating expenses are up insignificantly in this fiscal year. Net position increased \$5.1 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, 2016, totals \$180,701,825 (net of accumulated depreciation). These assets include buildings, water lines, wells, booster stations, lift stations, wastewater treatment plants, land, machinery, equipment and vehicles.

Figure 4

	June 30,	
	2016	2015
Land	\$ 18,909,356	\$ 5,854,780
Other improvements	136,865,297	104,056,037
Buildings	4,092,422	4,466,399
Equipment	997,868	976,928
Vehicles	374,051	373,781
Heavy equipment	27,986	90,720
Construction in progress	19,434,844	63,145,029
Total	\$ 180,701,824	\$ 178,963,674

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, 2016, the Authority had total debt outstanding of \$83,944,299. Revenue bonds which are secured by specified revenue sources total \$68,606,000.

Figure 5

	June 30,	
	2016	2015
Revenue bonds held by bondholders	\$ 68,606,000	\$ 75,546,800
Unamortized revenue bond premium	7,122,694	681,410
Loans payable	8,215,605	6,961,496
Total	\$ 83,944,299	\$ 83,189,706

The Authority's total net debt has increased by \$754,593 (0.9%) during the current fiscal year. The net increase was mainly due to additional principal of \$1,757,410 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 2016 totaled \$84 million, up 54% from the year 2007.
- Estimated real estate values have increased at an annual rate of 2% since 2007.
- The population of Onslow County was 198,578 in 2016 up 24% from 2007.
- The per capita income has increased at an annual rate of 5.1% since 2005.
- The unemployment rate at June 30, 2016 was 5.5%.

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, 2017

Fiscal year 2015-2016 was the eleventh 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 2017's budget are as follows:

- Increase in personnel salaries due to a 2.0% COLA
- 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, 2016

Assets	
Current assets	
Cash and cash equivalents (Note 2)	\$ 34,726,069
Receivables, net (Note 3)	2,773,409
Inventories	446,567
Total current assets	<u>37,946,045</u>
Noncurrent assets	
Restricted cash and cash equivalents under bond order (Note 2)	5,233,666
Certificate of deposit (Note 2)	1,000,000
Capital assets (Note 4):	
Land and nondepreciable assets	38,344,200
Other capital assets, net of accumulated depreciation	142,357,624
Total capital assets	<u>180,701,824</u>
Total noncurrent assets	<u>186,935,490</u>
Total assets	<u>224,881,535</u>
 Deferred Outflows of Resources	
Pension deferred outflow of resources (Note 5)	519,533
Deferred charge related to debt refinancing (Note 11)	1,298,499
Total deferred outflows of resources	<u>1,818,032</u>
 Liabilities	
Current liabilities	
Current maturities of long-term debt (Note 8)	3,102,300
Accrued interest payable	223,496
Customer deposits	3,990,040
Accounts payable and accrued liabilities, operations	1,771,803
Net pension liability (Note 5)	440,312
Accounts payable, construction	166,480
Retainage payable	641,907
Total current liabilities	<u>10,336,338</u>
Long-term Liabilities	
Revenue bonds and construction loan payable (Note 8)	80,841,999
Other postemployment benefits (Notes 6 and 8)	1,599,642
Total long-term liabilities	<u>82,441,641</u>
Total liabilities	<u>92,777,979</u>
 Deferred Inflows of Resources	
Pension deferrals (Note 5)	228,856
Total deferred inflows of resources	<u>228,856</u>
 Commitments and contingencies (Notes 4, 8, and 10)	

(Continued)

Onslow Water and Sewer Authority

Statement of Net Position (Continued)

June 30, 2016

Net Position	
Net investment in capital assets	\$ 95,949,138
Restricted by bond order for Reserve Funds	2,729,515
Restricted by bond order for Replacement Fund	2,504,151
Unrestricted	<u>32,509,928</u>
Total net position	<u>\$ 133,692,732</u>

See Notes to Financial Statements.

Onslow Water and Sewer Authority

Statement of Revenue, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

(Page 1 of 2)

Operating revenue (Note 8)	
Water	\$ 15,854,573
Waste water	3,404,606
Service initiation fees	703,561
Miscellaneous income	926,649
Total operating revenue	<u>20,889,389</u>
Operating expenses (Note 8)	
Hubert water treatment plant	1,307,075
Dixon water treatment plant	957,567
Meters	885,824
Distribution	1,258,987
Facilities maintenance & Collections	1,311,351
Kenwood wastewater plant	36,263
Northwest Regional Water Reclamation Facility	295,744
Southeast Regional wastewater plant	292,590
Swansboro wastewater plant	290,866
SCADA	239,617
General and administrative	1,404,154
Information technology services	903,987
Engineering	771,132
Customer service	1,373,686
Laboratory	401,630
Water and wastewater purchases	578,415
Nondepartmental	577,869
Repairs and maintenance	1,520,826
Depreciation	4,894,381
Total operating expenses	<u>19,301,964</u>
Operating income	<u>1,587,425</u>
Nonoperating revenue (expense)	
Customer impact fees	2,266,101
Interest income	88,508
Interest expense	(3,263,647)
Loss on land adjustment	(7,000)
Bond issuance costs	(547,731)
Total nonoperating expense	<u>(1,463,769)</u>
Income before capital contributions	<u>123,656</u>

(Continued)

Onslow Water and Sewer Authority

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

For the Year Ended June 30, 2016

(Page 2 of 2)

Capital contributions from non-related parties	\$ 2,339,796
USDA Rural Development Grant	<u>2,628,031</u>
Increase in net position	5,091,483
 Net position	
Beginning	<u>128,601,249</u>
Ending	<u><u>\$ 133,692,732</u></u>

See Notes to Financial Statements.

Onslow Water and Sewer Authority

Statement of Cash Flows
 For the Year Ended June 30, 2016
 (Page 1 of 2)

<hr/>	
Cash Flows From Operating Activities	
Cash received from customers	\$ 21,090,503
Cash paid for goods and services	(6,769,478)
Cash paid to or on behalf of employees for services	(7,223,003)
Miscellaneous income	926,649
Net cash provided by operating activities	<u>8,024,671</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(6,641,317)
Debt issued	50,485,104
Principal paid on debt	(49,049,101)
Interest paid on capital debt	(3,021,898)
Debt issuance costs	(421,501)
Proceeds from sale of capital assets	5,522
USDA Rural Development Grant	2,628,031
Cash paid on debt refunding	(2,091,132)
Net cash used in capital and related financing activities	<u>(8,106,292)</u>
Cash Flows From Noncapital and Related Financing Activities	
Customer impact fees	2,266,101
Net cash provided by noncapital and related financing activities	<u>2,266,101</u>
Cash Flows From Investing Activities	
Interest	88,508
Net cash provided by investing activities	<u>88,508</u>
Net increase in cash and cash equivalents	2,272,988
Cash and Cash Equivalents:	
Balances, beginning	37,686,747
Balances, ending	<u>\$ 39,959,735</u>
Reconciliation to statement of net position:	
Cash and cash equivalents	\$ 34,726,069
Restricted cash and cash equivalents	5,233,666
Total cash and cash equivalents	<u>\$ 39,959,735</u>

(Continued)

Onslow Water and Sewer Authority

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2016

(Page 2 of 2)

Reconciliation of Operating Income to Net Cash	
Provided By Operating Activities	
Operating income	\$ 1,587,425
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,894,381
Changes in assets and liabilities:	
Decrease in receivables, net	948,143
Decrease in inventory	2,599
Increase in accounts payable and accrued liabilities, operating	360,596
Increase in deferred outflows of resources	(28,201)
Decrease in net pension asset	567,748
Increase in net pension liability	440,312
Decrease in deferred inflows of resources	(1,154,887)
Increase in OPEB	226,935
Increase in customer deposits	179,620
Total adjustments	<u>6,437,246</u>
Net cash provided by operating activities	<u>\$ 8,024,671</u>
Supplemental Schedule of Noncash Activities	
Decrease in construction and retainage payable	<u>\$ 2,215,352</u>
Non-cash capital contributions	<u>\$ 2,339,796</u>

See Notes to Financial Statements.

Notes to Financial Statements

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Onslow Water and Sewer Authority

Notes to Financial Statements

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 eleventh 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, or (c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting:

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

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

Budgets

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

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

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

Onslow Water and Sewer Authority

Notes to Financial Statements

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 NCCMT cash portfolio is recorded at amortized cost 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 required 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 at June 30, 2016 totaled \$2,572,773.

The Authority's Series 2014A, 2014B, and 2014C Revenue Bonds required 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 at June 30, 2016 totaled \$156,742.

The Authority's Series 2016 Revenue Bonds require 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, 2016 totaled \$2,504,151.

Inventories

Materials and supplies are valued at cost (first-in, first-out basis) 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 \$2,339,796 for the year ended June 30, 2016. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at the acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Capital assets, which include 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):

	Years
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 financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has two items that meets this criterion, contributions made to the pension plan in 2016 fiscal year and deferred charge related to debt refinancing. 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 68. Details of the Authority's deferred inflows and deferred outflows can be found in Note 5 and Note 11.

Long-Term Debt

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

Net Position

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

The Authority's Series 2004A and 2004B Revenue Bonds required 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 2016 Revenue Bonds require 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, 2016 totaled \$2,504,151 and is included in noncurrent cash and cash equivalents. These monies are Board designated funds that are included in Unrestricted Net Position.

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 111 full-time employees as of June 30, 2016. Accrued vacation at year end totaled \$401,032 and is included in accounts payable and accrued liabilities – operations.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Operating Revenues and Expenses

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

Note 2. Cash, Cash Equivalents and Investments

At June 30, 2016, cash, cash equivalents and certificates of deposit were comprised of the following:

Deposits

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

At June 30, 2016, the carrying amount of the Authority deposits, including a \$1,000,000 certificate of deposit, was \$1,721,524 and the bank balance was \$2,082,045. Of the bank balance, \$507,596 was covered by FDIC insurance and \$1,574,448 was collateralized using the Pooling Method.

At June 30, 2016, the Authority's petty cash fund totaled \$400.

The Authority's \$1,000,000 certificate of deposit 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.

Onslow Water and Sewer Authority

Notes to Financial Statements

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

Investments

At June 30, 2016, the Authority had \$39,237,811 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, 2016 are as follows:

Sales tax receivables	\$ 207,769
Accounts receivable - customers	1,324,182
Unbilled receivable - customers	1,555,742
Total receivables	<u>3,087,693</u>
Allowance for doubtful accounts	(314,284)
Total receivables, net of allowance	<u><u>\$ 2,773,409</u></u>

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, 2016. Current depreciation expense was \$4,894,381.

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 5,854,780	\$ 13,061,576	\$ 7,000	\$ 18,909,356
Construction in progress	63,145,029	3,875,070	47,585,255	19,434,844
Total capital assets not being depreciated	<u>68,999,809</u>	<u>16,936,646</u>	<u>47,592,255</u>	<u>38,344,200</u>
Capital assets being depreciated:				
Other improvements	158,068,179	36,786,402	16,429	194,838,152
Buildings	11,883,201	-	-	11,883,201
Equipment	4,106,500	367,700	-	4,474,200
Vehicles	1,992,574	134,038	37,825	2,088,787
Heavy equipment	1,228,077	-	32,810	1,195,267
Total capital assets being depreciated	<u>177,278,531</u>	<u>37,288,140</u>	<u>87,064</u>	<u>214,479,607</u>
Less accumulated depreciation for:				
Other improvements	54,012,142	3,977,142	16,429	57,972,855
Buildings	7,416,803	373,976	-	7,790,779
Equipment	3,129,570	346,762	-	3,476,332
Vehicles	1,618,794	133,767	37,825	1,714,736
Heavy equipment	1,137,357	62,734	32,810	1,167,281
Total accumulated depreciation	<u>67,314,666</u>	<u>4,894,381</u>	<u>87,064</u>	<u>72,121,983</u>
Total capital assets being depreciated, net	<u>109,963,865</u>			<u>142,357,624</u>
Capital assets, net	<u>\$ 178,963,674</u>			<u>\$ 180,701,824</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, 2016:

Construction commitments

Project	Spent-to-date	Remaining Commitment
Dixon Reverse Osmosis	\$ 4,865,460	\$ 282,058
HWY 53	2,657,798	56,190
Union Chapel WTP	1,254,129	956,688
Summerhouse/Stump Sound	3,278,931	217,236
Western Onslow Trunk Sewer Phase I & II	5,681,901	198,757
HWY 50 Wells	644,006	53,676
Piney Green Phase 2 Elimination of Hickory Grove and Web Apartments WWTP design and construction	991,537	77,366
Western Onslow Truck Sewer (WOTS) Phase 2 Construction	-	810,382
	<u>\$ 19,373,762</u>	<u>\$ 2,652,353</u>

At year-end, the Authority's commitments with contractors and professional firms related to these projects are as follows: 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. Summerhouse Rehabilitation project is being financed by the NC Department of Environmental and Natural Resources. A NC Department of Environmental Quality (DEQ) loan has been approved for \$2,085,180 to complete this project. Western Onslow Trunk Sewer Phase II project is being financed by the NC Department of Environmental Quality. A NC Clean Water Revolving Fund loan has been approved for \$1,303,570 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, 2016, was 7.77% 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 \$443,554 for the year ended June 30, 2016.

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

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

At June 30, 2016, the Authority reported a liability of \$440,312 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions.

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 5. Pension Plan Obligations (Continued)

The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined.

At June 30, 2015, the Authority's proportion was .09811%, which was an increase of .00184% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Authority recognized pension income of \$175,028. At June 30, 2016, 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	\$ -	\$ 103,498
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	125,358
Changes in proportion and differences between Authority contributions and proportionate share of contributions	75,979	-
Authority contributions subsequent to the measurement date	443,554	-
Total	\$ 519,533	\$ 228,856

\$443,554 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (125,000)
2018	(125,000)
2019	(124,896)
2020	222,019

Actuarial Assumptions: The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Note 5. Pension Plan Obligations (Continued)

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.00%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LRS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 5. Pension Plan Obligations (Continued)

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)	\$ 3,070,357	\$ 440,312	\$ (1,775,443)

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, 2016, were \$279,261 which consisted of \$118,321 from the Authority and \$160,940 from the employees.

Note 6. Other Postemployment Benefits

Plan Description

According to the Authority's personnel policy, the Authority provides post-employment health care benefits to retirees of the Authority, provided they participate in the North Carolina Local Governmental Employees' Retirement System and have at least ten consecutive years of creditable service with the Authority. This benefit is provided to employees hired prior to April 17, 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, 2016, the Authority paid \$85,847 in post-employment health benefit premiums. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 6. Other Postemployment Benefits (Continued)

Membership of the plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	7
Active plan members	97
Total	<u>104</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 7.29% of annual covered payroll. The Authority's contributions totaled \$85,847 in fiscal year 2016. 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.

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	\$ 310,328
Interest on net OPEB obligation	54,908
Adjustment to annual required contribution	<u>(52,454)</u>
Annual OPEB cost (expense)	312,782
Contributions made	<u>(85,847)</u>
Increase (decrease) in net OPEB obligation	226,935
Net OPEB obligation, beginning of year	1,372,707
Net OPEB obligation, end of year	<u>\$ 1,599,642</u>

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 6. Other Postemployment Benefits (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ended June 30, 2016, 2015 and 2014 were as follows:

Three Year Trend			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$312,782	27.45%	\$1,599,642
2015	\$322,721	5.70%	\$1,372,707
2014	\$260,701	6.69%	\$1,080,193

Funding Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits, and thus, the unfunded actuarial accrued liability (UAAL) was \$3,432,730. The covered payroll (annual payroll of active employees covered by the plan) was \$4,256,141, and the ratio of the UAAL to the covered payroll was 80.7 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.

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, 2015 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 2022. The investment rate included a 3.00 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

Onslow Water and Sewer Authority

Notes to Financial Statements

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.

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2016 is summarized as follows:

	Balance July 1, 2015	Principal Increases	Principal Decreases	Premium Amortized	Balance June 30, 2016	Current Portion of Balance
Revenue Bonds	\$ 75,546,800	\$ 41,605,000	\$ 48,545,800	\$ -	\$ 68,606,000	\$ 2,599,000
Construction Loans	6,961,496	1,757,410	503,301	-	8,215,605	503,300
Unamortized Premiums	681,410	7,122,694	-	681,410	7,122,694	-
Net Pension Liability (LGERS)	-	440,312	-	-	440,312	-
Other Postemployment Benefits	1,372,707	226,935	-	-	1,599,642	-
Totals	\$ 84,562,413	\$ 51,152,351	\$ 49,049,101	\$ 681,410	\$ 85,984,253	\$ 3,102,300

Revenue Bonds

\$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. The remaining balance as of June 30, 2016 is \$2,460,000.

\$9,000,000 Combined Enterprise System Revenue Bonds, Series 2014A, were issued December, 2014 to fund the Northwest Water Reclamation Facility. Principal and interest installments are due annually on June 1, at annual interest rate of 2.375%. The bonds are secured by a pledge of the net revenues of the Authority. The remaining balance as of June 30, 2016 is \$9,000,000.

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

\$8,000,000 Combined Enterprise System Revenue Bonds, Series 2014B, were issued December, 2014 to fund the Northwest Water Reclamation Facility. Principal and interest installments are due annually on June 1, at annual interest rate of 2.375%. The bonds are secured by a pledge of the net revenues of the Authority. The remaining balance as of June 30, 2016 is \$8,000,000.

\$7,541,000 Combined Enterprise System Revenue Bonds, Series 2014C, were issued December, 2014 to fund the Northwest Water Reclamation Facility. Principal and interest installments are due annually on June 1, at annual interest rate of 2.375%. The bonds are secured by a pledge of the net revenues of the Authority. The remaining balance as of June 30, 2016 is \$7,541,000.

\$41,605,000 Combined Enterprise System Revenue Bonds, Series 2016, were issued April, 2016 to refund the Series 2004B, 2006, 2008B Revenue Bonds and a portion of the 2008A Revenue Bonds (See Note 11). Principal installments are due annually on December 1, with semiannual interest payments due on December 1 and June 1, at annual varying interest rates from 2% to 5%. The remaining balance as of June 30, 2016 is \$41,605,000.

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

FY Ending June 30,	2008A		2014A, B and C		2016		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,200,000	\$ 123,000	\$ 404,000	\$ 582,849	\$ 995,000	\$ 1,941,977	\$ 2,599,000	\$ 2,647,826
2018	1,260,000	63,000	414,000	573,254	1,195,000	1,744,225	2,869,000	2,380,479
2019			424,000	563,421	2,585,000	1,668,625	3,009,000	2,232,046
2020			434,000	553,351	2,695,000	1,563,025	3,129,000	2,116,376
2021			445,000	543,044	2,800,000	1,458,550	3,245,000	2,001,594
2022-2026			2,387,000	2,551,653	14,080,000	5,381,750	16,467,000	7,933,403
2027-2031			2,684,000	2,254,397	13,235,000	1,977,938	15,919,000	4,232,335
2032-2055			17,349,000	5,368,996	4,020,000	143,650	21,369,000	5,512,646
Total	2,460,000	\$ 186,000	24,541,000	\$ 12,990,965	41,605,000	\$ 15,879,740	68,606,000	\$ 29,056,705
Unamortized bond premium	-	-	-	-	7,122,694	-	7,122,694	-
Net carrying value	<u>\$ 2,460,000</u>		<u>\$ 24,541,000</u>		<u>\$ 48,727,694</u>		<u>\$ 75,728,694</u>	

Construction Loans Payable

The Authority has a \$1,375,792 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 \$379,975 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 \$4,663,552 construction loan payable to the State of North Carolina to finance the Dixon Reverse Osmosis treatment process, 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%.

Onslow Water and Sewer Authority

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

The Authority has a \$1,796,286 construction loan payable to the State of North Carolina to finance the Summerhouse WWTP Rehabilitation 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%.

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 503,301	\$ 34,120	\$ 537,421
2018	503,301	31,757	535,058
2019	503,301	29,394	532,695
2020	503,301	27,031	530,332
2021	503,301	24,669	527,970
2022-2026	2,516,504	87,902	2,604,406
2027-2031	2,442,220	28,833	2,471,053
2032-2036	740,376	521	740,897
	\$ 8,215,605	\$ 264,227	\$ 8,479,832

Rate Covenants:

The Series 2016 revenue bonds are secured by a pledge of the net revenues of the Authority. The rate covenant for the Enterprise Revenue Bonds, Series 2016, 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, 2016.

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, 2016. The debt service coverage ratio calculation for the fiscal year ended June 30, 2016 is as follows:

Operating revenues	\$ 20,889,389
Operating expenses (1)	14,407,583
Operating income	6,481,806
Non-operating revenues (expenses)	
Interest income	88,508
Miscellaneous revenue (2)	1,711,370
Income available for debt service	\$ 8,281,684
Revenue bond and construction loan debt service	\$ 6,179,171
Revenue bond and construction loan debt service coverage ratio	1.34

(1) excludes depreciation of \$4,894,381

(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, 2016 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 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 Statement Number 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", will be effective for the Authority beginning with its year ending June 30, 2017.

GASB Statement Number 81, "Irrevocable Split-Interest Agreements", will be effective for the Authority beginning with its year ending June 30, 2018.

GASB Statement Number 82, "Pension Issues- an Amendment of GASB Statements No. 67, No. 68 and No. 73" will be effective for the Authority beginning with its year ending June 30, 2017.

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, 2016.

Litigation

The Authority is involved in certain legal proceedings. Management and the Authority's legal counsel believe these matters are not material and can be successfully defended or prosecuted, based on the Authority's status as defendant or claimant in these matters. The Authority has insurance coverage in the event of a negative outcome.

Note 11. Advanced and Current Refunding

On April 28, 2016, the Authority issued \$28,930,000 of revenue advance refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of general resources for all future debt service payments related to \$30,834,136 of revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$1,462,299. This amount is being netted against the new debt and amortized over the life of the refunded debt which is shorter than the life of the new debt issued. The advanced refunding undertaken to reduce total debt service payments over the next 6 years by \$6,159,881 and resulted in an economic gain of \$4,724,731.

In addition, the government issued \$12,675,000 of revenue bonds for a current refunding of \$15,327,769 of revenue bonds for the enterprise fund. The refunding was undertaken to reduce total future debt service payments. The net carrying amount of the old debt exceeded the reacquisition price by \$163,800. This amount is being netted against new debt and amortized over new debt's life, which is shorter than the refunded debt. The transaction also resulted in an economic gain of \$2,549,595 and a reduction of \$2,864,603 in future debt service payments.

Note 12. Subsequent Events

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. Construction began in July 2016 and drawdowns in the amount of \$467,103 have been submitted. In September 2016, the Clean Water State Revolving Fund reduced the loan amount to \$1,303,570 based on the actual construction costs.

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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%
12/31/2015	-	3,432,730	3,432,730	0.0%	4,256,141	80.7%

Onslow Water and Sewer Authority

Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

For Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2016	\$310,328	27.66%
2015	\$292,514	5.70%
2014	\$250,566	6.96%

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	12/31/2015
Actuarial cost	Projected Unit Credit
Amortization method	Level Dollar Amount, 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 Three Fiscal Years ***

Local Government Employees' Retirement System

	2016	2015	2014
Authority's proportion of the net pension liability (asset) %	0.0981%	0.0963%	0.0941%
Authority's proportionate share of the net pension liability (asset) \$	\$ 440,312	\$ (567,748)	\$ 1,134,266
Authority's covered-employee payroll	\$ 5,554,704	\$ 5,383,806	\$ 5,221,548
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.93%	(10.55%)	21.72%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	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 3 Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 443,554	\$ 469,929	\$ 380,635
Contributions in relation to the contractually required	443,554	469,929	380,635
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 5,155,797	\$ 5,554,704	\$ 5,383,806
Contributions as a percentage of covered-employee	8.60%	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, 2016
 (Page 1 of 2)

	Final Budget	Actual	Variance With Final Budget
Operating revenues			
Water		\$ 15,750,554	
Waste water		3,408,290	
Service initiation fees		703,561	
Miscellaneous revenue		926,649	
Total operating revenues	\$ 20,796,591	20,789,054	\$ (7,537)
Nonoperating revenues			
Customer impact fees		2,266,101	
Interest income		88,247	
Total nonoperating revenues	2,720,000	2,354,348	(365,652)
Total revenues	23,516,591	23,143,402	(373,189)
Expenditures			
Water Divisions			
Hubert Water Treatment Plant		1,525,331	
Dixon Water Treatment Plant		1,108,233	
Meters		1,231,454	
Distribution		1,503,285	
Facilities Maintenance & Collections		1,765,925	
Total Water Divisions	8,607,403	7,134,228	1,473,175
Sewer Divisions			
Kenwood Wastewater Plant		39,360	
Northwest Regional Water Reclamation Facility		308,829	
Southeast Regional Wastewater Plant		366,478	
Swansboro Wastewater Plant		332,561	
Total Sewer Divisions	1,490,232	1,047,228	443,004
Administrative Divisions			
General and administration		1,572,358	
Information technology services		902,893	
Engineering		783,183	
Customer Service		1,372,831	
Laboratory		399,195	
Water & Wastewater Purchases		597,106	
SCADA		241,732	
Nondepartmental		980,681	
Total Administrative Divisions	7,599,151	6,849,979	749,172

(Continued)

Onslow Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund
 For Year Ended June 30, 2016
 (Page 2 of 2)

	Final Budget	Actual	Variance With Final Budget
Capital outlay	\$ 1,770,126	\$ 550,275	\$ 1,219,851
Total operating expenditures	<u>19,466,912</u>	<u>15,581,710</u>	<u>3,885,202</u>
Debt service			
Principal		2,887,195	
Interest		3,291,976	
Total debt service	<u>5,909,087</u>	<u>6,179,171</u>	<u>(270,084)</u>
Capital contributions			
Contributions from non-related parties		2,339,796	
Total capital contributions	<u>-</u>	<u>2,339,796</u>	<u>2,339,796</u>
Other financing sources (uses)			
New debt issued	-	48,727,693	48,727,693
Refunding of debt	-	(47,007,691)	(47,007,691)
Contingency for salaries	(18,033)	-	18,033
Appropriated fund balance	1,877,441	-	(1,877,441)
Total financing sources (uses)	<u>1,859,408</u>	<u>1,720,002</u>	<u>(139,406)</u>
Revenue and other financing sources over other financing uses	<u>\$ -</u>	<u>5,442,319</u>	<u>\$ 5,442,319</u>
Reconciliation of modified accrual to full accrual basis			
Depreciation		(4,894,381)	
Capital outlay		550,275	
Adjust for doubtful accounts		63,734	
Adjust for unbilled services		36,601	
Interest earned - Capital projects		261	
Accrued interest expense		28,328	
Accrued vacation		27,322	
Bond issuance costs		(547,731)	
Principal payment on bonded debt		2,887,195	
Non-capitalized revenue in the capital project funds		2,628,031	
Loss on land adjustment		(7,000)	
Deferred charge for debt		(1,298,499)	
Pension adjustment		175,028	
Increase in net assets		<u>\$ 5,091,483</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, 2016

	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	1,234,790	984,452	7,085	991,537
Dixon Reverse Osmosis	6,167,615	3,792,044	1,073,416	4,865,460
Summerhouse WWTP Rehab Project	4,131,060	3,067,895	211,035	3,278,930
Regional Aquifer Study	125,000	61,083	-	61,083
Union Chapel WTP	4,285,830	871,418	382,711	1,254,129
Total expenditures	15,944,295	8,776,892	1,674,247	10,451,139
Revenue under expenditures	(12,034,295)	(8,332,761)	(1,674,247)	(10,007,008)
Other financing sources				
Transfer from operating fund	1,773,620	1,887,620	-	1,887,620
Debt Issued	10,260,675	5,085,951	1,757,410	6,843,361
Total other financing sources	12,034,295	6,973,571	1,757,410	8,730,981
Revenue and other financing sources over (under) expenditures	\$ -	\$ (1,359,190)	\$ 83,163	\$ (1,276,027)

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, 2016

	Project Ordinance	Actual		
		Prior Years	Current Year	Total to Date
Revenue				
USDA Grant	\$ 9,816,000	\$ 7,187,969	\$ 2,628,031	\$ 9,816,000
Interest earnings	-	940,442	261	940,703
Total revenue	9,816,000	8,128,411	2,628,292	10,756,703
Expenditures				
Northwest Regional Reclamation Facility	-	43,539,219	651,746	44,190,965
HWY 50 Wells	-	354,835	289,171	644,006
HWY 53 Waterline	-	2,617,169	40,629	2,657,798
Western Onslow Trunk Sewer	-	4,462,623	1,219,278	5,681,901
Total expenditures	119,132,905	50,973,846	2,200,824	53,174,670
Revenue under expenditures	(109,316,905)	(42,845,435)	427,468	(42,417,967)
Other financing sources (uses)				
Transfer from operating fund	8,101,000	5,486,000	-	5,486,000
Debt issued	99,114,905	37,907,329	-	37,907,329
Fund balance appropriated	2,101,000	-	-	-
Total other financing sources	109,316,905	43,393,329	-	43,393,329
Revenue and other financing sources over (under) expenditures	\$ -	\$ 547,894	\$ 427,468	\$ 975,362

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

Operating Information:

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

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

Sources:

Unless otherwise noted, the information included in these schedules and charts is derived for the comprehensive annual financial reports (CAFR) for GASB 34 in the fiscal year ending June 30, 2016 and is provided for additional analysis purposes only and has not been verified by audit as presented.

Onslow Water and Sewer Authority

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

	2016	2015	2014	2013
Investment in Capital Assets	\$ 95,949,138	\$ 95,773,968	\$ 85,473,214	\$ 80,685,811
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 Funds	2,729,515	2,572,773	2,572,773	2,572,773
Unrestricted	32,509,928	27,750,357	30,353,222	29,466,991
Total net position	<u>\$ 133,692,732</u>	<u>\$ 128,601,249</u>	<u>\$ 120,903,360</u>	<u>\$ 115,229,726</u>

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

Fiscal Year					
2012	2011	2010	2009	2008	2007
\$ 73,139,306	\$ 58,404,315	\$ 56,888,432	\$ 62,104,115	\$ 34,239,204	\$ 28,140,597
\$ 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
22,362,656	25,776,925	22,123,603	13,406,385	18,591,929	15,815,904
<u>\$ 100,578,886</u>	<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>

Onslow Water and Sewer Authority

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

	2016	2015	2014	2013
Operating revenue				
Water	\$ 15,854,573	\$ 15,519,240	\$ 15,872,861	\$ 15,279,458
Wastewater	3,404,606	3,278,001	3,003,551	2,812,169
Service initiation fees	703,561	738,335	756,809	898,153
Miscellaneous income	926,649	939,654	861,846	1,409,428
Total operating revenue	20,889,389	20,475,230	20,495,067	20,399,208
Operating expenses				
Hubert Water Treatment Plant	1,307,075	1,366,700	1,164,330	1,120,024
Dixon Water Treatment Plant	957,567	917,126	1,064,154	1,207,929
Meters	885,824	897,641	864,512	767,628
Water Distribution	1,258,987	1,359,140	1,423,647	1,742,693
Distribution	-	-	-	-
Facilities Maintenance & Collections	1,311,351	1,280,361	1,158,615	807,425
SCADA	239,617	249,006	232,565	194,461
Kenwood Wastewater Plant	36,263	26,128	25,850	34,461
Northwest Regional Water Reclamation Facility	295,744	377,653	303,136	270,234
Richlands and Kenwood Wastewater Plants	-	-	-	-
Southeast Wastewater Plants	292,590	265,688	256,716	281,633
Swansboro Wastewater Plant	290,866	333,367	286,482	286,924
Hunter's Creek Wastewater Plant	-	-	-	-
Springdale Wastewater Plant	-	-	-	-
Hickory Grove Wastewater Plant	-	1,702	2,434	2,278
Webb Wastewater Plant	-	15,023	14,116	13,190
General administrative and finance	1,404,154	1,244,587	1,473,406	1,450,621
Information technology services	903,987	811,267	788,583	549,940
Engineering	771,132	885,832	884,282	933,908
Customer Service & Billing	1,373,686	1,339,446	1,297,398	1,272,172
Waste water collections	-	-	-	-
Laboratory	401,630	383,092	366,835	453,140
Nondepartmental	577,869	567,576	605,482	606,567
Water & Wastewater Purchases	578,415	514,076	439,056	464,302
Repairs and maintenance	1,520,826	1,431,467	1,558,649	1,408,218
Impairment of capital assets	-	-	-	-
Depreciation	4,894,381	4,953,323	4,850,306	4,887,460
Total operating expenses	19,301,964	19,220,201	19,060,554	18,755,208
Operating income (loss)	1,587,425	1,255,029	1,434,513	1,644,000

(Continued)

		Fiscal Year									
		2012	2011	2010	2009	2008	2007				
\$	14,914,720	\$	15,274,164	\$	14,527,600	\$	12,764,795	\$	12,624,769	\$	9,455,643
	2,678,748		2,530,105		2,451,995		2,043,536		1,399,518		799,800
	941,220		920,549		664,518		478,984		532,824		1,554,912
	1,261,700		1,000,969		735,566		613,928		621,765		447,679
	19,796,388		19,725,787		18,379,679		15,901,243		15,178,876		12,258,034
	1,125,146		1,356,395		831,538		845,621		730,041		958,808
	1,125,585		993,899		906,118		802,318		772,721		838,899
	798,755		1,083,491		1,030,833		991,808		959,891		747,161
	1,634,377		1,388,779		-		-		-		-
	-		426,876		1,066,327		1,068,802		1,116,741		1,052,820
	496,891		435,198		916,023		1,076,869		988,468		1,411,028
	-		90,153		230,453		231,776		227,324		-
	112,256		118,270		134,292		154,098		109,833		107,282
	186,316		200,240		177,644		199,111		221,839		221,941
	-		-		-		-		-		-
	289,193		288,383		266,176		261,370		304,500		260,783
	267,711		252,334		354,982		257,137		289,465		183,670
	-		-		70,426		138,860		9,504		-
	73,993		84,048		60,671		93,108		-		-
	7,953		10,441		5,367		1,984		-		-
	927		-		-		-		-		-
	1,259,345		1,419,801		1,606,485		1,853,631		1,717,986		1,972,342
	480,766		458,527		390,407		387,816		318,692		276,858
	1,271,383		1,099,745		1,090,983		706,401		620,083		438,515
	1,320,445		1,217,398		908,710		914,335		833,921		847,019
	-		330,307		753,767		735,511		464,490		365,566
	391,072		353,857		307,527		287,835		265,540		265,101
	538,665		705,802		672,712		597,903		658,067		542,089
	576,370		688,189		98,263		-		-		-
	1,543,784		-		-		-		-		-
	-		-		2,207,744		-		-		-
	4,611,710		4,457,013		4,213,579		3,476,174		2,940,191		2,752,536
	18,112,643		17,459,146		18,301,027		15,082,468		13,549,297		13,242,418
	1,683,745		2,266,641		78,652		818,775		1,629,579		(984,384)

Onslow Water and Sewer Authority

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

	2016	2015	2014	2013
Nonoperating revenue (expense)				
Customer impact fees	\$ 2,266,101	\$ 2,601,426	\$ 3,331,097	\$ 4,576,500
Interest income	88,508	7,823	8,915	29,935
Interest expense	(3,263,647)	(2,839,651)	(2,669,841)	(3,010,777)
Amortization	-	-	-	-
Loss on land adjustment	(7,000)	-	-	-
Bond issuance costs	(547,731)	-	-	-
Piney Green project - Jacksonville's portion	-	(3,130,196)	-	-
Contributions from non-related parties	-	946,938	2,006,527	8,323,474
Total nonoperating revenue (expense)	(1,463,769)	(2,413,660)	2,676,698	9,919,132
Income before capital contributions	123,656	(1,158,631)	4,111,211	11,563,132
Clean Water Management Trust Fund Grant	-	444,131	-	-
USDA Rural Development Grant	2,628,031	7,187,969	-	-
Capital contributions from member governments	-	-	-	-
Capital contributions from non-related parties	2,339,796	1,978,051	1,562,423	3,087,708
Increase in net assets	5,091,483	8,451,520	5,673,634	14,650,840
Net assets				
Beginning	128,601,249	120,903,360	115,229,726	100,578,886
Restatement for accounting change	-	(753,631)	-	-
Beginning, as restated	128,601,249	120,149,729	115,229,726	100,578,886
Ending	\$ 133,692,732	\$ 128,601,249	\$ 120,903,360	\$ 115,229,726

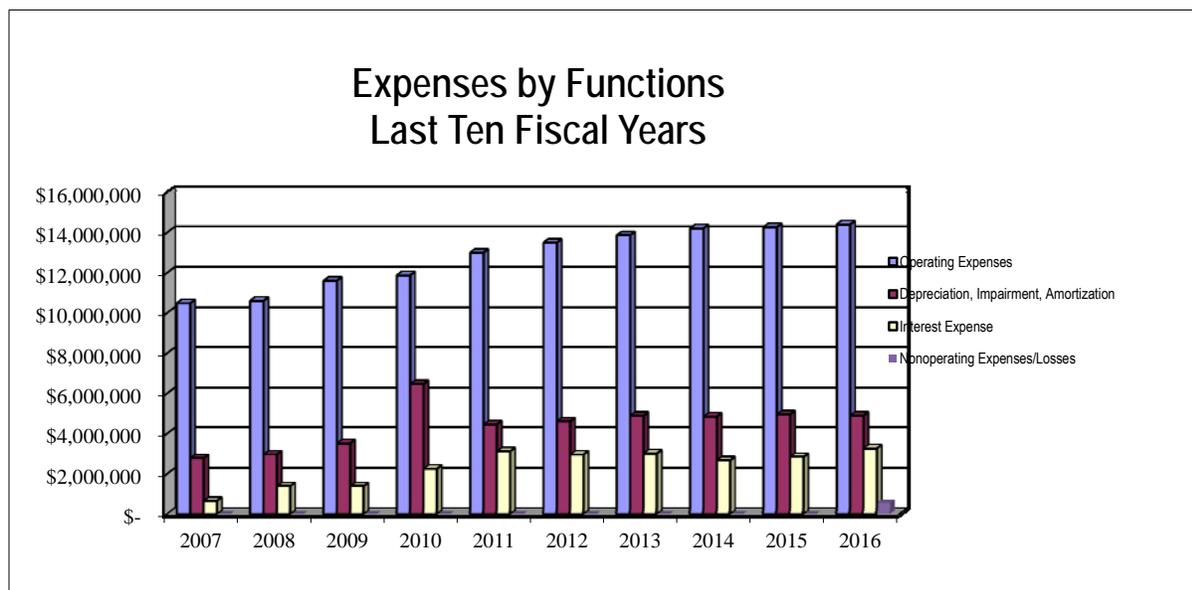
		Fiscal Year									
		2012	2011	2010	2009	2008	2007				
\$	4,595,674	\$	4,353,932	\$	4,819,605	\$	2,086,330	\$	1,121,553	\$	2,964,803
	41,669		74,296		147,107		871,152		1,360,831		1,147,600
	(2,959,753)		(3,115,952)		(2,255,051)		(1,383,963)		(1,388,120)		(652,075)
	(41,609)		(41,609)		(41,609)		(41,609)		(26,007)		(26,007)
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	51,375		558,024		882,477		1,472,845		-		87,886
	1,687,356		1,828,691		3,552,529		3,004,755		1,068,257		3,522,207
	3,371,101		4,095,332		3,631,181		3,823,530		2,697,836		2,537,823
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		463,861		(209,646)		8,419,793		1,093,780		507,807
	7,949,621		610,012		80,000		10,436,044		5,083,016		-
	11,320,722		5,169,205		3,501,535		22,679,367		8,874,632		3,045,630
	89,258,164		84,088,959		80,587,424		57,908,057		49,033,425		45,987,795
	-		-		-		-		-		-
	89,258,164		84,088,959		80,587,424		57,908,057		49,033,425		45,987,795
\$	100,578,886	\$	89,258,164	\$	84,088,959	\$	80,587,424	\$	57,908,057	\$	49,033,425

Onslow Water and Sewer Authority

Expenses By Functions Last Ten Fiscal Years

Fiscal Year Ended June 30,	Operating Expenses	Depreciation, Impairment, Amortization	Interest Expense	Nonoperating Expenses/ Losses	Total
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
2016	14,407,583	4,894,381	3,263,647	554,731	22,565,611

Source: Onslow Water and Sewer Authority's Accounting Records

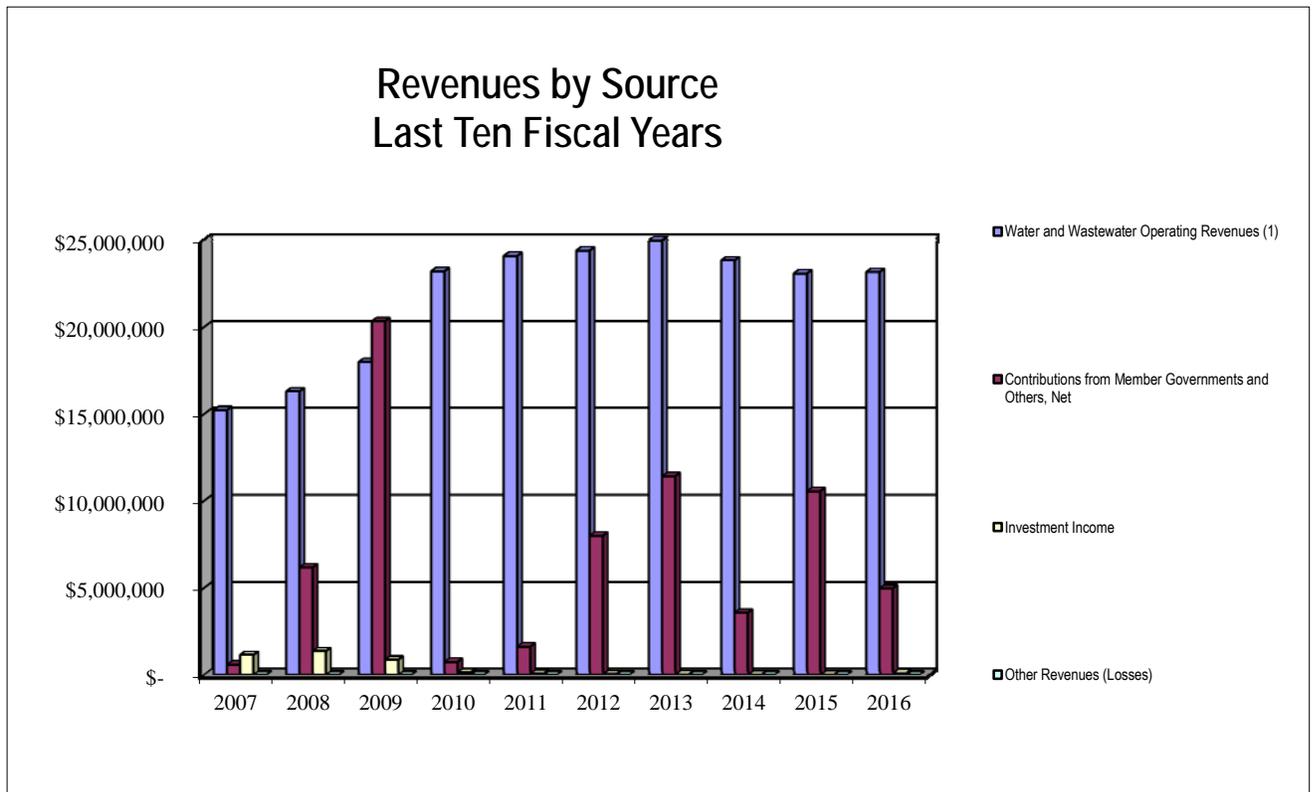


Onslow Water and Sewer Authority

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
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
2016	23,155,490	4,967,827	88,508	-	28,211,825

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*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Scientific Water	<1%	<1%	1.2%	1.2%	1.5%	1.7%	1.8%	2.1%	2.3%	3.8%
Commanding General (All MCBL Accounts)	2.5%	2.1%	1.9%	1.7%	1.7%	4.1%	1.6%	1.8%	1.5%	1.2%
Onslow County Schools	1.1%	1.2%	1.1%	1.1%	1.2%	1.1%	1.2%	1.3%	1.2%	<1%
J & J Snack Foods	<1%	<1%	<1%	<1%	<1%	-	-	-	-	-
Gatlins Trailer Park	-	<1%	-	-	<1%	<1%	<1%	<1%	<1%	<1%
St. Regis HOA	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Stanadyne	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Conagra	-	-	-	-	-	<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%
Military/Student Housing	<1%	<1%	<1%	<1%	<1%	<1%	-	-	-	-
Market Rate, LLC	<1%	<1%	<1%	<1%	<1%	-	-	-	-	-
Sherwood MHP	-	-	-	-	-	<1%	<1%	<1%	<1%	<1%
Town of Swansboro	-	-	-	-	-	-	-	-	-	-
Swansboro Ventures	-	<1%	<1%	<1%	-	-	-	-	-	-
Ramseys Trl Park	<1%	-	<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*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Onslow County Schools	4.3%	3.9%	4.0%	4.5%	6.2%	3.2%	3.2%	3.5%	6.1%	2.3%
Conagra	-	-	-	-	-	1.9%	1.9%	2.1%	4.2%	2.6%
J & J Snack Foods	1.4%	1.7%	1.9%	1.7%	2.6%	-	-	-	-	-
Arnolds	-	-	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Wilco/Hess	1.2%	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%
Richlands Car Wash	-	-	-	-	-	-	-	-	-	<1%
Betty's Smokehouse	-	-	-	-	-	-	-	-	-	<1%
Piggly Wiggly	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Market Rate LLC	1.6%	1.6%	1.4%	<1%	<1%	-	-	-	-	-
McDonalds - Richlands	-	-	-	-	-	-	-	-	-	-
Richlands Laundry	-	-	-	-	-	-	-	-	-	<1%
Food Lion	-	-	-	-	-	-	<1%	<1%	<1%	<1%
T & J Cleaners	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Blue Water Association	<1%	<1%	-	-	-	-	-	-	-	-
Blue Creek Mobile Home Park	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	-	-
Military/Student Housing	1.2%	1.1%	1.0%	2.6%	1.6%	<1%	-	-	-	-
Swansboro Ventures	<1%	<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
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
2016	45,330	8,836,415	6,150,842	75,728,694	1.44	1,670.61

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)
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%
2016	198,578	8,481,090	46,602	28.00	25,161	5.50%

(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, 2016

Year Founded and Incorporated	2000
Size of Service Area:	
Square Miles	756
Miles of Water Pipe	1,156
Miles of Wastewater Collection Pipe	170
Wastewater Pump Stations	67
Customer Accounts	48,310
Budgeted Full Time Employees	128
Water Treatment Plants Capacity:	
Million gallons per day (MGD)	12.8
Production Peak, FY 2015 - 2016 (MGD)	12.1
Production Average, FY 2015 - 2016(MGD)	7.8
Wastewater Treatment Plants Capacity:	
Million gallons per day (MGD)	2.2
Highest Average Daily Flow, FY 2015 - 2016 (MGD)	1.7
Highest Max Daily Flow, FY 2015 - 2016 (MGD)	3.0
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 June 30,	Residential Property	Commercial Property	Industrial Property	Present-use Value (1)	Personal Property	Public Service Companies (2)	Exemptions	Total Taxable Assessed Value	Total Direct Tax Rate (3)	Estimated Actual Taxable Value (4)	Assessed Value as a Percentage of Actual Value
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%
2016	9,750,312,188	1,837,274,076	22,555,280	125,104,665	563,994,754	284,070,687	310,057,493	12,273,254,157	0.675	12,273,254,157	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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Onslow County	0.5030	0.5030	0.5030	0.5850	0.5850	0.5850	0.5850	0.6750	0.6750	0.6750
Municipality rates:										
Holly Ridge	0.3800	0.3800	0.3800	0.4150	0.4150	0.4150	0.4150	0.4150	0.4150	0.4150
Jacksonville	0.5316	0.6260	0.6260	0.5380	0.5380	0.5380	0.5380	0.6420	0.6420	0.6420
North Topsail Beach	0.1300	0.1600	0.1400	0.2355	0.2355	0.2355	0.3755	0.3932	0.3932	0.3932
Richlands	0.3800	0.3800	0.3800	0.3700	0.3700	0.3700	0.3600	0.3800	0.3800	0.3800
Surf City (1)	0.3100	0.3100	0.3100	0.3100	0.2826	0.3100	0.4100	0.4100	0.4100	0.4100
Swansboro	0.3130	0.3530	0.3930	0.3930	0.3930	0.3930	0.3500	0.3500	0.3500	0.3500

(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
2007	54,326	53,324	98.16%	238	54,088	99.56%
2008	57,074	56,349	98.73%	255	56,819	99.55%
2009	59,478	58,510	98.37%	340	59,138	99.43%
2010	71,587	69,975	97.75%	383	71,204	99.46%
2011	72,816	71,344	97.98%	382	72,434	99.48%
2012	75,432	74,029	98.14%	445	74,987	99.41%
2013	79,022	77,047	97.50%	665	78,357	99.16%
2014	78,566	77,048	98.07%	676	77,890	99.14%
2015	82,177	80,949	98.51%	825	81,352	99.00%
2016	83,697	81,172	96.98%	-	81,536	97.42%

Source: Onslow County Tax Administration.

Onslow Water and Sewer Authority

Full Time Equivalent Employees
Last Ten Fiscal Years

Division	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General and Administrative										
Office of the Executive Director	3	3	3	3	3	3	3	3	2	2
Administration/Human Resources	7	7	7	5	5	7	7	10	9	7
Finance	6	6	5	5	5	6	6	6	6	5
Information Technology Services	7	6	6	3	3	3	3	3	3	2
Operations										
Engineering	11	11	13	13	14	15	15	12	11	10
Meters	15	15	14	14	14	15	15	15	16	16
Distribution	18	18	18	24	18	16	16	16	16	18
Customer Service	15	15	15	16	18	13	13	12	13	12
Facilities Maintenance & Collections	12	12	12	8	14	19	19	19	19	19
Water Treatment	16	15	16	16	17	14	14	14	14	15
Wastewater Treatment	9	9	9	9	10	10	10	10	10	9
Laboratory	4	4	4	6	5	4	4	3	3	3
SCADA	5	5	5	5	-	-	-	-	-	-
Total FTE's	128	126	127	127	126	125	125	123	122	118

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

Employer	2016		2012	
	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	500-999	6
Onslow County Government	1000+	5	1000+	5
Onslow Memorial Hospital	1000+	6	1000+	4
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)
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
2016	2,883,884	373,507

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	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Administrative										
Number of accounts billed for entire FY	533,228	523,713	500,787	525,433	444,352	467,981	443,185	428,148	421,718	394,129
Turn on service orders processed	12,388	15,727	13,048	17,801	18,708	18,230	18,180	17,652	15,901	14,072
Percentage actual expenditures to budget	100%	95%	99%	88%	83%	85%	95%	86%	93%	77%
Percentage of safety incidents to employees	2.5%	3.0%	2.0%	2.0%	1.2%	1.0%	1.50%	3.20%	2.40%	1.80%
Number of ITS helpdesk calls	1,200	1000	1000	1000	750	600	625	650	550	490
Water										
Number of meters read throughout the year	580,000	571,124	564,370	544,370	525,404	502,963	476,072	465,069	458,376	432,430
Number of water line miles maintained	1,156	1,200	1,147	1,094	1,094	1,060	1,033	1,021	1,000	1,000
Amount of water from wells to the Dixon/Hubert WPs	2,180,066,000	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
Number of quality control analysis performed	25,500	17,469	15,000	11,652	13,378	13,131	13,000	11,200	8,460	5,760
Total number of gallons of water treated at Dixon Water Plant	900,000,000	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
Number of water quality checks for water treated at Dixon WP	0	0	0	0	0	14	12	14	48	47
Total number of gallons of water treated at Hubert Water Plant	1,280,066,000	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
Number of water quality checks for water treated at Hubert WP	0	0	0	0	0	66	48	32	96	51
Wastewater										
Number of miles maintained by Wastewater Collections	170	146	124	124	124	125	120	91	81	67
Number of pump stations maintained	67	67	64	58	59	59	55	50	37	36
Number of million gallons treated at Southeast Regional Wastewater Plant	89,827,240	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
Total operation cost per thousand gallons treated at Southeast Regional WWTP	\$4.08	\$4.76	\$3.62	\$8.70	\$10.71	\$7.51	\$7.92	\$6.66	\$9.21	\$7.11
Number of million gallons treated at Kenwood Wastewater Plant	11,740,850	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
Total operation cost per thousand gallons treated at Kenwood WWTP	\$3.36	\$5.53	\$3.47	\$11.30	\$10.27	\$9.80	\$8.47	\$7.14	\$14.93	\$8.40
Number of million gallons treated at Northwest WRF	119,022,804	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
Total operation cost per thousand gallons treated at Northwest WRF	\$2.72	\$7.30	\$4.02	\$3.30	\$4.11	\$3.26	\$3.70	\$3.40	\$2.09	\$2.14
Number of million gallons treated at Swansboro Wastewater Plant	147,444,775	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
Total operation cost per thousand gallons treated at Swansboro WWTP	\$2.83	\$4.15	\$2.93	\$3.66	\$3.24	\$3.19	\$3.73	\$2.78	\$3.82	\$3.94

Source: Onslow Water and Sewer Authority departments

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

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Administrative										
Number of administrative vehicles	21	17	18	9	12	10	12	10	10	9
Number of buildings maintained	2	2	2	2	2	2	2	2	2	2
Water										
Number of vehicles maintained for water use	38	40	37	39	38	38	48	60	57	53
Miles of water lines	1,156	1200	1147	1094	1094	1081	1,020	1,020	1,000	1000
Number of water treatment plants	2	2	2	2	2	2	2	2	2	2
Wastewater										
Number of vehicles maintained for wastewater use	16	15	14	20	23	28	16	21	18	16
Miles of wastewater lines	170	146	124	124	124	128	120	83	81	67
Number of wastewater treatment plants	4	4	7	7	7	7	7	8	5	4

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, 2016, 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 29, 2016.

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. We did identify a certain deficiency in internal control, described in finding 2016-001 in the accompanying Schedule of Findings and Questioned Costs that we consider to be a material weakness.

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 Finding

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

RSM US LLP

Morehead City, North Carolina

December 29, 2016

Report on Compliance For the Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance and the State Single Audit
Implementation Act

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited Onslow Water and Sewer Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on Onslow Water and Sewer Authority's major federal program for the year ended June 30, 2016. Onslow Water and Sewer Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Onslow Water and Sewer Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and the Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the Uniform Guidance 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 its major federal program. However, our audit does not provide a legal determination of Onslow Water and Sewer Authority's compliance.

Opinion on the Major Federal Program

In our opinion, Onslow Water and Sewer Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Onslow Water and Sewer Authority's internal control over compliance.

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

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

Purpose of this Report

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

RSM US LLP

Morehead City, North Carolina
December 29, 2016

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section 1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- | | | |
|---|----------------------|--------------------------------|
| • Material weakness(es) identified? | <u> X </u> yes | <u> </u> no |
| • Significant deficiency(ies) identified? | <u> </u> yes | <u> X </u> none reported |
| Noncompliance material to financial statements noted? | <u> </u> yes | <u> X </u> no |

Federal Awards

Internal control over major federal programs:

- | | | |
|---|---------------------|--------------------------------|
| • Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| • Significant deficiency(ies) identified? | <u> </u> yes | <u> X </u> 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 2 CFR 200.516(a)?

<u> </u> yes	<u> X </u> no
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(Continued)

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2016

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

Identification of major federal programs:

CFDA #	Program Name
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish
between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? X yes no

Section 2. Financial Statement Findings

Finding 2016-001 – Fixed asset not recorded (material weakness 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 include capitalized interest in the amount of \$3.3 million in its capitalized assets. Capitalized interest was part of construction-in-progress that was completed during the fiscal year.

Effect: The amounts recorded in the Authority's trial balance for capital assets and net position were understated.

Cause: Human error.

Recommendation: We recommend a year-end procedure be put in place to reconcile closed construction projects with the capital asset additions.

Views of Responsible Management: Management agrees with recommendation. See corrective action plan.

(Continued)

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2016

Section 3. Findings and Questioned Costs for Federal Awards

None

Member Governments

Holly Ridge
Jacksonville
North Topsail Beach
Onslow County
Richlands
Swansboro



**Corrective Action Plan
For the Fiscal Year Ended June 30, 2016**

Section 2. Financial Statement Findings

Finding 2016-001 – Fixed asset not recorded

Name of contact person: Tiffany Riggs, Finance Officer

Corrective Action: The Authority agrees with the recommendation and will comply. The Authority will implement a procedure of reconciling closed construction projects with capital asset additions within their current year-end closing procedures.

Proposed Completion Date: November 1, 2016

Onslow Water and Sewer Authority

Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2016

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

Status: Corrected.

Finding 2015-002 – Segregation of duties – collections department

Status: Corrected.

Onslow Water & Sewer Authority

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2016

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Expenditures				
		Federal	State	Pass-Through to Subrecipients	Local	Total
Federal Awards						
U. S. Department of Agriculture (Note 4)						
Direct Program:						
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 2,628,031	\$ -	\$ -	\$ (2,617,841)	\$ 10,190
U. S. Environmental Protection Agency (Note 3)						
Pass through: NC Department of Environment and Natural Resources						
Clean Water State Revolving Funds	66.458	521,221	130,305	-	(440,491)	211,035
Drinking Water State Revolving Loan	66.468 M	884,707	221,177	-	(32,468)	1,073,416
Total U.S. Environmental Protection Agency		1,405,928	351,482	-	(472,959)	1,284,451
Totals		\$ 4,033,959	\$ 351,482	\$ -	\$ (3,090,800)	\$ 1,294,641

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, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state award activity of Onslow Water and Sewer Authority, under programs of the federal and State government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the basic financial statements of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Authority follows the 10% de minimis rule for indirect cost allocations.

Note 3. Loans Outstanding

The Authority has prior outstanding loan balances from federal and State funding sources that are not required to be presented within the Schedule because there are no continuing requirements beyond repayment of the loan balances in accordance with loan agreement provisions. Balances and transactions related to these programs are included in the Authority's basic financial statements.

<u>Program Name</u>	<u>CFDA Number</u>	<u>Beginning</u>			<u>Ending</u>
		<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Capitalization Grants for State Revolving Funds:					
Clean Water State Revolving Funds (1)	66.458	\$ 1,249,019	\$ 651,526	\$ 104,259	\$ 1,796,286
Drinking Water State Revolving Loan (2)	66.468	3,836,932	1,105,884	279,264	4,663,552
		<u>\$ 5,085,951</u>	<u>\$ 1,757,410</u>	<u>\$ 383,523</u>	<u>\$ 6,459,838</u>

- (1) The Dixon Raw Waterline and Well construction project is funded by the NC Department of Environment and Natural Resources (NCDENR) through the Drinking Water State Revolving Loan. During the fiscal year ended June 30, 2016, the Authority had a loan drawdown of \$1,105,884 of which \$1,073,416 related to current year project expenditures and \$32,468 related to prior year's expenditures paid by local sources. The Authority has reported loan funds for project expenditures of \$1,105,884 for the fiscal year ended June 30, 2016, on its Schedule, of which were subject to compliance testing.
- (2) The Summerhouse Water Reclamation Facility construction project is funded by the NCDENR through Clean Water State Revolving Funds. During the fiscal year ended June 30, 2016, the Authority had a loan drawdown of \$651,526, of which \$211,035 related to current year project expenditures and \$440,491 related to prior year's expenditures paid by local sources. The Authority has reported loan funds for project expenditures of \$651,526 for the fiscal year ended June 30, 2016, on its Schedule.

Onslow Water and Sewer Authority

Notes to the Schedule of Expenditures of Federal and State Awards (Continued)
For the Fiscal Year Ended June 30, 2016

Note 4. Water and Waste Systems Disposal Systems for Rural Communities

The Authority's Northwest Regional Reclamation Facility construction project was funded with Water and Waste Systems Disposal Systems for Rural Communities loans and grants. The Authority received \$2,628,031 in grant monies during the fiscal year ended June 30, 2016. Of this amount, \$2,617,841 was used to reimburse prior years' project expenditures paid by local sources. The Authority has reported grant funds for project expenditures of \$2,628,031 for the fiscal year ended June 30, 2016, on its Schedule.