

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

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017**

Prepared by:

Finance Department of Onslow Water and Sewer Authority

Table of Contents

Introductory Section (Unaudited):	
Letter of Transmittal	1-7
GFOA Certificate of Achievement	8
Organizational Chart	9
List of Appointed Officials	10
Financial Section:	
Independent Auditor's Report	11-13
Management's Discussion and Analysis (Unaudited)	14-19
Basic Financial Statements:	
Statement of Net Position	20-21
Statement of Revenues, Expenses and Changes in Net Position	22-23
Statement of Cash Flows	24
Notes to the Financial Statements	25-43
Required Supplemental Financial Data:	
Other Postemployment Benefits – Schedule of Funding Progress, Schedule of Employer Contributions	44
Schedule of Authority's Proportionate Share of Net Pension Liability (Asset) - LGERS	45
Schedule of Authority's Contributions - LGERS	46
Individual Fund Schedules:	
Schedule of Revenues and Expenditures – Budget and Actual (Modified Accrual Basis) - Operating Fund	47-48
Schedule of Revenues and Expenditures – Budget and Actual (Modified Accrual Basis) - Capital Projects Fund – Various Projects	49
Schedule of Revenues and Expenditures – Budget and Actual (Modified Accrual Basis) - Capital Projects Fund – Water and Sewer Expansion Projects	50
Statistical Section (Unaudited):	
Net Position by Component – Last Ten Fiscal Years	52-53
Change in Net Position – Last Ten Fiscal Years	54-57
Expenses by Functions – Last Ten Fiscal Years	58
Revenues by Sources – Last Ten Fiscal Years	59
Principal Sewer Customers – Last Ten Fiscal Years	60
Principal Water Customers – Last Ten Fiscal Years	61
Ratio of Bonded Debt to Net Operating Revenues and Net Bonded Debt Per Customer – Last Ten Fiscal Years	62
Onslow County, North Carolina Demographic Statistics – Last Ten Fiscal Years	63
Miscellaneous Statistical Data	64
Onslow County, North Carolina Taxable Property Assessed Value – Last Ten Fiscal Years	65
Onslow County, North Carolina Taxable Property Tax Rates – Last Ten Fiscal Years	66
Onslow County, North Carolina Property Tax Levies and Collections – Last Ten Fiscal Years	67
Full Time Equivalents Employees – Last Ten Fiscal Years	68
Principal Employers – Current Year and Five Years Ago	69
Water Processed and Wastewater Treated – Last Ten Fiscal Years	70
Operating Indicators by Function/Program – Last Ten Fiscal Years	71-72

Table of Contents (Continued)

Compliance Section:

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	73-74
Independent Auditor's Report on Compliance For the Major Federal Program and on Internal Control Over Compliance in Accordance With the Uniform Guidance and the State Single Audit Implementation Act	75-76
Schedule of Findings and Questioned Costs	77-78
Summary Schedule of Prior Audit Findings	79
Schedule of Expenditures of Federal and State Awards	80
Notes to Schedule of Expenditures of Federal and State Awards	81



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228 Georgetown Rd
Jacksonville, NC 28540

December 8, 2017

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, 2016 through June 30, 2017 (FY 2017). 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 141,307 people. Our 50,495 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 \$43 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 141,307 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 175 miles of sewer lines and 72 pump stations to collect and carry the communities' wastewater to one of the three 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. 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 is 4.6% , which is slightly higher than the current state-wide rate of 4.2%. Approximately 2,178 residential permits and 489 commercial building permits were issued by Onslow County in FY16-17. The approximate population of Onslow County in 2017 was 200,236.

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. Richlands, 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 and restaurants coming to the area. A new Wal-Mart is being built in Swansboro and is expected to open in spring 2018. Since the opening of Wal-Mart in Richlands, many new businesses are coming into the area. Onslow County government broke ground on a shell building in early 2017 in Burton Park in order to entice new business into the area.

Major Initiatives and Accomplishments

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

Union Chapel Water Treatment Plant

In response to the Central Coastal Plain Capacity Use Area Rule groundwater withdrawal restrictions (see above), a study determined that development of an alternative raw water supply within the Castle Hayne aquifer to offset loss of the Black Creek well field yield was feasible. The proposed wells would be located in the vicinity of the Martin Marietta Aggregates (MMA) Onslow Quarry, with the intent of creating an alternate water supply in part by using these wells to intercept groundwater before it entered the quarry pit and had to be removed by MMA via pumping and surface discharge.

Phase 1 of the project planned for the creation of two well sites that provided a total of four (4) new raw water wells adjacent to the quarry along Richlands Highway. Site 1 would consist of conversion of an existing Castle Hayne test well and a Beaufort Aquifer test well to production wells. Site 2 would consist of one new Castle Hayne production well and one new Beaufort production well. This initial phase will provide water for blending with existing Black Creek wells in the area and produce a finished water of sufficient quality to enter the distribution system directly. The Phase 1 work was divided into two construction contracts, drilling of the two new production wells and full build-out of all four wells, followed by a separate contract to construct the raw water mains and blending facility. Two subsequent phases were anticipated, for construction of additional wells and a full capacity water treatment facility with raw and finished water lines.

Drilling of the two new production wells and testing of all four wells has been performed under the initial construction contract, executed in May 2015 with completion by the end of 2017. One of the wells provided very low production capacity and will not be completed. Design work for the raw water mains and blending facility project is nearing completion; it will be bid for construction in late 2017 and will take 12 months to complete.

NC Highway 50 Wells

In order to address an estimated 15% wasting rate from implementation of the RO treatment process at the Dixon Water Treatment Plant (see above), ONWASA initiated an exploration program to develop additional sources of raw water supply. Test wells were constructed within the Lower Castle Hayne and the Upper Castle Hayne aquifers south of the Dixon site to determine yield potential and water quality. Based on positive initial testing results, a two-phase Dixon D10 and D11 Wells Project was initiated for the construction of two production wells and 20,000 linear feet of raw water line. Phase 1 would consist of well drilling and testing to determine the design requirements of the production well heads. Phase 2, to be performed under two individual construction contracts, would consist of completion of the above-ground portion of the well heads, along with the raw water lines from the well locations on Highway 50 to an existing raw water line at Folkstone Road that serves the Dixon Water Treatment Plant.

All work on Phase I was completed in late 2015. Design and bidding documents for both Phase 2 construction contracts (well build-out and raw water main installation) are nearly complete, will be bid in late 2017 and construction will take 12 months to complete.

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

The major components of this project, construction of two new pump stations and associated gravity/force main sewer lines in order to decommission the existing Webb Apartments and Hickory Grove wastewater treatment facilities, was completed in 2015 and are fully operational. A project to address the remaining item of work, removal of sludge and formal closure of an approximately 3 acre treatment lagoon at the Hickory Grove site, was bid in early 2015 however the bids to perform this work were almost three times the estimated cost due to the site's physical limitations and dewatering issues. Funding will be used to work with the design consultant to conduct additional water quality/sludge testing, meet with regulatory agencies, and develop/implement a more cost effective option to close the lagoon site.

North Topsail Bridge Waterline Replacement

A condition assessment was completed in 2015 on the deteriorating 10-inch diameter ductile iron water main suspended from the North Topsail Beach High Rise Bridge. This main serves as the primary source of water for the majority of Topsail Island and would have a major impact on the area if a sudden failure occurred. The assessment determined that the water main is nearing the end of its useful life and recommended its replacement with a high density polyethylene (HDPE) pipe directionally drilled under the Intracoastal Waterway parallel to the bridge. At the request of NCDOT, the existing 10-inch ductile iron main would then be removed. A meeting was held in early April 2017 with State and Federal representatives to determine the feasibility of the proposed project and regulatory/permitting requirements.

Design work and bidding documents for installation of the new main and removal of the existing piping began in July 2017 and are nearly complete. Bidding of the construction contract should begin in late 2017, depending on the time required to secure final permit approvals and acquisition of easements, and construction will take 6 months to complete.

Holly Ridge Gravity Sewer Improvements

Due to wastewater overflow events that occurred in the Town of Holly Ridge, an investigation of the existing gravity wastewater collection system tributary to the Jenkins Street pump station was initiated in August 2015. The resulting Engineers Report and Environmental Information Document indicated that many of the lines in this area were undersized and had insufficient slope for the flow being carried, and the recommended alternative was to replace those lines and associated manholes with a new collection system that would utilize the existing alignment and easements as much as possible. This reconstruction effort would greatly reduce the future risk of wastewater overflow conditions, as well as decrease any infiltration of groundwater into the system in this area.

Final design work and bidding documents for the construction contract have been completed and the project advertised for bids in March 2017. Pending contract award, construction should be completed in early 2018.

Roof Replacements – Main Office, Hubert WTP & Dixon WTP

An independent field evaluation of existing conditions and materials at more than 30 different structures owned/maintained by ONWASA was recently completed, and several sites have been identified where the existing roofing material was well past its expected service life and replacement warranted. This project will initiate a roof replacement program that will begin with three locations where active leaks are already occurring during significant rain events: the Central Operations complex on Georgetown Road and the laboratory/office areas at both the Dixon and Hubert Water Treatment Facilities. Addressing leaking roof is critical to protect the contents of the building but also the underlying roof deck and structural members.

Directional Bores – Escoba Bay, High Hill Road, Grants Creek Road & Wheeler Creek

ONWASA Distribution Section staff has identified several locations where existing water mains were intentionally severed some time ago to facilitate roadway culvert or bridge replacement projects. While service has been maintained through other portions of the water system, the dead-end lines created by this work have a negative

impact on both water supply and pressure in those areas that would only be aggravated during periods of high demand (fire flow) or if a break occurs nearby. This project combines the four (4) highest priority locations into single project that will utilize horizontal directional drilling (HDD) technology to install a new high density polyethylene water main below or around the culvert/bridge and restore flow.

Summerhouse WRF Train No. 3 Rehabilitation

Repairs have been completed and the first two treatment trains within the Summerhouse Water Reclamation Facility have been brought into operation, accepting wastewater influent from the adjacent housing development and a limited amount of flow diverted from the Holly Ridge WWTP via the recently completed Stump Sound force main project. This project will provide funding to perform repairs or replace various components within the third treatment train, including pumps and motors, piping and control system components, so it can be made operational. This would permit the Summerhouse WRF to accept additional flow that would normally go to the Holly Ridge facility, which is currently operating near its maximum permitted capacity.

Local Read Meter Replacements

Currently, water service meters on the ONWASA system consist of both local read types (in which a person is required to open the meter box and physically read/record the gallons used) and Automatic Read Meters (AMR's), which can be read remotely by portable equipment. This project is the first of a multiple-year project to complete the transition from local read meters to AMR units across the entire system. This effort will have multiple benefits, including the replacement of aging or outdated meters, increased accuracy and efficiency in meter reading efforts, and increased safety for ONWASA personnel who read these meters. Replacements will be prioritized by the age of the existing meter and locations where access to the meter box is difficult.

Holly Ridge Wastewater Treatment Plant Lagoon Aeration System

As noted above, the Holly Ridge Wastewater Treatment Plant is operating near its maximum permitted capacity, especially during rainfall events. While a portion of this flow is being diverted to the Summerhouse WRF, ONWASA is also looking at ways of increasing the efficiency of the existing treatment lagoon by better controlling sludge levels and accumulation. Based on results seen by the City of Jacksonville at their own treatment lagoons, this project will consist of the purchase and installation of new floating aeration units similar to those used by the City. These units are much more efficient than the existing lagoon aerators and use a much smaller motor, resulting in a significant projected energy savings as well as increasing the ability of the lagoon to digest sludge and reduce the frequency of sludge removal.

Shore Drive Pump Station Rehabilitation

This project will address ongoing problems with this wastewater pumping station, which serves a significant portion of the center of the Town of Swansboro. Work to be performed includes rehabilitation and protective coating of the interior of the existing masonry wet well and an adjacent brick manhole, along with replacement of deteriorated discharge piping and repairs or replacement of other pump station controls and equipment as necessary.

Hargett Street Pump Station Rehabilitation

This project will address ongoing problems with a wastewater pumping station that serves a significant portion of the Town of Richlands. The existing station is in very poor condition, has excessive groundwater infiltration and does not meet current ONWASA requirements. Work to be performed includes replacement of the existing wetwell and pump platform, along with new pump controls, a back-up generator and other piping/equipment as necessary.

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.

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 2018, 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 2017.

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, 2017, 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 eleventh Certificate of Achievement for FY 2017 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 twelfth 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 Officers Association, North Carolina Government Finance Officers 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.

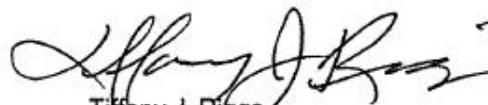
Conclusion

We believe the accompanying financial statements fairly present ONWASA's financial position as of June 30, 2017, 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,



Jeffrey L. Hudson
Executive Director/CEO



Tiffany J. Riggs
Chief Financial Officer



Government Finance Officers Association

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

Presented to

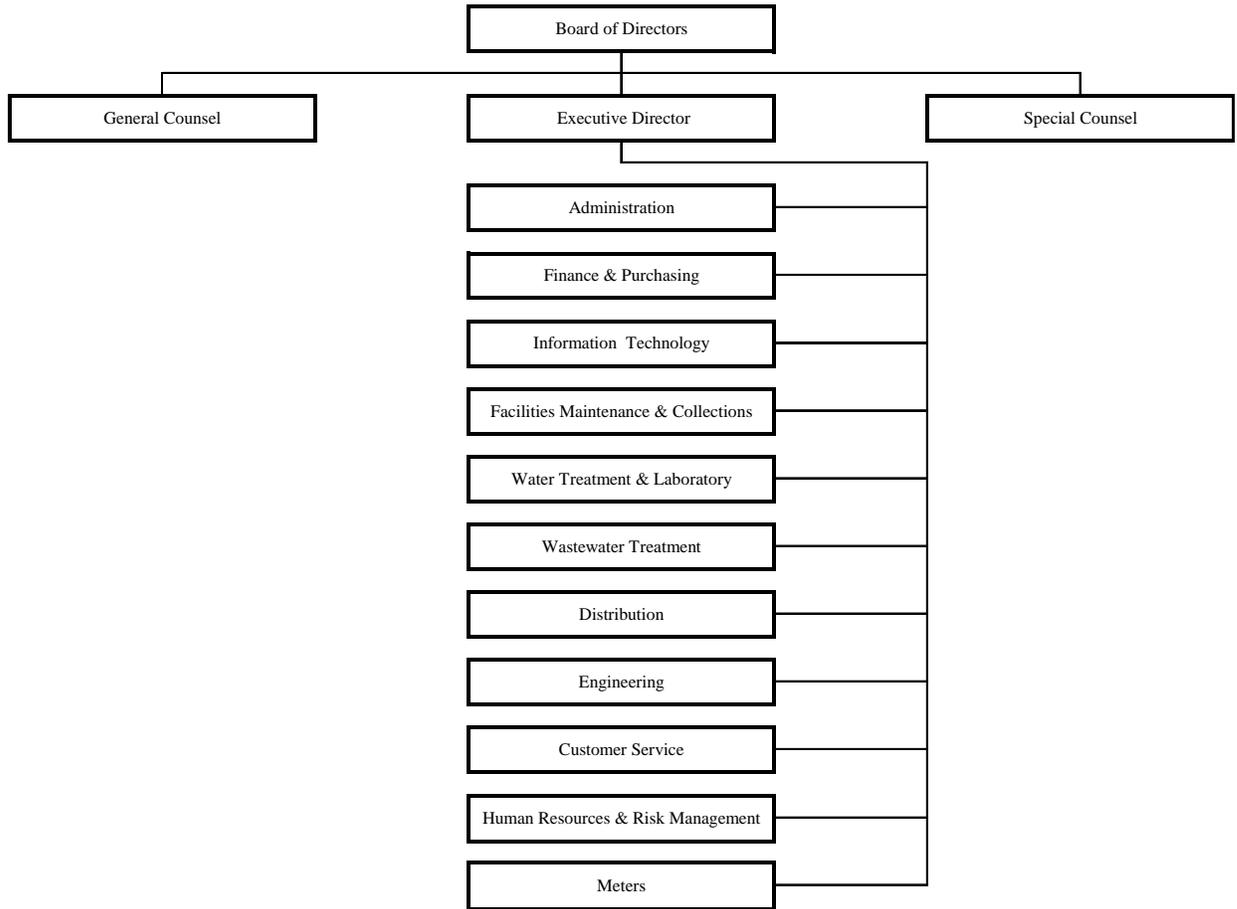
**Onslow Water and Sewer Authority
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

ONWASA Organizational Chart



ONslow WATER AND SEWER AUTHORITY

FISCAL YEAR 2016-2017

OFFICERS

Gregory Hines, Chairman – Councilman, Town of Holly Ridge
Jerry Bittner, Vice Chairman – Councilman, Jacksonville
Paul Conner, Secretary-Treasury –Alderman, Richlands

BOARD OF DIRECTORS

Member	Appointed By	Term Expiration
Gregory Hines, Councilman	Holly Ridge	2020
Royce Bennett, Commissioner	Onslow County	2019
Jack Bright, Chairman	Onslow County	2018
Paul Conner, Alderman	Richlands	2020
John Lister, Commissioner	Swansboro	2020
Michael Lazzara, Mayor Pro-Tem	Jacksonville	2018
Fred Burns, Mayor	North Topsail Beach	2018
Jerry Bittner, Councilman	Jacksonville	2019

SENIOR MANAGEMENT TEAM

Jeffrey L Hudson, Executive Director/CEO
Tiffany Riggs, Chief Financial Officer
David Bergman, Chief Information Officer
Teresa Stanley, Special Projects Officer
David Mohr, Engineering Director
Joetta Guist, Human Resources Director
Eddie Caron, Utilities Superintendent - Wastewater
Matthew Padgett, Distribution Superintendent
Seth Brown, Utilities Superintendent - Water

GENERAL COUNSEL

Stark Law Group, PLLC

Independent Auditor's Report

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RSM US LLP

INDEPENDENT AUDITOR'S REPORT

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

Report on 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, 2017, 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, 2017, 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 14 through 19 and pages 45 through 47, 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 8, 2017, 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 8, 2017

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Management's Discussion and Analysis

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

The management of Onslow Water and Sewer Authority (the Authority) offers the readers of Onslow Water and Sewer Authority's financial statements this narrative overview and analysis of the financial activities of Onslow Water and Sewer Authority for the fiscal year ended June 30, 2017. 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 \$137,746,207.
- The Authority's total net position increased by \$4,053,475 primarily due to contributions from non-related parties during the year ended June 30, 2017.
- The Authority's total long-term debt increased by \$1,900,911 (2.26%) 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.

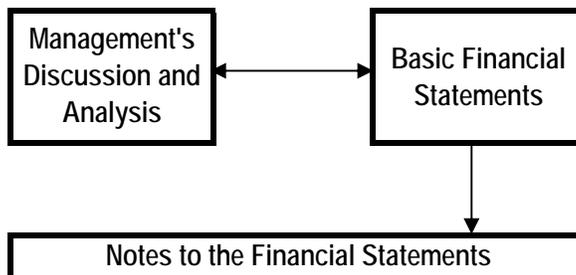
The Statement of Cash Flows deals specifically with the flow of cash and cash equivalents arising from operating, capital, noncapital financing and investing activities. Because the Authority's Statement of Revenues, Expenses and Changes in Net Position is a measurement of the flow of total economic 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 \$3,932,088 or 2.9.0%, between June 30, 2016 and June 30, 2017, with insignificant changes in the various categories of assets and liabilities.

	June 30,	
	2017	2016
Current and other assets	\$ 47,079,820	\$ 44,179,711
Capital assets	179,438,314	180,701,824
Total assets	226,518,134	224,881,535
Defined outflows of resources	2,876,914	1,818,032
Current liabilities	9,239,024	10,336,338
Noncurrent liabilities	82,320,057	82,441,641
Total liabilities	91,559,081	92,777,979
Deferred Inflows of Resources	89,760	228,856
Net Position		
Net investment in capital assets	98,574,910	95,949,138
Restricted by bond order for Replacement Fund	2,504,151	2,504,151
Restricted by bond order for Reserve Funds	256,463	2,729,515
Unrestricted	36,410,683	32,509,928
Total net position	\$ 137,746,207	\$ 133,692,732

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, 2017. Total assets have increased approximately \$1.6 million due mainly to increase in cash. Liabilities experienced an insignificant decrease from prior year mainly due to decrease in accrued expenses. Net position is up by \$4.1 million from the increase in assets, the increase in deferred outflows, and the reduction in liabilities.

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

The statement of revenues, expenses, and changes in net position shows revenues more than covered expenses. When the statement of revenues, expenses and changes in net position is compared to the previous year the change in net position increased significantly less due to a decrease in grant funding.

Condensed Statement of Revenues, Expenses and Change in Net Position

Figure 3

	Years Ended June 30,	
	2017	2016
Revenue		
Operating revenue		
Water	\$ 16,151,157	\$ 15,854,573
Waste water	3,543,282	3,404,606
Service initiation fees	755,891	703,561
Miscellaneous income	844,746	926,649
Nonoperating revenue		
Customer impact fees	2,602,933	2,266,101
Interest income	177,088	88,508
Total revenue	24,075,097	23,243,998
Expenses		
Operating expenses: operations	13,402,669	13,003,429
Operating expenses: general and administrative expenses	1,422,184	1,404,154
Operating expenses: depreciation	5,524,931	4,894,381
Nonoperating expense	-	554,731
Interest expense	2,319,432	3,263,647
Total expenses	22,669,216	23,120,342
Increase in net position before capital contributions:	1,405,881	123,656
Capital contributions from non-related parties	2,647,594	2,339,796
USDA Rural Development Grant	-	2,628,031
Increase in net position	4,053,475	5,091,483
Net position, July 1	133,692,732	128,601,249
Net position, June 30	\$ 137,746,207	\$ 133,692,732

Total operating revenue is up minimally from the prior year because of the increase in water processed and wastewater treated. Non-operating income decreased due to decrease in grant funding. Total operating expenses are up insignificantly in this fiscal year. Net position increased \$4.1 million.

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

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

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2017, totals \$179,438,314 (net of accumulated depreciation). These assets include buildings, water lines, wells, booster stations, lift stations, wastewater treatment plants, land, machinery, equipment and vehicles.

Onslow Water and Sewer Authority's Capital Assets

Figure 4

	June 30,	
	2017	2016
Land	\$ 18,994,773	\$ 18,909,356
Other improvements	152,265,212	136,865,297
Buildings	3,718,451	4,092,422
Equipment	1,006,536	997,868
Vehicles	342,680	374,051
Heavy equipment	-	27,986
Construction in progress	3,110,662	19,434,844
Total	\$ 179,438,314	\$ 180,701,824

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, 2017, the Authority had total debt outstanding of \$82,043,388. Revenue bonds which are secured by specified revenue sources total \$66,007,000.

Onslow Water and Sewer Authority's Long-Term Debt

Figure 5

	June 30,	
	2017	2016
Revenue bonds held by bondholders	\$ 66,007,000	\$ 68,606,000
Unamortized revenue bond premium	6,703,712	7,122,694
Loans payable	9,332,676	8,215,605
Total	\$ 82,043,388	\$ 83,944,299

The Authority's total net debt has decreased by \$1,900,911 (2.26%) during the current fiscal year. The net decrease was mainly due to payment of principal for revenue bonds.

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 2017 totaled \$85 million, up 48% from the year 2008.
- Estimated real estate values have increased at an annual rate of 1% since 2008.
- The population of Onslow County was 200,236 in 2017 up 24% from 2008.
- The per capita income has increased at an annual rate of 4.7% since 2008.
- The unemployment rate at June 30, 2017 was 4.6%.

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, 2018

Fiscal year 2016-2017 was the twelfth 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 2018's budget are as follows:

- Increase in personnel salaries due to a 2.8% 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, Chief Finance Officer, 228 Georgetown Road, Jacksonville, North Carolina 28540, (910) 455-0722, triggs@onwasa.com, or www.onwasa.com

Basic Financial Statements

Onslow Water and Sewer Authority

Statement of Net Position

June 30, 2017

Assets	
Current assets	
Cash and cash equivalents (Note 2)	\$ 40,087,373
Receivables, net (Note 3)	2,768,246
Inventories	449,724
Prepaid expenses	13,863
Total current assets	43,319,206
Noncurrent assets	
Restricted cash and cash equivalents under bond order (Note 2)	2,760,614
Certificate of deposit (Note 2)	1,000,000
Capital assets (Note 4):	
Land and nondepreciable assets	22,105,435
Other capital assets, net of accumulated depreciation	157,332,879
Total capital assets	179,438,314
Total noncurrent assets	183,198,928
Total assets	226,518,134
Deferred Outflows of Resources	
Pension deferred outflow of resources (Note 5)	1,654,797
Deferred charge related to debt refinancing (Note 1)	1,222,117
Total deferred outflows of resources	2,876,914
Liabilities	
Current liabilities	
Current maturities of long-term debt (Note 7)	3,372,300
Accrued interest payable	203,582
Customer deposits	4,237,611
Accounts payable and accrued liabilities, operations	1,383,398
Accounts payable, construction	27,585
Retainage payable	14,548
Total current liabilities	9,239,024
Long-term Liabilities	
Revenue bonds and construction loan payable (Note 7)	78,671,088
Net pension liability (Note 5)	1,795,283
Other postemployment benefits (Note 6)	1,853,686
Total long-term liabilities	82,320,057
Total liabilities	91,559,081
Deferred Inflows of Resources	
Pension deferrals (Note 5)	89,760
Total deferred inflows of resources	89,760

Onslow Water and Sewer Authority

Statement of Net Position (Continued)

June 30, 2017

Net Position	
Net investment in capital assets	\$ 98,574,910
Restricted by bond order for Reserve Funds	256,463
Restricted by bond order for Replacement Fund	2,504,151
Unrestricted	36,410,683
Total net position	\$ 137,746,207

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, 2017

Operating revenue (Note 8)	
Water	\$ 16,151,157
Waste water	3,543,282
Service initiation fees	755,891
Miscellaneous income	844,746
Total operating revenue	<u>21,295,076</u>
Operating expenses (Note 8)	
Hubert water treatment plant	1,272,354
Dixon water treatment plant	858,582
Meters	894,305
Distribution	1,300,876
Facilities maintenance & Collections	1,243,773
Kenwood wastewater plant	38,312
Northwest Regional Water Reclamation Facility	406,474
Southeast Regional wastewater plant	378,027
Swansboro wastewater plant	301,600
SCADA	262,552
General and administrative	1,422,184
Information technology services	1,071,932
Engineering	754,467
Customer service	1,424,442
Laboratory	321,116
Water and wastewater purchases	527,840
Nondepartmental	593,807
Repairs and maintenance	1,752,210
Depreciation	5,524,931
Total operating expenses	<u>20,349,784</u>
Operating income	<u>945,292</u>
Nonoperating revenue (expense)	
Customer impact fees	2,602,933
Interest income	177,088
Interest expense	(2,319,432)
Total nonoperating revenue	<u>460,589</u>
Income before capital contributions	<u>1,405,881</u>
Capital contributions from non-related parties	2,647,594
Increase in net position	<u>4,053,475</u>
Net position	
Beginning	133,692,732
Ending	<u>\$ 137,746,207</u>

See Notes to Financial Statements.

Onslow Water and Sewer Authority

Statement of Cash Flows
For the Year Ended June 30, 2017
(Page 1 of 2)

<hr/>	
Cash Flows From Operating Activities	
Cash received from customers	\$ 20,703,064
Cash paid for goods and services	(7,418,516)
Cash paid to or on behalf of employees for services	(7,477,108)
Miscellaneous income	844,746
Net cash provided by operating activities	<u>6,652,186</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(2,380,081)
Debt issued	1,620,372
Principal paid on debt	(3,102,301)
Interest paid on capital debt	(2,681,945)
Net cash used in capital and related financing activities	<u>(6,543,955)</u>
Cash Flows From Noncapital and Related Financing Activities	
Customer impact fees	2,602,933
Net cash provided by noncapital and related financing activities	<u>2,602,933</u>
Cash Flows From Investing Activities	
Interest	177,088
Net cash provided by investing activities	<u>177,088</u>
Net increase in cash and cash equivalents	2,888,252
Cash and Cash Equivalents:	
Balances, beginning	39,959,735
Balances, ending	<u>\$ 42,847,987</u>
Reconciliation to statement of net position:	
Cash and cash equivalents	\$ 40,087,373
Restricted cash and cash equivalents	2,760,614
Total cash and cash equivalents	<u>\$ 42,847,987</u>

(Continued)

Onslow Water and Sewer Authority

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2017

(Page 2 of 2)

Reconciliation of Operating Income to Net Cash	
Provided By Operating Activities	
Operating income	\$ 945,292
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,524,931
Changes in assets and liabilities:	
Decrease in receivables, net	5,163
Increase in inventory	(3,157)
Increase in prepaid	(13,863)
Decrease in accounts payable and accrued liabilities, operating	(388,408)
Increase in deferred outflows of resources	(1,135,262)
Increase in net pension liability	1,354,971
Decrease in deferred inflows of resources	(139,096)
Increase in OPEB	254,044
Increase in customer deposits	247,571
Total adjustments	<u>5,706,894</u>
Net cash provided by operating activities	<u>\$ 6,652,186</u>
Supplemental Schedule of Noncash Activities	
Decrease in construction and retainage payable	\$ (766,254)
Non-cash capital contributions	<u>\$ 2,647,594</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, Town of North Topsail Beach, Town of Swansboro, and the City of Jacksonville.

The Authority completed its thirteenth 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"). The NCCMT Government Portfolio, a SEC registered (2a-7) external investment pool, is measured at amortized cost which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

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 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, 2017 totaled \$256,463.

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, 2017 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 totaled \$2,647,594 for the year ended June 30, 2017. 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, which is generally the cost to construct these assets. 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):

	<u>Years</u>
Buildings and other improvements	2-50
Equipment, heavy equipment and vehicles	3-20

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

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has two items that meets this criterion, contributions made to the pension plan in 2017 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.

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 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, 2017 totaled \$256,463

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, 2017 totaled \$2,504,151 and is included in noncurrent cash and cash equivalents. These monies are Board designated funds that are included in Restricted 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 120 full-time employees as of June 30, 2017. Accrued vacation at year end totaled \$436,969 and is included in accounts payable and accrued liabilities – operations.

Onslow Water and Sewer Authority

Notes to Financial Statements

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, 2017, 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, 2017, the carrying amount of the Authority deposits, including a \$1,000,000 certificate of deposit, was \$1,626,335 and the bank balance was \$2,082,045. Of the bank balance, \$507,596 was covered by FDIC insurance and \$1,574,449 was collateralized using the Pooling Method.

At June 30, 2017, 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 2020.

Onslow Water and Sewer Authority

Notes to Financial Statements

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

Investments

At June 30, 2017, the Authority had \$42,221,252 invested with the North Carolina Capital Management Trust's Government 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 and sewer 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, 2017 are as follows:

Sales tax receivables	\$	216,796
Accounts receivable - customers		1,246,491
Unbilled receivable - customers		1,617,793
Total receivables		3,081,080
Allowance for doubtful accounts		(312,834)
Total receivables, net of allowance	\$	2,768,246

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, 2017. Current depreciation expense was \$5,524,931.

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 18,909,356	\$ 85,417	\$ -	\$ 18,994,773
Construction in progress	19,434,844	1,145,880	17,470,062	3,110,662
Total capital assets not being depreciated	38,344,200	1,231,297	17,470,062	22,105,435
Capital assets being depreciated:				
Other improvements	194,838,152	20,039,128	-	214,877,280
Buildings	11,883,201	-	-	11,883,201
Equipment	4,474,200	359,115	13,450	4,819,865
Vehicles	2,088,787	101,943	56,282	2,134,448
Heavy equipment	1,195,267	-	-	1,195,267
Total capital assets being depreciated	214,479,607	20,500,186	69,732	234,910,061
Less accumulated depreciation for:				
Other improvements	57,972,855	4,639,213	-	62,612,068
Buildings	7,790,779	373,971	-	8,164,750
Equipment	3,476,332	350,447	13,450	3,813,329
Vehicles	1,714,736	133,314	56,282	1,791,768
Heavy equipment	1,167,281	27,986	-	1,195,267
Total accumulated depreciation	72,121,983	5,524,931	69,732	77,577,182
Total capital assets being depreciated, net	142,357,624			157,332,879
Capital assets, net	\$ 180,701,824			\$ 179,438,314

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, 2017:

Construction commitments

Project	Spent-to-date	Remaining Commitment
Union Chapel WTP	\$ 1,062,536	\$ 894,047
HWY 50 Wells	284,125	93,351
North Topsail Water Line	93,025	82,975
Piney Green Phase 2 Elimination of Hickory Grove and Web Apartments WWTP design and construction	188,416	77,366
	<u>\$ 1,628,102</u>	<u>\$ 1,147,739</u>

At

year-end, the Authority's commitments with contractors and professional firms related to these projects are as follows: Piney Green Phase 2 is partially funded by a grant from NC Department of Environmental Quality; the Union Chapel WTP is partially funded by a grant from NC Department of Environmental Quality; the others will be funded with fund balance.

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, 2017, was 8.63% 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 \$450,603 for the year ended June 30, 2017.

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, 2017, the Authority reported a liability of \$1,795,283 for its proportionate share of the LGERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the Authority's proportion was .08459%, which was a decrease of .01352% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Authority recognized pension expense of \$531,234. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: \$450,603 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,730	\$ 62,909
Changes of assumptions	122,961	-
Net difference between projected and actual earnings on pension plan investments	992,565	-
Changes in proportion and differences between employer contribution:	54,938	26,851
Employer contributions subsequent to the measurement date	450,603	-
Total	<u>\$ 1,654,797</u>	<u>\$ 89,760</u>

\$450,603 reported as deferred outflow 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 ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 179,076
2019	179,108
2020	477,115
2021	279,135
2022	-
	<u>\$ 1,114,434</u>

Actuarial Assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor

Notes to Financial Statements

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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.00%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERs. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 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	\$ 4,261,044	\$ 1,795,283	\$ (264,304)

liability (asset)

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 three percent (3%) 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, 2017, were \$305,520 which consisted of \$125,887 from the Authority and \$179,633 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, 2017, the Authority paid \$114,889 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 9.25% of annual covered payroll. The Authority's contributions totaled \$114,889 in fiscal year 2017. 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	\$ 393,896
Interest on net OPEB obligation	63,986
Adjustment to annual required contribution	<u>(88,949)</u>
Annual OPEB cost (expense)	368,933
Contributions made	<u>(114,889)</u>
Increase (decrease) in net OPEB obligation	254,044
Net OPEB obligation, beginning of year	<u>1,599,642</u>
Net OPEB obligation, end of year	<u>\$ 1,853,686</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, 2017, 2016 and 2015 were as follows:

For Year Ended June 30	Three Year Trend		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$368,933	31.14%	\$1,853,686
2016	\$312,782	27.45%	\$1,599,642
2015	\$322,721	5.70%	\$1,372,707

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 coverage of \$3 million per occurrence with \$3 million aggregate, and auto liability coverage with a \$2,000,000 limit per occurrence. 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. The Authority also has flood insurance of \$5 million per occurrence with \$5 million aggregate.

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 for \$75,000 per occurrence. Employees' health insurance is provided by a commercial provider.

Note 8. Long-Term Obligations

Long-term liability activity for the year ended June 30, 2017 is summarized as follows:

	Balance July 1, 2016	Principal Increases	Principal Decreases	Premium Amortized	Balance June 30, 2017	Current Portion of Balance
Revenue Bonds	\$ 68,606,000	\$ -	\$ 2,599,000	\$ -	\$ 66,007,000	\$ 2,869,000
Construction Loans	8,215,605	1,620,372	503,301	-	9,332,676	503,300
Unamortized Premiums	7,122,694	-	-	418,982	6,703,712	-
Net Pension Liability (LGERS) (1)	440,312	1,354,971	-	-	1,795,283	-
Other Postemployment Benefits (2)	1,599,642	254,044	-	-	1,853,686	-
Totals	\$ 85,984,253	\$ 3,229,387	\$ 3,102,301	\$ 418,982	\$ 85,692,357	\$ 3,372,300

(1) See note 5

(2) See note 6

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, 2017 is \$1,260,000.

\$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, 2017 is \$8,852,000.

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, 2017 is \$7,868,000.

\$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, 2017 is \$7,417,000.

\$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). 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, 2017 is \$40,610,000.

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
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			455,000	532,476	2,925,000	1,334,850	3,380,000	1,867,326
2023-2027			2,444,000	2,494,961	14,295,000	4,705,825	16,739,000	7,200,786
2028-2032			2,748,000	2,190,653	12,065,000	1,427,913	14,813,000	3,618,566
2033-2054			16,773,000	4,956,958	2,050,000	34,750	18,823,000	4,991,708
Total	1,260,000	\$ 63,000	24,137,000	\$ 12,408,118	40,610,000	\$ 13,937,763	66,007,000	\$ 26,408,881
Unamortized bond premium	-	-	-	-	6,703,712	-	6,703,712	-
Net carrying value	\$ 1,260,000		\$ 24,137,000		\$ 47,313,712		\$ 72,710,712	

Construction Loans Payable

The Authority has a \$1,375,792 construction loan payable to the State of North Carolina to finance Richland's 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 \$5,470,455 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 \$1,932,948 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 Authority has a \$1,060,330 construction loan payable to the State of North Carolina to finance the Western Onslow Trunk Sewer Phase II, 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
2018	551,256	74,909	626,165
2019	562,738	66,565	629,303
2020	562,738	62,898	625,636
2021	562,738	59,232	621,970
2022	562,738	55,566	618,304
2023-2027	2,813,688	222,833	3,036,521
2028-2032	2,653,019	133,017	2,786,036
2033-2037	1,063,761	19,553	1,083,314
	<u>\$ 9,332,676</u>	<u>\$ 694,573</u>	<u>\$ 10,027,249</u>

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, 2017.

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, 2017. The debt service coverage ratio calculation for the fiscal year ended June 30, 2017 is as follows:

Operating revenues	\$21,295,076
Operating expenses (1)	14,824,853
Operating income	<u>\$6,470,223</u>
Non-operating revenues (expenses)	
Interest income	177,088
Miscellaneous revenue	2,602,933
Income available for debt service	<u>9,250,244</u>
Revenue bond and construction loan debt service	\$5,784,246
Revenue bond and construction loan debt service coverage ratio	1.60

(1) excludes depreciation of \$5,524,931.

Note 9. 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, 2017.

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 10. Pending GASB Statements

The GASB has issued several pronouncements prior to June 30, 2017 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 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 81, "Irrevocable Split-Interest Agreements", will be effective for the Authority beginning with its year ending June 30, 2018.

GASB Statement Number 83, "Certain Asset Retirement Obligations", will be effective for the Authority beginning with its year ending June 15, 2018.

GASB Statement Number 84, "Fiduciary Activities", will be effective for the Authority beginning with its year ending December 15, 2018.

GASB Statement Number 85, "Omnibus 2017", will be effective for the Authority beginning with its year ending June 30, 2018.

GASB Statement Number 86, "Certain Debt Extinguishment Issues", will be effective for the Authority beginning with its year ending June 15, 2017.

GASB Statement Number 87, "Leases", will be effective for the Authority beginning with its year ending after December 15, 2019.

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

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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

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%

Schedule of Employer Contributions

For Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2014	\$250,566	6.96%
2015	\$292,514	5.70%
2016	\$310,328	27.66%
2017	\$393,896	29.17%

Onslow Water and Sewer Authority

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

Local Government Employees' Retirement System

	2017	2016	2015	2014
Authority's proportion of the net pension liability (asset) %	0.0846%	0.0981%	0.0963%	0.0941%
Authority's proportionate share of the net pension liability (asset) \$	\$ 1,795,283	\$ 440,312	\$ (567,748)	\$ 1,134,266
Authority's covered-employee payroll	\$ 5,155,797	\$ 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	34.82%	7.93%	(10.55%)	21.72%
Plan fiduciary net position as a percentage of the total	91.47%	98.09%	102.64%	94.35%

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

** 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 Four Fiscal Years**

Local Governmental Employees' Retirement System

	2017	2016	2015	2014
Contractually required contribution	\$ 450,603	\$ 443,554	\$ 469,929	\$ 380,635
Contributions in relation to the contractually required contribution	450,603	443,554	469,929	380,635
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 5,151,991	\$ 5,155,797	\$ 5,554,704	\$ 5,383,806
Contributions as a percentage of covered-	8.75%	8.60%	8.46%	7.07%

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Onslow Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund
For Year Ended June 30, 2017

(Page 1 of 2)

	Final Budget	Actual	Variance With Final Budget
Operating revenues			
Water		\$ 16,126,466	
Waste water		3,504,472	
Service initiation fees		755,891	
Miscellaneous revenue		844,746	
Total operating revenues	\$ 24,223,436	21,231,575	\$ (2,991,861)
Nonoperating revenues			
Customer impact fees		2,602,933	
Interest income		177,088	
Total nonoperating revenues	2,820,000	2,780,021	(39,979)
Total revenues	27,043,436	24,011,596	(3,031,840)
Expenditures			
Water Divisions			
Hubert Water Treatment Plant		1,477,380	
Dixon Water Treatment Plant		976,624	
Meters		1,293,836	
Distribution		1,536,630	
Facilities Maintenance & Collections		1,617,657	
Total Water Divisions	8,463,734	6,902,127	1,561,607
Sewer Divisions			
Kenwood Wastewater Plant		41,770	
Northwest Regional Water Reclamation Facility		727,441	
Southeast Regional Wastewater Plant		458,405	
Swansboro Wastewater Plant		353,029	
Total Sewer Divisions	2,188,074	1,580,645	607,429
Administrative Divisions			
General and administration		1,296,914	
Information technology services		1,069,123	
Engineering		747,598	
Customer Service		1,407,640	
Laboratory		323,436	
Water & Wastewater Purchases		527,840	
SCADA		259,176	
Nondepartmental		593,807	
Total Administrative Divisions	7,789,025	6,225,534	1,563,491

(Continued)

Onslow Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) - Operating Fund
 For Year Ended June 30, 2017
 (Page 2 of 2)

	Final Budget	Actual	Variance With Final Budget
Capital outlay	\$ 1,135,357	\$ 467,948	\$ 667,409
Total operating expenditures	19,576,190	15,176,254	4,399,936
Debt service			
Principal		3,102,301	
Interest		2,681,945	
Total debt service	5,784,246	5,784,246	-
Other financing sources (uses)			
Contingency for salaries	(17,442)	-	17,442
Transfers out	(1,433,000)	(1,433,000)	-
Appropriated fund balance	(232,558)	-	232,558
Total financing sources (uses)	(1,683,000)	(1,433,000)	250,000
Revenue and other financing sources over other financing uses	\$ -	1,618,096	\$ 1,618,096
Reconciliation of modified accrual to full accrual basis			
Depreciation		(5,524,931)	
Capital outlay		467,948	
Contributed capital assets		2,647,594	
Transfers out		1,433,000	
Adjust for doubtful accounts		1,450	
Adjust for unbilled services		62,051	
Accrued interest expense		19,913	
Accrued vacation		(35,937)	
Principal payment on bonded debt		3,102,301	
Bond premium and bond refunding amortization		342,600	
Pension adjustments		(80,610)	
Increase in net assets		\$ 4,053,475	

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, 2017

	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	991,537	-	991,537
Dixon Reverse Osmosis	6,167,615	4,865,460	147,893	5,013,353
Summerhouse WWTP Rehab Project	4,131,060	3,278,930	38,953	3,317,883
North Topsail Water Line	200,000	-	95,600	95,600
Regional Aquifer Study	125,000	61,083	-	61,083
Union Chapel WTP	4,285,830	1,254,129	62,841	1,316,970
Total expenditures	16,144,295	10,451,139	345,287	10,796,426
Revenue under expenditures	(12,234,295)	(10,007,008)	(345,287)	(10,352,295)
Other financing sources				
Transfer from operating fund	3,206,620	1,887,620	1,433,000	3,320,620
Debt Issued	10,260,675	6,843,361	560,042	7,403,403
Total other financing sources	13,467,295	8,730,981	1,993,042	10,724,023
Revenue and other financing sources over (under) expenditures	\$ -	\$ (1,276,027)	\$ 1,647,755	\$ 371,728

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, 2017

	Project Ordinance	Prior Years	Actual Current Year	Total to Date
Revenue				
Total revenue	-	-	-	-
Expenditures				
HWY 50 Wells	-	644,006	1,466	645,472
HWY 53 Waterline	-	2,657,798	(104,442)	2,553,356
Western Onslow Trunk Sewer	-	5,681,901	903,569	6,585,470
Total expenditures	13,948,600	8,983,705	800,593	9,784,298
Revenue under expenditures	(13,948,600)	(8,983,705)	(800,593)	(9,784,298)
Other financing sources (uses)				
Transfer from operating fund	8,101,000	5,486,000	-	5,486,000
Debt issued	2,063,600	-	1,060,330	1,060,330
Fund balance appropriated	3,784,000	-	-	-
Total other financing sources	13,948,600	5,486,000	1,060,330	6,546,330
Revenue and other financing sources over (under) expenditures	\$ -	\$ (3,497,705)	\$ 259,737	\$ (3,237,968)

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)

	2017	2016	2015	2014
Investment in Capital Assets	\$ 98,574,910	\$ 95,949,138	\$ 95,773,968	\$ 85,473,214
Restricted by bond order for Replacement Fund	256,463	2,504,151	2,504,151	2,504,151
Restricted by bond order for Reserve Funds	2,504,151	2,729,515	2,572,773	2,572,773
Unrestricted	36,410,683	32,509,928	27,750,357	30,353,222
Total net position	\$ 137,746,207	\$ 133,692,732	\$ 128,601,249	\$ 120,903,360

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

Fiscal Year					
2013	2012	2011	2010	2009	2008
\$ 80,685,811	\$ 73,139,306	\$ 58,404,315	\$ 56,888,432	\$ 62,104,115	\$ 34,239,204
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
29,466,991	22,362,656	25,776,925	22,123,603	13,406,385	18,591,929
<u>\$ 115,229,726</u>	<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>

Onslow Water and Sewer Authority

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

	2017	2016	2015	2014
Operating revenue				
Water	\$ 16,151,157	\$ 15,854,573	\$ 15,519,240	\$ 15,872,861
Wastewater	3,543,282	3,404,606	3,278,001	3,003,551
Service initiation fees	755,891	703,561	738,335	756,809
Miscellaneous income	844,746	926,649	939,654	861,846
Total operating revenue	21,295,076	20,889,389	20,475,230	20,495,067
Operating expenses				
Hubert Water Treatment Plant	1,272,354	1,307,075	1,366,700	1,164,330
Dixon Water Treatment Plant	858,582	957,567	917,126	1,064,154
Meters	894,305	885,824	897,641	864,512
Water Distribution	1,300,876	1,258,987	1,359,140	1,423,647
Distribution	-	-	-	-
Facilities Maintenance & Collections	1,243,773	1,311,351	1,280,361	1,158,615
SCADA	262,552	239,617	249,006	232,565
Kenwood Wastewater Plant	38,312	36,263	26,128	25,850
Northwest Regional Water Reclamation Facility	406,474	295,744	377,653	303,136
Richlands and Kenwood Wastewater Plants	-	-	-	-
Southeast Wastewater Plants	378,027	292,590	265,688	256,716
Swansboro Wastewater Plant	301,600	290,866	333,367	286,482
Hunter's Creek Wastewater Plant	-	-	-	-
Springdale Wastewater Plant	-	-	-	-
Hickory Grove Wastewater Plant	-	-	1,702	2,434
Webb Wastewater Plant	-	-	15,023	14,116
General administrative and finance	1,422,184	1,404,154	1,244,587	1,473,406
Information technology services	1,071,932	903,987	811,267	788,583
Engineering	754,467	771,132	885,832	884,282
Customer Service & Billing	1,424,442	1,373,686	1,339,446	1,297,398
Waste water collections	-	-	-	-
Laboratory	321,116	401,630	383,092	366,835
Nondepartmental	593,807	577,869	567,576	605,482
Water & Wastewater Purchases	527,840	578,415	514,076	439,056
Repairs and maintenance	1,752,210	1,520,826	1,431,467	1,558,649
Impairment of capital assets	-	-	-	-
Depreciation	5,524,931	4,894,381	4,953,323	4,850,306
Total operating expenses	20,349,784	19,301,964	19,220,201	19,060,554
Operating income (loss)	945,292	1,587,425	1,255,029	1,434,513

(Continued)

		Fiscal Year									
		2013	2012	2011	2010	2009	2008				
\$	15,279,458	\$	14,914,720	\$	15,274,164	\$	14,527,600	\$	12,764,795	\$	12,624,769
	2,812,169		2,678,748		2,530,105		2,451,995		2,043,536		1,399,518
	898,153		941,220		920,549		664,518		478,984		532,824
	1,409,428		1,261,700		1,000,969		735,566		613,928		621,765
	20,399,208		19,796,388		19,725,787		18,379,679		15,901,243		15,178,876
	1,120,024		1,125,146		1,356,395		831,538		845,621		730,041
	1,207,929		1,125,585		993,899		906,118		802,318		772,721
	767,628		798,755		1,083,491		1,030,833		991,808		959,891
	1,742,693		1,634,377		1,388,779		-		-		-
	-		-		426,876		1,066,327		1,068,802		1,116,741
	807,425		496,891		435,198		916,023		1,076,869		988,468
	194,461		-		90,153		230,453		231,776		227,324
	34,461		112,256		118,270		134,292		154,098		109,833
	270,234		186,316		200,240		177,644		199,111		221,839
	-		-		-		-		-		-
	281,633		289,193		288,383		266,176		261,370		304,500
	286,924		267,711		252,334		354,982		257,137		289,465
	-		-		-		70,426		138,860		9,504
	-		73,993		84,048		60,671		93,108		-
	2,278		7,953		10,441		5,367		1,984		-
	13,190		927		-		-		-		-
	1,450,621		1,259,345		1,419,801		1,606,485		1,853,631		1,717,986
	549,940		480,766		458,527		390,407		387,816		318,692
	933,908		1,271,383		1,099,745		1,090,983		706,401		620,083
	1,272,172		1,320,445		1,217,398		908,710		914,335		833,921
	-		-		330,307		753,767		735,511		464,490
	453,140		391,072		353,857		307,527		287,835		265,540
	606,567		538,665		705,802		672,712		597,903		658,067
	464,302		576,370		688,189		98,263		-		-
	1,408,218		1,543,784		-		-		-		-
	-		-		-		2,207,744		-		-
	4,887,460		4,611,710		4,457,013		4,213,579		3,476,174		2,940,191
	18,755,208		18,112,643		17,459,146		18,301,027		15,082,468		13,549,297
	1,644,000		1,683,745		2,266,641		78,652		818,775		1,629,579

Onslow Water and Sewer Authority

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

	2017	2016	2015	2014
Nonoperating revenue (expense)				
Customer impact fees	\$ 2,602,933	\$ 2,266,101	\$ 2,601,426	\$ 3,331,097
Interest income	177,088	88,508	7,823	8,915
Interest expense	(2,319,432)	(3,263,647)	(2,839,651)	(2,669,841)
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
Total nonoperating revenue (expense)	460,589	(1,463,769)	(2,413,660)	2,676,698
Income before capital contributions	1,405,881	123,656	(1,158,631)	4,111,211
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	2,647,594	2,339,796	1,978,051	1,562,423
Increase in net assets	4,053,475	5,091,483	8,451,520	5,673,634
Net assets				
Beginning	133,692,732	128,601,249	120,903,360	115,229,726
Restatement for accounting change	-	-	(753,631)	-
Beginning, as restated	133,692,732	128,601,249	120,149,729	115,229,726
Ending	\$ 137,746,207	\$ 133,692,732	\$ 128,601,249	\$ 120,903,360

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

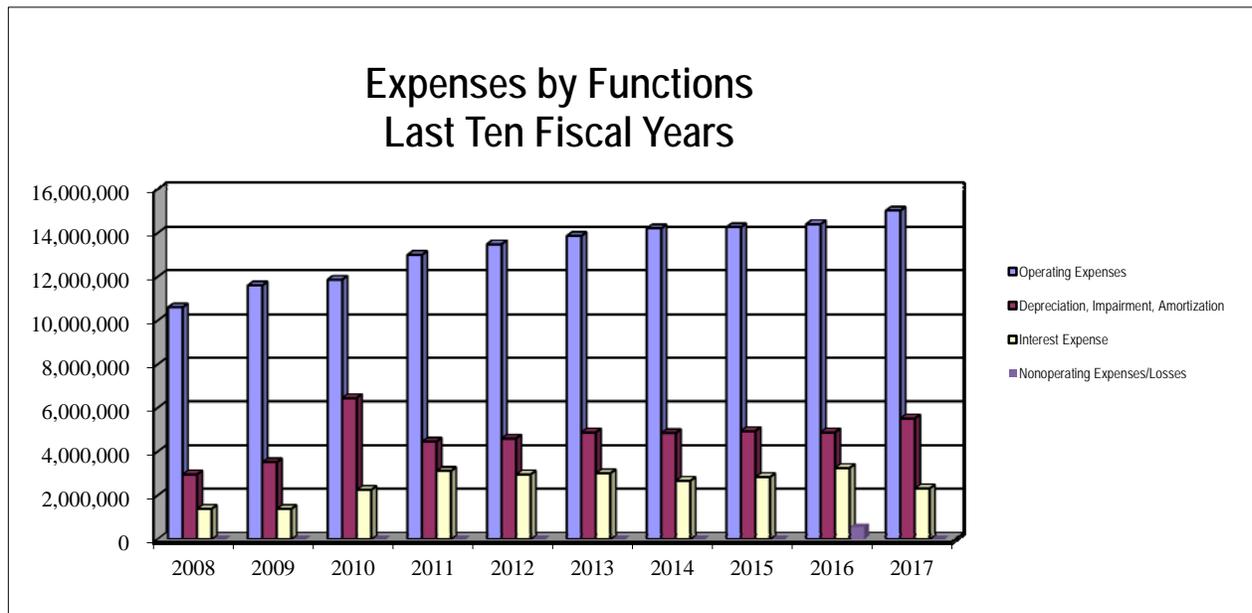
		Fiscal Year				
2013	2012	2011	2010	2009	2008	
\$ 4,576,500	\$ 4,595,674	\$ 4,353,932	\$ 4,819,605	\$ 2,086,330	\$ 1,121,553	
29,935	41,669	74,296	147,107	871,152	1,360,831	
(3,010,777)	(2,959,753)	(3,115,952)	(2,255,051)	(1,383,963)	(1,388,120)	
-	(41,609)	(41,609)	(41,609)	(41,609)	(26,007)	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
8,323,474	51,375	558,024	882,477	1,472,845	-	
9,919,132	1,687,356	1,828,691	3,552,529	3,004,755	1,068,257	
11,563,132	3,371,101	4,095,332	3,631,181	3,823,530	2,697,836	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	463,861	(209,646)	8,419,793	1,093,780	
3,087,708	7,949,621	610,012	80,000	10,436,044	5,083,016	
14,650,840	11,320,722	5,169,205	3,501,535	22,679,367	8,874,632	
100,578,886	89,258,164	84,088,959	80,587,424	57,908,057	49,033,425	
-	-	-	-	-	-	
100,578,886	89,258,164	84,088,959	80,587,424	57,908,057	49,033,425	
\$ 115,229,726	\$ 100,578,886	\$ 89,258,164	\$ 84,088,959	\$ 80,587,424	\$ 57,908,057	

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
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
2017	15,022,622	5,524,931	2,319,432	-	22,866,985

Source: Onslow Water and Sewer Authority's Accounting Records

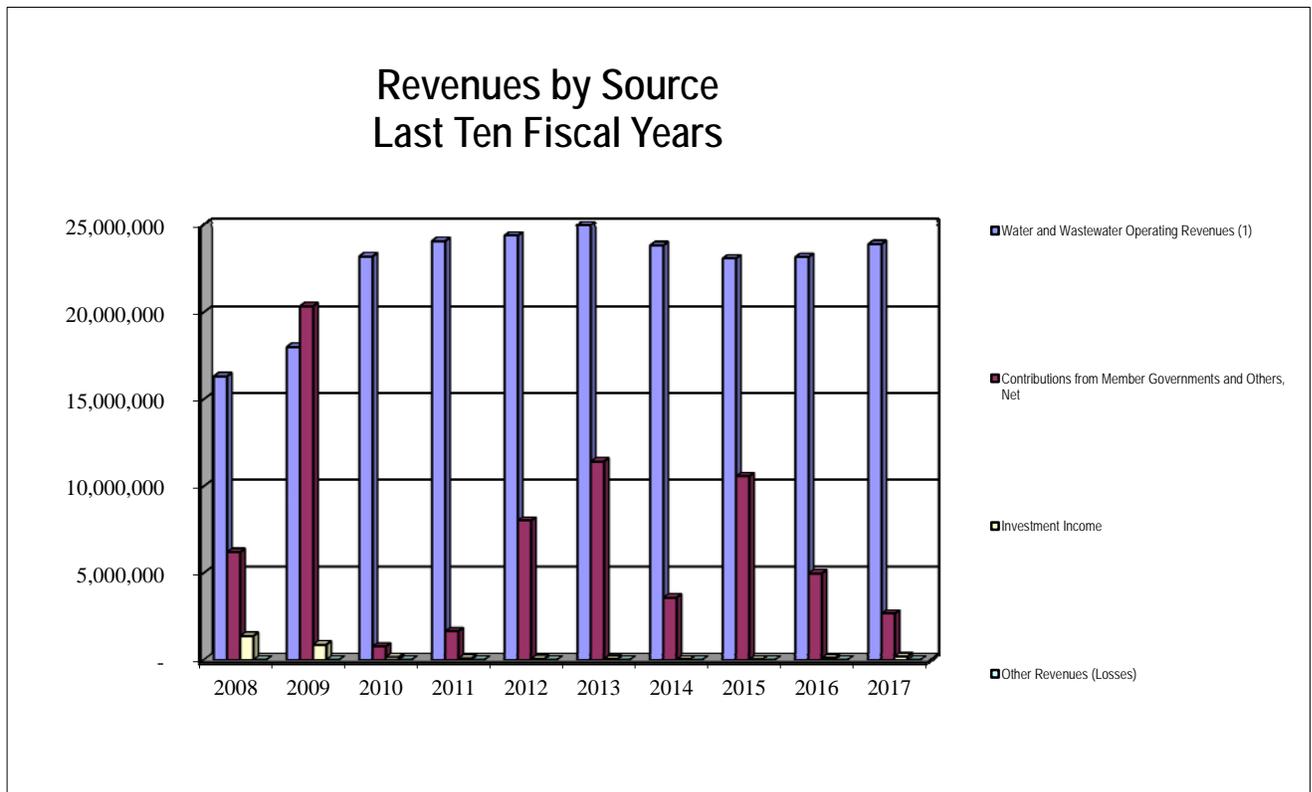


Onslow Water and Sewer Authority

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
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
2017	23,898,009	2,647,594	177,088	-	26,722,691

Source: Onslow Water and Sewer Authority's Accounting Records



Onslow Water and Sewer Authority

Principal Sewer Customers
Last Ten Fiscal Years

	Percent of Sewer Sales*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Onslow County Schools	3.7%	4.3%	3.9%	4.0%	4.5%	6.2%	3.2%	3.2%	3.5%	6.1%
Conagra	-	-	-	-	-	-	1.9%	1.9%	2.1%	4.2%
J & J Snack Foods	1.3%	1.4%	1.7%	1.9%	1.7%	2.6%	-	-	-	-
Arnolds			-	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Speedway (Wilco/Hess)	<1%	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%
Piggly Wiggly	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Market Rate LLC	<1%	1.6%	1.6%	1.4%	<1%	<1%	-	-	-	-
Food Lion	-	-	-	-	-	-	-	<1%	<1%	<1%
T & J Cleaners	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Blue Water Association	<1%	<1%	<1%	-	-	-	-	-	-	-
Blue Creek Mobile Home Park	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	-
Military/Student Housing	1.2%	1.2%	1.1%	1.0%	2.6%	1.6%	<1%	-	-	-
Swansboro Ventures	<1%	<1%	<1%	<1%	<1%	-	-	-	-	-

* Approximate

Source: Onslow Water and Sewer Authority's Records.

Onslow Water and Sewer Authority

Principal Water Customers

Last Ten Fiscal Years

	Percent of Water Sales*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Scientific Water	1.0%	<1%	<1%	1.2%	1.2%	1.5%	1.7%	1.8%	2.1%	2.3%
Commanding General (All MCBL Accounts)	2.5%	2.5%	2.1%	1.9%	1.7%	1.7%	4.1%	1.6%	1.8%	1.5%
Onslow County Schools	1.0%	1.1%	1.2%	1.1%	1.1%	1.2%	1.1%	1.2%	1.3%	1.2%
J & J Snack Foods	<1%	<1%	<1%	<1%	<1%	<1%	-	-	-	-
Gatlins Trailer Park	-	-	<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%
Villa Capriani HOA	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%
Rogers Bay HOA	-	-	-	-	-	-	-	<1%	-	-
Royal Valley Mobile Home Park	-	-	-	-	-	-	-	-	<1%	<1%
Military/Student Housing	<1%	<1%	<1%	<1%	<1%	<1%	<1%	-	-	-
Market Rate, LLC	<1%	<1%	<1%	<1%	<1%	<1%	-	-	-	-
Sherwood MHP	-	-	-	-	-	-	<1%	<1%	<1%	<1%
Swansboro Ventures	<1%	-	<1%	<1%	<1%	-	-	-	-	-
Ramseys Trl Park	-	<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
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
2017	46,433	8,446,772	5,362,701	72,710,712	1.58	1,565.93

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)
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%
2017	200,236	8,680,043	47,262	26.10	25,903	4.60%

(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, 2017

Year Founded and Incorporated	2000
Size of Service Area:	
Square Miles	756
Miles of Water Pipe	1,179
Miles of Wastewater Collection Pipe	175
Wastewater Pump Stations	72
Customer Accounts	47,850
Budgeted Full Time Employees	128
Water Treatment Plants Capacity:	
Million gallons per day (MGD)	12.8
Production Peak, FY 2016 - 2017 (MGD)	10.2
Production Average, FY 2016 - 2017(MGD)	8.0
Wastewater Treatment Plants Capacity:	
Million gallons per day (MGD)	2.5
Highest Average Daily Flow, FY 2016 - 2017 (MGD)	1.3
Highest Max Daily Flow, FY 2016 - 2017 (MGD)	2.5
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
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%
2017	9,901,359,057	1,874,018,606	22,086,340	124,159,175	566,204,184	290,126,822	321,003,804	12,456,950,380	0.675	12,456,950,380	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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Onslow County	0.5030	0.5030	0.5850	0.5850	0.5850	0.5850	0.6750	0.6750	0.6750	0.6750
Municipality rates:										
Holly Ridge	0.3800	0.3800	0.4150	0.4150	0.4150	0.4150	0.4150	0.4150	0.4150	0.4150
Jacksonville	0.6260	0.6260	0.5380	0.5380	0.5380	0.5380	0.6420	0.6420	0.6420	0.6420
North Topsail Beach	0.1600	0.1400	0.2355	0.2355	0.2355	0.3755	0.3932	0.3932	0.3932	0.3932
Richlands	0.3800	0.3800	0.3700	0.3700	0.3700	0.3600	0.3800	0.3800	0.3800	0.3800
Surf City (1)	0.3100	0.3100	0.3100	0.2826	0.3100	0.4100	0.4100	0.4100	0.4100	0.4100
Swansboro	0.3530	0.3930	0.3930	0.3930	0.3930	0.3500	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
2008	57,074	56,354	98.74%	249	56,825	99.56%
2009	59,478	58,525	98.40%	326	59,152	99.45%
2010	71,587	70,001	97.78%	360	71,227	99.50%
2011	72,816	71,377	98.02%	347	72,469	99.52%
2012	75,432	74,072	98.20%	401	75,031	99.47%
2013	79,022	77,129	97.60%	580	78,442	99.27%
2014	78,566	77,220	98.29%	499	78,067	99.36%
2015	82,177	81,314	98.95%	452	81,725	99.45%
2016	83,697	82,575	98.66%	742	82,955	99.11%
2017	84,551	82,561	97.65%	-	82,763	97.89%

Source: Onslow County Tax Administration.

Onslow Water and Sewer Authority

Full Time Equivalent Employees
Last Ten Fiscal Years

Division	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General and Administrative										
Office of the Executive Director	3	3	3	3	3	3	3	3	3	2
Administration/Human Resources	7	7	7	7	5	5	7	7	10	9
Finance	6	6	6	5	5	5	6	6	6	6
Information Technology Services	7	7	6	6	3	3	3	3	3	3
Operations										
Engineering	11	11	11	13	13	14	15	15	12	11
Meters	15	15	15	14	14	14	15	15	15	16
Distribution	18	18	18	18	24	18	16	16	16	16
Customer Service	15	15	15	15	16	18	13	13	12	13
Facilities Maintenance & Collections	12	12	12	12	8	14	19	19	19	19
Water Treatment	16	16	15	16	16	17	14	14	14	14
Wastewater Treatment	9	9	9	9	9	10	10	10	10	10
Laboratory	4	4	4	4	6	5	4	4	3	3
SCADA	5	5	5	5	5	-	-	-	-	-
Total FTE's	128	128	126	127	122	126	125	125	123	122

Source: Onslow Water And Sewer Authority's Records

Onslow Water and Sewer Authority

Principal Employers
Current Year and Five Years Ago

Employer	2017		2013	
	Employees	Rank	Employees	Rank
Onslow County Board of Education	1000+	1	1000+	2
USMC Base, Camp Lejeune	1000+	2	1000+	1
Camp Lejeune Civil Service	1000+	3	1000+	3
Wal-Mart Associates Inc.	1000+	4	500-999	6
Onslow County Government	1000+	5	1000+	4
Onslow Memorial Hospital	1000+	6	1000+	5
Alorica Inc	500-999	7		
Convergys Customer Mgmt Group	500-999	8	500-999	9
Coastal Community College	500-999	9	500-999	7
Food Lion LLC	500-999	10	500-999	8
City of Jacksonville	500-999		500-999	10

Source: NC Commerce

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)
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
2017	2,882,755	344,774

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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Administrative										
Number of accounts billed for entire FY	544,080	533,228	523,713	500,787	525,433	444,352	467,981	443,185	428,148	421,718
Turn on service orders processed	12,385	12,388	15,727	13,048	17,801	18,708	18,230	18,180	17,652	15,901
Percentage actual expenditures to budget	96%	100%	95%	99%	88%	83%	85%	95%	86%	93%
Percentage of safety incidents to employees	2.5%	2.5%	3.0%	2.0%	2.0%	1.2%	1.0%	1.50%	3.20%	2.40%
Number of ITS helpdesk calls	800	1,200	1000	1000	1000	750	600	625	650	550
Water										
Number of meters read throughout the year	591,013	580,000	571,124	564,370	544,370	525,404	502,963	476,072	465,069	458,376
Number of water line miles maintained	1,169	1,156	1,200	1,147	1,094	1,094	1,060	1,033	1,021	1,000
Amount of water from wells to the Dixon/Hubert WPs	2,223,948,950	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
Number of quality control analysis performed	27,285	25,500	17,469	15,000	11,652	13,378	13,131	13,000	11,200	8,460
Total number of gallons of water treated at Dixon Water Plant	860,000,000	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
Number of water quality checks for water treated at Dixon WP	0	0	0	0	0	0	14	12	14	48
Total number of gallons of water treated at Hubert Water Plant	1,363,948,950	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
Number of water quality checks for water treated at Hubert WP	0	0	0	0	0	0	66	48	32	96
Wastewater										
Number of miles maintained by Wastewater Collections	175	170	146	124	124	124	125	120	91	81
Number of pump stations maintained	72	67	67	64	58	59	59	55	50	37
Number of million gallons treated at Southeast Regional Wastewater Plant	98,905,106	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
Total operation cost per thousand gallons treated at Southeast Regional WWTP	\$4.50	\$4.08	\$4.76	\$3.62	\$8.70	\$10.71	\$7.51	\$7.92	\$6.66	\$9.21
Number of million gallons treated at Kenwood Wastewater Plant	0	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
Total operation cost per thousand gallons treated at Kenwood WWTP	\$0.00	\$3.36	\$5.53	\$3.47	\$11.30	\$10.27	\$9.80	\$8.47	\$7.14	\$14.93
Number of million gallons treated at Northwest WRF	113,657,184	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
Total operation cost per thousand gallons treated at Northwest WRF	\$6.58	\$2.72	\$7.30	\$4.02	\$3.30	\$4.11	\$3.26	\$3.70	\$3.40	\$2.09
Number of million gallons treated at Swansboro Wastewater Plant	165,289,070	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
Total operation cost per thousand gallons treated at Swansboro WWTP	\$2.13	\$2.83	\$4.15	\$2.93	\$3.66	\$3.24	\$3.19	\$3.73	\$2.78	\$3.82

Onslow Water and Sewer Authority

**Operating Indicators by Function/Program
Last Ten Fiscal Years**

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Administrative										
Number of administrative vehicles	19	21	17	18	9	12	10	12	10	10
Number of buildings maintained	2	2	2	2	2	2	2	2	2	2
Water										
Number of vehicles maintained for water	44	38	40	37	39	38	38	48	60	57
Miles of water lines	1,179	1,156	1200	1147	1094	1094	1081	1,020	1,020	1,000
Number of water treatment plants	2	2	2	2	2	2	2	2	2	2
Wastewater										
Number of vehicles maintained for waste	10	16	15	14	20	23	28	16	21	18
Miles of wastewater lines	175	170	146	124	124	124	128	120	83	81
Number of wastewater treatment plants	4	4	4	7	7	7	7	7	8	5

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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RSM US LLP

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, 2017, 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 8, 2017.

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. However, material weaknesses may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

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

RSM US LLP

Morehead City, North Carolina
December 8, 2017

**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, 2017. 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 the 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, 2017.

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.

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 8, 2017

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

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

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

(Continued)

Onslow Water and Sewer Authority

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2017

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

Identification of major federal programs:

CFDA #	Program Name
<u>66.458</u>	<u>Capitalization Grants for Clean State Revolving Funds</u>

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

Auditee qualified as low-risk auditee? yes X no

Section 2. Financial Statement Findings

None reported

Section 3. Findings and Questioned Costs for Federal Awards

None reported



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Jacksonville, NC 28540

**Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017**

Finding 2016-001 – Fixed asset not recorded
Status: Corrected.

Onslow Water & Sewer Authority

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2017

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Expenditures				
		Federal	State	Pass-Through to Subrecipients	Local	Total
Federal Awards						
U. S. Environmental Protection Agency (Note 3)						
Pass through: NC Department of Environmental Quality						
Clean Water State Revolving Funds	66.458 M	880,670	212,063	-	(156,761)	935,972
Drinking Water State Revolving Loan	66.468	422,111	105,528	-	(379,746)	147,893
Total U.S. Environmental Protection Agency		<u>\$ 1,302,781</u>	<u>\$ 317,591</u>	<u>\$ -</u>	<u>\$ (536,507)</u>	<u>\$ 1,083,865</u>

M indicates major program

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

Onslow Water and Sewer Authority

Notes to the Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2017

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, 2017. 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 has not adopted the 10% diminimus 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 Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capitalization Grants for State Revolving Funds:					
Clean Water State Revolving Funds (2)	66.458	\$ 1,796,286	\$ 32,403	\$ 104,259	\$ 1,724,430
Drinking Water State Revolving Loan (1)	66.468	4,663,552	527,639	279,264	4,911,927
Clean Water State Revolving Fund (3)	66.458	-	1,060,330	-	1,060,330
		<u>\$ 6,459,838</u>	<u>\$ 1,620,372</u>	<u>\$ 383,523</u>	<u>\$ 7,696,687</u>

- (1) The Dixon Raw Waterline and Well construction project is funded by the NC Department of Environmental Quality through the Drinking Water State Revolving Loan. During the fiscal year ended June 30, 2017, the Authority had a loan drawdown of \$527,639 which relates to \$147,893 current year project expenditure and \$379,746 in prior year expenditures. The Authority has reported loan funds for project expenditures of \$527,639 for the fiscal year ended June 30, 2017, 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, 2017, the Authority had a loan drawdown of \$32,403 which relates to current year project expenditure. The Authority has reported loan funds for project expenditures of \$32,403 for the fiscal year ended June 30, 2017, on its Schedule, of which were subject to compliance testing.
- (3) The Western Onslow Trunk Sewer Line construction project is funded by the NC Department of Environmental Quality (NCDENR) through the Clean State Revolving Loan. During the fiscal year ended June 30, 2017, the Authority had a loan drawdown of \$1,063,330 which relates to \$903,569 current year project expenditure and \$156,761 in prior year expenditures. The Authority has reported loan funds for project expenditures of \$1,060,330 for the fiscal year ended June 30, 2017, on its Schedule, of which were subject to compliance testing.