

NEW ISSUE BOOK-ENTRY ONLY

Ratings:
Moody's: Aa3
S&P: AA-

In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), interest on the 2024 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code; however, interest on the 2024 Bonds held by certain corporations will be included in the computation of “adjusted financial statement income” for purposes of the federal alternative minimum tax imposed on such corporations. Furthermore, in the opinion of Bond Counsel, based on existing law, interest on the 2024 Bonds will be exempt from State of North Carolina income taxation. See “TAX TREATMENT” herein.



\$29,100,000
ONSLow WATER AND SEWER AUTHORITY
Combined Enterprise System Revenue
Bonds, Series 2024

Dated: Date of Delivery

Due: December 1, as shown on the inside cover

This Official Statement has been prepared by the Onslow Water and Sewer Authority (the “Authority”) to provide information on the Onslow Water and Sewer Authority Combined Enterprise System Revenue Bonds, Series 2024 (the “2024 Bonds”).

Security: The 2024 Bonds are special obligations of the Authority, the principal of, premium, if any, and interest on the 2024 Bonds are not payable from the general funds of the Authority, nor do they constitute a legal or equitable pledge, charge, lien, or encumbrance upon any of its property or on any of its income, receipts, or revenues except the funds which are pledged under the Indenture (hereinafter defined). Neither the credit nor the taxing power of the State or the Authority are pledged for the payment of the principal of, premium, if any, or interest on the 2024 Bonds, and no owner of this 2024 Bond has the right to compel the exercise of the taxing power by the State or the Authority or the forfeiture of any of its property in connection with any default. See “SECURITY AND SOURCES OF PAYMENT OF 2024 BONDS” herein.

Prepayment: The 2024 Bonds are subject to optional and mandatory sinking fund redemption before their maturities as described herein.

Purpose: Proceeds of the 2024 Bonds will be used to pay (a) the cost of the design and construction of a new 36,000 foot 18-inch sewer force main and the associated construction of two new pump stations and the rehabilitation of two existing pump stations, including the acquisition of associated land and rights of way and obtaining required permits for the operation of the same and (b) certain costs incurred in connection with the issuance of the 2024 Bonds.

Interest Payment Dates: June 1 and December 1 of each year, commencing December 1, 2024.

Denomination: \$5,000 or integral multiples thereof.

Closing/Delivery Date: September 26, 2024.

Bond Counsel: Womble Bond Dickinson (US) LLP

Authority Counsel: Kitchen Law, PLLC

Underwriter's Counsel: Parker Poe Adams & Bernstein LLP

Trustee: U.S. Bank Trust Company, National Association

Financial Advisor: DEC Associates, Inc.

PNC Capital Markets LLC

The date of this Official Statement is September 12, 2024.

MATURITY SCHEDULE

\$29,100,000

ON SLOW WATER AND SEWER AUTHORITY Combined Enterprise System Revenue Bonds, Series 2024

MATURITY SCHEDULE

<u>DUE DECEMBER 1</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>YIELD</u>	<u>CUSIP⁺</u>	<u>DUE DECEMBER 1</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>YIELD</u>	<u>CUSIP⁺</u>
2026	\$470,000	5.00%	2.46%	682852DW5	2036	\$775,000	5.00%	3.04%*	682852EG9
2027	495,000	5.00	2.47	682852DX3	2037	815,000	5.00	3.09*	682852EH7
2028	520,000	5.00	2.46	682852DY1	2038	855,000	5.00	3.12*	682852EJ3
2029	545,000	5.00	2.49	682852DZ8	2039	900,000	5.00	3.20*	682852EK0
2030	575,000	5.00	2.57	682852EA2	2040	945,000	5.00	3.28*	682852EL8
2031	605,000	5.00	2.70	682852EB0	2041	995,000	5.00	3.36*	682852EM6
2032	635,000	5.00	2.80	682852EC8	2042	1,045,000	5.00	3.41*	682852EN4
2033	665,000	5.00	2.84	682852ED6	2043	1,100,000	5.00	3.45*	682852EP9
2034	700,000	5.00	2.88	682852EE4	2044	1,155,000	5.00	3.53*	682852EQ7
2035	735,000	5.00	2.95*	682852EF1					

\$6,565,000 4.00% Term Bonds due December 1, 2049 – Yield: 4.07%* CUSIP⁺ 682852ER5
\$8,005,000 4.00% Term Bonds due December 1, 2054 – Yield: 4.09%* CUSIP⁺ 682852ES3

* Yield to December 1, 2034 call date at 100%.

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No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2024 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2024 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the 2024 Bonds implies that the information herein is correct as of any date subsequent to the date thereof.

The information contained herein has been obtained from the Authority and other sources believed to be reliable. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 ("*Rule 15c2-12*") promulgated by the Securities and Exchange Commission.

This Official Statement is deemed to be a final official statement with respect to the 2024 Bonds within the meaning of Rule 15c2-12, except, when it is in preliminary form, for the omission of certain pricing and other information authorized to be omitted by Rule 15c2-12.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy of completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2024 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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\$29,100,000
ONSLow WATER AND SEWER AUTHORITY
Combined Enterprise System Revenue Bonds, Series 2024

INTRODUCTION

This Official Statement, which includes the cover and the appendices, provides certain information in connection with the offering and sale of the \$29,100,000 Combined Enterprise System Revenue Bonds, Series 2024 (the “2024 Bonds”), of the Onslow Water and Sewer Authority (the “Authority”).

This introduction provides certain limited information to serve as a guide to this Official Statement and is expressly qualified by this Official Statement as a whole.

The descriptions of the 2024 Bonds, the General Trust Indenture, dated as of June 15, 2004, as amended, (the “*General Indenture*”), between the Authority and First-Citizens Bank & Trust Company (succeeded by U.S. Bank Trust Company, National Association), as trustee (the “*Trustee*”), Series Indenture, Number 13, dated as of September 1, 2024 (the “*Series 2024 Indenture*” and, together with the General Indenture, the “*Indenture*”), between the Authority and the Trustee, and other documents described in this Official Statement do not purport to be definitive or comprehensive. All references to those documents are qualified in their entireties by reference to the approved forms of those documents. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture unless otherwise indicated. For the definition of certain terms used herein and a summary of certain provisions of the Indenture, see **APPENDIX E** hereto.

PURPOSE

The 2024 Bonds are being issued to (a) the cost of the design and construction of a new 36,000 foot 18-inch sewer force main and the associated construction of two new pump stations and the rehabilitation of two existing pump stations, including the acquisition of associated land and rights of way and obtaining required permits for the operation of the same (collectively, the “*2024 Project*”) and (b) certain costs incurred in connection with the issuance of the 2024 Bonds. See “**THE 2024 PROJECT**” and “**ESTIMATED SOURCES AND USES OF FUNDS**” herein.

THE 2024 BONDS

The 2024 Bonds will be dated the date of delivery thereof, and will bear interest from their date payable on December 1, 2024, and semiannually thereafter on each June 1 and December 1, at the rates shown on the inside cover. Principal on the 2024 Bonds will be payable, subject to redemption as described herein, on December 1 in the years and amounts shown on the inside cover. The 2024 Bonds are offered in denominations of \$5,000 and integral multiples thereof. The 2024 Bonds will be subject to optional and mandatory redemption as described below. See “**THE 2024 BONDS**” herein.

THE AUTHORITY

The Authority is a body corporate and politic and a public instrumentality of the State of North Carolina (the “*State*”) created pursuant to Chapter 162A of the General Statutes of North Carolina, as amended, exercising public and essential governmental functions to provide for the public health and welfare. See **APPENDIX A** hereto for certain information regarding the Authority. See **APPENDIX B**

hereto for certain information regarding the Authority's service area, located primarily within Onslow County, North Carolina.

Portions of the audited financial statements of the Authority and notes related thereto for the Fiscal Year ended June 30, 2023 are included in **APPENDIX C** hereto.

SECURITY AND PARITY DEBT

The 2024 Bonds are special obligations of the Authority, the principal of, premium, if any, and interest on the 2024 Bonds are payable solely from the Trust Estate pledged under the Indenture. The Trust Estate includes the Net Revenues of the Authority's Combined Enterprise System (the "*Combined Enterprise System*"), which currently consists of the Water and Wastewater System, and moneys and securities in certain funds and accounts established under the Indenture. See "**SECURITY AND SOURCES OF PAYMENT OF 2024 BONDS-THE TRUST ESTATE; PLEDGE OF NET REVENUES**" herein. The principal of, premium, if any, and interest on the 2024 Bonds are not payable from the general funds of the Authority, nor do they constitute a legal or equitable pledge, charge, lien, or encumbrance upon any of its property or upon any of its income, receipts, or revenues, except the Trust Estate pledged under the Indenture. Neither the credit nor the taxing power of the Authority is pledged for the payment of the principal of, premium, if any, or interest on the 2024 Bonds, and no Owner of the 2024 Bonds has the right to compel the exercise of the taxing power by the Authority or the forfeiture of any of its property in connection with any default on the 2024 Bonds. The Authority has no taxing power under the Act (hereinafter defined).

The Authority has previously issued under the General Indenture its Combined Enterprise System Revenue Bonds, Series 2004A (the "*2004A Bonds*"), its Combined Enterprise System Revenue Bonds, Series 2004B (the "*2004B Bonds*"), its Combined Enterprise System Revenue Bond, Series 2006 (the "*2006 Bond*"), its Combined Enterprise System Revenue Bonds, Series 2008A (the "*2008A Bonds*"), and its Combined Enterprise System Revenue Bond, Series 2008B (the "*2008B Bond*"), all of which are no longer outstanding, as well as its Combined Enterprise System Revenue Bonds, Series 2014A, Series 2014B and Series 2014C, which are currently outstanding in the amount of \$21,021,000 (collectively, the "*2014 Bonds*"), its Combined Enterprise System Revenue Refunding Bonds, Series 2016, which are currently outstanding in the amount of \$23,085,000 (collectively, the "*2016 Bonds*"), and its Combined Enterprise System Revenue Bonds, Series 2023, which are currently outstanding in the amount of \$48,415,000 (collectively, the "*2023 Bonds*"). Under the circumstances described herein and in the General Indenture, the Authority may issue Additional Bonds payable from the Trust Estate on a parity with the 2014 Bonds, the 2016 Bonds, the 2023 Bonds, and the 2024 Bonds. See "**SECURITY AND SOURCES OF PAYMENT OF 2024 BONDS-ADDITIONAL BONDS**" herein. The 2024 Bonds, the 2014 Bonds, the 2016 Bonds, the 2023 Bonds, and any Additional Bonds are referred to collectively herein as the "*Bonds*."

BOOK-ENTRY FORM ONLY

The 2024 Bonds will be initially delivered by means of a book-entry system with no physical distribution of definitive 2024 Bonds made to the public. Payments of principal, interest and premium, if any, with respect to the 2024 Bonds, so long as DTC is the only Owner of the 2024 Bonds, will be paid by the Trustee directly to DTC or its nominee, Cede & Co., as provided in the Blanket Letter of Representation from the Authority to DTC. See **APPENDIX G, "BOOK-ENTRY-ONLY SYSTEM"** hereto. So long as Cede & Co., as nominee for DTC, is the registered owner of the 2024 Bonds, references herein to registered owner or Owners means Cede & Co. and not the beneficial owners of the 2024 Bonds.

TAX TREATMENT

In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “*Code*”), interest on the 2024 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code; however, interest on the 2024 Bonds held by certain corporations will be included in the computation of “adjusted financial statement income” for purposes of the federal alternative minimum tax imposed on such corporations. Furthermore, in the opinion of Bond Counsel, based on existing law, interest on the 2024 Bonds will be exempt from State of North Carolina income taxation. See “**TAX TREATMENT**” herein.

PROFESSIONALS

PNC Capital Markets LLC, Charlotte, North Carolina (the “*Underwriter*”), is underwriting the 2024 Bonds. U.S. Bank Trust Company, National Association, Charlotte, North Carolina, is serving as Trustee with respect to the 2024 Bonds. Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, is serving as Bond Counsel. Kitchen Law, PLLC is the Authority Attorney. Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, is serving as counsel to the Underwriter. DEC Associates, Inc. is serving as the Authority’s financial advisor. Raftelis Financial Consultants, Inc., Charlotte, North Carolina, has prepared the Financial Feasibility Evaluation of Combined Enterprise System Revenue Bonds, Series 2024 (the “*Financial Feasibility Evaluation*”) included in **APPENDIX D** hereto.

ADDITIONAL INFORMATION

Additional information and copies in reasonable quantity of the principal financing documents may be obtained from the Authority at 228 Georgetown Road, Jacksonville, North Carolina 28540, Attention: Chief Financial Officer. Copies of such documents can also be obtained during the offering period from PNC Capital Markets LLC at 4720 Piedmont Row, Suite 200, Charlotte, NC 28210. After the offering period, copies of such documents may be obtained from the Trustee at 214 North Tryon Street, 27th Floor; Charlotte, NC 28202-1078; CN-NC-H27A; Attention: Global Corporate Trust. All such copies will be provided at the expense of the requesting parties.

CONTINUING DISCLOSURE

The Authority has undertaken in the Series 2024 Indenture to provide certain annual financial information and operating data and to provide notice of certain material events. See “**CONTINUING DISCLOSURE**” herein.

THE 2024 BONDS

AUTHORIZATIONS

The 2024 Bonds are authorized by North Carolina Water and Sewer Authorities Act, Article 1 of Chapter 162A of the General Statutes of North Carolina, as amended, and The State and Local Government Revenue Bond Act (General Statutes of North Carolina, Section 159-80 et seq., as amended) (collectively, the “*Act*”), the General Indenture, an order adopted by the Board of Directors of the Authority on August 1, 2024 and the Series 2024 Indenture.

The Authority expects to receive the required approval of the North Carolina Local Government Commission (the “*LGC*”) for the issuance of the 2024 Bonds on September 10, 2024. The LGC is a

division of the North Carolina State Treasurer’s office charged with the general oversight of local government finance in the State. The LGC’s approval is required for substantially all local government financing arrangements in the State.

Under the Act, in determining whether to allow bonds to be issued, the LGC has wide discretion to consider the need for and feasibility of the issuance of the bonds, the local government’s capability to repay the amount financed from the pledged revenue sources, and the local government’s general compliance with State budget and finance laws. Under the Act, the LGC is also responsible, with the issuing unit’s approval, for selling bonds issued pursuant to the Act.

GENERAL

The 2024 Bonds are issuable solely as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof. The 2024 Bonds will mature on December 1 of the years and in the amounts and will bear interest (computed on the basis of a 360-day year of twelve 30-day months) payable on June 1 and December 1, commencing December 1, 2024, as shown on the inside cover page of this Official Statement. The 2024 Bonds will be dated as of the date of their initial delivery. The record date is the 15th day of the month next preceding an Interest Payment Date. The Paying Agent and the Registrar for the 2024 Bonds initially will be U.S. Bank Trust Company, National Association, Charlotte, North Carolina.

REDEMPTION PROVISIONS

Optional Redemption of the 2024 Bonds

The 2024 Bonds maturing on or before December 1, 2034 are not subject to call and redemption prior to maturity. The 2024 Bonds maturing on or after December 1, 2035 are subject to call and redemption prior to maturity, either in whole or in part on any date on or after December 1, 2034 at a redemption price equal to 100% of the principal amount of the 2024 Bonds to be redeemed, plus accrued interest to the redemption date.

Sinking Fund Redemption of the 2024 Bonds

The 2024 Bonds maturing on December 1, 2049 (the “2049 Term Bonds”) are subject to mandatory redemption prior to maturity in part, at the redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, in the amounts and on the dates as follows:

REDEMPTION DATE (DECEMBER 1)	AMOUNT
2045	\$1,210,000
2046	1,260,000
2047	1,310,000
2048	1,365,000
2049*	1,420,000

*Maturity

The 2024 Bonds maturing on December 1, 2054 (the “2054 Term Bonds” and together with the 2049 Term Bonds, the “Term Bonds”) are subject to mandatory redemption prior to maturity in part, at the redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, in the amounts and on the dates as follows:

REDEMPTION DATE (DECEMBER 1)	AMOUNT
2050	\$1,475,000
2051	1,535,000
2052	1,600,000
2053	1,665,000
2054*	1,730,000

*Maturity

At its option, to be exercised on or before the 45th day next preceding any mandatory redemption date, the Authority may (a) deliver to the Trustee for cancellation, Term Bonds or portions thereof (in Authorized Denominations) in any aggregate principal amount desired, or (b) receive a credit in respect of its mandatory redemption obligation for the Term Bonds (in Authorized Denominations) which prior to said date have been purchased or redeemed (otherwise than through mandatory redemption under this Section) and cancelled by the Trustee and not theretofore applied as a credit against any mandatory redemption obligation. Each such Term Bond or portion thereof so delivered or previously purchased or redeemed and cancelled by the Trustee shall be credited by the Trustee at 100% of the principal amount thereof against the obligation of the Authority to redeem the Term Bonds on such mandatory redemption date, and any excess over such amount shall be credited against future mandatory redemption obligations in chronological order, and the principal amount of the Term Bonds so to be redeemed shall be accordingly reduced.

The Authority will on or before the 45th day next preceding each such mandatory redemption date furnish the Trustee with its certificate indicating whether or not and to what extent the provisions of (a) and (b) of the preceding paragraph are to be availed of with respect to such mandatory redemption payment.

Notice of Redemption

Notice of redemption will be given by the Trustee not less than 30 days nor more than 60 days before the redemption date to (1) the LGC by Mail or facsimile transmission, (2) (A) DTC or its nominee by registered or certified mail at the address provided to the Trustee by DTC or (B) if DTC or its nominee is no longer the Owner of the 2024 Bonds, by Mail to the then-registered Owners of 2024 Bonds or portions thereof to be redeemed at the last address shown on the registration books kept by the Registrar, (3) to each of the then-existing securities depositories, by Mail or facsimile transmission and (4) to at least two of the then-existing national information services, by Mail.

Such notice must (1) specify the 2024 Bonds to be redeemed, the redemption date, the Redemption Price and the place or places where amounts due on such redemption must be payable (which must be the principal office of the Paying Agent) and if less than all of the 2024 Bonds are to be redeemed, the numbers of the 2024 Bonds and the portions of 2024 Bonds to be redeemed, and (2) state that on the redemption date, the 2024 Bonds to be redeemed will cease to bear interest.

Any notice of redemption, other than a mandatory sinking fund redemption, may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the 2024 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such 2024 Bond shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such 2024 Bonds are not received by the Trustee on or prior to the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Failure to provide such notice to any Owner or any defect therein will not affect the validity of any proceedings for such redemption as to any other Owner to whom such notice was properly given. Failure to provide such notice to the LGC or the securities depositories and national information services as provided above will not affect the validity of any proceedings for such redemption.

If moneys are on deposit in the Debt Service Fund to pay the Redemption Price of the 2024 Bonds called for redemption and premium, if any, thereon on a redemption date, 2024 Bonds or portions thereof so called for redemption as specified herein will not bear interest on and after such redemption date and will not be considered to be Outstanding or to have any other rights under the General Indenture other than the right to receive payment. No payment of principal will be made by the Paying Agent on any 2024 Bonds or portions thereof called for redemption until such 2024 Bonds or portions thereof have been delivered for payment or cancellation or the Paying Agent has received the items required by the General Indenture with respect to any mutilated, lost, stolen or destroyed 2024 Bonds.

Selection of 2024 Bonds to be Redeemed

In the case of any partial redemption of the 2024 Bonds, other than a mandatory sinking fund redemption, the Authority will select the maturity or maturities of the 2024 Bonds to be redeemed and DTC will select the 2024 Bonds within the same maturity under its rules and procedures or, if the book-entry system with DTC or any other securities depository has been discontinued, the Registrar will select the 2024 Bonds to be redeemed by lot in such manner as the Registrar in its discretion may deem proper.

If a 2024 Bond subject to redemption is in a denomination larger than the minimum Authorized Denomination, a portion of such 2024 Bond may be redeemed, but only in a principal amount such that the unredeemed portion of such 2024 Bond is equal to an Authorized Denomination. For any 2024 Bond in a denomination of more than the minimum Authorized Denomination, the Trustee shall treat each such 2024 Bond as representing a single 2024 Bond in the minimum Authorized Denomination plus that number of 2024 Bonds that is obtained by dividing the remaining principal amount of such 2024 Bond by the minimum Authorized Denomination.

If it is determined that one or more, but not all, of the Authorized Denominations of principal amount represented by any 2024 Bond is to be called for redemption, then, on written notice of intention to redeem such Authorized Denominations of principal amount of such 2024 Bond, the Owner of such 2024 Bond, on surrender of such 2024 Bond to the Paying Agent for payment of the principal amount of such 2024 Bond, will be entitled to receive new 2024 Bonds of the same aggregate principal amount of the unredeemed balance of the principal amount of such 2024 Bond. New 2024 Bonds representing the unredeemed balance of the principal amount of such 2024 Bonds will be issued to the Owner thereof without charge therefor.

If the Owner of any 2024 Bond of a denomination greater than the amount being redeemed fails to present such 2024 Bond to the Paying Agent for payment and exchange as aforesaid, such 2024 Bond

will, nevertheless, become due and payable on the date fixed for redemption to the extent of the denomination being redeemed and to that extent only.

THE 2024 PROJECT

Proceeds of the 2024 Bonds are being issued to (1) finance the 2024 Project, and (2) pay certain costs of issuing the 2024 Bonds.

The 2024 Project consists of the design and construction of a new 36,000 foot 18-inch sewer force main to connect the Town of Swansboro area collection system to the Authority’s reserved wastewater treatment capacity at the French Creek Wastewater Treatment Plant located at the Marine Corps Base Camp Lejeune (“*MCBCL*”). The 2024 Project also includes the associated construction of two new pump stations and the rehabilitation of two existing pump stations. Specific 2024 Project components include:

- Modification of the existing Piney Green Pump Station at the Piney Green Gate on MCBCL, which leads to the French Creek Wastewater Treatment Plant on MCBCL;
- Construction of a new pump station at the Authority’s Hubert Water Treatment Plant site;
- Construction of a new pump station at the existing Swansboro Wastewater Treatment Plant site;
- Modification of the existing Hall Creek Pump Station;
- Influent and effluent pipe connection work at all four pump stations; and
- Telemetry System and associated electrical work.

While not currently anticipated, the 2024 Project provides an interconnection between the Authority’s Swansboro Wastewater Treatment Plant and the French Creek Wastewater Treatment Facility that provides the Authority with flexibility to serve the Swansboro collection area from either treatment facility, if needed.

ESTIMATED SOURCES AND USES OF FUNDS

The following table presents information as to the estimated sources and uses of funds for the 2024 Project:

SOURCES OF FUNDS:

Par Amount of the 2024 Bonds	\$29,100,000
Net Original Issue Premium	1,889,400
TOTAL SOURCES	\$30,989,400

USES OF FUNDS:

Deposit to the 2024 Project Account	\$30,500,000
Costs of Issuance ¹	489,400
TOTAL USES	\$30,989,400

¹ Includes Underwriter’s discount, legal fees, printing costs, rating agency fees, fees and expenses of the financial feasibility consultant, the financial advisor and the Trustee, and other miscellaneous fees and expenses.

PROJECTED FINANCIAL INFORMATION

The information below is an excerpt from the Financial Feasibility Evaluation, included in **APPENDIX D** hereto. These projections are based on the Authority's current expectations but are not intended as representations of fact or guarantees of results. The Forecast Statement in the table below is presented in conformity with industry guidelines for presentation of a forecast, and the underlying assumptions provide a reasonable basis for the forecast. However, there will usually be differences between the forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The Authority is under no obligation to release publicly any updates or revisions to any projection or forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions, or circumstances on which any such projection or forward-looking statement is based.

Certain assumptions were made in conjunction with these financial projections, as described in the footnotes to the table in **APPENDIX D**, for the Combined Enterprise System for the six fiscal years ended June 30, 2024 (unaudited results) and ending June 30, 2025 through 2029. This table should be read in conjunction with **APPENDIX D** hereto.

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Onslow Water and Sewer Authority, North Carolina
Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage
For the Fiscal Year Ending June 30

	Unaudited (1)	Projected	Projected for Fiscal Year Ending June 30 th			
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Combined Enterprise System						
Operating Revenues						
Water Revenues (2)	\$ 27,000,046	\$ 29,903,911	\$ 33,766,625	\$ 36,495,298	\$ 39,446,933	\$ 42,639,906
Wastewater Revenues (2)	9,165,612	13,052,850	14,819,218	16,825,019	18,800,912	20,431,111
Other Operating Revenues (3)	3,246,735	3,221,043	3,221,043	3,221,043	3,221,043	3,221,043
Subtotal: Operating Revenue	\$ 39,412,392	\$ 46,177,803	\$ 51,806,886	\$ 56,541,360	\$ 61,468,888	\$ 66,292,059
Operating Expenses (4)						
Salaries, Fringe Benefits & Operating Expenditures	\$ (28,035,049)	\$(34,317,232)	\$(36,912,432)	\$(38,561,737)	\$(40,199,914)	\$(41,896,417)
Depreciation and Amortization	(7,607,805)	(7,888,336)	(8,179,212)	(8,480,813)	(8,793,536)	(9,117,790)
Subtotal: Operating Expenses	\$ (35,642,854)	\$(42,205,568)	\$(45,091,644)	\$(47,042,550)	\$(48,993,450)	\$(51,014,207)
Operating Income	\$ 3,769,538	\$ 3,972,235	\$ 6,715,242	\$ 9,498,810	\$ 12,475,438	\$ 15,277,852
Nonoperating Revenues (Expenses)						
System Development Fees -Water & Sewer (5)	\$ 5,557,781	\$ 3,500,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Interest Earned On Investments	2,791,878	2,200,000	262,408	286,436	313,358	329,319
Interest Expense	(2,978,965)	(4,789,465)	(5,017,800)	(6,489,334)	(7,951,708)	(9,651,465)
Subtotal: Nonoperating Revenues (Expenses)	\$ 5,370,693	\$ 910,535	\$ (1,755,392)	\$ (3,202,898)	\$ (4,638,350)	\$ (6,322,146)
Income Before Transfers and Capital Contributions	\$ 9,140,231	\$ 4,882,770	\$ 4,959,850	\$ 6,295,912	\$ 7,837,088	\$ 8,955,706
Adjustments (6)						
Plus: Depreciation and Amortization	\$ 7,607,805	\$ 7,888,336	\$ 8,179,212	\$ 8,480,813	\$ 8,793,536	\$ 9,117,790
Plus: Interest Expense	2,978,965	4,789,465	5,017,800	6,489,334	7,951,708	9,651,465
A Net Revenues	\$ 19,727,002	\$ 17,560,571	\$ 18,156,862	\$ 21,266,059	\$ 24,582,332	\$ 27,724,961
Plus 20% of General Fund (7)	\$ 8,828,973	\$ 7,853,005	\$ 5,448,161	\$ 5,928,712	\$ 6,467,160	\$ 6,786,372
B Net Revenues Plus 20% of General Fund	\$ 28,555,975	\$ 25,413,576	\$ 23,605,023	\$ 27,194,771	\$ 31,049,492	\$ 34,511,333
Debt Service						
Revenue Bonds						
Revenue Bond Series 2014	\$ 988,601	\$ 987,249	\$ 987,659	\$ 987,784	\$ 987,624	\$ 988,179
Revenue Bond Series 2016	3,800,200	3,797,925	3,802,175	3,798,925	3,801,300	3,445,175
Revenue Bond - 2023	1,352,334	3,112,100	3,110,225	3,111,475	3,110,725	3,112,850
Forecast Series 2024(8)	-	908,027	1,334,244	1,797,369	1,797,994	1,797,369
Forecast Series 2026(9)	-	-	-	1,690,950	3,381,900	4,400,775
Forecast Series 2028(10)	-	-	-	-	-	1,956,619
C Subtotal: Revenue Bond Debt Service	\$ 6,141,135	\$ 8,805,301	\$ 9,234,303	\$ 11,386,503	\$ 13,079,543	\$ 15,700,966
D 120% of Revenue Bond Debt Service	\$ 7,369,362	\$ 10,566,361	\$ 11,081,163	\$ 13,663,803	\$ 15,695,451	\$ 18,841,160
Debt Service Coverage - Revenue Bonds						
Calculated Using Net Revenues (A/C)	3.21	1.99	1.97	1.87	1.88	1.77
Calculated Using Net Revenues Plus 20% of the General Fund (B/D)	3.87	2.41	2.13	1.99	1.98	1.83
E Net Revenues Available for Subordinate, and Other Indebtedness	\$ 13,585,867	\$ 8,755,270	\$ 8,922,560	\$ 9,879,556	\$ 11,502,789	\$ 12,023,995
Subordinate and Other Indebtedness						
Federal (ARRA) 1413	\$ 12,102	\$ 12,102	\$ 12,102	\$ 12,102	\$ 12,102	\$ 12,102
Federal (ARRA) 1416	12,403	12,403	12,403	12,403	12,403	12,403
Drinking Water (Dixon RO)	273,523	273,523	273,523	273,523	273,523	273,523
CG&L - 01	87,180	85,337	83,495	81,653	79,811	77,968
CG&L - 02	25,673	25,153	24,632	24,112	23,591	23,071
CG&L (SHWRF)	104,259	104,259	104,259	104,259	104,259	104,259
DEQ (WOTS P2)	83,428	82,125	80,821	79,518	78,214	76,911
Subtotal: Subordinate and Other Indebtedness	\$ 598,568	\$ 594,902	\$ 591,235	\$ 587,569	\$ 583,903	\$ 580,236
F Subtotal: Subordinate, and Other Indebtedness	\$ 598,568	\$ 594,902	\$ 591,235	\$ 587,569	\$ 583,903	\$ 580,236
Debt Service Coverage - Subordinate, and Other Indebtedness (E/F)	22.70	14.72	15.09	16.81	19.70	20.72

Onslow Water and Sewer Authority, North Carolina
Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage
For the Fiscal Year Ending June 30

	Unaudited	Projected	Projected for Fiscal Year Ending June 30 th			
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
G Total Debt Service: Revenue Bonds, plus Subordinate and Other Indebtedness	\$ 6,739,703	\$ 9,400,202	\$ 9,825,538	\$ 11,974,072	\$ 13,663,445	\$ 16,281,203
H Total Debt Service: 120% of Revenue Bonds, plus Subordinate and Other Indebtedness	\$ 7,967,930	\$ 11,161,263	\$ 11,672,398	\$ 14,251,372	\$ 16,279,354	\$ 19,421,396
Debt Service Coverage - Total Indebtedness						
Calculated Using Net Revenues (A/G)	2.93	1.87	1.85	1.78	1.80	1.70
Calculated Using Net Revenues Plus (B/H) 20% of the General Fund	3.58	2.28	2.02	1.91	1.91	1.78
Net Revenues Less Total Indebtedness	\$ 12,987,299	\$ 8,160,369	\$ 8,331,324	\$ 9,291,987	\$ 10,918,887	\$ 11,443,758
Other Expenditures (11)						
Capital Outlay	\$ (2,558,755)	\$ (5,103,810)	\$ (2,752,949)	\$ (3,349,747)	\$ (4,322,828)	\$ (2,953,079)
Total: Other Expenses	\$ (2,558,755)	\$ (5,103,810)	\$ (2,752,949)	\$ (3,349,747)	\$ (4,322,828)	\$ (2,953,079)
Surplus Revenues/(Deficit) Remaining After Total Cash Needs (12)	\$ 10,428,543	\$ 3,056,559	\$ 5,578,375	\$ 5,942,240	\$ 6,596,059	\$ 8,490,680
Ending General Fund Balance (7)	\$ 39,265,027	\$ 27,240,806	\$ 29,643,559	\$ 32,335,799	\$ 33,931,858	\$ 40,172,538
Days Cash On Hand	511	290	293	306	308	350

SECURITY AND SOURCES OF PAYMENT OF THE 2024 BONDS

GENERAL

The information described below under this caption and in **APPENDIX E** attached hereto describes certain covenants and provisions of the General Indenture.

THE TRUST ESTATE; PLEDGE OF NET REVENUES

Pursuant to the General Indenture, the Authority pledges the Net Revenues and moneys and securities in certain funds and accounts established under the General Indenture (the “Trust Estate”) to the Trustee for the equal and ratable benefit, protection, and security of all Owners of Bonds. Net Revenues are derived from services provided by the Combined Enterprise System. Currently, the only component of the Combined Enterprise System is the water and wastewater system described in **APPENDIX A**. The General Indenture authorizes the Authority to add enterprises to the Combined Enterprise System or to remove enterprises from the Combined Enterprise System under certain conditions. See “**SALE OF THE SYSTEM**” in **APPENDIX E** hereto.

“Net Revenues” means the excess of Revenues over Current Expenses. “Revenues” means all rates, fees (including any tap, capacity or impact fees), rentals, assessments or other charges or other money received by the Authority in connection with the ownership, management and operation of the Combined Enterprise System, and all parts thereof, including amounts received from the investment of moneys in any fund or account (but not including amounts received from interest or other investment income earned in the Construction and Acquisition Fund and the Rebate Fund and, during the construction period, the Reserve Fund), all as calculated in accordance with generally accepted accounting principles, but shall not include (a) net proceeds of insurance or condemnation awards or other extraordinary items, (b) any amounts collected by the Authority representing sales or use taxes which may be required by law or agreement to be paid to the State or a governmental unit thereof, (c) refundable deposits made by customers of the Combined Enterprise System, or (d) any amounts otherwise included under this definition as “Revenues” but not permitted by law to be pledged pursuant to be so pledged.

“*Current Expenses*” means the current expenses of operation, maintenance and current repair of the Combined Enterprise System, as calculated in accordance with generally accepted accounting principles, and includes, without limiting the generality of the foregoing: insurance premiums; any Rebate Deposits; fees and expenses of the Trustee and any Paying Agent; fees and expenses of any entity providing credit support or liquidity for any Series of the Bonds; administrative and engineering expenses of the Authority relating solely to the Combined Enterprise System; labor; executive compensation; the cost of materials and supplies used for current operations; and charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred as determined by the Authority in accordance with generally accepted accounting principles. “*Current Expenses*” will not include (1) any allowance for depreciation or replacements of capital assets of the Combined Enterprise System, (2) moneys payable as Interest on the Bonds and as interest on General Obligation Indebtedness, Subordinate Indebtedness or Other Indebtedness, (3) moneys deposited or transferred to the Reserve Fund pursuant to the applicable Series Indenture, (4) moneys deposited or transferred to the Debt Service Fund, Replacement Fund, Construction and Acquisition Fund, Reserve Fund, and General Fund pursuant to the General Indenture and (5) operating expenses that do not involve a current outlay of cash, but are attributable to accruals, such as accruals for pensions and other post-retirement benefits.

RATE COVENANT

The General Indenture provides that, before the commencement of each Fiscal Year, the Authority will fix, establish or maintain or cause to be fixed, established and maintained such rates and charges for the provision of services of the Combined Enterprise System and revise or cause to be revised the same, as necessary, as will produce (a) Revenues which together with 20% of the balance in the General Fund at the end of the preceding Fiscal Year at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time plus (ii) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (v) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute for any amounts owing under the General Indenture and (b) Revenues at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 100% of (1.00 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (v) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute for any amounts owing under the General Indenture.

FUNDS AND ACCOUNTS

The General Indenture establishes a Revenue Fund, an Operating and Maintenance Fund, a Debt Service Fund, a Replacement Fund, a Construction and Acquisition Fund, a Rebate Fund, a Reserve Fund and a General Fund. Deposits to such funds shall be as set forth under “*Funds and Accounts-Revenue Fund*” in **APPENDIX E**.

ADDITIONAL BONDS

The Authority may issue Additional Bonds on a parity with the 2024 Bonds payable from the Trust Estate under the conditions set forth in the General Indenture, as described below:

(a) The Authority will not issue any other obligations, except on the conditions and in the manner provided in the General Indenture, payable from the Revenues, having priority to or being on a parity with the lien of the Bonds issued pursuant to the General Indenture, nor voluntarily create or cause to be or suffer to be created any debt, lien, pledge, assignment, encumbrance or any other charge having priority to or being on parity with the lien of the Bonds issued pursuant to the General Indenture.

(b) The Authority may issue Bonds to refund all or any principal amount of the Bonds; if (1) the Principal and Interest Requirements on the Bonds for any fiscal year after the issuance of the refunding Bonds will not be greater than 110% of the Principal and Interest Requirements on the Bonds prior to the refunding for the corresponding fiscal year if scheduled debt service payments were due in such year or (2) the requirements in paragraph (d) below are met.

(c) The Authority may issue Bonds, in an amount not to exceed 10% of the principal amount of a Series of Bonds, the proceeds of which were used to acquire or construct any portion of the Combined Enterprise System, if such proceeds are insufficient to pay the Costs of Construction. Before the issuance of any Bonds under this paragraph, the Authority must deliver to the Trustee a Certificate of a Consulting Engineer stating that the proceeds from the Bonds together with other available funds will be sufficient to pay the Costs of Construction of the portion of the Combined Enterprise System for which such Bonds are being issued.

(d) No Series of Bonds, other than the Bonds described in paragraph (b) and (c) above, will be issued under the General Indenture unless

EITHER:

(1) (A) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner described in paragraph (e) below, together with 20% of the balance in the General Fund at the end of such Fiscal Year, were at least equal to (a) 120% of (1.20 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in that Fiscal Year and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in that Fiscal Year, AND

(B) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner described in paragraph (e) below, were at least equal to (a) 100% of (1.00 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation

Indebtedness in that Fiscal Year and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in that Fiscal Year; OR

(2) (A) the Authority has met the Rate Covenant set forth in the General Indenture and described above for the most recent Fiscal Year for which audited financial statements are available, as certified by the Executive Director; AND

(B) the Net Revenues, as projected by a report of a Consulting Engineer filed with the Trustee, for the first two Fiscal Years following the later of (i) the date that the acquisition and construction of improvements to the Combined Enterprise System financed with the proceeds of the Series of Bonds to be issued are complete or (ii) the date the proposed Series of Bonds is issued, are at least equal to (a) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, for such Fiscal Years, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness to become due in such Fiscal Years, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness to become due in such Fiscal Years, (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness to become due in such Fiscal Years; and (e) all balances required to be maintained in the funds pursuant to the General Indenture are duly maintained;

AND

(3) no Event of Default under the General Indenture has occurred and is continuing; and

(4) other than for a Series of refunding Bonds, the Consulting Engineer certifies that the amounts to be on deposit in the Construction and Acquisition Fund after the issuance of the Series of the Bonds is sufficient to pay the Costs of Construction related to such Series.

(e) For purposes of calculating Net Revenues in paragraphs (d)(1) or (d)(2)(B) above, (1) if any rates, fees or charges of the Combined Enterprise System have been increased since the date of such audited financial statements or will be increased on or before the date the proposed Series of Bonds is issued, the Executive Director may add to the Net Revenues his estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such rates, fees and charges had been in effect in such Fiscal Year and (2) if users of the Combined Enterprise System have been added as a result of an acquisition of assets from another provider of services or as a result of a contract with another governmental unit, the Executive Director may add to the Net Revenues his estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the Combined Enterprise System as of the beginning of such Fiscal Year.

“*Consulting Engineer*” means a firm of engineers or utilities consultants or other independent persons or firms with recognized expertise for advising governmental entities with respect to construction, maintenance, use or other matters for which it is employed related to the utilities systems from time to time employed by the Authority and not unacceptable to the Trustee, including, except with respect to the requirements of the Rate Covenant, a professional engineer employed by the Authority.

LIMITED LIABILITY

THE 2024 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2024 BONDS ARE NOT PAYABLE FROM THE GENERAL FUNDS OF THE AUTHORITY, NOR DO THEY CONSTITUTE A LEGAL OR EQUITABLE PLEDGE, CHARGE, LIEN, OR ENCUMBRANCE UPON ANY OF ITS PROPERTY OR ON ANY OF ITS INCOME, RECEIPTS, OR REVENUES EXCEPT THE FUNDS WHICH ARE PLEDGED UNDER THE INDENTURE. NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR THE AUTHORITY ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2024 BONDS, AND NO OWNER OF A 2024 BOND HAS THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER BY THE STATE OR THE AUTHORITY OR THE FORFEITURE OF ANY OF ITS PROPERTY IN CONNECTION WITH ANY DEFAULT.

BANKRUPTCY

Chapter 9 of the Title 11 of the United States Code (as amended, the “*Bankruptcy Code*”) provides a process for a political subdivision of a state to voluntarily adjust its debts. An involuntary bankruptcy case may not be commenced against a political subdivision under Chapter 9. Section 109(c) of the Bankruptcy Code sets forth certain conditions that must be met for an entity to be a debtor under Chapter 9, including that the entity is specifically authorized to be a debtor under Chapter 9 by state law (or by a governmental officer or organization empowered by state law to authorize the entity to be a debtor under Chapter 9). Section 23-48 of the North Carolina General Statutes (the “*NC Authorizing Statute*”) authorizes *any taxing district, local improvement district, school district, county, city, town or village* in the State of North Carolina to file a Chapter 9 bankruptcy case, but only with the approval of the LGC. The NC Authorizing Statute does not currently list North Carolina water and sewer authorities such as the Authority as entities which may file a Chapter 9 bankruptcy case. Therefore, the ability of the Authority to file a Chapter 9 bankruptcy is uncertain under North Carolina law.

While the 2024 Bonds are outstanding, the provisions of the Bankruptcy Code and applicable North Carolina law, including the NC Authorizing Statute, may be amended, supplemented or repealed; therefore, it is not possible to predict whether and under what conditions the Authority may be authorized to become a debtor in a bankruptcy case and how any such bankruptcy case might affect Owners of the 2024 Bonds in the future.

Under existing law, if the Authority were to become a debtor in a Chapter 9 bankruptcy case, the bankruptcy proceedings could have a material and adverse effect on Owners of the 2024 Bonds, including (a) the incurrence of additional obligations, including the claims of those supplying goods and services to the Authority after the initiation of bankruptcy proceedings and the expenses of administering the bankruptcy case, which may have a priority of payment superior to that of the Owners; and (b) the possibility of the adoption of a plan for the adjustment of the Authority’s debts without the consent of all of the Owners, which plan may restructure, delay, compromise or reduce the amount of the claim of the Owners if the bankruptcy court finds that such a plan is fair and equitable. To the extent that the Net Revenues pledged as part of the Trust Estate are “special revenues” as defined in Chapter 9, the automatic stay provisions of the Bankruptcy Code should not prevent their application to payment of the 2024 Bonds in accordance with the provisions of Chapter 9; otherwise, the automatic stay provisions would, until relief is granted, prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority. The effect of the existing provisions of the Bankruptcy Code on the rights and remedies of the Owners of the 2024 Bonds cannot be predicted with certainty and may be affected significantly by judicial interpretation, general principles of equity, and considerations of public policy.

Pursuant to the Indenture and applicable North Carolina law, the Trustee holds a security interest in the Trust Estate for the benefit of the Owners of the 2024 Bonds. Neither the capital assets of the Authority constituting the Combined Enterprise System nor any other property of the Authority is subject to any security interest, deed of trust, mortgage, or any other lien in favor of the Trustee for the benefit of the Owners of the 2024 Bonds. In the event of a bankruptcy filing by the Authority, (1) the Trustee's claim would continue to be secured by, and payable solely from, the Trust Estate, and (2) the Trustee would not have an unsecured claim against the Authority if the Trust Estate were to prove insufficient to make the required payments to the Owners.

Regardless of any specific adverse determinations in a bankruptcy case of the Authority, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the 2024 Bonds.

CYBERSECURITY

The Authority, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations and faces multiple cybersecurity threats involving, but not limited to, hacking, phishing viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "*Systems Technology*"). As a recipient and provider of personal, private, or sensitive information, the Authority may be the target of cybersecurity incidents that could result in adverse consequences to the Authority and its Systems Technology, requiring a response action to mitigate the consequences.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the Authority's Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the Authority invests in multiple forms of cybersecurity and operational safeguards.

While the Authority's cybersecurity and operational safeguards are periodically tested, the Authority cannot give any assurances that such measures will ensure against other cybersecurity threats and attacks. Cybersecurity breaches could cause material disruption to the Authority's finances or operations. The costs of remedying any such damage or obtaining insurance related thereto or protecting against future attacks could be substantial and insurance (if any can be obtained), may not be adequate to cover such losses or other consequential Authority costs and expenses. Further, cybersecurity breaches could expose the Authority to material litigation and other legal risks, which could cause the Authority to incur material costs related to such legal claims or proceedings.

CLIMATE CHANGE

Numerous scientific studies on global climate change demonstrate that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common and extreme weather events will become more frequent because of increasing global temperatures attributable to atmospheric pollution. In the coming years, such extreme events and conditions are expected to increasingly disrupt and damage critical infrastructure and property as well as regional economies and industries that depend on natural resources and favorable climate conditions. Disruptions could include more frequent and longer-lasting power outages, fuel shortages, supply chain delays, and service disruptions.

The geographical location of the Authority and its Service Area on the coast, and a large portion of the service area of the North Topsail Wastewater System being on Topsail Island, increases its vulnerability to flooding, including storm water flooding, storm surge, and periods of extreme heat. In

addition to flooding, storm surge, and extreme heat, the Authority faces other threats due to climate change, including droughts and damaging wind that could become more severe and frequent. The Authority cannot accurately predict the timing, extent or severity of climate change and its impact on the Authority's and the Combined Enterprise System's operations and finances. However, the Authority implements hazard mitigation practices where possible to lessen any potential future impacts, as well as, maintaining an emergency response project fund to support emergency response after natural disasters under two separate competitive bid construction contracts. These two-year contracts establish unit and/or lump sum pricing for various activities associated with recovery from a major storm and will be active on an as-needed basis in the event recovery efforts exceed the ability of Authority repair crews to address in a timely manner.

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DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year ending June 30, the amounts required in such fiscal year for the payment of the principal of and interest on the 2014 Bonds, the 2016 Bonds, and the 2023 Bonds (collectively, the “*Existing Bonds*”) and the 2024 Bonds. The totals shown in the table below may not foot due to rounding.

FISCAL YEAR ENDED JUNE 30,	EXISTING BONDS	2024 BONDS		TOTAL
		PRINCIPAL	INTEREST	
2025	\$ 7,897,274		\$ 891,051	\$ 8,788,325
2026	7,900,060		1,309,300	9,209,360
2027	7,898,184	\$ 470,000	1,297,550	9,665,734
2028	7,899,648	495,000	1,273,425	9,668,073
2029	7,546,204	520,000	1,248,050	9,314,254
2030	6,181,389	545,000	1,221,425	7,947,814
2031	6,184,037	575,000	1,193,425	7,952,462
2032	6,177,538	605,000	1,163,925	7,946,463
2033	6,180,909	635,000	1,132,925	7,948,834
2034	4,096,995	665,000	1,100,425	5,862,420
2035	4,099,424	700,000	1,066,300	5,865,724
2036	4,099,521	735,000	1,030,425	5,864,946
2037	4,096,260	775,000	992,675	5,863,935
2038	4,100,394	815,000	952,925	5,868,319
2039	4,099,648	855,000	911,175	5,865,823
2040	4,096,045	900,000	867,300	5,863,345
2041	4,099,313	945,000	821,175	5,865,488
2042	4,098,177	995,000	772,675	5,865,852
2043	4,097,512	1,045,000	721,675	5,864,187
2044	4,098,068	1,100,000	668,050	5,866,118
2045	4,098,571	1,155,000	611,675	5,865,246
2046	4,099,773	1,210,000	558,600	5,868,373
2047	4,099,398	1,260,000	509,200	5,868,598
2048	4,099,221	1,310,000	457,800	5,867,021
2049	4,100,967	1,365,000	404,300	5,870,267
2050	4,098,315	1,420,000	348,600	5,866,915
2051	4,096,088	1,475,000	290,700	5,861,788
2052	4,097,861	1,535,000	230,500	5,863,361
2053	4,098,238	1,600,000	167,800	5,866,038
2054	4,099,818	1,665,000	102,500	5,867,318
2055		1,730,000	34,600	1,764,600
TOTAL	\$149,934,850	\$29,100,000	\$24,352,151	\$203,387,001

LEGAL MATTERS

LITIGATION

To the best of the knowledge of the Authority, no litigation is now pending or threatened against or affecting the Authority which seeks to restrain or enjoin the authorization, execution or delivery of the 2024 Bonds, the Indenture or which contests the Authority’s creation, organization or corporate existence,

or the title of any of the present officers thereof to their respective offices or the authority or proceedings for the Authority's authorization, execution and delivery of the Indenture or the Authority's authority to carry out its obligations thereunder. There is no litigation now pending or threatened against or affecting the Authority which the Authority believes would have a material adverse impact on its condition, financial or otherwise.

OPINIONS OF COUNSEL

Legal matters related to the authorization and issuance of the 2024 Bonds are subject to the approval of Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, Bond Counsel. Certain legal matters will be passed on for the Authority by the Authority Attorney, Kitchen Law, PLLC, Swansboro, North Carolina, and for the Underwriter by its counsel, Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina. The opinion of Womble Bond Dickinson (US) LLP, as Bond Counsel, substantially in the form set forth in **APPENDIX F** hereto, will be delivered at the time of the delivery of the 2024 Bonds.

Bond Counsel and Parker Poe Adams & Bernstein LLP, counsel to the Underwriter, have represented the Underwriter from time to time as counsel in other financing transactions. Neither the Authority nor the Underwriter has conditioned the future employment of either of these firms in connection with any proposed financing issues for the Authority or for the Underwriter on the successful execution and delivery of the 2024 Bonds.

TAX TREATMENT

Opinion of Bond Counsel. In the opinion of Bond Counsel, under existing law and assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Code, interest on the 2024 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code; however, interest on the 2024 Bonds held by certain corporations will be included in the computation of "adjusted financial statement income" for purposes of the federal alternative minimum tax imposed on such corporations. Furthermore, in the opinion of Bond Counsel, based on existing law, interest on the 2024 Bonds will be exempt from State of North Carolina income taxation.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which Bond Counsel renders no opinion, as a result of the ownership or transfer of the 2024 Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

Original Issue Premium. The initial public offering prices of the 2024 Bonds maturing on December 1, 2035 to December 1, 2044, inclusive, (collectively, the "*Premium Bonds*") are greater than the amounts payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) at which a substantial amount of each maturity of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium. In general, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium

Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period and subtract such bond premium from the owner's tax basis in the Premium Bond. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners and prospective purchasers of Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences in connection with the ownership and disposition of Premium Bonds.

Original Issue Discount. The initial public offering prices of the Term Bonds (the "*Discount Bonds*") are less than the principal amount payable at maturity. An amount not less than the difference between the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) of the Discount Bonds and the amounts payable at maturity constitutes original issue discount. Under existing federal income tax law and regulations, the original issue discount on a Discount Bond is interest not includable in the gross income of an owner who purchases such Discount Bond in the original offering at the initial public offering price thereof and holds it to maturity, and such owner will not realize taxable gain upon payment of such Discount Bond at maturity. Owners who purchase Discount Bonds at a price other than the initial offering price or who do not purchase Discount Bonds in the initial public offering should consult their tax advisors with respect to the consequences of the ownership of such Discount Bonds. An owner who purchases a Discount Bond in the initial offering at the initial offering price and holds such Discount Bond to maturity is deemed under existing federal tax laws and regulations to accrue original issue discount on a constant yield basis under Section 1288 of the Code from the date of original issue. An owner's adjusted basis in a Discount Bond is increased by accrued original issue discount for purposes of determining gain or loss on sale, exchange or other disposition of such Discount Bond. Accrued original issue discount may be taken into account as an increase in the amount of tax-exempt interest received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond, even though there will not be a corresponding cash payment.

Owners and prospective purchasers of Discount Bonds should consult their own tax advisors regarding the calculation of accrued original issue discount for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the ownership or disposition of Discount Bonds.

Other Tax Consequences. Ownership or transfer of, or the accrual or receipt of interest on, the 2024 Bonds may result in collateral federal, State of North Carolina, other state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers who may be eligible for the federal earned income tax credit, and taxpayers subject to franchise, estate, inheritance, gift or capital gains taxes. Owners and prospective purchasers of the 2024 Bonds should consult their tax advisors as to any such possible tax consequences.

Except to the extent covered in its legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

No assurance can be given that future legislation, including amendments to the code or interpretations thereof, if enacted into law, or certain litigation or judicial decisions, if upheld, will not contain provisions or produce results which could, directly or indirectly, reduce the benefit of the excludability of interest on the 2024 Bonds from gross income for federal income tax purposes.

The Internal Revenue Service (the “*Service*”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the 2024 Bonds.

Interest paid on tax-exempt obligations, such as the 2024 Bonds, will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest with respect to the 2024 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest with respect to the 2024 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner’s federal income tax liability provided the required information is furnished to the Service.

CONTINUING DISCLOSURE OBLIGATION

In the Series 2024 Indenture, the Authority has undertaken, for the benefit of the beneficial owners of the 2024 Bonds, to provide to the Municipal Securities Rulemaking Board (the “*MSRB*”):

(a) by not later than seven months from the end of each Fiscal Year of, commencing with the Fiscal Year ended June 30, 2024, audited financial statements of the Authority for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the Authority are not available by seven months from the end of such Fiscal Year, unaudited financial statements of the Authority for such Fiscal Year to be replaced subsequently by audited financial statements of the Authority to be delivered within fifteen (15) days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year of the Authority, commencing with the Fiscal Year ended June 30, 2024, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information disclosed below to the extent such information is not included in the audited financial statements referred to in (a) above:

- In **APPENDIX A, “THE AUTHORITY-RATES AND CHARGES”** (rate, fee and customer account information in the tables under such heading); and
- The Authority’s rate covenant calculation, as provided in the notes in the Authority’s audited financial statements in **APPENDIX C**;

(c) in a timely manner, not in excess of ten Business Days after the occurrence of the event, notice of any of the following events with respect to the 2024 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2024 Bonds, or other material events affecting the tax status of the 2024 Bonds;
- (7) modification to the rights of the beneficial owners of the 2024 Bonds, if material;
- (8) bond calls, other than calls for mandatory sinking fund redemption, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the 2024 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Authority;
- (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional Trustee or the change of name of a Trustee, if material; and
- (15) incurrence of a financial obligation (as defined below) of the Authority, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a financial obligation of the Authority, any of which affect beneficial owners of the 2024 Bonds, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Authority, any of which reflect financial difficulties;

(d) in a timely manner, notice of a failure of the Authority to provide required annual financial information described in (a) or (b) above on or before the date specified.

All information provided to the MSRB as described herein will be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Authority may also discharge its undertaking described above by transmitting the documents referred to above to any entity and by any method authorized by the U.S. Securities and Exchange Commission in lieu of the manner described above.

At present, Section 159-34 of the General Statutes of North Carolina requires the Authority's financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

For the purposes of this Section, "financial obligation" means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of either clause (a) or (b). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

If the Authority fails to comply with the undertaking described above, the Trustee or any beneficial owner of the Series 2024 Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an Event of Default under the Indenture and shall not result in any acceleration of the Series 2024 Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Series 2024 Bonds.

Pursuant to the Series 2024 Indenture, the Authority may modify from time to time, consistent with Rule 15c2-12, the information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Authority, but:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the Owners or beneficial owners, as determined either by the Trustee or Bond Counsel or by approving vote of the Owners of a majority in principal amount of the 2024 Bonds under the General Indenture.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above terminates on payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal of and interest on the 2024 Bonds.

The Authority has historically included information in its continuing disclosure filings regarding the total number of customer accounts, but the filings did not include a breakdown of the number of water and wastewater customer accounts as required by the Authority’s continuing disclosure undertaking. The Authority has since filed a notice with the MRSB and posted the differentiated customer data that it previously failed to file. Other than as described in the preceding sentences, during each of the past five years, the Authority has complied, in all material respects, with its continuing disclosure obligations pursuant to Rule 15c2-12.

UNDERWRITING

The Underwriter has agreed under the terms of a Bond Purchase Agreement (the “*Purchase Agreement*”) to purchase all of the 2024 Bonds, if any of the 2024 Bonds are to be purchased, at a purchase price equal to 100% of the principal amount of the 2024 Bonds, plus a net original issue premium of \$1,889,400.40 less an Underwriter’s discount of \$177,945.72. The Underwriter’s obligation to purchase the 2024 Bonds is subject to certain terms and conditions set forth in the Purchase Agreement.

The Underwriter may offer and sell the 2024 Bonds to certain dealers (including dealers depositing the 2024 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the inside cover page hereof. The public offering prices may be changed from time to time by the Underwriter.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has banking and financial relationships with the Authority. PNC Capital Markets LLC may offer to sell to its affiliate, PNC Investments, LLC (“*PNCPI*”), securities in PNC Capital Markets LLC’s inventory for resale to PNCI’s customers.

RATINGS

Moody’s Investors Service, Inc. (“*Moody’s*”) and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“*S&P*”) have assigned their respective ratings to the 2024 Bonds set forth on the front cover, which long-term ratings are based on information regarding the Authority. Further explanation of the significance of such ratings may be obtained from Moody’s and S&P. The Authority has provided to Moody’s and S&P certain information that has not been included in this Official Statement. The ratings are not a recommendation to buy, sell or hold the 2024 Bonds and should be evaluated independently. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of Moody’s and S&P, circumstances so warrant. Neither the Authority nor the Underwriter has any responsibility to either bring to the attention of Owners of the 2024 Bonds any proposed revision or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2024 Bonds.

MISCELLANEOUS

All quotations from and summaries and explanations of the 2024 Bonds, the Series 2024 Indenture, and the General Indenture contained herein or in **APPENDIX E** hereto do not purport to be complete, and reference is made to such documents for full and complete statements of their respective provisions. The Appendices attached hereto are a part of this Official Statement.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Authority and other sources deemed to be reliable and, although not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

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APPENDIX A

THE ONSLOW WATER AND SEWER AUTHORITY

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APPENDIX A

THE ONSLOW WATER AND SEWER AUTHORITY

GENERAL

The Authority is a public instrumentality organized under the North Carolina Water and Sewer Authorities Act, Article 1 of Chapter 162A of the General Statutes of North Carolina, as amended, authorized to exercise essential governmental functions to provide for the public health and welfare. The Authority was created in July 2000 by Onslow County, North Carolina, the City of Jacksonville and the towns of Swansboro, Richlands, North Topsail Beach and Holly Ridge. All of the municipalities that are members of the Authority are located in Onslow County. While represented on the governing Board, the City of Jacksonville conducts water and wastewater operations independent of the Authority.

The Authority is authorized, among other things, to: (a) acquire, lease, construct, reconstruct, improve, extend, enlarge, equip, repair, maintain and operate water and wastewater systems located within its service area; (b) issue revenue bonds and revenue bond anticipation notes of the Authority to pay the cost of such acquisition, construction, reconstruction, improvement, extension, enlargement or equipment; and (c) fix, revise, charge and collect rates, fees and charges for the use of and for the services and facilities furnished by the Authority.

The service territory of the Authority is primarily within Onslow County, and it includes the incorporated areas of the towns of Richlands, Swansboro, North Topsail Beach and Holly Ridge, the unincorporated areas of Onslow County, and certain portions of the United States Marine Corps Base at Camp Lejeune, North Carolina (“*Camp Lejeune*” or “*MCBCL*”). The service territory does not include the New River Marine Corps Air Station (“*MCAS New River*”) or inside the incorporated area of the City of Jacksonville. See **APPENDIX B, “THE AUTHORITY’S SERVICE AREA”** for a definition, and more detailed discussion, of the Authority’s Service Area.

In terms of metered customers, the Authority currently has approximately 58,600 water accounts and 15,270 wastewater accounts, making it the second largest water and sewer authority in the State of North Carolina (the “*State*”). The Authority serves approximately 158,000 people located primarily in Onslow County, but there are still areas without wastewater service. The Authority’s Service Area is economically tied to the military bases and military presence in Onslow County, and it includes a high number of seasonal visitors to the coastal areas. Over the past 10 years, the County’s population has grown an average of 1.6% per year but experienced an increase of 3.4% in 2024.

MANAGEMENT

The Board of Directors. The Authority is governed by an eight-member Board of Directors (the “*Board*”), two of which are appointed by Onslow County, two of which are appointed by the City of Jacksonville, and one of which is appointed by each of the towns of Richlands, North Topsail Beach,

Swansboro and Holly Ridge. Each appointee of the Board is an elected official of the Authority member appointing such person to the Board. The following persons are presently serving as members of the Board:

<u>NAME</u>	<u>OFFICE</u>	<u>APPOINTED BY</u>	<u>TERM EXPIRES²</u>
Michael Royce Bennett	Chairman	Onslow County	2024
Paul Conner	Vice Chairman	Town of Richlands	2024
Richard Grant	Secretary/Treasurer	Town of North Topsail Beach	2024
Jerry Bittner	Director	City of Jacksonville	2025
Timothy Foster	Director	Onslow County	2024
John Davis	Director	Town of Swansboro	2024
Robert Warden	Director	City of Jacksonville	2025
Gregory Hines	Director	Town of Holly Ridge	2024

² All terms expire December 31st of the designated year. As elected officials, each Director’s term is subject to the re-election of that official.

Management. The Authority’s senior management personnel include the following individuals:

Franky J. Howard, Chief Executive Officer, became the Executive Director of the Authority in March 2022. He received his Bachelor of Science in Agricultural Business Management from North Carolina State University. Prior to coming to the Authority, Mr. Howard was County Manager for 15 years in Jones County. While in Jones County, he was instrumental in several large capital projects such as a \$40 million K-12 school which involved several complex funding sources, and the first ever multi-county joint Emergency Communications Center between Jones County and Lenoir County.

J. Eric Adams, Chief Financial Officer, began with the Authority in August of 2023. He received his Bachelor of Science in Business Administration from the University of North Carolina at Wilmington and Master of Science in Accounting from East Carolina University. Prior to joining the Authority, Mr. Adams served as Chief Financial Officer for eight years in two local education agencies in North Carolina.

Matthew Padgett, Chief Operations Officer, has been with the Authority since August of 1998 and became the Chief Operations Officer in April of 2024. He has served as the Authority’s Operator in Responsible Charge since 2012. He holds a Grade A-Distribution certificate, a Backflow and Cross Connection Tester certificate, and a Grade III Collections certificate in North Carolina.

Employment. As of June 30, 2024, the Authority had 183 budgeted full-time employees.

BACKGROUND AND ORGANIZATION

The Authority was created in July 2000. On July 1, 2004, the Authority acquired all of the water and sewer utility assets of Onslow County (which included the North Topsail Beach service area) and the Town of Richlands (“*Richlands*”) under long-term leasing arrangements and commenced operation of retail water and sewer utility services in the areas previously served by Onslow County and Richlands. The Authority made one-time lease payments to Onslow County and to Richlands at the commencement of the leasing arrangement, financed by the Authority with the proceeds of revenue bonds.

Since these initial acquisitions, the Authority has acquired similar leasehold interests in the utility assets of the Town of Holly Ridge (“*Holly Ridge*”) and the Town of Swansboro (“*Swansboro*”), with the intention that the Authority will provide water and sewer utility service on a County-wide basis except for those areas served by the Town of Surf City (which is not a member of the Authority), the City of

Jacksonville, portions of the area covered by Camp Lejeune, and the area covered by MCAS New River. Although the City of Jacksonville is a member of the Authority, it continues to own and operate its own water and sewer system, which serves the incorporated area of the City of Jacksonville and certain unincorporated areas in the vicinity of the City.

Pursuant to the Capital Lease Agreement with Onslow County (the “*County Capital Lease Agreement*”), Onslow County leases to the Authority and the Authority rents from Onslow County the Onslow County water and sewer system. The County Capital Lease Agreement commenced on July 1, 2004. The term of the County Capital Lease Agreement terminates on June 30, 2064. The rent for the entire term was paid on July 1, 2004. The Authority has exclusive possession of the assets leased under the County Capital Lease Agreement. The Authority agrees to operate and manage those assets in a customary and prudent manner. There are several events that could be events of default under the County Capital Lease Agreement. Upon the occurrence of any such event of default, Onslow County may, upon notice to the Authority, terminate the County Capital Lease Agreement. Before any termination of the County Capital Lease Agreement becomes effective, the Authority must enter into an agreement addressing the disposition of the Authority’s debt and non-tangible assets, and any such agreement must be approved by the Trustee under the General Indenture.

The Authority also entered into Capital Lease Agreements with Richlands, Holly Ridge and Swansboro, all of which are substantially similar to the County Capital Lease Agreement. These leasing agreements have thirty-year terms with Authority options for two successive fifteen-year renewal terms, all of which have been exercised, such that all leases are currently extended through at least June 30, 2064.

Under the leasing arrangements, the Authority is granted the exclusive right to determine the means and methods of operating and maintaining the leased assets by determining what extensions, enlargements, alterations and abandonments of the leased assets are proper and in establishing rules and regulations, user rates and other details with regard thereto. Since the inception of the Authority, all new facilities have been owned and operated by the Authority and these facilities are not subject to the provisions of the lease agreements. However, the leasing agreements with Richlands, Holly Ridge and Swansboro give the respective towns the right to adopt rules and regulations governing system expansions within corporate limits and areas of extra-territorial jurisdiction. In consideration of the participants leasing their utility systems to the Authority, the Authority has agreed to meet the sewer collection/treatment and potable water supply, treatment and distribution needs of the former customers of the participants, subject to the availability of supply and capacity, obligations to other customers, feasibility, and completions of improvements to enable the Authority to meet such needs. The participants have agreed not to acquire or produce potable water or sewer collection treatment capacity from any source other than the Authority so long as the Authority is meeting the needs of their customers for such utility service unless the Authority consents.

The Authority also entered into a Wastewater Sales Agreement (as amended, the “*Wastewater Sales Agreement*”), dated February 17, 2004, with the United States of America, represented by the Secretary of the Navy, to purchase sewage collection and disposal services from the facilities owned by the United States and located at Camp Lejeune. The Wastewater Sales Agreement was revised in December of 2019, to renew and extend the partnership through December 2029. The Wastewater Sales Agreement permits the Authority to purchase up to 2 million gallons per day (“*MGD*”) (based upon monthly average, with a daily peak not to exceed 4 MGD) of sanitary sewer treatment services from Camp Lejeune’s French Creek Wastewater Treatment Plant.

The Wastewater Sales Agreement also provides that the United States may terminate the Wastewater Sales Agreement at any time. In the event of such a termination, the United States must make all reasonable efforts to give the Authority sufficient advance notice of the decision to terminate.

Additionally, within one year of termination, the Authority must submit a settlement proposal for costs and expenses incurred by the Authority as a result of the termination of the Wastewater Sales Agreement. Such proposal can include (a) the costs of designing, acquiring and constructing Authority utility facilities located at Camp Lejeune that can no longer be used and were directly associated with the Camp Lejeune utility facilities, (b) debt service costs on outstanding debt related to such facilities and (c) other accounting, engineering and legal fees. The proposal may not include costs for utility improvements constructed outside of Camp Lejeune. Based on this settlement proposal, the United States will pay the Authority a reasonable settlement amount, but such payment is to be made only from appropriations available for such purpose. The Wastewater Sales Agreement also provides that it may be terminated by the United States if the United States finds that it is “no longer in public interest” to continue services under the Wastewater Sales Agreement. In addition, the Wastewater Sales Agreement provides that it may be suspended at any time without penalty to stabilize emergency circumstances or if performance would violate governmental permits or regulations with respect to the operation of the facilities providing service.

Prior to November 9, 2023, the utility service provided by the Authority in the areas previously served by Onslow County, Holly Ridge, Richlands and Swansboro was predominately water service only. On November 9, 2023, the Authority acquired two privately owned wastewater systems, the North Topsail Wastewater System and the Webb Creek Wastewater System (collectively, the “2023 Acquired Systems”), discussed in more detail under the caption “**COMBINED ENTERPRISE SYSTEM - *The Wastewater System***”. With these acquisitions, the Authority has significantly increased its wastewater offerings, and as described below under the caption “**COMBINED ENTERPRISE SYSTEM - *The Wastewater System***”, has plans to continue to expand while increasing connectivity across its facilities, where possible.

COMBINED ENTERPRISE SYSTEM

The Combined Enterprise System provides a significant amount of water service in the Authority’s Service Area, and plans are underway to expand the wastewater service provided by the Authority.

The Water System.

The water components of the Combined Enterprise System include multiple groundwater wells, two water treatment plants, storage facilities, booster pump facilities and a water distribution system. The Authority’s water supply comes from multiple aquifer sources—the Castle Hayne Aquifer and the combined Black Creek, Pee Dee and Beaufort Aquifers. The Castle Hayne Aquifer can provide a maximum of 14.4 MGD and the combined Black Creek, Pee Dee and Beaufort Aquifers can supply a maximum of 4.8 MGD. Additionally, the Authority utilizes four ground storage tanks with a total capacity of 12.0 million gallons and ten elevated tanks with a total capacity of 4.05 million gallons.

The total permitted water treatment capacity of the Authority is 11.44 MGD. Two water treatment plants, the Hubert Water Treatment Plant and the Dixon Water Treatment Plant, are together capable of treating up to 10 MGD of water. Raw water from the Black Creek and Pee Dee Aquifers only requires minimal treatment processing at the well heads, which provides the Authority with an additional 1.44 MGD of treated water capacity. The finished water from all treatment plants is then pumped to the distribution system, which has a storage volume of approximately 14.4 million gallons and 1,239 miles of water lines. In the fiscal year ended June 30, 2024, the average daily demand for Authority water service was 10.4 MGD and the peak daily demand for Authority water service was 12.9 MGD.

An interconnection with MCAS New River adds an additional 0.5 MGD of water supply to the Authority’s water system capacity on an as needed basis, during emergencies and periods of peak demand. The Authority also has a connection and supply agreement with the Town of Surf City that provides up to 0.3 MGD to a portion of the distribution system on Topsail Island.

The Wastewater System.

The Authority maintains approximately 311 miles of wastewater lines and 922 pump stations to collect and carry the communities' wastewater to one of the six Authority-operated wastewater treatment facilities. The Authority's Wastewater System can be best described by the geographical location of its wastewater plants, in the Northwest, the Northeast, and the Southeast.

Northwest

The Northwest portion of the Authority's Service Area is served by one treatment facility. The Northwest Regional Water Reclamation Facility has a permitted average daily treatment capacity of 1.273 MGD using a Sequential Batch Reactor process. Total wastewater flow has averaged about 0.42 MGD in Fiscal Year 2024.

Northeast

The Northeastern portion of the Authority's Service Area is served by the Authority's Swansboro Wastewater Treatment Plant, the Webb Creek Wastewater System, and the treatment facility at MCBCL pursuant to the Wastewater Sales Agreement. The Swansboro Wastewater Treatment Plant has a permitted treatment capacity of 0.6 MGD using activated sludge extended air with tertiary treated effluent. Total wastewater flow has averaged about 0.43 MGD in Fiscal Year 2024. Based on the condition of the existing plant, the Wastewater Sales Agreement, and estimated future sewer flow from expected development in this section of the Service Area over the next 20 years, the Authority is issuing the 2024 Bonds to fund construction of an interconnection between the Swansboro Wastewater Treatment Plant and the French Creek Wastewater Treatment Plant at the MCBCL. For more details on the 2024 Project, see "**THE 2024 PROJECT**" in the Official Statement. The infrastructure constructed as a part of the 2024 Project will provide the Authority with redundancy and the flexibility to serve the Swansboro collection area from both the capacity available pursuant to the Wastewater Sales Agreement and the Swansboro treatment facility.

In addition to the Authority's reserved capacity at the treatment plant on the MCBCL, which accepts up to 2.0 MGD from the Authority for treatment pursuant to the Wastewater Sales Agreement, the Authority also sends a small amount of flow to the City of Jacksonville Land Treatment Site, an aerated lagoon with spray irrigation disposal. On average, the Authority has conveyed about 0.33 MGD of wastewater to MCBCL over each of the last two years. The City's Land Treatment Site allows an average flow of 0.06 MGD from an isolated section of the Authority's collection system.

In connection with the 2023 acquisition, the Authority gained two privately owned wastewater treatment systems, and one of those systems, the Webb Creek Wastewater System, is located in the Northeast portion of the Service Area. The Webb Creek wastewater treatment plant is permitted to treat and discharge 0.35 MGD. The average annual daily flow from 2020 to 2021 was approximately 0.231 MGD. The average flow from December 1, 2023¹ to June 30, 2024, was approximately 0.243 MGD. In addition to the treatment plant, the associated collection system consists of 11 miles of force main and 10 lift stations, and three grinder pump stations.

Southeast

Prior to the Authority's purchase of the 2023 Acquired Systems, the Southeast region of the Authority's Service Area included only the Southeast Regional Wastewater Treatment system, which is comprised of two interconnected wastewater plants, the Holly Ridge Wastewater Reclamation Plant and

¹ First full month after the acquisition of the Webb Creek Wastewater System on November 9, 2023.

the Summerhouse Wastewater Reclamation Facility, with a combined permitted average daily treatment capacity 0.404 MGD. The Holly Ridge Wastewater Reclamation Plant can process 0.224 MGD using a lagoon and spray irrigation treatment process. The Summerhouse Wastewater Reclamation Facility can treat an average of .070 MGD and is permitted at 0.180 MGD using a membrane bioreactor biological nutrient removal process.

With the 2023 acquisition, the Authority gained one privately owned wastewater treatment system in the Southeast region, the North Topsail Wastewater System. The North Topsail Wastewater System is an Advanced Wastewater Treatment system whereby impurities are reduced lower than that attainable through conventional treatments. The North Topsail wastewater treatment plant is permitted to treat and discharge 1.542 MGD via a wastewater irrigation system rated for 0.543 MGD and an MBR with two high-rate infiltration basins rated for 1.0 MGD. The average annual wastewater flow in 2022 was approximately 0.803 MGD. The average flow from December 1, 2023² to June 30, 2024, was approximately 0.792 MGD. The collection system is comprised of 40 miles of gravity wastewater, 55 miles of force main, and 835 lift stations, with the majority of these single pump (simplex) units serving individual homes.

The Southeastern portion of the Authority’s Service Area is rapidly growing. Total wastewater flow for the Southeast Regional Wastewater Treatment system has averaged about 0.29 MGD in Fiscal Year 2024. Based on the condition of the Holly Ridge and Summerhouse plants, estimated future wastewater flow from development in the Southeast region of the Authority’s Service Area, and the proximity of the three wastewater treatment plants in the Southeast region, the Authority anticipates building infrastructure to convey wastewater flow from the Southeast Regional Wastewater Treatment system to the North Topsail wastewater treatment facility and to expand the North Topsail wastewater treatment facility capacity by 1 MGD in Fiscal Year 2029. It is anticipated that when this expansion is completed, the Authority will cease operating the Holly Ridge and/or the Summerhouse wastewater treatment plants.

RATES AND CHARGES

Water Rates. The following water rates were effective as of July 1, 2024. The table below sets forth the current rates per 1,000 gallons for residential and commercial customers in the Authority’s Service Area. The implementation of the volumetric rate blocks was intended to promote conservation and to charge higher volumetric block rates to higher demand users.

RATE BLOCKS	WATER RATE PER 1,000 GALLONS	IRRIGATION RATE PER 1,000 GALLONS
First 3,000 gallons	\$ 4.42	\$ 6.62
Next 4,500 gallons	4.57	6.84
Next 7,500 gallons	5.91	8.90
Next 10,000 gallons	7.73	11.62
All over 25,000 gallons	9.07	13.64

Notes: Bulk meter and master meters (including multiple users) are charged \$5.93 per 1,000 gallons. Volunteer and fire rescue squads are charged a \$1.00 flat rate for the first 20,000 gallons used. Any amounts over 20,000 gallons are charged as provided in the above table.

² First full month after the acquisition of the North Topsail Wastewater System on November 9, 2023.

A fixed base charge is also included in each monthly bill based on meter size as follows:

<u>SIZE OF METER</u>	<u>BASE CHARGE</u>
3/4"	\$ 19.14
1"	47.80
1.5"	95.53
2"	152.77
2.5"	229.22
3"	305.60
4"	477.51
6"	955.01

Wastewater Rates. The following wastewater rates were effective as of July 1, 2024 for residential and commercial customers.

<u>USER FEES</u>	<u>BASE WASTEWATER CHARGES</u>	
<u>Rate per 1,000 Galloons</u>	<u>Size of Meter</u>	<u>Base Charge</u>
\$ 8.83	3/4"	\$ 31.10
8.83	1"	77.96
8.83	1.5"	155.52
8.83	2"	248.83
8.83	3"	496.49
8.83	4"	774.45

Other Fees and Charges. The Authority charges a one-time tap installation fee for connecting to the water system (based on meter size) and wastewater system to cover the cost of such connection.

The Authority also charges system development fees based on meter size. The following table sets forth the current water and wastewater system development fees:

<u>METER SIZE</u>	<u>WATER</u>	<u>WASTEWATER</u>
3/4"	\$ 2,063	\$ 4,460
1"	3,438	7,432
1.5"	6,877	14,867
2"	11,003	23,785
3"	22,005	47,570
4"	34,384	74,329
6"	68,766	148,656
8"	110,026	237,850
10"	165,039	356,775

Additional information on rates and charges can be found in **APPENDIX D**, the Financial Feasibility Evaluation of Combined Enterprise System Revenue Bonds, Series 2024.

Number of Customer Accounts. The following table shows the number of water customer accounts at the end of each of the last five fiscal years:

YEAR	NUMBER OF ACCOUNTS ³
2020	52,476
2021	54,200
2022	55,645
2023	57,242
2024	58,589

As of June 30, 2024, the water system’s customer account mix was approximately 96% residential and 4% commercial and industrial (including multi-family accounts). The Authority does not provide free water service to any customers.

Major Water Customer Accounts. The following table provides information on the top ten customer accounts of the water system for the fiscal year ended June 30, 2024, the water sales for each such customer account and the percentage of total annual water sales revenues generated by each such customer account.

Water Customer	Description	Water Use (Gallons)	Water Revenues	% of Total Use	% of Total Revenues
Commanding Officer, MCBCL	Military	149,457,100	\$796,441.17	4.93%	2.95%
Scientific Water	Residential	37,833,000	\$201,028.91	1.25%	0.74%
Onslow County Board of Education	Public School Unit	25,772,799	\$186,337.75	0.85%	0.69%
Collins Estates	Residential	21,040,500	\$111,931.51	0.69%	0.41%
J & J Snackfoods Handheld Corp,	Food Production	12,538,900	\$101,513.95	0.41%	0.38%
Valor Residential Group, Liberty Pointe	Residential	10,668,300	\$57,254.28	0.35%	0.21%
Southwood Realty	Residential	7,597,700	\$39,819.51	0.25%	0.15%
Moye, Cameron B	Car Wash	7,294,700	\$58,584.31	0.24%	0.22%
Patriot Place	Residential	6,025,500	\$32,054.82	0.20%	0.12%
Wynnefield Properties	Residential Real Estate	5,957,600	\$46,157.20	0.20%	0.17%
Subtotal: Top Ten Water Customers		284,186,099	\$1,631,123.41	9.38%	6.04%
All Other Users		2,745,243,263	\$25,368,923.61	90.62%	93.96%
Total System Water Use		3,029,429,362	\$27,000,047.02	100.00%	100.00%

Number of Customer Accounts. The following table shows the number of wastewater customer accounts at the end of each of the last five fiscal years:

YEAR	NUMBER OF ACCOUNTS ⁴
2021	6,735
2021	7,070
2022	7,416
2023	7,900
2024	15,267

³ This table reflects the total number of water accounts for each Fiscal Year.

⁴ This table reflects the total number of wastewater accounts for each Fiscal Year.

As of June 30, 2024, the wastewater system’s customer account mix was approximately 95% residential and 5% commercial and industrial (including multi-family accounts). The Authority does not provide free wastewater service to any customers.

Major Wastewater Customer Accounts. The following table provides information on the top ten customer accounts of the wastewater system for the fiscal year ended June 30, 2024, the sewer sales for each such customer account and the percentage of total annual sewer sales revenues generated by each such customer account.

Wastewater Customer	Description	Wate Use (Gallons)	Water Revenues	% of Total Use	% of Total Revenues
Onslow County Board of Education	Public School Unit	17,728,000	\$140,611.06	3.05%	1.53%
J & J Snackfoods Handheld Corp.	Food Production	12,539,000	\$99,536.10	2.16%	1.09%
Valor Residential Group, Liberty Pointe	Residential	10,617,000	\$84,078.78	1.83%	0.92%
Moye, Cameron B	Car Wash	7,295,000	\$57,758.38	1.26%	0.63%
Evolve RV Holly Ridge	RV Resort	4,188,000	\$33,010.70	0.72%	0.36%
Southwood Realty	Residential	3,412,000	\$27,196.86	0.59%	0.30%
Wynnefield Properties	Residential	2,527,000	\$20,139.41	0.44%	0.22%
Villa Capriani Homeowners Asso.	Residential	2,465,000	\$19,643.65	0.42%	0.21%
Onslow OPCO Holdings LLC	Residential Care Facility	2,256,000	\$17,903.18	0.39%	0.20%
Swansboro Ventures LLC	Hospitality	2,167,000	\$17,148.50	0.37%	0.19%
Subtotal: Top Ten Wastewater Customers		65,194,000	\$517,026.62	11.23%	5.64%
All Other Users		515,148,766	\$8,648,588.17	88.77%	94.36%
Total System Wastewater Use		580,342,766	\$9,165,614.79	100.00%	100.00%

The number of wastewater customers almost doubled with the 2023 acquisition. Prior to the acquisitions, wastewater demand increased on average by 5% per year from Fiscal Year 2021 to Fiscal Year 2023. Wastewater demand increased by 36% in Fiscal Year 2024, which only reflects the post-acquisition demand from the 2023 Acquired Systems for approximately 7 months⁵ out of the Fiscal Year.

HISTORY OF RATES

The Authority sets rates for all utilities, and adjustments to such rates are made as necessary. No State or other authority regulates the Authority’s utility rates. The Authority conducts an ongoing management review of the administrative policies and procedures, business strategies, maintenance of assets and rate structure for each utility. The following table provides information on water and wastewater rate changes imposed by the Authority since July 1, 2019:

WATER RATE AND WASTEWATER RATE CHANGES

EFFECTIVE DATE	USAGE RATE INCREASE
July 1, 2019	5.5%
July 1, 2020	0%
July 1, 2021	8%
July 1, 2022	8%
July 1, 2023	8%
July 1, 2024	10.75%

⁵ From December 2023, the month following the acquisitions, to the end of Fiscal Year 2024, on June 30, 2024.

COST OF SERVICE COMPARISON

The table below shows a comparison of the Authority’s water and wastewater rates for its Fiscal Year 2024 with other representative communities as of July 2024. The Authority’s projected monthly bill is based on the Authority’s typical retail customer using a 3/4” meter and 5,000 gallons of water per month. For more information on the Cost of Service Comparison, see **APPENDIX D**, Explanatory Note 10.

Exhibit 11: Comparison of Rates with Other Representative Communities (Residential Customer Using 5,000 Gallons of Water per month)

Utility	Water	Sewer	Total
Greenville Utilities Commission	\$ 34.17	\$ 43.29	\$ 77.46
City of Jacksonville	\$ 29.63	\$ 53.75	\$ 83.38
Cape Fear Public Utility Authority	\$ 42.84	\$ 41.61	\$ 84.45
Fayetteville Public Works Commission	\$ 37.41	\$ 57.40	\$ 94.81
ONWASA - Current 2025	\$ 41.54	\$ 75.25	\$ 116.79
Orange Water and Sewer Authority (1)	\$ 63.97	\$ 72.62	\$ 136.59
Average	\$ 41.59	\$ 57.32	\$ 98.91
NC Median (2)	\$ 40.01	\$ 50.76	\$ 90.77

Notes:

- (1) These rates will become effective on October 1, 2024. All other bills in the comparison are based on rates that were implemented on July 1, 2024.
- (2) Information on the NC state median is based on the UNC Environmental Finance Center NC dashboard.

BILLING AND COLLECTION PROCEDURES

All of the Authority’s utility accounts are currently billed on a monthly basis. The Authority’s Customer Service Department handles all customer billing.

The Authority has converted its meters to an Automated Meter Reading (AMR) system. The Authority uses electronic reading devices to record the readings of utility meters. The readings are downloaded at the main office from handheld devices and uploaded into the billing system. Accounts are read monthly on a cyclical basis. Currently, monthly bills are due 21 days from the billing date and a late fee is assessed 10 days after the due date. Past-due reminder calls, emails and text messages are sent two business days prior to the assessment of a nonpayment fee. A second call, email and text message is sent the day the nonpayment fee is assessed and the account is subject to disconnection no sooner than two business days later.

The Authority follows regularly scheduled collection processes with temporary exceptions in accordance with the State’s response to COVID-19 and by way of example, has also delayed collection processes following natural disasters like Hurricane Florence in 2018.

REGULATIONS

The Authority is regulated by the United States Environmental Protection Agency (“EPA”) and the North Carolina Department of Environmental Quality (“NCDEQ”). The Authority is currently in

compliance with all federal and State environmental legislation and regulations, and necessary measures are being taken to ensure that the State's Division of Water Quality standards for discharge and non-discharge are met in the future.

Prior to the Authority taking ownership of and beginning to operate of the 2023 Acquired Systems in November of 2023, the Authority was made aware of the following DEQ violation history through an engineer's report dated May 9, 2023 (prepared by WithersRavenel). However, the Authority has not experienced any violations with the 2023 Acquired Systems since the acquisition.

Excerpts from the engineer's report dated May 9, 2023:

North Topsail WWTP has received 1 limit exceedance violation since 2019 and there are currently no regulatory orders against North Topsail WWTP, and no elements of the treatment methods are expected to create extraordinary additional issues. In April 2018, the North Topsail Beach and Sneads Ferry Collection System was issued a Notice of Deficiency by DEQ. All the violations reported in 2018 were corrected before the 2021 inspection and the system was deemed compliant.

Webb Creek WWTP received 2 limit exceedance violations within the first six months of operation of the new 0.35 MGD MBR plant. No violations have been received since January of 2021. There are no regulatory orders against Webb Creek WWTP and no elements of the treatment methods at Webb Creek WWTP are expected to create additional issues. Regarding the Webb Creek Collection System, the official new permit documents have not been issued as of April 2023⁶ due to extended review times by the DEQ, however the system was last inspected in April 2021 and was compliant per the Wastewater Treatment and Collection Performance Annual Report from 2022.

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⁶ At the close of the 2023 acquisition, all permits were transferred to the Authority.

HISTORICAL OPERATING RESULTS

The following table presents information on historical operating results for the Combined Enterprise System for the past five fiscal years with completed audits. Such results should be read in conjunction with the Authority's financial statements as set forth in APPENDIX C.

Onslow Water and Sewer Authority, North Carolina
Historical Statement of Revenues, Expenses, Debt, and Debt Service Coverage
For the Fiscal Year Ending June 30

	For the Fiscal Year Ending June 30 ⁽¹⁾				
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Combined Enterprise System					
Operating Revenues					
Water Revenues	\$ 18,021,212	\$ 19,162,994	\$ 20,313,493	\$ 22,588,521	\$ 24,954,099
Wastewater Revenues	4,057,799	4,374,099	4,803,047	5,259,179	5,892,250
Other Operating Revenues	<u>1,300,722</u>	<u>1,313,739</u>	<u>1,527,071</u>	<u>1,695,378</u>	<u>2,380,015</u>
Subtotal: Operating Revenue	\$ 23,379,733	\$ 24,850,832	\$ 26,643,611	\$ 29,543,078	\$ 33,226,364
Operating Expenses					
Salaries, Fringe Benefits & Operating Expenditures	\$(16,303,891)	\$(17,230,486)	\$(18,809,024)	\$(18,031,972)	\$(21,340,625)
Depreciation and Amortization	<u>(5,749,775)</u>	<u>(5,794,541)</u>	<u>(6,174,082)</u>	<u>(6,401,746)</u>	<u>(6,678,871)</u>
Subtotal: Operating Expenses	\$ (22,053,666)	\$ (23,025,027)	\$ (24,983,106)	\$ (24,433,718)	\$ (28,019,496)
Operating Income	\$ 1,326,067	\$ 1,825,805	\$ 1,660,505	\$ 5,109,358	\$ 5,206,868
Nonoperating Revenues (Expenses)					
Impact Fees -Water & Sewer	\$ 2,900,491	\$ 3,630,778	\$ 3,803,328	\$ 4,401,195	\$ 3,915,328
Interest Earned On Investments	891,549	579,235	8,384	75,697	1,799,367
Interest Expense	<u>(1,930,355)</u>	<u>(1,811,268)</u>	<u>(1,691,380)</u>	<u>(1,554,774)</u>	<u>(1,285,619)</u>
Subtotal: Nonoperating Revenues (Expenses)	\$ 1,861,685	\$ 2,408,745	\$ 2,120,332	\$ 2,922,118	\$ 4,429,076
Income Before Transfers and Capital Contributions	\$ 3,187,752	\$ 4,232,550	\$ 3,780,837	\$ 8,031,476	\$ 9,635,944
Adjustments					
Plus: Depreciation and Amortization	\$ 5,749,775	\$ 5,794,541	\$ 6,174,082	\$ 6,401,746	\$ 6,678,871
Plus: Interest Expense	\$ 1,930,355	\$ 1,811,268	\$ 1,691,380	\$ 1,554,774	\$ 1,285,619
A Net Revenues	\$ 10,867,882	\$ 11,838,359	\$ 11,646,299	\$ 15,987,996	\$ 17,600,434
Plus 20% of General Fund (2)	\$ 7,075,648	\$ 7,425,215	\$ 7,000,108	\$ 7,534,704	\$ 8,000,908
B Net Revenues Plus 20% of General Fund	\$ 17,943,530	\$ 19,263,574	\$ 18,646,407	\$ 23,522,700	\$ 25,601,342
Debt Service					
C Revenue Bonds	\$ 5,241,048	\$ 5,245,376	\$ 5,246,594	\$ 5,247,325	\$ 4,789,269
D 120% of Revenue Bond Debt Service	\$ 6,289,258	\$ 6,294,452	\$ 6,295,913	\$ 6,298,790	\$ 5,747,123
Debt Service Coverage - Revenue Bonds					
Calculated Using Net Revenues (A/C)	2.07	2.26	2.22	3.05	3.67
Calculated Using Net Revenues Plus 20% of the General Fund (B/D)	2.85	3.06	2.96	3.74	4.45
E Net Revenues Available for G.O., Subordinate, and Other Indebtedness	\$ 5,626,836	\$ 6,592,983	\$ 6,399,705	\$ 10,740,671	\$ 12,811,165
F Subordinate and Other Indebtedness	\$ 604,832	\$ 601,341	\$ 597,850	\$ 554,358	\$ 590,866
Debt Service Coverage - G.O., Subordinate, and Other Indebtedness (E/F)	9.30	10.96	10.70	18.07	21.68
G Total Debt Service: Revenue Bonds, plus G.O. Bonds, Subordinate and Other Indebtedness	\$ 5,845,879	\$ 5,846,717	\$ 5,844,444	\$ 5,841,683	\$ 5,380,135
H Total Debt Service: 120% of Revenue Bonds, plus G.O. Bonds, Subordinate and Other Indebtedness	\$ 6,894,088	\$ 6,895,792	\$ 6,893,763	\$ 6,891,148	\$ 6,337,989
Debt Service Coverage - Total Indebtedness					
Calculated Using Net Revenues (A/G)	1.86	2.02	1.99	2.74	3.27
Calculated Using Net Revenues Plus (B/H)	2.60	2.79	2.70	3.41	4.04
Net Revenues Less Total Indebtedness	\$ 5,022,003	\$ 5,991,642	\$ 5,801,855	\$ 10,146,313	\$ 12,220,299
Other Expenditures					
Capital Outlay	\$ (1,312,312)	\$ (1,278,794)	\$ (1,352,738)	\$ (834,521)	\$ (1,679,179)
Transfers to capital reserves	\$ (5,180,285)	\$ (2,047,449)	\$ (2,605,000)	\$ (2,474,207)	\$ (3,293,057)
Total Other Expenses	\$ (6,492,597)	\$ (3,326,243)	\$ (3,957,738)	\$ (3,308,728)	\$ (4,972,236)
Surplus Revenues/(Deficit) Remaining After Total Cash Needs	\$ (1,470,594)	\$ 2,665,399	\$ 1,844,117	\$ 6,837,585	\$ 7,248,063
Ending General Fund Balance (2)	\$ 37,126,077	\$ 35,000,539	\$ 37,673,521	\$ 40,004,542	\$ 44,134,864

As reflected in the foregoing table, the consolidated financial position of the Authority for the fiscal year ended June 30, 2023 (latest audited information available) remained strong, with the Authority's total operating revenue up 12.5% from the prior year, due to an increase in water processed, wastewater treated, and rate increases. Total operating expenses increased 15% due to increases in costs from water processing and wastewater treatment as well as increased depreciation and amortization expense on the Authority's capital assets. Overall, the Authority's financial position was strengthened primarily due to a positive change in the net position, which increased by \$15,080,089, or 8%, from June 30, 2022 to June 30, 2023. For additional information on the Authority's June 30, 2023 results, see the Authority's financial statements and notes thereto in **APPENDIX C**, including the Management's Discussion and Analysis.

UNAUDITED RESULTS FROM FISCAL YEAR 2024

The Authority expects to receive its audited financial report for the fiscal year ending June 30, 2024, from its auditors by October 31, 2024. The Authority expects to present the results of the audit by its Board following review by the North Carolina Local Government Commission Fiscal Division and preparation of a consolidated annual financial report ("ACFR"). Once finalized, the Authority's ACFR will be made available on its website and will be provided as a part of its next continuing disclosure filing.

Unaudited financial results for Fiscal Year 2024 reflect operating revenues that increased by nearly 16% from the prior year, due primarily to increased demand, rate increases, and an increase in customers due in part to the 2023 acquisition. Operating expenditures increased by 31.4% in Fiscal Year 2024, reflecting primarily the inclusion of seven months of operation of the 2023 Acquired Systems, as well as increasing costs of materials used in water and wastewater treatment and additional staffing needs. The Authority is estimating an ending balance of just over \$39 million in the General Fund. The Authority expects the audited financial results will be consistent with its adopted budget and anticipates strong debt service coverage ratios and continued compliance with the rate covenant required in the General Indenture.

For additional information on the Authority's unaudited results from Fiscal Year 2024, see the Forecast Statement in **APPENDIX D**.

2024-2025 BUDGET COMMENTARY

The budget for Fiscal Year 2025 (beginning on July 1, 2024, and ending on June 30, 2025) was adopted on June 20, 2024. It is a conservative budget which is balanced at \$56.9 million. The Authority maintains an unreserved fund balance of \$32.4 million. User fees are the primary revenue at \$43.9 million. This year, the Authority has once again budgeted a \$1 million disaster contingency fund. The budget has been constructed in accordance with the Board's accepted capital improvement plan and recommendations for rates and charges necessary to pay for ongoing infrastructure improvements. The budget includes 10.75% rate increases to water and wastewater user fees.

CAPITAL IMPROVEMENT PLAN

Each year the Authority updates its 10-year capital improvement plan ("CIP") for the Combined Enterprise System as part of the annual budget process. The CIP for Fiscal Years 2025 through 2029 identifies approximately \$225.1 million in water and wastewater improvements, including \$135.0 million in water improvements and \$90.1 million in wastewater improvements. See **APPENDIX D**, Explanatory Note 5 and the chart contained therein for a summary of the water and wastewater CIP projects for the forecast period and their anticipated funding sources. Generally, the Authority's CIP projects to be funded with future debt include expanding the wastewater treatment capacity of the North Topsail wastewater treatment plant, construction of new water transmission mains, construction of a new potable water treatment plant, and expansion of an existing water treatment plant.

PENSION PLANS

For information concerning the Authority's participation in various pension plans and its other retirement benefits, see the Note 5 to the Authority's financial statements in **APPENDIX C**.

Financial statements and required supplementary information for the North Carolina Local Governmental Employees' Retirement System are included in the ACFR for the State. Please refer to the State's ACFR for additional information.

OTHER POST-EMPLOYMENT BENEFITS

The Authority provides post-employment health care benefits to retirees of the Authority in a single-year employer plan, provided they participate in the North Carolina Local Governmental Employees' Retirement System and have at least ten consecutive years of creditable service with the Authority. This benefit is provided to employees hired prior to April 17, 2014, or if they are already in the system. Years of service are transferable from participating member governments during the initial transition phase of the Authority. The Authority pays the full cost of coverage for these benefits through private insurers. For the fiscal year ended June 30, 2023, the Authority paid \$214,376 in post-employment health benefit premiums.

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. Under the terms of the plan, the Authority administers a single employer defined benefit Healthcare Benefits Plan. The Authority Board has the right to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The Authority's total OPEB liability of \$4,218,937 was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2021.

For information concerning the Authority's OPEB obligations, see the Note 6 to the Authority's financial statements in **APPENDIX C**.

APPENDIX B

THE AUTHORITY'S SERVICE AREA

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APPENDIX B

THE AUTHORITY'S SERVICE AREA

The Authority's service area is primarily within the County of Onslow, North Carolina including the unincorporated portions of Onslow County, the primarily residential community of the Town of Holly Ridge, the predominately agriculturally-oriented Town of Richlands, the seafood-producing Town of Swansboro, the Town of North Topsail Beach, a resort town on the northern third of Topsail Island, and certain portions of the United States Marine Corps Base at Camp Lejeune, North Carolina ("Camp Lejeune"). The area served by the Authority is referred to herein as the "Service Area." Situated on the lower Coastal Plain of southeastern North Carolina, Onslow County is bordered by Pender County to the south, Duplin County to the west, Lenoir and Jones counties to the northwest and north, and the Atlantic Ocean to the east. Onslow County has a flat, gently rolling terrain and covers a total of 767 square miles encompassing approximately 484,000 acres, of which about 156,000 acres comprise Camp Lejeune and the New River Marine Corps Air Station ("MCAS New River") and are owned by the federal government. Approximately 48,000 acres are in Hofmann Forest and are owned by the NC State Natural Resources Foundation, Inc., a foundation of North Carolina State University, and approximately 31,000 acres are in incorporated or urban areas.

There are six municipalities within Onslow County, five of which are within the Authority's Service Area. The City of Jacksonville (the "City"), the Onslow County seat, is not included in the Authority's Service Area as the City provides water and wastewater services to its citizens directly. The Authority's Service Area does not include MCAS New River.

DEMOGRAPHIC CHARACTERISTICS

According to the United States Department of Commerce, Bureau of the Census, the population of Onslow County has been recorded to be as follows:

<u>2000</u>	<u>2010</u>	<u>2020</u>
150,355	177,772	204,576

The population of Onslow County was approximately 212,616 in 2023. Per capita income figures for Onslow County are presented in the following table:

<u>YEAR</u>	<u>COUNTY</u>
2019	\$49,125
2020	46,142
2021	48,761
2022	43,381
2023	51,886

Source: Statistical Section, Authority's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023.

COMMERCE, INDUSTRY AND INSTITUTIONS

The Authority's Service Area employment base has traditionally been comprised of military, agriculture and an expanding tourism industry over the last ten years.

Military. Camp Lejeune is the largest Marine Corps installation on the East Coast and is the largest employer in Onslow County. For the federal fiscal year 2022, the Marine Corps estimated that

Camp Lejeune and MCAS New River had an economic impact of \$3.8 million, with a total of approximately 43,000 active duty military members and over 5,600 civilian employees.

Camp Lejeune is the home of Marine Corps Installations East which is the regional command for Marine Corps bases located on the East Coast. This command includes air stations and logistics bases. The bases also house a full component of Navy and Coast Guard personnel associated with port security as the base provides intensive training in shoreline operations.

The following installations are based at Camp Lejeune: II Marine Expeditionary Force, Marine Corps Installations East, and US Marine Corps Forces Special Operations Command (“*Special Operations Command*”). Camp Lejeune is also the home of a Coast Guard Special Missions Training Center. Its mission is to train Marine Safety and Security Teams, port security units and law enforcement detachments. MCAS New River is the home of the Marine Tilt Rotor Test and Evaluation Squadron and Marine Tilt Rotor Training Squadron for the V-22 Osprey.

The Authority’s Service Area population levels and economic activity have generally remained steady through recent significant military troop deployments. Several programs to support military dependents have successfully encouraged more dependents to remain in the community during deployments of family members. Changes in troop rotation schedules and practices have also had the effect of reducing the effects of deployments on the Service Area. The Special Operations Command is expected to continue to grow over the next few years as the role of highly specialized operations in the military’s activities increases.

Agriculture, Timberland and Fishing. Agriculture remains a major economic factor in the Service Area, although its importance is declining as the population grows in the Service Area and in Onslow County, in general. The total market value for agricultural products sold in 2022 (latest data available) was reported at \$251 million. This includes livestock, poultry, and their products, as well as crops including corn, soybeans, cotton, tobacco, wheat, and nursery and greenhouse crops.

Timber is also a significant industry in the Service Area due to the many acres of timberland in Onslow County. According to a 2020 report from the NC Cooperative Extension, the County has approximately 154,856 acres of privately owned timberland. The estimated income for stumpage (price paid to the timber owner for standing timber) for 2021 (latest data available) was \$11.2 million. The forest sector supported 296 jobs with a payroll of approximately \$9.0 million.

The seafood industry has always been an integral part of Onslow County’s economy due to the variety of coastal waterways. In 2022, commercial fisheries sold nearly 1.5 million pounds of products worth \$3.6 million.

Tourism and Retail. Tourism continues to be a growing industry for the Service Area. It is estimated that the local tourism industry generates more than \$87.3 million in wages for approximately 2,332 full time employees. Visitors to Onslow County spent an estimated \$379.82 million in 2022 (latest data available), which was an increase of 12.2% from the prior year. Onslow County was ranked 18th in total visitor spending among North Carolina’s 100 counties based on the “The Economic Impact of Travel on North Carolina Counties”, a 2022 study prepared for Visit North Carolina by Tourism Economics.

Industrial Parks. A 730-acre industrial park, known as Burton Industrial Park, is located within Onslow County on U.S. Highway 258 and within a 10-minute drive of Albert J. Ellis Airport, which serves Onslow County. Businesses currently operating in Burton Industrial Park include Cape Fear Precast, LLC, Excel 10 Learning Center, ABC Supply Company Inc., S.T. Wooten Corporation, RQ Construction, Eastern Regional Skills Center, and Big Branch Bike Park. Onslow County’s government center is also located at Burton Industrial Park.

The Camp Davis Industrial Park is primarily intended to accommodate a wide range of assembling fabricating, manufacturing, and distribution activities. Phase I of the Camp Davis Industrial Park sold out by 2021. Construction on Camp Davis Industrial Park Phase II was completed in January 2023, which was forecasted to lead to the creation of 235 new jobs and add \$22.5 million to Onslow County’s tax base. Phase III of the Camp Davis Industrial Park broke ground in October 2023 with clearing beginning on the first parcel. Anchor tenants in the industrial park include Gulfstream Steel & Supply, Cabinets and Granite Solutions, MNC Metal Design, Above Topsail, Onslow Bay Boatworks, Creek Solutions, and Atlantic Seafood. In February 2023, UPS announced that it plans to build an approximately \$12.4 million facility in the Camp Davis Industrial Park. This facility is expected to create 98 new jobs.

The following table lists the major employers in Onslow County, their core product(s)/service(s), and their approximate number of employees as of June 30, 2023 (latest data available):

COMPANY OR INSTITUTION	PRODUCT OR SERVICE	APPROXIMATE NUMBER OF EMPLOYEES
US Marine Corps Base, Camp Lejeune	Military Installation	1000+
Onslow County Board of Education	Public Education	1000+
Camp Lejeune Civil Service	Military Support	1000+
Wal-Mart Associates, Inc.	Retail	1000+
Onslow County Government	Local Government	1000+
Onslow Memorial Hospital	Healthcare	500-999
Food Lion LLC	Grocery	500-999
City of Jacksonville	Local Government	500-999
Coastal Carolina Community College	Education	500-999
Results Consumer Solutions LLC	Customer Services	500-999

Source: Statistical Section, Authority’s Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023.

Total taxable sales for Onslow County for the five fiscal years ended June 30, 2019 through 2023 are shown in the following table:

FISCAL YEAR ENDED JUNE 30	TOTAL TAXABLE SALES¹	INCREASE (DECREASE) OVER PREVIOUS YEAR
2020	\$2,422,634,291	1.8%
2021	2,958,883,309	22.1
2022	3,238,292,518	9.4
2023	3,438,628,210	6.2
2024	3,548,338,949	3.2

¹ State and local sales taxes are not collected with respect to sales at Camp Lejeune and MCAS New River. Onslow County residents residing at MCAS New River and the portion of Camp Lejeune located within Onslow County limits are included in the State’s formula for distribution of sales tax revenues.

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

Construction activity in Onslow County is indicated by the following table which shows the number and value of building permits issued in the years shown.

FISCAL YEAR ENDED JUNE 30	COMMERCIAL/INDUSTRIAL		RESIDENTIAL		TOTAL VALUE
	NUMBER	VALUE	NUMBER	VALUE	
2020	695	\$ 107,801,669	4,437	\$ 165,274,684	\$ 273,076,353
2021	602	20,551,158	5,311	207,787,497	228,338,655
2022	623	16,235,801	5,373	215,306,120	231,541,921
2023	680	49,309,567	5,175	184,383,493	233,693,060
2024	781	80,716,902	5,094	229,933,371	310,650,273

Source: Onslow County and City Inspections Departments.

EMPLOYMENT

The North Carolina Employment Security Commission has estimated the percentage of unemployment in Onslow County to be as follows:

	2020	2021	2022	2023	2024		2020	2021	2022	2023	2024
January	4.8%	6.4%	4.5%	4.4%	4.2%	July	8.8%	5.8%	4.8%	4.3%	5.0%
February	4.4	6.2	4.3	4.3	4.3	August	6.5	5.4	4.9	4.3	N/A
March	5.4	5.7	4.0	3.9	4.3	September	6.0	4.4	4.0	3.8	N/A
April	13.5*	5.2	3.8	3.4	3.8	October	5.4	4.5	4.4	4.0	
May	11.2	5.4	4.2	3.9	4.1	November	5.7	4.2	4.3	4.0	
June	9.2	6.0	4.7	4.2	4.7	December	6.0	3.6	3.8	3.7	

* Beginning in April 2020, the unemployment rate reflects layoffs due to COVID-19.

Source: North Carolina Employment Security Commission.

Note: The North Carolina Employment Security Commission does not include active service members in calculating employment levels. Discharged service members, however, are eligible for unemployment benefits and included in the Commission's calculations. Additionally, military spouses collecting unemployment benefits from another state are automatically included in the calculation upon their service member's assignment to a base in the State.

APPENDIX C

FINANCIAL STATEMENTS OF
THE ONSLOW WATER AND SEWER AUTHORITY, NORTH CAROLINA

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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, 2023. 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 \$198,444,739.
- The Authority's total net position increased by \$15,080,089 primarily due to increases in usage and rates during the year ended June 30, 2023.
- The Authority's total long-term debt decreased by \$4,177,814 (7.0%) 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 and deferred outflows of resources and deferred inflows of resources. Net position represents the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. 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.

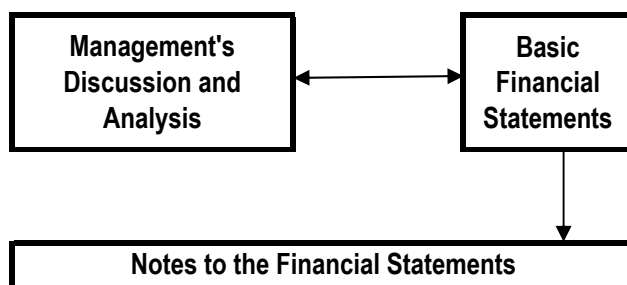
The Statement of Cash Flows deals specifically with the flow of cash and cash equivalents arising from operating, capital, noncapital financing and investing activities. Because the Authority's Statement of Revenues, Expenses and Changes in Net Position is a measurement of the flow of total economic 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 \$15,080,089 or 8%, between June 30, 2022 and June 30, 2023, with significant changes in the various categories of assets and liabilities.

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

Figure 2

	June 30,	
	2023	2022
Current and other assets	\$ 59,650,073	\$ 55,916,480
Capital assets	206,085,435	199,530,536
Total assets	265,735,508	255,447,016
Deferred outflows of resources	5,004,652	4,341,353
Current liabilities	9,996,672	10,493,856
Noncurrent liabilities	60,425,979	62,440,173
Total liabilities	70,422,651	72,934,029
Deferred Inflows of Resources	1,872,770	3,489,690
Net Position		
Net investment in capital assets	150,901,763	140,082,727
Restricted by bond order for Replacement Fund	903,961	2,504,151
Restricted by bond order for Reserve Funds	2,504,151	773,230
Unrestricted	44,134,864	40,004,542
Total net position	\$ 198,444,739	\$ 183,364,650

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

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, 2023. Assets increased 4% due to increase in construction in progress and capital contributions. Total liabilities decreased 3% mainly due to debt payments. Deferred inflows of resources decreased by \$1,616,920 due to decreases in deferrals related to other post-employment benefits and pensions.

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 more due to an increase in revenue and capital contributions.

Condensed Statement of Revenues, Expenses and Change in Net Position

Figure 3

	Years Ended June 30,	
	2023	2022
Revenue		
Operating revenue		
Water	\$ 24,954,099	\$ 22,588,521
Waste water	5,892,250	5,259,179
Service initiation fees	1,167,941	1,141,292
Miscellaneous income	1,212,074	554,084
Nonoperating revenue		
System Development Fees	3,915,328	4,401,195
Interest income	1,799,367	75,697
Grant proceeds	22,738	329,262
Total revenue	38,963,797	34,349,230
Expenses		
Operating expenses: operations	19,060,951	16,818,360
Operating expenses: general and administrative expenses	2,279,674	1,213,612
Operating expenses: depreciation	6,678,871	6,401,746
Interest expense	1,285,619	1,554,774
Total expenses	29,305,115	25,988,492
Increase in net position before capital contributions:	9,658,682	8,360,738
Capital contributions from non-related parties	5,421,407	5,852,017
Increase in net position	15,080,089	14,212,755
Net position, July 1, restated	181,522,660	167,309,905
Restatement for error correction	1,841,990	-
Net position, as restated, July 1	183,364,650	167,309,905
Net position, June 30	\$198,444,739	\$181,522,660

**Management’s Discussion and Analysis – Unaudited
(Onslow Water and Sewer Authority)**

Total operating revenue is up 12% from the prior year because of the increase in water processed and wastewater treated and rate increases. Total operating expenses increased in this fiscal year (15%) due to increases in costs from water processing and wastewater treatment as well as increased depreciation and amortization expense on the Authority’s capital assets. Net position increased \$15 million.

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

Capital Asset and Debt Administration

Capital assets. The Authority’s investment in capital assets as of June 30, 2023, totals \$206,085,435 (net of accumulated depreciation/amortization). These assets include buildings, water lines, wells, booster stations, lift stations, wastewater treatment plants, land, machinery, equipment, vehicles, construction in process, and right to use leased assets.

Onslow Water and Sewer Authority's Capital Assets

Figure 4

	June 30,	
	2023	2022
Land	\$ 18,990,811	\$ 18,990,811
Other improvements	164,916,225	160,689,351
Buildings	1,497,979	1,868,057
Equipment	1,057,990	876,042
Vehicles	928,649	631,602
Construction in progress	18,669,200	16,433,704
Lease asset	24,581	40,696
Total	\$ 206,085,435	\$ 199,530,263

Assets acquired from member governments are operated by the Authority under 30-year 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.

Long-term Debt. As of June 30, 2023, the Authority had total debt outstanding of \$55,800,578. Revenue bonds, which are secured by specified revenue sources, total \$47,304,000.

The Authority’s total debt has decreased by \$4,177,814 (7%) during the current fiscal year. The net decrease was mainly due to payment of principal for revenue bonds.

**Management’s Discussion and Analysis – Unaudited
(Onslow Water and Sewer Authority)**

Onslow Water and Sewer Authority's Long-Term Debt

Figure 5

	June 30,	
	2023	2022
Revenue bonds held by bondholders	\$ 47,304,000	\$ 50,375,000
Unamortized revenue bond premium	2,230,089	2,766,812
Lease payable	25,705	41,803
Loans payable	6,240,784	6,794,777
Total	\$ 55,800,578	\$ 59,978,392

The Authority’s total debt has decreased by \$4,177,814 (7%) 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 2023 totaled \$121.9 million, up 55.1% from the year 2014.
- Estimated real estate values have increased at an annual rate of 4.3% since 2014.
- The population of Onslow County was 212,616 in 2023 up 2.0% from 2014.
- The per capita income has increased at an annual rate of 1.7% since 2014.
- The unemployment rate at June 30, 2023, was 4.2%.

Onslow County’s growth should continue over the coming years but at a slower pace. Due to federal interest rates being incrementally increased over the last few months, the housing market is beginning to slow down. However, there are still new developments being built throughout Onslow County. For most of 2023, Onslow County has been experiencing a housing shortage, which had raised the prices of homes substantially but with the increasing interest rates home purchases are slowly decreasing. Commercial growth in the county remains strong as new hotels, restaurants, manufacturing and retail stores come into the area.

Budget Highlights for Fiscal Year Ending June 30, 2024

Fiscal year 2022-2023 was the eighteenth year of full operations for the Authority. General operating expenses will have an increase to cover personnel costs and general operating expenses. Highlights of fiscal year 2024’s budget are as follows:

- Increase in personnel salaries due to an 4.0% COLA effective July 1.
- Salary step plan was implemented effective July 1.
- Sixteen new positions were approved.
- Water and sewer rate increases of 8% were approved.
- Decrease in annual debt service payment.

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 Eric Adams, Chief Finance Officer, 228 Georgetown Road, Jacksonville, North Carolina 28540, (910) 455-0722, eadams@onwasa.com, or www.onwasa.com

BASIC FINANCIAL STATEMENTS

ONslow WATER AND SEWER AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2023

ASSETS	
Current assets	
Cash and cash equivalents	\$ 47,438,715
Receivables, net	6,347,616
Lease receivable	20,904
Inventories	1,434,726
Total current assets	<u>55,241,961</u>
Noncurrent assets	
Restricted cash and cash equivalents	3,408,112
Certificate of deposit	1,000,000
Capital assets :	
Land and nondepreciable assets	37,660,011
Other capital assets, net of accumulated depreciation	168,400,843
Lease asset, net of accumulated amortization	24,581
Total capital assets	<u>206,085,435</u>
Total noncurrent assets	<u>210,493,547</u>
Total assets	<u>265,735,508</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	
Pension and OPEB deferrals	4,240,829
Deferred charge from refunding	763,823
Total deferred outflows of resources	<u>\$ 5,004,652</u>

LIABILITIES

Current liabilities

Revenue bonds, lease liability, and construction loans payable	\$ 3,767,760
Accrued interest payable	135,475
Customer deposits	3,549,861
Accounts payable and accrued liabilities	2,198,768
Retainage payable	154,823
Total OPEB liability due in one year	<u>189,985</u>
Total current liabilities	<u>9,996,672</u>

Long-term Liabilities

Revenue bonds, lease liability, and construction loans payable	52,032,818
Net pension liability	4,364,209
Total OPEB liability	<u>4,028,952</u>
Total long-term liabilities	<u>60,425,979</u>

Total liabilities	<u>70,422,651</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources

Pension and OPEB deferrals	1,851,864
Leases	<u>20,906</u>
Total deferred inflows of resources	<u>1,872,770</u>

NET POSITION

Net investment in capital assets	150,901,763
Restricted by bond order for Reserve Funds	2,504,151
Restricted by bond order for Replacement Funds	903,961
Unrestricted	<u>44,134,864</u>
Total net position	<u>\$ 198,444,739</u>

ONslow WATER AND SEWER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Operating revenue	
Water	\$ 24,954,099
Wastewater	5,892,250
Service initiation fees	1,167,941
Miscellaneous income	1,212,074
Total operating revenue	<u>33,226,364</u>
Operating expenses	
Hubert water treatment plant	1,734,411
Dixon water treatment plant	1,304,003
Meters	1,184,077
Distribution	1,784,426
Collections	1,043,256
Northwest Regional Water Reclamation Facility	669,473
Southeast Regional wastewater plant	537,600
Swansboro wastewater treatment plant	262,965
SCC	475,558
General and administrative	2,279,674
Information technology	1,785,439
Engineering	705,199
Customer service	1,661,019
Laboratory	407,225
Facilities Maintenance	771,564
Water purchases	47,845
Wastewater purchases	886,299
Nondepartmental	973,495
Repairs and maintenance	2,827,097
Depreciation and amortization	6,678,871
Total operating expenses	<u>28,019,496</u>
Operating income	<u>5,206,868</u>
Nonoperating revenue (expense)	
System development fees	3,915,328
Interest income	1,799,367
Interest expense	(1,285,619)
Total nonoperating revenue, net	<u>4,429,076</u>
Income before capital contributions	9,635,944
Capital contributions from non-related parties	5,421,407
Goldenleaf Foundation grant	22,738
Increase in net position	<u>15,080,089</u>
Net position	
Beginning, as restated	183,364,650
Ending	<u>\$ 198,444,739</u>

ONslow WATER AND SEWER AUTHORITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 32,688,447
Payments to suppliers	(15,266,391)
Payments to employees	(6,605,791)
Net cash provided by operating activities	10,816,265

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

System Development Fees	3,915,328
Net cash provided by non-capital financing activities	3,915,328

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(7,967,160)
Proceeds from grants	22,738
Proceeds from sale of capital assets	5,377
Principal payments on long-term debt	(3,641,082)
Interest paid	(1,762,261)
Net cash used in capital and related financing activities	(13,342,388)

CASH FLOWS FROM INVESTING ACTIVITIES

Payments received on leases receivable	22,158
Interest received	1,799,367
Net cash provided by investing activities	1,821,525

Net increase in cash and cash equivalents 3,210,730

Cash and cash equivalents, beginning of year 47,636,097

Cash and cash equivalents, end of year 50,846,827

Classified as:

Unrestricted cash and cash equivalents	47,438,715
Restricted cash and cash equivalents	3,408,112
	\$ 50,846,827

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 5,206,868
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	6,678,871
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Increase in accounts receivable	(315,679)
Increase in inventory	(229,342)
Decrease in accounts payable	(464,662)
Decrease in customer deposits	(222,238)
Increase in compensated absences payable	39,250
Increase in pension and related items	123,197
Net cash provided by operating activities	\$ 10,816,265

SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES

Contributions of capital assets from developers	\$ 5,421,407
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NOTES TO THE FINANCIAL STATEMENTS

ONSTLOW WATER AND SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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 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 eighteenth 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 requires 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 GASB 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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 and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fund. All annual appropriations lapse at fiscal year-end.

Expenditures may not legally exceed appropriations at the expenditure object level for the operating fund. 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.

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 fair value which is the NCCMT's share price. The NCCMT - Term Portfolio was a bond fund, that did not have a rating and was measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 require a fund (the Reserve Fund) to be established to help ensure that sufficient monies are available for payment of bond principal and interest. The Reserve Fund at June 30, 2023, totaled \$903,961.

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, 2023, totaled \$2,504,151. The Authority also has \$7,906 in unspent bond proceeds from the Series 2016 Revenue Bonds.

Lease Receivable

The Authority's lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the Authority will receive annual fixed lease payments. The payments are recorded as an inflow of resources in the period the payment is received.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Materials and supplies are valued at the lower of cost (first-in, first-out basis) which approximates market value, or net realizable value. Expendable supplies are recorded as expenses when used rather than when purchased.

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 lease agreements with the Authority whereby their water and wastewater system assets were constructively leased in perpetuity to the Authority. At the time of the execution of these agreements, the Authority funded the lease payments by issuing revenue bonds. Currently, no further payments are due under these agreements. The agreements specified 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 leases. As the agreements do not have an end date and will continue as long as the Authority continues to operate and/or replace the assets, GASB Statement No. 87 does not apply.

Capital assets contributed by developers totaled \$5,421,407 for the year ended June 30, 2023. 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

	Years
Buildings and other improvements	2 - 50
Equipment, heavy equipment and vehicles	3 - 20

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

Right to Use Assets

The Authority has recorded lease assets as a result of implementing GASB 87. The lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The lease assets are amortized on a straight-line basis over the shorter of the life of the related lease or the underlying asset.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has three items that meet this criterion, pension deferrals, OPEB deferrals, and deferred charge related to debt refinancing. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net assets that applies to a future period and so will not be recognized as revenue until then. The Authority has three items that meet the criterion for this category - leases, pension and OPEB deferrals.

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 effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. 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 “net investment in capital assets” or “restricted”.

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 131 full-time employees as of June 30, 2023. Accrued vacation at year end totaled \$533,743 and is included in accounts payable and accrued liabilities.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2023, cash, cash equivalents and certificates of deposit were comprised of the following:

Statement of Net Position:

Cash and cash equivalents	\$ 47,438,715
Restricted cash and cash equivalents	<u>3,408,112</u>
	<u>\$ 50,846,827</u>
Cash deposited with financial institutions	\$ 2,643,779
Petty cash	400
Invested in the NCCMT	<u>48,202,648</u>
Total	<u>\$ 50,846,827</u>

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.

The Authority has a \$1,000,000 certificate of deposit that 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 is valued at amortized cost which approximates fair value and has a three-year term which matures in July 2023.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments

At June 30, 2023, the Authority had \$48,202,648 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's investment in the North Carolina Capital Management Trust's Government Portfolio is classified in Level 1 of the fair value hierarchy.

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk: The Authority has no formal investment policy that limits its risk related to rising interest rates.

Credit Risk: The Authority has no formal policy regarding credit risk but has internal management procedures that limit the Authority's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated.

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, 2023, are as follows:

Sales tax receivables	\$ 459,399
Accounts receivable - customers	2,267,427
Unbilled receivable - customers	4,062,983
Accounts receivable - other	215,384
Total receivables	<u>7,005,193</u>
Allowance for doubtful accounts	(657,577)
Total receivables, net of allowance	<u>\$ 6,347,616</u>

Lease Receivable

On November 23, 2020, the Authority entered into a lease to lease 206 acres of land. The lessee pays the Authority \$21,218 per year through December 31, 2023. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 1.5%. The Authority recognized \$21,219 of lease revenue and \$316 of interest revenue under the lease. The receivable as of June 30, 2023, is \$20,904 and the deferred inflows is \$20,906.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

	Balance July 1, 2022	Increases	Decreases	Transfers	Balance June 30, 2023
Capital assets, non-depreciable:					
Land	\$ 18,990,811	\$ -	\$ -	\$ -	\$ 18,990,811
Construction in progress	16,433,704	6,133,185	-	(3,897,689)	18,669,200
Total capital assets, non-depreciable	<u>35,424,515</u>	<u>6,133,185</u>	<u>-</u>	<u>(3,897,689)</u>	<u>37,660,011</u>
Capital assets, depreciable:					
Other improvements	248,304,650	5,834,997	-	3,897,689	258,037,336
Buildings	11,883,201	-	-	-	11,883,201
Equipment	6,237,271	653,235	(8,142)	-	6,882,364
Vehicles	2,919,538	612,354	(68,816)	-	3,463,076
Heavy equipment	1,162,367	-	-	-	1,162,367
Total capital assets, depreciable	<u>270,507,027</u>	<u>7,100,586</u>	<u>(76,958)</u>	<u>3,897,689</u>	<u>281,428,344</u>
Less accumulated depreciation for:					
Other improvements	(87,615,300)	(5,505,811)	-	-	(93,121,111)
Buildings	(10,015,144)	(370,078)	-	-	(10,385,222)
Equipment	(5,361,229)	(471,287)	8,142	-	(5,824,374)
Vehicles	(2,287,936)	(315,307)	68,816	-	(2,534,427)
Heavy equipment	(1,162,367)	-	-	-	(1,162,367)
Total accumulated depreciation	<u>(106,441,976)</u>	<u>(6,662,483)</u>	<u>76,958</u>	<u>-</u>	<u>(113,027,501)</u>
Total capital assets, depreciable, net	<u>164,065,051</u>	<u>438,103</u>	<u>-</u>	<u>3,897,689</u>	<u>168,400,843</u>
Total governmental activities capital assets, net	<u>\$ 199,489,566</u>	<u>\$ 6,571,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,060,854</u>

The Authority has recorded an intangible right to use asset for items under lease agreements that qualify for reporting in accordance with GASB Statement No. 87. The related lease liabilities are discussed in Note 8. These lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Lease asset activity for the Authority for the year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Increases	Decreases	Transfers	Balance June 30, 2023
Lease assets					
Leased equipment	\$ 57,356	\$ -	\$ -	\$ -	\$ 57,356
Total lease assets	<u>57,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,356</u>
Less accumulated amortization for:					
Leased equipment	(16,387)	(16,388)	-	-	(32,775)
Total accumulated depreciation	<u>(16,387)</u>	<u>(16,388)</u>	<u>-</u>	<u>-</u>	<u>(32,775)</u>
Lease assets, net	<u>\$ 40,969</u>	<u>\$ (16,388)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,581</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS (CONTINUED)

Construction/Engineering Commitments

The Authority has active construction/engineering projects as of June 30, 2023:

Remaining Project	Spent-to-date	Commitment
Water Supply P&D	\$ 390,132	\$ 284,368
Piney Green Phase 2 Elimination of Hickory Grove	1,007,563	13,000
Hargett St and Shore Dr Pump Stations	10,773	53,527
Emergency Power Upgrades	434,178	366,000
Hurricane Florence	10,976,971	849,666
Building Roof Replacements	435,600	22,293
SH WWTP Interim Capacity	90,643	437,924
Disaster Response	-	1,000,000
North Topsail Beach Booster Station	185,519	132,962
W & S Operational Improvements	746,505	535,015
Kenwood/Bishop Ridge Sewer Ext	115,843	196,357
Swansboro WWTP Renovation	1,476,919	545,515
Pumping Station Rehabilitation	190,263	58,337
HRWWTP/SMRHSE Capacity Assess	2,215,266	1,789,669
HWY24 Regional Trunk Main	342,684	436,816
Southwest Svc Upgrades Ph II	50,340	-
	<u>\$ 18,669,199</u>	<u>\$ 6,721,449</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 the NC Department of Environmental Quality and the others will be self-funded.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS

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 the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Center Service, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided

LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Local Governmental Employees' Retirement System (Continued)

Benefits Provided (Continued)

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, 2023, was 12.10% 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 \$948,768 for the year ended June 30, 2023.

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, 2023, the Authority reported a liability of \$4,364,209 for its proportionate share of the LGERS net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022, utilizing update procedures incorporating the actuarial assumptions.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Local Governmental Employees' Retirement System (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (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, 2022, the Authority's proportion was .07736%, which was a decrease of .00713% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Authority recognized pension expense of \$1,226,694. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 188,050	\$ 18,437
Changes in assumptions	435,450	-
Net difference between projected and actual earnings on pension plan investments	1,442,417	-
Changes in proportion and differences between employer contributions	17,681	86,420
Contributions made subsequent to the measurement date	948,768	-
Total	\$ 3,032,366	\$ 104,857

\$948,768 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 ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2024	\$ 621,804
2025	532,203
2026	137,540
2027	687,194
Total	\$ 1,978,741

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Local Governmental Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25% to 8.25%, including a 3.25% inflation and productivity factor
Investment rate of return	6.5%, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on the Pub 2010 Mortality tables with adjustments for mortality improvements based on the generational improvement Scale MP-2019. 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, 2021 valuation were based on the results of an actuarial experience investigation prepared as of December 31, 2019. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Local Governmental Employees' Retirement System (Continued)

Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.1%
Global Equity	42.0%	6.5%
Real Estate	8.0%	4.9%
Alternatives	8.0%	7.5%
Credit	7.0%	5.0%
Inflation Protection	6.0%	2.7%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2022 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. All rates of return and inflation are annualized.

Discount Rate

The discount rate used to measure the total pension liability was 6.5%. 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Local Governmental Employees' Retirement System (Continued)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.5 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.5 percent) or one percentage point higher (7.5 percent) than the current rate:

	Sensitivity of the Total Net Pension Liability to Changes in the Discount Rate		
	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (7.50%)
Authority's proportionate share of the net pension liability (asset)	\$ 7,876,835	\$ 4,364,209	\$ 1,469,601

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued ACFR for the State of North Carolina.

Supplemental Retirement Income Plan

Plan Description:

The Authority contributes to the Supplemental Retirement Income Plan (the "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, 2023, were \$352,300 which consisted of \$143,782 from the Authority and \$208,518 from the employees.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

According to the Authority's personnel policy, the Authority provides post-employment health care benefits to retirees of the Authority in a single-employer plan, 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.

Benefits Provided

Postemployment benefits are provided to employees hired prior to April 17, 2014, or if they are already in the system. Years of service are transferable from participating member governments during the initial transition phase of the Authority. The Authority pays the full cost of coverage for these benefits through private insurers. Also, spouses of Authority retirees can purchase coverage at the Authority's group rates until the spouse is eligible for other health coverage or Medicare. For the fiscal year ended June 30, 2023, the Authority paid \$214,376 in post-employment health benefit premiums. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan. 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. Under the terms of the plan, the Authority administers a single employer defined benefit Healthcare Benefits Plan. The Authority Board has the right to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Membership of the plan consisted of the following at June 30, 2021, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	12
Active plan members	53
Total	<u>65</u>

Total OPEB Liability

The Authority's total OPEB liability of \$4,218,937 was measured as of June 30, 2022, and was determined by an actuarial valuation as of June 30, 2021.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Salary increases	3.25% to 8.41%
Healthcare cost trend rates	7.00% for 2021 decreasing to an ultimate rate of 4.5% by 2031

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date of June 30, 2022.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at 6/30/22	<u>\$ 4,807,613</u>
Changes for the year:	
Service cost	154,460
Interest	104,728
Differences between expected and actual experience	(791)
Assumption changes	(618,754)
Benefit payments	(228,319)
Net changes	<u>(588,676)</u>
Balances at 6/30/23	<u>\$ 4,218,937</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.16% to 3.54%.

Mortality rates were based on the Pub-2010 mortality tables with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 2015 through December 2019.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Total OPEB Liability to Changes in Discount Rate

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54 percent) or 1-percentage-point higher (4.54 percent) than the current discount rate.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate		
1% Decrease (2.54%)	Discount Rate (3.54%)	1% Increase (4.54%)
\$ 4,656,939	\$ 4,218,937	\$ 3,831,516

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates		
1% Decrease	Current	1% Increase
\$ 3,725,674	\$ 4,218,937	\$ 4,805,498

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, The Authority recognized OPEB expense of \$84,779. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 187,822	\$ 1,148,362
Changes of assumptions	806,265	598,645
Benefit payments and administrative costs made subsequent to measurement date	214,376	-
Total	\$ 1,208,463	\$ 1,747,007

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$214,376 reported as deferred outflows of resource related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2024. Other amounts reported as net deferred inflows/outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2024	\$ (174,409)
2025	(151,436)
2026	(133,509)
2027	(193,776)
2028	(99,790)
Total	<u>\$ (752,920)</u>

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 million 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.

The Authority's settlements have not exceeded insurance coverage in any of the past four years.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2023, is summarized as follows:

	Restated Balance July 1, 2022	Principal Increases	Principal Decreases	Premium Amortized	Balance June 30, 2023	Current Portion of Balance
Revenue bonds	\$ 50,375,000	\$ -	\$ 3,071,000	\$ -	\$ 47,304,000	\$ 3,198,000
Construction loans	6,794,777	-	553,993	-	6,240,784	553,993
Unamortized premiums	2,766,812	-	-	536,723	2,230,089	-
Lease liability	41,803	-	16,098	-	25,705	15,767
Net pension liability (LGERS)	1,295,735	4,512,074	1,443,600	-	4,364,209	-
Other postemployment benefits	4,807,613	259,188	847,864	-	4,218,937	189,985
Totals	<u>\$ 66,081,740</u>	<u>\$ 4,771,262</u>	<u>\$ 5,932,555</u>	<u>\$ 536,723</u>	<u>\$ 64,383,724</u>	<u>\$ 3,957,745</u>

Revenue Bonds

\$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, 2023, is \$7,884,000.

\$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, 2023, is \$7,008,000.

\$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, 2023, is \$6,607,000.

\$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 bonds are secured by a pledge of the net revenues of the Authority. The remaining balance as of June 30, 2023, is \$25,805,000.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

Defeased Debt

In 2016, the Authority defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and related fixed earnings are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed from the Authority's liabilities. As of June 30, 2023, the amount of prior year defeased debt and removed from the Authority's liabilities amount to \$28,849,418.

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

Year Ending June 30,	2014A, B and C		2016		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 478,000	\$ 510,601	\$ 2,720,000	\$ 1,080,200	\$ 3,198,000	\$ 1,590,801
2025	488,000	499,249	2,840,000	957,925	3,328,000	1,457,174
2026	500,000	487,659	2,990,000	812,175	3,490,000	1,299,834
2027	512,000	475,784	3,140,000	658,925	3,652,000	1,134,709
2028	524,000	463,624	3,290,000	511,300	3,814,000	974,924
2029 - 2033	2,813,000	2,125,387	10,825,000	951,363	13,638,000	3,076,750
2034 - 2038	3,162,000	1,775,217	-	-	3,162,000	1,775,217
2039 - 2043	3,556,000	1,381,443	-	-	3,556,000	1,381,443
2044 - 2048	3,999,000	938,529	-	-	3,999,000	938,529
2049 - 2054	5,467,000	463,410	-	-	5,467,000	463,410
Total	\$ 21,499,000	\$ 9,120,903	\$ 25,805,000	\$ 4,971,888	\$ 47,304,000	\$ 14,092,791

Construction Loans Payable

The Authority has a \$708,876 direct placement 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 \$208,442 direct placement 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 \$3,282,273 direct placement 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%.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

Construction Loans Payable (Continued)

The Authority has a \$1,251,108 direct placement 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 \$790,085 direct placement 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30,			
2024	\$ 553,993	\$ 33,382	\$ 587,375
2025	553,993	29,890	583,883
2026	553,993	26,399	580,392
2027	553,993	22,908	576,901
2028	553,993	19,416	573,409
2029 - 2033	2,489,519	50,236	2,539,755
2034 - 2037	981,300	11,287	992,587
Total	<u>\$ 6,240,784</u>	<u>\$ 193,518</u>	<u>\$ 6,434,302</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 Operating 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, 2023.

The Authority's revenue bonds contain 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, 2023.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. LONG-TERM OBLIGATIONS (CONTINUED)

Leases

The Authority entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum payments as of the date of their inception. The lease was executed on February 1, 2020, to lease printer/copiers and requires monthly payments of \$1,485. There are no variable payment components of the lease. The lease liability is measured at the discount rate of 5% which is the incremental borrowing rate. As a result of the lease, the Authority has recorded a right to use asset with a net book value of \$24,581 and a lease liability of \$25,705.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2023, were as follows:

	Principal	Interest	Total
Year Ending June 30,			
2024	\$ 15,767	\$ 901	\$ 16,668
2025	9,938	129	10,067
Total	\$ 25,705	\$ 1,030	\$ 26,735

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, 2023.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. RESTATEMENT OF BEGINNING BALANCES

Management of the Authority has determined that a restatement of beginning net position is necessary to correct amortization of its bond premium that should have occurred in prior periods. Amortization of the premium should have been calculated using the effective interest method instead of being amortized straight-line. The effect of this restatement on beginning balances is as follows:

Net position, as previously reported	\$ 181,522,660
Correction of bond premium amortization	<u>1,841,990</u>
Beginning net position, restated	<u><u>\$ 183,364,650</u></u>

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APPENDIX D

**FINANCIAL FEASIBILITY EVALUATION OF
COMBINED ENTERPRISE SYSTEM REVENUE BONDS, SERIES 2024**

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**ONSLOW WATER AND SEWER AUTHORITY,
NORTH CAROLINA**

Financial Feasibility Evaluation
of Combined Enterprise System
Revenue Bonds,
Series 2024



August 29, 2024

EVALUATION BY FINANCIAL FEASIBILITY CONSULTANTS
Onslow Water and Sewer Authority, North Carolina
Combined Enterprise System
Revenue Bonds, Series 2024

We have evaluated the accompanying Forecast Statement of Revenues, Expenses, Debt Service, and Debt Service Coverage (the “Forecast Statement”) for the Onslow Water and Sewer Authority (the “Authority”) Combined Enterprise System for the six fiscal years ending June 30, 2024 through June 30, 2029. Our evaluation was conducted in accordance with guidelines for the water and wastewater industry and included such procedures as we considered necessary to evaluate the assumptions of the Authority.

In evaluating the financial feasibility of the project, those assumptions that we believe are most significant include:

- Projected demand for water and wastewater services during the six-year forecast period;
- Projected revenues and operating costs associated with the acquisition of two private wastewater systems that was effective on November 9, 2023;
- Projected operating costs for providing water and wastewater services to meet demand during the forecast period;
- Projected water and wastewater rates during the forecast period; and
- Projected future debt issues and the timing of additional debt service payments in order to meet capital investment needs.

The accompanying Forecast Statement of Revenues, Expenses, Debt Service and Debt Service Coverage is presented on an accrual basis, and is then adjusted to be consistent with the Authority’s budgeting process for the Combined Enterprise System, and the specific requirements of the coverage tests identified in the General Trust Indenture dated as of June 15, 2004, as amended and supplemented (the “General Indenture”), and Series Indenture, Number 13, dated September 1, 2024, (the “Series Indenture” and together with the General Indenture, the “Indenture”) each between the Authority and the U.S. Bank Trust Company, National Association (formerly the U.S. Bank National Association) as “Trustee.” The Forecast Statement, together with the Summary of Significant Forecast Assumptions, which is included as an integral part of the forecast, constitutes the “Feasibility Evaluation” for the proposed capital projects and bond financing.

In our opinion, the accompanying Forecast Statement is presented in conformity with industry guidelines for presentation of a forecast, and the underlying assumptions provide a reasonable basis for the Authority’s forecast. Based upon the assumptions in our report, the projected Net Revenues provide adequate funds to maintain the debt service coverage ratios required by the General Indenture during the forecast period for the issuance of the Authority’s proposed Combined Enterprise System Revenue Bonds, Series 2024. However, there will usually be differences between the forecast and actual results because events and circumstances frequently do not occur as expected, and those

differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Furthermore, Raftelis Financial Consultants, Inc. is not responsible for completing a detailed review of the Official Statement, the Series Indenture, or other documents prepared for the Authority's proposed Combined Enterprise System Bonds, Series 2024. Our services relate only to the preparation of the feasibility report, and a review of portions of other documents that specifically refer to the Forecast Statement.

Raftelis Financial Consultants, Inc.



Elaine Conti
Executive Vice President



Amanda Guci
Manager

Forecast Statement

Onslow Water and Sewer Authority, North Carolina Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage For the Fiscal Year Ending June 30

	<i>Unaudited (1)</i>	<i>Projected</i>	<i>Projected for Fiscal Year Ending June 30th</i>			
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Combined Enterprise System						
Operating Revenues						
Water Revenues (2)	\$ 27,000,046	\$ 29,903,911	\$ 33,766,625	\$ 36,495,298	\$ 39,446,933	\$ 42,639,906
Wastewater Revenues (2)	9,165,612	13,052,850	14,819,218	16,825,019	18,800,912	20,431,111
Other Operating Revenues (3)	3,246,735	3,221,043	3,221,043	3,221,043	3,221,043	3,221,043
Subtotal: Operating Revenue	<u>\$ 39,412,392</u>	<u>\$ 46,177,803</u>	<u>\$ 51,806,886</u>	<u>\$ 56,541,360</u>	<u>\$ 61,468,888</u>	<u>\$ 66,292,059</u>
Operating Expenses (4)						
Salaries, Fringe Benefits & Operating Expenditures	\$ (28,035,049)	\$ (34,317,232)	\$ (36,912,432)	\$ (38,561,737)	\$ (40,199,914)	\$ (41,896,417)
Depreciation and Amortization	<u>(7,607,805)</u>	<u>(7,888,336)</u>	<u>(8,179,212)</u>	<u>(8,480,813)</u>	<u>(8,793,536)</u>	<u>(9,117,790)</u>
Subtotal: Operating Expenses	\$ (35,642,854)	\$ (42,205,568)	\$ (45,091,644)	\$ (47,042,550)	\$ (48,993,450)	\$ (51,014,207)
Operating Income	\$ 3,769,538	\$ 3,972,235	\$ 6,715,242	\$ 9,498,810	\$ 12,475,438	\$ 15,277,852
Nonoperating Revenues (Expenses)						
System Development Fees -Water & Sewer (5)	\$ 5,557,781	\$ 3,500,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Interest Earned On Investments	2,791,878	2,200,000	262,408	286,436	313,358	329,319
Interest Expense	<u>(2,978,965)</u>	<u>(4,789,465)</u>	<u>(5,017,800)</u>	<u>(6,489,334)</u>	<u>(7,951,708)</u>	<u>(9,651,465)</u>
Subtotal: Nonoperating Revenues (Expenses)	<u>\$ 5,370,693</u>	<u>\$ 910,535</u>	<u>\$ (1,755,392)</u>	<u>\$ (3,202,898)</u>	<u>\$ (4,638,350)</u>	<u>\$ (6,322,146)</u>
Income Before Transfers and Capital Contributions	\$ 9,140,231	\$ 4,882,770	\$ 4,959,850	\$ 6,295,912	\$ 7,837,088	\$ 8,955,706
Adjustments (6)						
Plus: Depreciation and Amortization	\$ 7,607,805	\$ 7,888,336	\$ 8,179,212	\$ 8,480,813	\$ 8,793,536	\$ 9,117,790
Plus: Interest Expense	\$ 2,978,965	\$ 4,789,465	\$ 5,017,800	\$ 6,489,334	\$ 7,951,708	\$ 9,651,465
A Net Revenues	\$ 19,727,002	\$ 17,560,571	\$ 18,156,862	\$ 21,266,059	\$ 24,582,332	\$ 27,724,961
Plus 20% of General Fund (7)	\$ 8,826,973	\$ 7,853,005	\$ 5,448,161	\$ 5,928,712	\$ 6,467,160	\$ 6,786,372
B Net Revenues Plus 20% of General Fund	\$ 28,553,975	\$ 25,413,576	\$ 23,605,023	\$ 27,194,771	\$ 31,049,492	\$ 34,511,333
Debt Service						
Revenue Bonds						
Revenue Bond Series 2014	\$ 988,601	\$ 987,249	\$ 987,659	\$ 987,784	\$ 987,624	\$ 988,179
Revenue Bond Series 2016	3,800,200	3,797,925	3,802,175	3,798,925	3,801,300	3,445,175
Revenue Bond - 2023	1,352,334	3,112,100	3,110,225	3,111,475	3,110,725	3,112,850
Forecast Series 2024(8)	-	908,027	1,334,244	1,797,369	1,797,994	1,797,369
Forecast Series 2026(9)	-	-	-	1,690,950	3,381,900	4,400,775
Forecast Series 2028(10)	-	-	-	-	-	1,956,619
C Subtotal: Revenue Bond Debt Service	\$ 6,141,135	\$ 8,805,301	\$ 9,234,303	\$ 11,386,503	\$ 13,079,543	\$ 15,700,966
D 120% of Revenue Bond Debt Service	\$ 7,369,362	\$ 10,566,361	\$ 11,081,163	\$ 13,663,803	\$ 15,695,451	\$ 18,841,160
Debt Service Coverage - Revenue Bonds						
Calculated Using Net Revenues (A/C)	3.21	1.99	1.97	1.87	1.88	1.77
Calculated Using Net Revenues Plus 20% of the General Fund (B/D)	3.87	2.41	2.13	1.99	1.98	1.83
E Net Revenues Available for Subordinate, and Other Indebtedness	\$ 13,585,867	\$ 8,755,270	\$ 8,922,560	\$ 9,879,556	\$ 11,502,789	\$ 12,023,995
Subordinate and Other Indebtedness						
Federal (ARRA) 1413	\$ 12,102	\$ 12,102	\$ 12,102	\$ 12,102	\$ 12,102	\$ 12,102
Federal (ARRA) 1416	12,403	12,403	12,403	12,403	12,403	12,403
Drinking Water (Dixon RO)	273,523	273,523	273,523	273,523	273,523	273,523
CG&L - 01	87,180	85,337	83,495	81,653	79,811	77,968
CG&L - 02	25,673	25,153	24,632	24,112	23,591	23,071
CG&L (SHWRF)	104,259	104,259	104,259	104,259	104,259	104,259
DEQ (WOTS P2)	83,428	82,125	80,821	79,518	78,214	76,911
Subtotal: Subordinate and Other Indebtedness	\$ 598,568	\$ 594,902	\$ 591,235	\$ 587,569	\$ 583,903	\$ 580,236
F Subtotal: Subordinate, and Other Indebtedness	\$ 598,568	\$ 594,902	\$ 591,235	\$ 587,569	\$ 583,903	\$ 580,236
Debt Service Coverage - Subordinate, and Other Indebtedness (E/F)	22.70	14.72	15.09	16.81	19.70	20.72

Forecast Statement

Onslow Water and Sewer Authority, North Carolina
Forecast Statement of Revenues, Expenses, Debt, and Debt Service Coverage
For the Fiscal Year Ending June 30

	<i>Unaudited</i>	<i>Projected</i>	<i>Projected for Fiscal Year Ending June 30th</i>			
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
G Total Debt Service: Revenue Bonds, plus Subordinate and Other Indebtedness	\$ 6,739,703	\$ 9,400,202	\$ 9,825,538	\$ 11,974,072	\$ 13,663,445	\$ 16,281,203
H Total Debt Service: 120% of Revenue Bonds, plus Subordinate and Other Indebtedness	\$ 7,967,930	\$ 11,161,263	\$ 11,672,398	\$ 14,251,372	\$ 16,279,354	\$ 19,421,396
Debt Service Coverage - Total Indebtedness						
Calculated Using Net Revenues (A/G)	2.93	1.87	1.85	1.78	1.80	1.70
Calculated Using Net Revenues Plus (B/H) 20% of the General Fund	3.58	2.28	2.02	1.91	1.91	1.78
Net Revenues Less Total Indebtedness	\$ 12,987,299	\$ 8,160,369	\$ 8,331,324	\$ 9,291,987	\$ 10,918,887	\$ 11,443,758
Other Expenditures (11)						
Capital Outlay	\$ (2,558,755)	\$ (5,103,810)	\$ (2,752,949)	\$ (3,349,747)	\$ (4,322,828)	\$ (2,953,079)
Total: Other Expenses	\$ (2,558,755)	\$ (5,103,810)	\$ (2,752,949)	\$ (3,349,747)	\$ (4,322,828)	\$ (2,953,079)
Surplus Revenues/(Deficit) Remaining After Total Cash Needs (12)	\$ 10,428,543	\$ 3,056,559	\$ 5,578,375	\$ 5,942,240	\$ 6,596,059	\$ 8,490,680
Ending General Fund Balance (7)	\$ 39,265,027	\$ 27,240,806	\$ 29,643,559	\$ 32,335,799	\$ 33,931,858	\$ 40,172,538
Days Cash On Hand	511	290	293	306	308	350

Notes to the Forecast Statement:

- (1) Fiscal Year (FY) 2024 data represents unaudited information as of the date of this report.
- (2) Operating revenues include revenues from water and wastewater user rates and charges for retail, bulk, and irrigation service. Unaudited revenues from water and wastewater user rates and charges for FY 2024 and projected revenues for FY 2025 include approved and implemented rate increases of 8% for both water and wastewater rates effective on July 1, 2023, and implemented rate increases of 10.75% for both water and wastewater effective on July 1, 2024. On November 9, 2023, the Authority completed the purchase of two privately owned wastewater systems, the North Topsail and the Webb Creek wastewater plants, collectively known as the “acquired private wastewater systems”. The unaudited wastewater revenues in FY 2024 reflect the revenues generated from the acquired private wastewater systems from November 9, 2023 to June 30, 2024. The full year of revenue impacts from this acquisition are included in FY 2025 and beyond. The wastewater customers acquired through the acquisition almost doubled the Authority’s number of wastewater customers. Future projected revenues from water and wastewater user rates and charges include proposed water rate increases of 10.75% for FY 2026 and 6% annual increases from FY 2027 to FY 2029, and proposed wastewater increases of 10.75% annually from FY 2026 to FY 2027, 9% in FY 2028, and 6% in FY 2029.
- (3) Other operating revenues are comprised of service charges, tap and connection fees, late payment penalty fees, and other fees collected for ancillary services. These revenues are anticipated to remain at projected FY 2025 levels over the forecast period.

Forecast Statement

- (4) Operating expenses for FY 2025 have been projected by escalating the actual but unaudited operating expenses for FY 2024 as of the date of this report. As shown in the historical statement, over the past five fiscal years, operating costs have increased on average by 6.8% per year. The unaudited operating expenses in FY 2024 increased by 31.4%, which reflects the additional expenses from the acquired private wastewater systems. The FY 2025 projected operating expenses are approximately 22% higher than the unaudited operating expenses for FY 2024, some of which is due to the operation of the acquired private wastewater systems for a full fiscal year. Acquisition of the acquired private wastewater systems occurred on November 9, 2023, and therefore only seven months of O&M costs are reflected in FY 2024, but a full year of O&M costs are estimated in FY 2025 and beyond. The majority of the Authority's existing operating costs are escalated using a growth rate of 3.5% with the exception of utilities and insurance costs, which are escalated at 5% and 8% respectively and chemical costs, which are increased at 10% per year through FY 2026 and then 5% per year thereafter.
- (5) Nonoperating Revenues include revenues from system development fees generated from new customers that require water and wastewater capacity. While these revenues have averaged \$5.2 million over the last five fiscal years (FY 2019 – FY 2024), they have been forecast at more conservative levels over the forecast period.
- (6) The audited financial statements for ONWASA, as presented in the ACFR, are presented on an accrual basis and are consistent with generally accepted accounting principles for deriving Income Before Transfers and Capital Contributions. This amount must then be adjusted to determine Net Revenues, consistent with the requirements of the Indenture, for the purpose of calculating debt service coverage ratios and demonstrating compliance with the Rate Covenant in the Indenture. The Adjustments are explained below:
 - a. For the forecast years, the depreciation expense is estimated by multiplying the prior year's depreciation expense by 3.5%. Since this expense is not included in the calculation of Net Revenues, this simplified approach has no impact on the forecast coverage ratios.
- (7) The amount available in the Surplus Account is calculated by multiplying the General Fund Ending Balance for FY 2023 by 20%. The Authority typically uses surplus revenues to pay for capital expenditures.
- (8) The Proposed Series 2024 Bonds assume a par value of \$29.43 million, a 30-year term, and an interest rate of 4.13%. Pricing information was provided by the Underwriter on August 29, 2024.
- (9) The Forecasted Series 2026 Bonds assume a par value of \$66.7 million, a 30-year term, and an interest rate of 4.68%. The proceeds will fund projects identified in the Authority's capital improvement plan.
- (10) The Forecasted Series 2028 Bonds assume a par value of \$77.1 million, a 30-year term, and an interest rate of 4.7%. The proceeds will fund projects identified in the Authority's capital improvement plan.

Forecast Statement

- (11) Other expenditures, which include capital outlay, are escalated at 3.5% annually over the forecast period.
- (12) To determine the surplus or deficit remaining at the end of each FY, total debt service (Revenue Bonds, Subordinate, and Other Indebtedness) and other expenditures are subtracted from Net Revenues.

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Historical Statement

Onslow Water and Sewer Authority, North Carolina Historical Statement of Revenues, Expenses, Debt, and Debt Service Coverage For the Fiscal Year Ending June 30

		For the Fiscal Year Ending June 30 th (1)				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Combined Enterprise System						
Operating Revenues						
	Water Revenues	\$ 18,021,212	\$ 19,162,994	\$ 20,313,493	\$ 22,588,521	\$ 24,954,099
	Wastewater Revenues	4,057,799	4,374,099	4,803,047	5,259,179	5,892,250
	Other Operating Revenues	1,300,722	1,313,739	1,527,071	1,695,376	2,380,015
	Subtotal: Operating Revenue	\$ 23,379,733	\$ 24,850,832	\$ 26,643,611	\$ 29,543,076	\$ 33,226,364
Operating Expenses						
	Salaries, Fringe Benefits & Operating Expenditures	\$(16,303,891)	\$(17,230,486)	\$(18,809,024)	\$(18,031,972)	\$(21,340,625)
	Depreciation and Amortization	(5,749,775)	(5,794,541)	(6,174,082)	(6,401,746)	(6,678,871)
	Subtotal: Operating Expenses	\$(22,053,666)	\$(23,025,027)	\$(24,983,106)	\$(24,433,718)	\$(28,019,496)
	Operating Income	\$ 1,326,067	\$ 1,825,805	\$ 1,660,505	\$ 5,109,358	\$ 5,206,868
Nonoperating Revenues (Expenses)						
	Impact Fees -Water & Sewer	\$ 2,900,491	\$ 3,638,778	\$ 3,803,328	\$ 4,401,195	\$ 3,915,328
	Interest Earned On Investments	891,549	579,235	8,384	75,697	1,799,367
	Interest Expense	(1,930,355)	(1,811,268)	(1,691,380)	(1,554,774)	(1,285,619)
	Subtotal: Nonoperating Revenues (Expenses)	\$ 1,861,685	\$ 2,406,745	\$ 2,120,332	\$ 2,922,118	\$ 4,429,076
	Income Before Transfers and Capital Contributions	\$ 3,187,752	\$ 4,232,550	\$ 3,780,837	\$ 8,031,476	\$ 9,635,944
Adjustments						
	Plus: Depreciation and Amortization	\$ 5,749,775	\$ 5,794,541	\$ 6,174,082	\$ 6,401,746	\$ 6,678,871
	Plus: Interest Expense	1,930,355	1,811,268	1,691,380	1,554,774	1,285,619
A	Net Revenues	\$ 10,867,882	\$ 11,838,359	\$ 11,646,299	\$ 15,987,996	\$ 17,600,434
	Plus 20% of General Fund (2)	\$ 7,075,648	\$ 7,425,215	\$ 7,000,108	\$ 7,534,704	\$ 8,000,908
B	Net Revenues Plus 20% of General Fund	\$ 17,943,530	\$ 19,263,574	\$ 18,646,407	\$ 23,522,700	\$ 25,601,342
Debt Service						
C	Revenue Bonds	\$ 5,241,046	\$ 5,245,376	\$ 5,246,594	\$ 5,247,325	\$ 4,789,269
D	120% of Revenue Bond Debt Service	\$ 6,289,256	\$ 6,294,452	\$ 6,295,913	\$ 6,296,790	\$ 5,747,123
	Debt Service Coverage - Revenue Bonds	2.07	2.26	2.22	3.05	3.67
	Calculated Using Net Revenues (A/C)	2.85	3.06	2.96	3.74	4.45
	Calculated Using Net Revenues Plus 20% of the General Fund (B/D)					
E	Net Revenues Available for Subordinate, and Other Indebtedness	\$ 5,626,836	\$ 6,592,983	\$ 6,399,705	\$ 10,740,671	\$ 12,811,165
F	Subordinate and Other Indebtedness	\$ 604,832	\$ 601,341	\$ 597,850	\$ 594,358	\$ 590,866
	Debt Service Coverage - Subordinate, and Other Indebtedness (E/F)	9.30	10.96	10.70	18.07	21.68
G	Total Debt Service: Revenue Bonds, plus Subordinate and Other Indebtedness	\$ 5,845,879	\$ 5,846,717	\$ 5,844,444	\$ 5,841,683	\$ 5,380,135
H	Total Debt Service: 120% of Revenue Bonds, plus Subordinate and Other Indebtedness	\$ 6,894,088	\$ 6,895,792	\$ 6,893,763	\$ 6,891,148	\$ 6,337,989
	Debt Service Coverage - Total Indebtedness	1.86	2.02	1.99	2.74	3.27
	Calculated Using Net Revenues (A/G)	2.60	2.79	2.70	3.41	4.04
	Calculated Using Net Revenues Plus (B/H) 20% of the General Fund					
	Net Revenues Less Total Indebtedness	\$ 5,022,003	\$ 5,991,642	\$ 5,801,855	\$ 10,146,313	\$ 12,220,299
Other Expenditures						
	Capital Outlay	\$ (1,312,312)	\$ (1,278,794)	\$ (1,352,738)	\$ (834,521)	\$ (1,679,179)
	Transfers to capital reserves	(5,180,285)	(2,047,449)	(2,605,000)	(2,474,207)	(3,293,057)
	Total: Other Expenses	\$ (6,492,597)	\$ (3,326,243)	\$ (3,957,738)	\$ (3,308,728)	\$ (4,972,236)
	Surplus Revenues/(Deficit) Remaining After Total Cash Needs	\$ (1,470,594)	\$ 2,665,399	\$ 1,844,117	\$ 6,837,585	\$ 7,248,063
	Ending General Fund Balance (2)	\$ 37,126,077	\$ 35,000,539	\$ 37,673,521	\$ 40,004,542	\$ 44,134,864

Historical Statement

Notes to the Historical Statement:

- (1) Historical information was obtained from the Authority's annual comprehensive financial reports for FY 2019 through FY 2023.
- (2) The General Fund Balance represents the Authority's unrestricted net position provided in the annual comprehensive financial reports for FY 2019 through FY 2023. The Authority typically uses surplus revenues to pay for capital expenditures.

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ONslow WATER AND SEWER AUTHORITY
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

FOR THE SIX FISCAL YEARS ENDING
JUNE 30, 2024 THROUGH JUNE 30, 2029

1. Basis of Presentation

Raftelis Financial Consultants, Inc. (“Raftelis”) has been engaged by the Onslow Water and Sewer Authority (the “Authority”) to evaluate the financial feasibility of proposed improvements to its water and wastewater utility systems (the “Combined Enterprise System”). The opinion letter to the Authority is based upon the Forecast Statement of Revenues, Expenses, Debt Service, and Debt Service Coverage (the “Forecast Schedule”) and the Summary of Significant Forecast Assumptions (taken together, the “Feasibility Evaluation”), which presents, to the best of the Authority’s knowledge and belief, based upon available information, the expected revenue, expenses, debt service, and debt service coverage for the Authority’s Combined Enterprise System during the forecast period.

All schedules in the Feasibility Evaluation have been presented in accordance with the Authority’s annual accounting cycle, based upon its fiscal year beginning July 1 and ending June 30 (“Fiscal Year” or “FY”). Accordingly, the forecast reflects the Authority’s judgment as of August 29, 2024, the date of this forecast, of the expected conditions and the Authority’s expected course of action during each of the six fiscal years ending June 30, 2024 through June 30, 2029.

The Feasibility Evaluation has been included as a part of the Official Statement for the Authority’s Combined Enterprise System Revenue Bonds, Series 2024 (“Series 2024 Bonds”), to be issued under the General Trust Indenture, dated as of June 15, 2004, as amended and supplemented (the “General Indenture”), and Series Indenture, Number 13, dated as of September 1, 2024 (the “Series Indenture” and together with the General Indenture the “Indenture”), each between the Authority and the U.S. Bank Trust Company, National Association (formerly the U.S. Bank National Association) as “Trustee.” The proceeds from the Series 2024 Bonds (approximately \$30.5 million¹) will be used by the Authority to design and construct a new 36,000 foot 18-inch sewer force main, construct two new pump stations, rehabilitate two existing pump stations, and acquire associated land and rights of way needed for this infrastructure.

The Feasibility Evaluation has been based upon cost, operating, demographic and other relevant information provided by the Authority, as well as the financing plan provided by the financial advisor, DEC Associates Inc. (the “Financial Advisor”). The Feasibility Evaluation is presented in conformity with the methodology for calculating debt service coverage of long-term indebtedness set forth in the Indenture. (The definitions of capitalized terms, not specifically identified in this document, are provided in the Indenture).

¹ Based on pricing information provided by the underwriter, PNC Capital Markets LLC, on August 29, 2024.

Consistency with the Rate Covenant is demonstrated on the Lead Schedule under the heading Debt Service Coverage – Total Debt. The General Indenture sets forth a two-part test, in Section 6.6 – Rate Covenant, requiring that the Authority set rates and charges for each Fiscal Year such that (a) Revenues for each Fiscal Year, plus 20% of the balance in the General Fund at the end of the preceding Fiscal Year, is at least equal in such Fiscal Year to the total of (i) Current Expenses budgeted for such Fiscal Year, as may be amended from time to time; plus (ii) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year; plus (iii) 100% (1.0 times) of the Principal and Interest Requirements on General Obligation (“G.O.”) Indebtedness and Subordinate Indebtedness to become due that Fiscal Year; plus (iv) 100% of the Principal and Interest Requirements on Other Indebtedness to become due that Fiscal Year; plus (v) 100% (1.0 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute for any amounts owing under the General Indenture and (b) Revenues at least equal in such each Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as amended from time to time; plus (ii) 100% of the Principal and Interest Requirements on the Bonds to become due that Fiscal Year; plus (iii) 100% of the Principal and Interest Requirements on G.O. Indebtedness and Subordinate Indebtedness; plus (iv) 100% of the Principal and Interest Requirements on Other Indebtedness to become due that Fiscal Year; plus (v) 100% of the amount required to reimburse the provider of a Qualified Reserve Fund Substitute for any amounts owing under the General Indenture.

The existing debt has been segregated between parity indebtedness (defined as Bonds in the Indenture), Subordinate Indebtedness, G.O. Indebtedness, and Other Indebtedness. Forecasts of Revenues and Current Expenses are prepared on a cash basis, consistent with the Authority’s budgeting process for the Combined Enterprise System and measured in accordance with the Indenture. On the lead schedules, Revenues plus 20% of the General Fund is calculated as allowed in the General Indenture whereby Revenues are adjusted by adding 20% of the balance in the General Fund from the end of the previous Fiscal Year for calculating coverage on Bonds.

The assumptions disclosed herein are those that the Authority believes are significant to the forecast. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

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2. Background and Scope of Operations

Governance

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. The Authority is a regional water and wastewater utility based upon the self-proposed cooperative merger of the systems of local governments who desired to achieve economies of scale and obtain the ability to negotiate and operate as one unified entity. On July 1, 2005, the Authority assumed full control of the general operations of the water system from Onslow County, the Town of Richlands, and the Town of Holly Ridge in Onslow County, North Carolina. The Town of Holly Ridge's wastewater operations were assumed by the Authority on January 1, 2006. The Town of Swansboro's water and wastewater operations were assumed by ONWASA on January 1, 2007. On November 9, 2023, ONWASA completed the acquisition of two privately owned wastewater systems, the North Topsail and the Webb Creek wastewater systems, collectively known as the "acquired private wastewater systems".

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 Onslow County, the Towns of Richlands, Holly Ridge, Swansboro, and North Topsail Beach, and the City of Jacksonville. While represented on the Governing Board, the City of Jacksonville conducts water and wastewater operations independent of the Authority. The Authority 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.

Authority's Water System

The Authority's water supply comes from multiple underground aquifer sources: Castle Hayne Aquifer, which can supply up to 14.4 million gallons per day (MGD) and the combined Black Creek, PeeDee and Beaufort aquifers, which can supply up to an additional 4.8 MGD. The Authority utilizes four ground storage tanks that have a total capacity of 12.0 million gallons and 10 elevated tanks with a total capacity of 4.05 million gallons.

The total permitted water treatment capacity of the Authority is 11.44 MGD. Raw water from the Castle Hayne aquifer is processed into drinking water at both the Hubert Water Treatment Plant and the Dixon Water Treatment Plant, which treat 6 MGD and 4 MGD, respectively. Both plants utilize a pressure filtration and softening system with iron removal, disinfection and corrosion control, and the Dixon plant also has the capability to treat up to 3.0 MGD via reverse osmosis. Raw water from the Black Creek and PeeDee aquifers only requires minimal treatment processing, consisting of disinfection and orthophosphate feed at the well heads, which provides the Authority with an additional 1.44 MGD of treated water capacity. The finished drinking water from all treatment plants is then pumped to the distribution system, which has a storage volume of approximately 14.4 million gallons and 1,239 miles of water lines. In the fiscal year ended June 30, 2024, the average daily demand for Authority water service was 10.4 MGD and the peak daily demand was 12.9 MGD.

The Authority also has a connection with the New River Marine Corps Air Station for the supply of potable water up to 0.5 MGD during emergencies and period of peak demand. The Authority also has a connection and water supply agreement with the Town of Surf City that provides up to 0.3 MGD to a portion of the distribution system on Topsail Island.

Authority's Wastewater System

With the acquired private wastewater systems, the Authority maintains approximately 311 miles of wastewater lines and 922 pump stations to collect and transport wastewater to one of six wastewater treatment facilities. (The Authority's number of pump stations increased substantially with the acquired private wastewater systems due to those systems having over 845 simplex pump stations that serve one home and require monthly inspections.) The Authority's service area can best be described by the geographical location of the wastewater plants.

Northwest

The **Northwest Regional Water Reclamation Facility** has a permitted average daily treatment capacity of 1.273 MGD using a Sequential Batch Reactor (SBR) process with infiltration basins for disposal. Total wastewater flow averaged about 0.42 MGD in FY 2024.

Northeast

The **Swansboro Wastewater Treatment Plant** has a permitted treatment capacity of 0.6 MGD. Total wastewater flow averaged 0.43 MGD in FY 2024. Because of the condition of the Swansboro Wastewater Treatment Plant, the agreement with the Marine Corps Base Camp Lejeune ("MCBCL") (as described below), and estimated future sewer flow from development in the service area over the next 20 years, the Authority is issuing the Series 2024 Bonds to fund the construction of new pump stations and a sewer force main system to connect the Swansboro area to both MCBCL's treatment facility (the French Creek Wastewater Treatment Facility) and to the Swansboro Wastewater Treatment Plant. The infrastructure to be built with the proceeds of the Series 2024 Bonds provides the Authority with redundancy and flexibility to transmit wastewater influent to either the French Creek Wastewater Treatment Facility, or to the Swansboro Wastewater Treatment Plant should MCBCL's ability to provide wastewater treatment capacity to the Authority change in the future. The Authority is anticipating the continued operations of the Swansboro plant and the conveyance of some wastewater flow to MCBCL for treatment.

The Authority also conveys wastewater to other entities for treatment through two separate agreements. The Authority has a long-term interlocal agreement to convey wastewater flow to the French Creek Wastewater Treatment Facility aboard MCBCL. The French Creek Wastewater Treatment Facility is an activated sludge tertiary plant, which accepts up to 2.0 MGD from the Authority for treatment. On average, the Authority has conveyed about 0.33 MGD to MCBCL over the last two fiscal years. The current agreement expires in 2029. The Authority also has an agreement with the City of Jacksonville's Land Treatment Site ("LTS"), which consists of an aerated lagoon with spray irrigation disposal site and allows an average flow of .06 MGD from an isolated section of the Authority's collection system.

In connection with the 2023 acquisition, the Authority gained one additional wastewater treatment plant in the Northeast – **The Webb Creek Wastewater System**. The Webb Creek Wastewater System primarily serves customers located south of North Carolina State Highway 24 and east of State Road 1501 in the Hubert area of the County. Hubert is an unincorporated community west of the City of Swansboro and southeast of the City of Jacksonville and is part of the Jacksonville (NC) Metropolitan Statistical Area. The community is on the east side of MCBCL. The Webb Creek wastewater treatment plant is permitted to treat and discharge 0.35 MGD. The average annual daily flow from 2020 to 2021 was 0.231 MGD. The average flow for the month following the acquisition (starting from December 1, 2023 to June 30, 2024) was approximately 0.243 MGD. In addition to the treatment plant, the collection system consists of 11 miles of force main and 10 lift stations, and three grinder pump stations.

Southeast

Prior to the acquired private wastewater systems, the Southeast service area included the Southeast Regional Wastewater Treatment System, which is comprised of two interconnected wastewater plants with a combined permitted average daily treatment capacity of 0.404 MGD:

- The **Holly Ridge Wastewater Treatment Plant** can process up to 0.224 MGD utilizing a lagoon and spray irrigation treatment process.
- The **Summerhouse Wastewater Reclamation Facility** can treat an average of .070 MGD and is permitted at 0.180 MGD utilizing a membrane bioreactor (MBR) biological nutrient removal process with infiltration basins for disposal.

In connection with the 2023 acquisition, the Authority gained one additional wastewater treatment plant in the Southeast:

- The North Topsail wastewater system currently serves customers primarily located west of U.S. Route 17 in the Sneads Ferry and North Topsail Beach communities. Sneads Ferry is a census-designated place and North Topsail Beach is an incorporated Town in Onslow County. Both are part of the Jacksonville Metropolitan Statistical Area. The communities are on the west side of MCBCL. Wastewater service is provided by the North Topsail Wastewater system, which is an Advanced Wastewater Treatment (“AWT”) system whereby impurities are reduced lower than that attainable through conventional treatment (e.g., facultative aerated lagoons, activated sludge).² The plant is permitted to treat and discharge 1.542 MGD via a wastewater irrigation system rated for 0.543 MGD and an MBR with two high-rate infiltration basins rated for 1.0 MGD. Average annual wastewater flow in 2022 was approximately 0.803 MGD. The average flow for the month following the acquisition though the end of FY 2024 (starting from December 1, 2023 to June 30, 2024) was approximately 0.792 MGD. The collection system is comprised of 40 miles of gravity wastewater, 55 miles of force main, and 835 lift stations, with the majority of these single pump (simplex) units serving individual homes.

² The American Institute of Chemical Engineers

The Southeast Regional Wastewater System serves an area within the Authority that is rapidly growing. Total wastewater flow for this system has averaged about 0.29 MGD in FY 2024. Based on the condition of the Holly Ridge and Summerhouse wastewater treatment plants, estimated future wastewater flow from development in this service areas over the next 20 years, and the proximity of the wastewater treatment plants in the Southeast Regional Wastewater System to those of the acquired private wastewater systems, the Authority anticipates building infrastructure to convey wastewater flow from the Southeast Regional Wastewater Treatment system to the North Topsail wastewater treatment facility and to expand the North Topsail system by 1 MGD (in FY 2029). It is anticipated that when this expansion is completed, the Authority may cease operating the Holly Ridge and/or the Summerhouse wastewater treatment plants. As of the date of this report, the forecast reflects the Authority ceasing operations of the Southeast Regional Wastewater System, and increased operations at the North Topsail wastewater treatment plant.

Exhibit 1: Anticipated Wastewater Permitted Capacity (MGD) over the Forecast Period

WWTP System	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Northwest Regional System	1.273	1.273	1.273	1.273	1.273	1.273	1.273
Northeast Regional System							
Swansboro WWTP (1)	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capacity with MCBCL (1)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Webb Creek WWTP	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Southeast Regional System (2)							
Holly Ridge WTP	0.224	0.224	0.224	0.224	0.224	0.224	0.0
Summerhouse WTP	0.180	0.180	0.180	0.180	0.180	0.180	0.0
North Topsail WWTP (2)	1.04	1.54	1.54	1.54	1.54	1.54	2.54
TOTAL Capacity	5.667	6.167	6.167	6.167	6.167	6.167	6.763

Notes:

- (1) The Authority anticipates maintaining operations at the Swansboro system to provide flexibility under the existing contract with MCBCL for wastewater treatment.
- (2) Connectivity is anticipated to be built between the North Topsail WWTP and the Southeast Regional system so that flow can be sent from the Southeast Regional system to the Topsail WWTP. This will require the North Topsail WWTP to be expanded by 1.0 MGD in FY 2029. When this occurs, the Southeast Regional System may cease operations, and all wastewater flow will be sent to the North Topsail WWTP for treatment.

3. Regulations

The Authority is regulated by the United States Environmental Protection Agency (“EPA”) and the North Carolina Department of Environmental Quality (“NCDEQ”). The Authority is currently in compliance with all federal and State environmental legislation and regulations, and necessary measures are being taken to ensure that the State’s Division of Water Quality standards for discharge and non-discharge are met in the future.

Prior to the Authority taking ownership and operation of the acquired private wastewater systems, the Authority was made aware of the following DEQ violation history through an engineer’s report dated May 9, 2023 (prepared by WithersRavenel). However, the Authority has **not** experienced any violations with the acquired private wastewater systems since the acquisition.

Excerpts from engineer’s report dated May 9, 2023:

North Topsail WWTP has received 1 limit exceedance violation since 2019 and there are currently no regulatory orders against North Topsail WWTP, and no elements of the treatment methods are expected to create extraordinary additional issues. In April 2018, the North Topsail Beach and Sneads Ferry Collection System was issued a Notice of Deficiency by DEQ. All the violations reported in 2018 were corrected before the 2021 inspection and the system was deemed compliant.

Webb Creek WWTP received 2 limit exceedance violations within the first six months of operation of the new 0.35 MGD MBR plant. No violations have been received since January of 2021. There are no regulatory orders against Webb Creek WWTP and no elements of the treatment methods at Webb Creek WWTP are expected to create additional issues. Regarding the Webb Creek Collection System, the official new permit documents have not been issued as of April 2023³ due to extended review times by the DEQ, however the system was last inspected in April 2021 and was compliant per the Wastewater Treatment and Collection Performance Annual Report from 2022.

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³ As part of the acquisition, all permits were transferred to the Authority at the close of the acquisition.

4. Demand for Services

The Authority serves approximately 158,000 people located in Onslow County, but there are still areas without wastewater service. The Authority currently has approximately 58,600 accounts, making it the second largest water and wastewater authority in North Carolina. The Authority's service area includes a large military base and a high number of seasonal visitors to the coastal areas, which results in a highly transient population. Over the past 10 years, the County's population has grown on average by 1.6% per year but experienced an increase of 3.4% in 2024.

The Authority currently serves about 58,600 water accounts and about 15,270 wastewater accounts. In total, the annual increase in the number of water accounts billed by the Authority has increased by about 3.1%. The increase in the number of wastewater accounts has outpaced the increase in the water accounts over the past few fiscal years (approximately 5.7% per year prior to the acquired private wastewater systems) which is likely due to the increased focus on more dense development (townhomes, apartments) around the existing collection system. The Authority's number of wastewater accounts almost doubled in 2024 with the acquired private wastewater systems.

Exhibit 2 shows the five-year forecast for water and sewer accounts, though it should be noted the accounts reflect the total number of *billed* accounts, as multi-family accounts are billed on a master meter. Over the five-year forecast period the number of billed water accounts are anticipated to increase more conservatively by 2.5% and wastewater billed accounts are anticipated to increase by 3.0% per year. Total billed water demand has increased on average by approximately 3.7% per year over the last three fiscal years (FY 2021 – FY 2024). Prior to taking ownership of the acquired private wastewater systems, wastewater demand increased on average by 5% per year from FY 2021 to FY 2023. Wastewater demand increased by 36% in FY 2024 which only reflects increased demand from the acquired private wastewater systems for approximately 7 months out of the fiscal year. Over the forecast period, billed water demand is anticipated to increase more modestly by 1.7% per year. Wastewater demand will increase significantly in FY 2025 as the acquired private wastewater systems customers are part of the Authority's wastewater system for the entire fiscal year. Beyond FY 2025, wastewater demand is expected to increase by about 2.0% per year. The more modest increases in water and wastewater demand anticipate the effects of price elasticity from continued rate increases and the installation of irrigation meters for some of the wastewater customers in the acquired private wastewater systems which may reduce wastewater demand.

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Exhibit 2: Projected Number of Water and Wastewater Accounts

Water Accounts	Projected for Fiscal Year Ending June 30 th					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<u>Water Accounts</u>						
3/4"	54,200	55,433	56,802	58,206	59,645	61,120
1"	440	475	487	499	511	524
1.5"	127	123	126	129	132	136
2"	276	212	217	223	228	234
2.5"	6	-	-	-	-	-
3"	56	47	48	49	51	52
4"	7	5	5	5	5	6
6"	12	11	11	12	12	12
Total: Water Accounts	55,124	56,306	57,697	59,123	60,585	62,083
% Change	2.5%	2.1%	2.5%	2.5%	2.5%	2.5%

Wastewater Accounts (1)	Projected for Fiscal Year Ending June 30 th					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<u>Wastewater Accounts</u>						
3/4"	14,614	15,066	15,518	15,983	16,463	16,957
1"	456	470	484	499	514	529
1.5"	100	103	106	109	113	116
2"	88	91	94	97	99	102
3"	23	24	25	25	26	27
4"	2	2	2	2	2	2
Total: Wastewater Account	15,283	15,756	16,228	16,715	17,217	17,733
% Change		3.1%	3.0%	3.0%	3.0%	3.0%

Notes:

- (1) The Authority’s number of billed wastewater customers increased significantly in FY 2024 due to the acquired private wastewater systems.

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Exhibit 3: Demand Projections

Water Demand (1000 gallons)	Projected for Fiscal Year Ending June 30 th					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<u>Water</u>						
Tier 1 [0-3,000 gal]	1,480,903	1,510,522	1,540,732	1,571,547	1,602,978	1,635,037
Tier 2 [3,001-7,500 gal]	783,948	799,627	815,620	831,932	848,571	865,542
Tier 3 [7,501-15,000 gal]	252,264	257,309	262,456	267,705	273,059	278,520
Tier 4 [15,001-25,000 gal]	81,576	81,576	81,576	81,576	81,576	81,576
Tier 5 [25,001+ gal]	142,589	142,589	142,589	142,589	142,589	142,589
Subtotal: Water	2,741,280	2,791,623	2,842,972	2,895,348	2,948,772	3,003,264
% Change		1.8%	1.8%	1.8%	1.8%	1.8%
<u>Irrigation</u>						
Tier 1 [0-3,000 gal]	13,500	13,500	13,500	13,500	13,500	13,500
Tier 2 [3,001-7,500 gal]	18,871	18,871	18,871	18,871	18,871	18,871
Tier 3 [7,501-15,000 gal]	18,758	18,758	18,758	18,758	18,758	18,758
Tier 4 [15,001-25,000 gal]	5,512	5,512	5,512	5,512	5,512	5,512
Tier 5 [25,001+ gal]	5,730	5,730	5,730	5,730	5,730	5,730
Subtotal: Irrigation	62,371	62,371	62,371	62,371	62,371	62,371
% Change		0.0%	0.0%	0.0%	0.0%	0.0%
<u>Bulk Water</u>						
Bulk	17,872	17,872	17,872	17,872	17,872	17,872
Subtotal: Bulk Water	17,872	17,872	17,872	17,872	17,872	17,872
<u>Master Meter (1)</u>						
Tier 1 [0-3,000 gal]		14,734	15,029	15,329	15,636	15,949
Tier 2 [3,001-7,500 gal]		18,604	18,976	19,356	19,743	20,138
Tier 3 [7,501-15,000 gal]	207,906	22,319	22,766	23,221	23,686	24,159
Tier 4 [15,001-25,000 gal]		21,620	21,620	21,620	21,620	21,620
Tier 5 [25,001+ gal]	-	130,629	130,629	130,629	130,629	130,629
Subtotal: Master Meter	207,906	207,906	209,019	210,155	211,313	212,494
Total: Water Demand	3,029,429	3,079,772	3,132,234	3,185,746	3,240,327	3,296,001
% Change		1.7%	1.7%	1.7%	1.7%	1.7%
<u>Wastewater Demand (1000 gallons) (1)</u>						
All Classes (Water/Wastewater Customers)	560,424	700,537	714,547	728,838	743,415	758,283
Wastewater Only	4,326	4,413	4,501	4,591	4,683	4,776
Bulk	15,593	15,904	16,222	16,547	16,878	17,215
Total: Wastewater Demand (1000 gallons)	580,343	720,853	735,270	749,976	764,975	780,275
% Change	55.3%	24.2%	2.0%	2.0%	2.0%	2.0%

Notes:

- (1) Master meter includes multi-family customers that have one meter for the entire multi-family structure. Prior to FY 2025, the Authority charged these customers the bulk water rate for all water use, which is equal to the Tier 3 water rate. But on July 1, 2024, the Authority began charging the tiered rates for water use within each tier.
- (2) The wastewater consumption for FY 2024 increased significantly due to the acquired private wastewater systems and is anticipated to increase substantially in FY 2025 as the acquired private wastewater systems are integrated for the entire fiscal year as opposed to a partial fiscal year.

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Exhibit 4 presents the Authority’s 10 largest water and wastewater customers and their annual usage and sales revenue for FY 2024. The 10 largest water users account for 9.4% of overall water usage and 6.0% of overall water revenue. The 10 largest wastewater users account for 11.2% of overall wastewater flow and 5.6% of overall wastewater revenue.

Exhibit 4: Ten Largest Water and Wastewater Customers for FY 2024

Water Customer	Description	Wate Use (Gallons)	Water Revenues	% of Total Use	% of Total Revenues
Commanding Officer, MCBCL	<i>Military</i>	149,457,100	\$796,441.17	4.93%	2.95%
Scientific Water	<i>Residential</i>	37,833,000	\$201,028.91	1.25%	0.74%
Onslow County Board of Education	<i>Public School Unit</i>	25,772,799	\$186,337.75	0.85%	0.69%
Collins Estates	<i>Residential</i>	21,040,500	\$111,931.51	0.69%	0.41%
J & J Snackfoods Handheld Corp,	<i>Food Production</i>	12,538,900	\$101,513.95	0.41%	0.38%
Valor Residential Group, Liberty Pointe	<i>Residential</i>	10,668,300	\$57,254.28	0.35%	0.21%
Southwood Realty	<i>Residential</i>	7,597,700	\$39,819.51	0.25%	0.15%
Moye, Cameron B	<i>Car Wash</i>	7,294,700	\$58,584.31	0.24%	0.22%
Patriot Place	<i>Residential</i>	6,025,500	\$32,054.82	0.20%	0.12%
Wynnefield Properties	<i>Residential Real Estate</i>	5,957,600	\$46,157.20	0.20%	0.17%
Subtotal: Top Ten Water Customers		284,186,099	\$1,631,123.41	9.38%	6.04%
All Other Users		2,745,243,263	\$25,368,923.61	90.62%	93.96%
Total System Water Use		3,029,429,362	\$27,000,047.02	100.00%	100.00%

Wastewater Customer	Description	Wate Use (Gallons)	Water Revenues	% of Total Use	% of Total Revenues
Onslow County Board of Education	<i>Public School Unit</i>	17,728,000	\$140,611.06	3.05%	1.53%
J & J Snackfoods Handheld Corp,	<i>Food Production</i>	12,539,000	\$99,536.10	2.16%	1.09%
Valor Residential Group, Liberty Pointe	<i>Residential</i>	10,617,000	\$84,078.78	1.83%	0.92%
Moye, Cameron B	<i>Car Wash</i>	7,295,000	\$57,758.38	1.26%	0.63%
Evolve RV Holly Ridge	<i>RV Resort</i>	4,188,000	\$33,010.70	0.72%	0.36%
Southwood Realty	<i>Residential</i>	3,412,000	\$27,196.86	0.59%	0.30%
Wynnefield Properties	<i>Residential</i>	2,527,000	\$20,139.41	0.44%	0.22%
Villa Capriani Homeowners Asso,	<i>Residential</i>	2,465,000	\$19,643.65	0.42%	0.21%
Onslow OPCO Holdings LLC	<i>Residential Care Facility</i>	2,256,000	\$17,903.18	0.39%	0.20%
Swansboro Ventures LLC	<i>Hospitality</i>	2,167,000	\$17,148.50	0.37%	0.19%
Subtotal: Top Ten Wastewater Customers		65,194,000	\$517,026.62	11.23%	5.64%
All Other Users		515,148,766	\$8,648,588.17	88.77%	94.36%
Total System Wastewater Use		580,342,766	\$9,165,614.79	100.00%	100.00%

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5. Capital Improvement Plan

Each year the Authority updates a 10-year capital improvement plan (“CIP”) for the Combined Enterprise System as part of the annual budget process. The CIP is prepared based on internal cost estimates for smaller projects provided by the Authority’s technical staff, and cost estimates for larger projects provided by third parties (engineering firms under contract with the Authority). The CIP for FY 2025 through FY 2029 identifies approximately \$225.1 million in water and wastewater improvements, including \$135.0 million in water improvements and \$90.1 million in wastewater improvements. Exhibit 5 presents a summary of the water and wastewater CIP projects for the forecast period and their anticipated funding sources.

Exhibit 5: Water Capital Improvement Plan

Water System Capital Improvement Plan (Projects)	Projected For Fiscal Year Ending June 30th					Total
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
Union Chapel WTP Feasibility and New Well Sites	\$ 75,000	\$ 1,000,000	\$ 1,500,000	\$ 6,600,000	\$32,400,000	\$ 41,575,000
ORWRG Aquifer Study Monitoring Wells	-	175,000	-	150,000	-	325,000
Building Roof Replacements	178,579	125,000	125,000	125,000	-	553,579
Water Main Interconnections, Phases 3 - 7	300,000	-	500,000	-	500,000	1,300,000
Disaster Recovery Response Contracts	-	500,000	-	500,000	-	1,000,000
Emergency Power Systems Upgrades	491,456	741,456	250,000	250,000	125,000	1,857,911
Topsail Island Booster Pumping Station	2,752,513	-	-	-	-	2,752,513
Water & Sewer Operational Improvements	1,250,000	-	750,000	-	-	2,000,000
North Topsail Beach Water Tank	500,000	2,500,000	500,000	-	-	3,500,000
Dixon WTP Expansion	300,000	5,000,000	25,000,000	20,000,000	-	50,300,000
Water Master Plan	150,000	-	-	-	-	150,000
Ocean Road Water Extension	500,000	100,000	-	-	-	600,000
Water Main Aerial Crossing Replacements, Phase 1	-	1,238,741	-	-	-	1,238,741
Highway 24 Regional Trunk Water Main	1,500,000	10,250,000	10,250,000	-	-	22,000,000
SW Service Area Upgrades, Project 2 - Hwy 17 Trunk Main	-	250,000	500,000	5,100,000	-	5,850,000
	\$ 7,997,547	\$ 21,880,197	\$ 39,375,000	\$ 32,725,000	\$ 33,025,000	\$ 135,002,744
Water System Sources of Funds						
Grant	\$ 500,000	\$ 3,388,119	\$ 500,000	\$ -	\$ -	\$ 4,388,119
Fund Balance Draw for Capital Projects	7,497,547	1,750,622	2,125,000	4,125,000	625,000	16,123,169
Debt Funded						
Forecast Series 2026 Bonds	0	16,741,456	36,750,000	-	-	53,491,456
Forecast Series 2028 Bonds	-	-	-	28,600,000	32,400,000	61,000,000
	\$ 7,997,547	\$ 21,880,197	\$ 39,375,000	\$ 32,725,000	\$ 33,025,000	\$ 135,002,744

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Exhibit 5 (Continued): Wastewater Capital Improvement Plan

Wastewater System Capital Improvement Plan (Projects)	Projected For Fiscal Year Ending June 30th					Total
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
Piney Green Sewer Phase 2 - Hickory Grove Closure	\$ 227,927	\$ -	\$ -	\$ -	\$ -	\$ 227,927
Hargett Street & Shore Drive Pump Stations Rehabilitation	500,000	500,000	-	-	-	1,000,000
Building Roof Replacements	178,579	125,000	125,000	125,000	-	553,579
Summerhouse Interim Capacity Improvements	3,582,900	-	-	-	-	3,582,900
Hurricane Florence Recovery	48,942	-	-	-	-	48,942
Disaster Recovery Response Contracts	-	500,000	-	500,000	-	1,000,000
Emergency Power Systems Upgrades	491,456	741,456	250,000	250,000	125,000	1,857,911
Water & Sewer Operational Improvements	1,250,000	-	750,000	-	-	2,000,000
Pumping Station Assessments/Rehabilitation	500,000	-	-	-	1,000,000	1,500,000
Highway 24 Regional Trunk Water Main	-	1,000,000	1,000,000	-	-	2,000,000
Ocean Road/ Jenkins Street Pump Station	750,000	3,500,000	250,000	-	-	4,500,000
Mount Pleasant Road Pump Station Relocation	178,030	1,000,000	-	-	-	1,178,030
Hwy 24 Interconnection - Wastewater Force Main	8,000,000	18,000,000	4,130,000	-	-	30,130,000
SE Force Main Project	-	10,000,000	-	-	-	10,000,000
Capacity Improvements - Interconnection	10,000,000	-	-	-	-	10,000,000
Capacity Improvements - North Topsail WWTP expansion	-	-	-	1,750,000	16,625,000	18,375,000
NW Plant - Plum Point Sewer Extension	-	-	-	-	2,010,000	2,010,000
Piney Green FM - Birchwood Park Service Extension	-	-	-	-	150,000	150,000
	\$ 25,707,833	\$ 35,366,456	\$ 6,505,000	\$ 2,625,000	\$ 19,910,000	\$ 90,114,289
Wastewater System Sources of Funds						
ARPA	\$10,000,000	\$ -	\$ -	\$ -	\$ -	\$ 10,000,000
Grant	124,600	700,000	-	-	-	824,600
Fund Balance Draw for Capital Projects	7,583,233	1,425,000	1,125,000	875,000	1,625,000	12,633,233
Debt Funded						
Proposed Series 2024 Bonds	8,000,000	18,000,000	4,130,000	-	-	30,130,000
Forecast Series 2026 Bonds	-	15,241,456	1,250,000	-	-	16,491,456
Forecast Series 2028 Bonds	-	-	-	1,750,000	18,285,000	20,035,000
	\$ 25,707,833	\$ 35,366,456	\$ 6,505,000	\$ 2,625,000	\$ 19,910,000	\$ 90,114,289

CIP Projects to be Funded with the Series 2024 Bonds

- Highway 24 Wastewater Interconnection (\$30.1 Million)**—The project includes the completion of design, permitting, and construction of a new 18-inch diameter wastewater force main and associated pumping station(s) to connect the Town of Swansboro area collection system to an existing Authority pump station located at the Piney Green Gate of MCBCL. The total estimated length of the force main is approximately 36,000 linear feet and two new pump stations will be constructed, along with the rehabilitation of two existing pump stations. This project will provide additional wastewater treatment capacity to address anticipated growth in the Swansboro area with the option of sending wastewater flow to MCBCL for treatment under the existing service agreement between the Authority and MCBCL.

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CIP Projects To Be Funded Subsequent to the Series 2024 Bonds

Wastewater Projects:

- ***Wastewater Capacity Expansion (\$18.4 Million)*** - The Authority anticipates expanding the capacity of the acquired private wastewater systems, specifically the North Topsail wastewater treatment plant from 1.542 MGD to 2.542 MGD which is estimated to cost \$18.4 million. The Authority anticipates incurring additional capital costs to connect the Southeast Regional wastewater system to the acquired private wastewater systems, so that flow can be diverted from the Southeast Regional wastewater system to the acquired private wastewater systems for treatment. The capital costs for the connection will be funded with ARPA funds but the cost to expand capacity at the acquired private wastewater systems is anticipated to be funded with future revenue bonds.

Water Projects:

- ***Highway 24 Regional Water Trunk Main Replacement (\$22 Million)*** – Funding will be used to complete design, permitting, easement acquisition and construction of a new water transmission main connecting the Hubert Water Treatment Plant with a booster pumping station in the Piney Green area. The existing transmission main has experienced failures in recent years and this condition (along with its size) effectively limits the amount of water that can be moved from the plant to other portions of the distribution system. The replacement main will be a larger diameter to facilitate this water transfer. In addition to this work, an adjacent section of the existing water distribution main along Hubert Boulevard will be abandoned due to its poor physical condition and frequent failures. Design work is approximately 90% complete. A schedule for design completion, bidding and construction has not been established pending the securing of easements from MCBCL, on which a large portion of the new water main will be constructed.
- ***Water Supply – Union Chapel WTP (\$41.5 Million)*** – This project involves the completion of site analysis, treatment process evaluations, design, permitting and construction of a new 6.0 MGD potable water treatment plant with 1.0 million gallons of on-site storage capacity that will be located within and connected to the Authority’s Northwest Service Area water distribution system. This facility will help address the steadily increasing demand for potable water due to growth in the region and increase the resiliency of the water supply system in the event of a production issue at one of two other treatment facilities now in operation.
- ***Water Supply – Dixon WTP (\$50.3 Million)*** – This project involves the expansion of the Dixon water treatment plant from 4 MGD to 6 MGD, which is needed to help address growth in this area. Demand for water has growth by 11.5% over the past two years. The expansion also includes the addition of two wells and upgrades to the raw water line.
- ***Southwest Upgrade – Highway 17 Transmission Waterline (\$5.8 Million)*** – This project involves the completion of design, easement acquisition, permitting, and construction of a new 18-inch

diameter potable water transmission water main that will connect the Dixon Water Treatment Plant with an existing booster pumping station in the in the Verona area. Total estimated length is approximately 38,000 linear feet. The existing 12-inch diameter trunk main has experienced multiple failures in recent years and this condition, along with its size, limits the amount of water that can be moved from the plant to other portions of the Authority's distribution system.

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6. Financing Plan

The Financial Advisor has provided the Authority with various financing strategies for the applicable CIP projects funded with the Series 2024 Bonds. The Authority has selected a financing plan designed to accomplish the following objectives:

- Conform with credit criteria established by rating agencies;
- Minimize debt service and related charges;
- Provide funds in the most cost-effective manner; and
- Lessen the impact on rates.

The financing plan envisions that approximately \$31.0 million of Series 2024 Bonds will be sold. The Sources and Uses of Funds schedule for the Series 2024 Bonds is presented in Exhibit 6.

Exhibit 6: Estimated Sources and Uses of Funds for the Series 2024 Bonds⁴

ONWASA Revenue Bonds Series 2024	
Sources:	
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Bond Proceeds	
Par Amount	\$29,430,000.00
Net Premium	\$1,568,024.60
	<hr/>
	\$30,998,024.60
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Uses:	
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Project Fund Deposits:	
Project Fund	\$30,500,000.00
Delivery Date Expenses:	
Cost of Issuance	\$350,000.00
Underwriter's Discount	\$147,150.00
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	\$497,150.00
Other Uses of Funds:	
Additional Proceeds	\$874.60
	<hr/>
	\$30,998,024.60
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⁴ Based on pricing information provided by the underwriter, PNC Capital Markets LLC, on August 29, 2024.

7. Operating, Non-operating Expenses, and Expenditures

Expenses are categorized as operating expenses, non-operating expenses, or other budgeted expenditures. Operating expenses represent normal recurring expenses incurred during the Authority's annual accounting cycle based upon its fiscal year ending June 30. Operating expenses for FY 2025 have been projected by escalating the actual but unaudited operating expenses for FY 2024 as of the date of this report. Over the past five fiscal years, operating costs have increased on average by 6.8% per year. The unaudited operating expenses in FY 2024 increased by 31.4%, which reflects the additional expenses from the acquired private wastewater systems being in operation for approximately seven months of FY 2024. The FY 2025 projected operating expenses are 22% higher than the unaudited operating expenses for FY 2024, some of which is due to operating the acquired private wastewater systems for a full twelve months.

Water System

Various growth rates have been used to project the Authority's operations and maintenance costs associated with the water system. The majority of the costs are escalated by a growth rate of 3.5% with the exception of utilities and insurance costs, which are escalated at 5% and 8% respectively per year and chemical costs, which are increased at 10% per year through FY 2026 and then 5% per year thereafter. Operations and maintenance costs associated with the water system for FY 2025 are almost 14% higher than unaudited FY 2024 expenses, which is the result of the Authority budgeting vacant positions as well as necessary maintenance of existing infrastructure. Operations and maintenance costs associated with the water system increase on average by 4.2% per year from FY 2026 and beyond.

Debt service is anticipated to increase especially in the later years of the forecast period as future debt service begins for various capital improvement projects anticipated later in the forecast period. Other expenses include capital outlay, which represents costs associated with vehicles and other equipment and are anticipated to increase by 3.5% per year over most of the forecast period.

Overall, total expenditures for the water system increase on average by 8.6% per year over the forecast period.

Wastewater System

Various growth rates have been used to project the Authority's operations and maintenance costs associated with the wastewater system. The majority of the costs are escalated by a growth rate of 3.5% with the exception of utilities and insurance costs, which are escalated at 5% and 8% respectively and chemical costs, which are increased at 10% per year through FY 2026 and then 5% per year thereafter. Operations and maintenance costs associated with the wastewater system for FY 2025 are almost 44% higher than unaudited FY 2024 expenses, almost half of which is the result of the Authority operating the acquired private wastewater systems for a full year and the rest is the result of the Authority filling vacant positions to perform inspections of pump stations at the acquired private wastewater systems and to perform new service installations in the service area of the acquired private wastewater systems (which was outsourced when under private ownership). Over the forecast period

there are several other operational changes in various plants that impact the projection of operating expenses.

- When the Authority assumed ownership and operation of the acquired private wastewater systems, the Authority engaged an third-party engineer who identified the need for additional treatment plant operators for the acquired private wastewater systems, which have been included in the projection of O&M costs over the forecast period.
- The capital improvement costs identified by the Authority include infrastructure to give the Authority the flexibility to be able to send wastewater flow from the Swansboro plant to MCBCL under its existing contract. It is anticipated that the Swansboro plant stays on-line to provide the Authority with the flexibility to accommodate any changes in the MCBCL agreement. It is also assumed that a portion of treatment flow (65%) is sent to the MCBCL for treatment.
- The capital improvement costs identified by the Authority include costs to connect the Southeast Regional WWTPs to the acquired private wastewater systems once capacity at the acquired private wastewater systems is expanded by one MGD. When this occurs, it is assumed the operating and maintenance costs associated with the Southeast Regional WWTP cease and costs at the acquired private wastewater systems will increase to accommodate the higher wastewater flow being treated at the acquired private wastewater systems (specifically, the North Topsail Wastewater System). This is anticipated to occur in FY 2029.

In total, the operations and maintenance costs for the wastewater system increase on average by 6.1% per year over the forecast period with the exception of FY 2025 when the Authority will have operated the two acquired wastewater systems for an entire fiscal year.

Debt service is anticipated to increase over the forecast period as future debt service begins related to the acquisition costs as well as the various capital improvement projects anticipated over the forecast period. Other expenses include capital outlay which represents costs associated with vehicles and other equipment for the Authority's existing wastewater system and are escalated by 3.5% per year over the forecast period. As shown, capital outlay for the acquired private wastewater systems varies over the forecast period to reflect the replacement of various equipment throughout the forecast period.

Overall, total expenditures for the wastewater system increase on average by 3.6% per year except in FY 2025 when the Authority will have operated the acquired private wastewater systems for a full fiscal year. The variation in the annual increases or decreases in wastewater expenditures is attributed to changes in capital outlays.

Exhibit 7: Operating, Non-Operating Expenses, and Expenditures – Water Fund

Water Expenditures	Projected for Fiscal Year Ending June 30 th					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operating Expenses						
Administration	\$ 507,617	\$ 473,956	\$ 494,325	\$ 515,709	\$ 538,168	\$ 561,766
Administration Operations	465,622	288,707	300,015	311,815	324,132	336,993
IT	1,541,841	1,821,873	1,891,614	1,964,273	2,039,992	2,118,919
Finance	579,179	659,063	688,190	718,822	751,049	784,969
Engineering	524,637	1,123,808	1,170,091	1,218,551	1,269,307	1,322,488
Meters	1,356,839	1,347,179	1,403,478	1,462,480	1,524,337	1,589,212
Customer Service	1,472,820	1,404,289	1,462,445	1,523,357	1,587,179	1,654,076
Buildings and Grounds	893,007	966,276	1,003,682	1,042,669	1,083,312	1,125,693
Dixon WTP	2,059,138	2,866,749	3,038,690	3,171,675	3,310,862	3,456,562
Hubert WTP	2,839,337	2,937,636	3,054,807	3,176,969	3,304,354	3,437,207
Laboratory	427,908	408,231	425,421	443,444	462,349	482,186
SCADA	425,483	509,434	533,068	557,992	584,291	612,051
Human Resources	294,631	340,555	354,746	369,615	385,200	401,543
Non-Departmental	877,964	963,191	1,002,425	1,043,474	1,086,437	1,131,418
Distribution	2,584,596	2,852,178	2,971,289	3,096,111	3,226,969	3,364,206
Water Quality	155,084	212,650	221,488	230,747	240,451	250,624
Water Purchases	327,724	324,000	340,200	357,210	375,071	393,824
Subtotal: Operating Expenses	\$ 17,333,428	\$ 19,499,775	\$ 20,355,974	\$ 21,204,913	\$ 22,093,459	\$ 23,023,738
<i>% Change</i>		12.5%	4.4%	4.2%	4.2%	4.2%
Debt Service						
Revenue Bonds						
Revenue Bond Series 2016	\$ 1,831,696	\$ 1,830,600	\$ 1,832,648	\$ 1,831,082	\$ 1,832,227	\$ 1,660,574
Forecast Series 2026 (1)	-	-	-	1,292,478	2,584,956	3,363,733
Forecast Series 2028	-	-	-	-	-	1,472,867
Subordinate and Other Indebtedness						
Federal (ARRA) 1413	12,102	12,102	12,102	12,102	12,102	12,102
Federal (ARRA) 1416	12,403	12,403	12,403	12,403	12,403	12,403
Drinking Water (Dixon RO)	273,523	273,523	273,523	273,523	273,523	273,523
Total: Debt Service	\$ 2,129,724	\$ 2,128,627	\$ 2,130,676	\$ 3,421,587	\$ 4,715,210	\$ 6,795,202
<i>% Change</i>		-0.1%	0.1%	60.6%	37.8%	44.1%
Other Expenditures						
Capital Outlay	\$ 1,449,838	\$ 1,360,500	\$ 1,260,587	\$ 1,304,708	\$ 1,350,372	\$ 1,397,635
Total: Other Expenditures	\$ 1,449,838	\$ 1,360,500	\$ 1,260,587	\$ 1,304,708	\$ 1,350,372	\$ 1,397,635
Total: Water Expenditures	\$ 20,912,990	\$ 22,988,903	\$ 23,747,237	\$ 25,931,208	\$ 28,159,041	\$ 31,216,575
<i>% Change</i>		9.9%	3.3%	9.2%	8.6%	10.9%

Notes:

- (1) Debt is anticipated to be issued in future years to fund several CIP projects as explained in the Capital Improvement Plan section.

Exhibit 7 (Continued): Operating, Non-Operating Expenses, and Expenditures – Wastewater Fund

Wastewater Expenditures	Projected for Fiscal Year Ending June 30 th					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operating Expenses						
Administration	\$ 169,206	\$ 157,985	\$ 164,775	\$ 171,903	\$ 179,389	\$ 187,255
Administration Operations	155,207	96,236	100,005	103,938	108,044	112,331
IT	513,947	607,291	630,538	654,758	679,997	706,306
Finance	193,060	219,688	229,397	239,607	250,350	261,656
Engineering	174,879	374,603	390,030	406,184	423,102	440,829
Meters	452,280	449,060	467,826	487,493	508,112	529,737
Customer Service	490,940	468,096	487,482	507,786	529,060	551,359
Buildings and Grounds	893,007	966,276	1,003,682	1,042,669	1,083,312	1,125,693
Collection	3,142,474	4,199,094	4,376,219	4,561,819	4,756,365	4,960,359
Laboratory	142,636	136,077	141,807	147,815	154,116	160,729
Northeast Regional WRF	905,904	1,285,325	1,342,724	1,398,581	1,456,995	1,518,099
Southeast Regional WWTP	673,918	1,093,359	1,147,096	1,194,793	1,244,642	-
Swansboro WWTP (1)	416,071	689,566	652,546	677,788	704,105	731,551
SCADA	141,828	169,811	177,689	185,997	194,764	204,017
Human Resources	98,210	113,518	118,249	123,205	128,400	133,848
Non-Departmental	292,655	321,064	334,142	347,825	362,146	377,139
North Topsail WWTP (2)	545,222	2,011,565	2,086,233	2,163,819	2,244,448	3,608,789
Webb Creek WWTP (2)	260,171	672,981	698,598	725,262	753,019	781,921
Wastewater Treatment - Mcbcl	1,040,006	785,862	825,155	866,413	909,733	955,220
Wastewater Purchases (1)	-	-	784,259	933,254	1,001,722	1,071,648
Additional personnel costs to operate acquired systems (2)	-	-	398,006	415,917	434,633	454,191
Subtotal: Operating Expenses	\$ 10,701,621	\$ 14,817,457	\$ 16,556,458	\$ 17,356,824	\$ 18,106,455	\$ 18,872,679
<i>% Change</i>		38.5%	11.7%	4.8%	4.3%	4.2%
Debt Service						
Revenue Bonds						
Revenue Bond - 2014A	\$ 362,245	\$ 362,089	\$ 361,838	\$ 362,491	\$ 362,026	\$ 362,466
Revenue Bond - 2014B	322,440	321,735	321,959	322,088	322,121	322,060
Revenue Bond - 2014C	303,916	303,425	303,863	303,205	303,476	303,653
Revenue Bond Series 2016	1,968,504	1,967,325	1,969,527	1,967,843	1,969,073	1,784,601
Revenue Bond - 2023	1,352,334	3,112,100	3,110,225	3,111,475	3,110,725	3,112,850
Forecast Series 2024 (3)	-	908,027	1,334,244	1,797,369	1,797,994	1,797,369
Forecast Series 2026 (3)	-	-	-	398,472	796,944	1,037,042
Forecast Series 2028	-	-	-	-	-	483,752
Subordinate and Other Indebtedness						
CG&L - 01	87,180	85,337	83,495	81,653	79,811	77,968
CG&L - 02	25,673	25,153	24,632	24,112	23,591	23,071
CG&L (SHWRF)	104,259	104,259	104,259	104,259	104,259	104,259
DEQ (WOTS P2)	83,428	82,125	80,821	79,518	78,214	76,911
Total: Debt Service	\$ 4,609,979	\$ 7,271,575	\$ 7,694,862	\$ 8,552,484	\$ 8,948,235	\$ 9,486,001
<i>% Change</i>		57.7%	5.8%	11.1%	4.6%	6.0%
Other Expenditures						
Capital Outlay	\$ 1,108,917	\$ 3,743,310	\$ 1,419,362	\$ 1,469,039	\$ 1,520,456	\$ 1,517,443
Capital Outlay/Acquired Systems	-	-	73,000	576,000	1,452,000	38,000
Total: Other Expenditures	\$ 1,108,917	\$ 3,743,310	\$ 1,492,362	\$ 2,045,039	\$ 2,972,456	\$ 1,555,443
Total: Sewer Expenditures	\$ 16,420,517	\$ 25,832,342	\$ 25,743,682	\$ 27,954,348	\$ 30,027,146	\$ 29,914,123
<i>% Change</i>		57.3%	-0.3%	8.6%	7.4%	-0.4%

Notes:

- (1) The capital improvement costs identified by the Authority include infrastructure to give the Authority the flexibility to be able to send wastewater flow from the Swansboro plant to MCBCL under its existing contract. It is anticipated that the Swansboro plant stays on-line to provide the Authority with the flexibility to accommodate any changes in the MCBCL agreement. It is also assumed that a portion of treatment flow (65%) is sent to the MCBCL for treatment. The total of the projected operations costs to continue to operate the Swansboro plant and the costs paid to MCBCL to treat a portion of the flow from the Swansboro plant are no less than the estimated costs if the Authority shut down its plant and sent all flow MCBCL.
- (2) The Authority incurred additional O&M expenses for the operations and maintenance of the acquired private wastewater systems. FY 2024 includes almost 7 months of expenses since the acquisition was completed on November 9, 2023, and then FY 2025 includes a full year of operations and maintenance costs of the acquired private wastewater systems.
- (3) Debt is anticipated to be issued in future years to fund several CIP projects as explained in the Capital Improvement Plan section.

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8. Rates and Charges

As a combined enterprise fund, water and wastewater operations are financed and operated as a distinct, self-sufficient business enterprise. Appropriate fees and charges have been established to ensure that the water and wastewater operations can operate on a self-sustaining basis. In order to provide a more complete basis for evaluating recent and projected customer impacts, information on historical water and wastewater rates and the total monthly cost for an average customer is provided in Exhibit 8. It should be noted, prior to 2019, the Authority implemented rate increases when needed. For example, the Authority implemented rate increases in 2008 through 2010 when debt was issued but then had a period of no rate increases between 2011 to 2018. In 2019, the Authority engaged Raftelis to perform a water and wastewater rate study and identify projections of rate increases necessary to fund the Authority's five-year capital improvement plan. Since the water and wastewater rate study, the Authority has implemented annual water and wastewater rate increases ranging from 5.5% to 10.75% with the exception of FY 2021 when the Authority suspended its rate increase due to the pandemic.

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Exhibit 8: History of Water and Wastewater Rates and Rate Structure

	FY 2017	FY 2018	FY 2019 (1)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Water Rates								
<u>Base Charge</u>								
Meter Size								
3/4"	\$ 12.15	\$ 12.15	\$ 13.00	\$ 13.72	\$ 13.72	\$ 14.82	\$ 16.00	\$ 17.28
1"	\$ 30.35	\$ 30.35	\$ 32.47	\$ 34.26	\$ 34.26	\$ 37.00	\$ 39.96	\$ 43.16
1.5"	\$ 60.65	\$ 60.65	\$ 64.90	\$ 68.46	\$ 68.46	\$ 73.94	\$ 79.86	\$ 86.25
2"	\$ 97.00	\$ 97.00	\$ 103.79	\$ 109.50	\$ 109.50	\$ 118.26	\$ 127.72	\$ 137.94
2.5"	\$ 145.55	\$ 145.55	\$ 155.74	\$ 164.30	\$ 164.30	\$ 177.44	\$ 191.64	\$ 206.98
3"	\$ 194.05	\$ 194.05	\$ 207.63	\$ 219.05	\$ 219.05	\$ 236.57	\$ 255.50	\$ 275.94
4"	\$ 303.20	\$ 303.20	\$ 324.42	\$ 342.27	\$ 342.27	\$ 369.65	\$ 399.22	\$ 431.16
6"	\$ 606.40	\$ 606.40	\$ 648.85	\$ 684.53	\$ 684.53	\$ 739.29	\$ 798.44	\$ 862.32
% Change	0.0%	0.0%	7.0%	5.5%	0.0%	8.0%	8.0%	8.0%
<u>Water Volumetric</u>								
Tier 1 [0-3,000 gal]	\$ 2.80	\$ 2.80	\$ 3.00	\$ 3.17	\$ 3.17	\$ 3.42	\$ 3.70	\$ 4.00
Tier 2 [3,001-7,500 gal]	\$ 2.90	\$ 2.90	\$ 3.11	\$ 3.28	\$ 3.28	\$ 3.54	\$ 3.83	\$ 4.14
Tier 3 [7,501-15,000 gal]	\$ 3.75	\$ 3.75	\$ 4.02	\$ 4.24	\$ 4.24	\$ 4.58	\$ 4.95	\$ 5.35
Tier 4 [15,001-25,000 gal]	\$ 4.90	\$ 4.90	\$ 5.25	\$ 5.54	\$ 5.54	\$ 5.98	\$ 6.46	\$ 6.98
Tier 5 [25,001+ gal]	\$ 5.75	\$ 5.75	\$ 6.16	\$ 6.50	\$ 6.50	\$ 7.02	\$ 7.58	\$ 8.19
True Bulk [per 1,000 gal]	\$ 3.75	\$ 3.75	\$ 4.02	\$ 4.24	\$ 4.24	\$ 4.58	\$ 4.95	\$ 5.35
Master Meter [per 1,000 gal]	\$ 3.75	\$ 3.75	\$ 4.02	\$ 4.24	\$ 4.24	\$ 4.58	\$ 4.95	\$ 5.35
% Change	0.0%	0.0%	7.2%	5.5%	0.0%	8.0%	8.1%	8.0%
<u>Irrigation Volumetric</u>								
Tier 1 [0-3,000 gal]	\$ 4.20	\$ 4.20	\$ 4.50	\$ 4.75	\$ 4.75	\$ 5.13	\$ 5.54	\$ 5.98
Tier 2 [3,001-7,500 gal]	\$ 4.35	\$ 4.35	\$ 4.66	\$ 4.92	\$ 4.92	\$ 5.31	\$ 5.73	\$ 6.19
Tier 3 [7,501-15,000 gal]	\$ 5.65	\$ 5.65	\$ 6.05	\$ 6.38	\$ 6.38	\$ 6.89	\$ 7.44	\$ 8.04
Tier 4 [15,001-25,000 gal]	\$ 7.35	\$ 7.35	\$ 7.88	\$ 8.31	\$ 8.31	\$ 8.97	\$ 9.70	\$ 10.48
Tier 5 [25,001+ gal]	\$ 8.65	\$ 8.65	\$ 9.27	\$ 9.78	\$ 9.78	\$ 10.56	\$ 11.41	\$ 12.32
Sewer Rates								
<u>Base Charge</u>								
Meter Size								
3/4"	\$ 19.75	\$ 19.75	\$ 21.13	\$ 22.29	\$ 22.29	\$ 24.07	\$ 26.00	\$ 28.08
1"	\$ 49.50	\$ 49.50	\$ 52.97	\$ 55.88	\$ 55.88	\$ 60.35	\$ 65.18	\$ 70.39
1.5"	\$ 98.75	\$ 98.75	\$ 105.66	\$ 111.47	\$ 111.47	\$ 120.39	\$ 130.02	\$ 140.42
2"	\$ 158.00	\$ 158.00	\$ 169.06	\$ 178.36	\$ 178.36	\$ 192.63	\$ 208.04	\$ 224.68
3"	\$ 315.25	\$ 315.25	\$ 337.32	\$ 355.87	\$ 355.87	\$ 384.34	\$ 415.09	\$ 448.30
4"	\$ 491.75	\$ 491.75	\$ 526.17	\$ 555.11	\$ 555.11	\$ 599.52	\$ 647.48	\$ 699.28
% Change	0.0%	0.0%	7.0%	5.5%	0.0%	8.0%	8.0%	8.0%
<u>Sewer Volumetric</u>								
Per 1,000 gal	\$ 5.60	\$ 5.60	\$ 5.99	\$ 6.32	\$ 6.32	\$ 6.83	\$ 7.38	\$ 7.97
% Change	0.0%	0.0%	7.0%	5.5%	0.0%	8.0%	8.1%	8.0%
Bulk Rate (for future use)	\$ -	\$ -	\$ 3.98	\$ 3.98	\$ 3.98	\$ 4.86	\$ 5.25	\$ 5.67
Impact on Average Residential Customer using 5,000 gallons per month								
Combined Water/Wastewater Bill	\$ 74.10	\$ 74.10	\$ 79.31	\$ 83.68	\$ 83.68	\$ 90.38	\$ 97.66	\$ 105.47
% Change	0.0%	0.0%	7.0%	5.5%	0.0%	8.0%	8.1%	8.0%
\$ Change	\$ -	\$ -	\$ 5.21	\$ 4.36	\$ -	\$ 6.70	\$ 7.28	\$ 7.81

Notes:

- (1) In 2019, the Authority implemented rate increases necessary to fund the Authority’s five-year capital improvement plan.

The current water rate structure includes both a fixed and a volumetric component. The fixed component is charged monthly based on a customer's meter size. The volumetric rate structure (per 1,000 gallons) includes five tiers for both potable water and irrigation. Similar to the water rate structure, the wastewater rate structure includes a fixed component charged monthly based on a customer's meter size. The volumetric charge for wastewater is uniform, meaning it is the same for every increment of 1,000 gallons of water used.

Exhibit 9 shows the projections of the water and wastewater rate increases needed to fund the acquisition and the Authority's five-year capital improvement program. It should be noted rate increases are typically implemented on July 1st of each year. As shown, the combined water and wastewater bill for the average residential customer using 5,000 of water per month will increase on average by 8.9% per year over the forecast period.

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Exhibit 9: Projected Water and Wastewater Charges

Water Rate Increases (1)	Approved	Projected for Fiscal Year Ending June 30th			
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Fixed	10.75%	10.75%	6.00%	6.00%	6.00%
Volumetric	10.75%	10.75%	6.00%	6.00%	6.00%

Water Rates	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<u>Base Charge</u>					
Meter Size					
3/4"	\$ 19.14	\$ 21.20	\$ 22.47	\$ 23.82	\$ 25.25
1"	\$ 47.80	\$ 52.94	\$ 56.11	\$ 59.48	\$ 63.05
1.5"	\$ 95.53	\$ 105.80	\$ 112.15	\$ 118.88	\$ 126.01
2"	\$ 152.77	\$ 169.19	\$ 179.34	\$ 190.11	\$ 201.51
2.5"	\$ 229.22	\$ 253.86	\$ 269.09	\$ 285.24	\$ 302.35
3"	\$ 305.60	\$ 338.45	\$ 358.76	\$ 380.28	\$ 403.10
4"	\$ 477.51	\$ 528.84	\$ 560.57	\$ 594.21	\$ 629.86
6"	\$ 955.01	\$ 1,057.67	\$ 1,121.13	\$ 1,188.40	\$ 1,259.71
% Change	10.8%	10.8%	6.0%	6.0%	6.0%
<u>Water Volumetric</u>					
Tier 1 [0-3,000 gal]	\$ 4.42	\$ 4.90	\$ 5.19	\$ 5.50	\$ 5.83
Tier 2 [3,001-7,500 gal]	\$ 4.57	\$ 5.06	\$ 5.36	\$ 5.69	\$ 6.03
Tier 3 [7,501-15,000 gal]	\$ 5.91	\$ 6.55	\$ 6.94	\$ 7.35	\$ 7.80
Tier 4 [15,001-25,000 gal]	\$ 7.73	\$ 8.56	\$ 9.07	\$ 9.62	\$ 10.20
Tier 5 [25,001+ gal]	\$ 9.07	\$ 10.05	\$ 10.65	\$ 11.29	\$ 11.96
True Bulk [per 1,000 gal]	\$ 5.93	\$ 6.57	\$ 6.96	\$ 7.38	\$ 7.82
Master Meter [per 1,000 gal]	\$ 5.93	\$ 6.57	\$ 6.96	\$ 7.38	\$ 7.82
% Change	10.9%	10.8%	6.0%	6.0%	6.0%
<u>Irrigation Volumetric</u>					
Tier 1 [0-3,000 gal]	\$ 6.62	\$ 7.33	\$ 7.77	\$ 8.24	\$ 8.73
Tier 2 [3,001-7,500 gal]	\$ 6.84	\$ 7.58	\$ 8.03	\$ 8.51	\$ 9.02
Tier 3 [7,501-15,000 gal]	\$ 8.90	\$ 9.86	\$ 10.45	\$ 11.08	\$ 11.74
Tier 4 [15,001-25,000 gal]	\$ 11.62	\$ 12.87	\$ 13.64	\$ 14.46	\$ 15.33
Tier 5 [25,001+ gal]	\$ 13.64	\$ 15.11	\$ 16.01	\$ 16.97	\$ 17.99

Water Customer Impacts		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	<i>Kgal</i>					
Residential - 3/4"	5	\$ 41.54	\$ 46.01	\$ 48.77	\$ 51.69	\$ 54.79
\$ Change		\$ 4.05	\$ 4.47	\$ 2.76	\$ 2.93	\$ 310.2%
% Change		10.8%	10.8%	6.0%	6.0%	6.0%

Notes:

- (1) Rate increases for FY 2025 were approved by the Board and implemented on July 1, 2024. Rate increases for FY 2026 and beyond are projected for each year of the forecast period and are assumed to be implemented on July 1st of each year.

Exhibit 9 (Continued): Projected Water and Wastewater Charges

Wastewater Rate Increases (1)	Approved	Projected for Fiscal Year Ending June 30th			
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Fixed	10.75%	10.75%	10.75%	9.00%	6.00%
Volumetric	10.75%	10.75%	10.75%	9.00%	6.00%

Wastewater Rates	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<u>Base Charge</u>					
Meter Size					
3/4"	\$ 31.10	\$ 34.44	\$ 38.15	\$ 41.58	\$ 44.07
1"	\$ 77.96	\$ 86.34	\$ 95.62	\$ 104.23	\$ 110.48
1.5"	\$ 155.52	\$ 172.24	\$ 190.75	\$ 207.92	\$ 220.40
2"	\$ 248.83	\$ 275.58	\$ 305.20	\$ 332.67	\$ 352.63
3"	\$ 496.49	\$ 549.86	\$ 608.97	\$ 663.78	\$ 703.61
4"	\$ 774.45	\$ 857.70	\$ 949.91	\$ 1,035.40	\$ 1,097.52
<i>% Change</i>	10.7%	10.8%	10.8%	9.0%	6.0%
<u>Wastewater Volumetric</u>					
Per 1,000 gal	\$ 8.83	\$ 9.78	\$ 10.83	\$ 11.81	\$ 12.51
<i>% Change</i>	10.8%	10.8%	10.8%	9.0%	6.0%

Wastewater Customer Impacts	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Kgal					
Residential - 3/4"	\$ 75.25	\$ 83.34	\$ 92.30	\$ 100.61	\$ 106.64
<i>\$ Change</i>	\$ 7.32	\$ 8.09	\$ 8.96	\$ 8.31	\$ 6.04
<i>% Change</i>	10.8%	10.8%	10.8%	9.0%	6.00%

Combined Water/Wastewater Customer Impacts	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Residential - 3/4"	\$ 116.79	\$ 129.34	\$ 141.06	\$ 152.30	\$ 161.43
<i>\$ Change</i>	\$ 11.37	\$ 12.55	\$ 11.72	\$ 11.23	\$ 9.14
<i>% Change</i>	10.8%	10.8%	9.1%	8.0%	6.0%

Notes:

- (2) Rate increases for FY 2025 were approved by the Board and implemented on July 1, 2024. Rate increases for FY 2026 and beyond are projected for each year of the forecast period.

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9. Revenues

To meet the financial obligations of the Series 2024 Bonds, other debt service obligations and other water and wastewater expenses, water and wastewater revenue requirements must be recovered exclusively from revenues associated with the water and wastewater systems. Revenues, as defined in the General Indenture, include operating revenues (charges for services and other operating revenues) and non-operating revenues as identified in this Feasibility Evaluation.

Water

Exhibit 10 shows the projection of water operating and non-operating revenues during the forecast period. Operating revenues are comprised of revenues from user rates and charges and revenues from other user charges and fees. Revenues from user rates and charges consist primarily of revenues from base charges and volumetric rates charged to customers.

The Authority's water revenues generated from base service charges are determined by multiplying the number of meters by meter size by the corresponding base service fees. The Authority's water revenues from volumetric rates are calculated by multiplying total usage per block by the corresponding rate for each block. From 2020 to 2024, water user charge revenues have increased by an average of 8.4% per year, largely due to the rate increases implemented by the Authority but also because of increased customer growth. User charges for water are anticipated to increase ranging from 8.1% to 12.9% over the forecast period due to the projected rate increases to cover debt service payments associated with capital improvement projects.

Other operating revenue includes service charges, tap and connection fees, late payment penalty fees, and other fees collected for ancillary service. The revenues from these fees are projected to remain constant throughout the forecast period.

Nonoperating revenues include interest income and revenues from water and wastewater system development fees. Investment income is based on the balance on the General Fund, which is estimated to yield a conservative rate of return, unlike the current environment of higher rates of return. System development fees are one-time fees charged to new development to recoup costs of infrastructure that has been built and/or will be built to serve new development. Revenues from water system development fees have averaged over \$2.7 million per year over the last 3 fiscal years (FY 2022 to FY 2024) but are projected conservatively at \$2 million per year throughout the forecast period.

Overall, total water revenues are expected to increase on average by 6.7% per year throughout the forecast period. This trend is driven primarily by the increase in water rates and charges.

Wastewater

Exhibit 10 shows the projection of wastewater operating and non-operating revenues during the forecast period. Operating revenues are comprised of revenues from user rates and charges, revenues from participant charges, and revenues from other user charges and fees. Revenues from user rates and charges consist primarily of revenues from base charges and volumetric rates from retail customers.

The Authority's wastewater revenues generated from base service charges are determined by multiplying the number of meters by meter size by the corresponding base service fees. The Authority's wastewater revenues from volumetric rates are calculated by multiplying total usage by the uniform wastewater rate. From 2020 to 2023, wastewater user charge revenues have increased by an average of 10.0% per year, largely due to the rate increases implemented by the Authority but also because of increased customer growth. In FY 2024 wastewater revenues from rates increased by approximately 55% due to the impact of the acquired private wastewater systems. Wastewater revenues are expected to increase significantly in FY 2025 as the customers from the acquired private wastewater systems are part of the Authority's system for the entire fiscal year. With the exception of FY 2025, wastewater revenues are anticipated to increase by 11.9% over the forecast due to the projected rate increases to cover debt service payments associated with the acquired private wastewater systems and other capital improvement projects.

Other operating revenue includes service charges, tap and connection fees, late payment penalty fees, and other fees collected for ancillary service. The revenues from these fees are projected to remain constant throughout the forecast period.

Nonoperating revenues include interest income and revenues from water and wastewater system development fees. Investment income is based on the balance on the General Fund, which is estimated to yield a conservative rate of return, unlike the current environment of higher rates of return. Revenues from wastewater system development fees have averaged over \$1.5 million per year over the last 3 fiscal years (FY 2022 to FY 2024) but are projected conservatively at \$1.0 million per year from FY 2026 and beyond.

Overall, total wastewater revenues are expected to increase on average by 8.0% per year, excluding FY 2025. This trend is driven primarily by the increase in wastewater rates and charges and continued growth in customers.

Exhibit 10: Estimated Annual Revenues – Water Fund

Water Revenue	Projected for Fiscal Year Ending June 30 th					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operating Revenues						
<i>User Charge Revenue (1)</i>						
Water Base Charge	\$ 12,739,736	\$ 13,860,994	\$ 15,730,337	\$ 17,086,251	\$ 18,559,166	\$ 20,159,186
Water Volumetric Charge	12,538,000	13,775,361	15,518,723	16,733,673	18,044,567	19,459,032
Bulk Volumetric Charge	98,025	105,978	117,371	124,413	131,878	139,790
Master Meter Volumetric Charge	1,140,364	1,633,977	1,815,877	1,931,584	2,054,782	2,185,966
Irrigation Volumetric Charge	483,920	527,601	584,318	619,377	656,540	695,932
Subtotal: User Charge Revenue	\$ 27,000,046	\$ 29,903,911	\$ 33,766,625	\$ 36,495,298	\$ 39,446,933	\$ 42,639,906
	<i>% Change</i>	<i>10.8%</i>	<i>12.9%</i>	<i>8.1%</i>	<i>8.1%</i>	<i>8.1%</i>
<i>Other Operating Revenue Revenue</i>						
Connection/Suspension Fees	\$ 802,530	\$ 883,382	\$ 883,382	\$ 883,382	\$ 883,382	\$ 883,382
Late Fees	346,193	262,500	262,500	262,500	262,500	262,500
Meter Sales	137,699	131,250	131,250	131,250	131,250	131,250
Tap Fees-Water	605,245	600,000	600,000	600,000	600,000	600,000
Sprinkler	102,550	102,000	102,000	102,000	102,000	102,000
After Hours Calls	13,123	8,700	8,700	8,700	8,700	8,700
Application Fees	94,527	180,000	180,000	180,000	180,000	180,000
Service Call Fee	300	850	850	850	850	850
Miscellaneous	84,947	20,000	20,000	20,000	20,000	20,000
Property Leases	13,830	13,830	13,830	13,830	13,830	13,830
Sale Of Surplus Property	25,192	10,000	10,000	10,000	10,000	10,000
Tampering Fees	-	500	500	500	500	500
Inspection Fees	4,928	7,450	7,450	7,450	7,450	7,450
Bad Check Fees	9,038	6,000	6,000	6,000	6,000	6,000
Service Charge(Admin)	2,300	1,300	1,300	1,300	1,300	1,300
Plan Review Fees	1,938	1,250	1,250	1,250	1,250	1,250
Fireflow	2,400	2,500	2,500	2,500	2,500	2,500
Line Flushing	1,635	900	900	900	900	900
Collections On Written Off Accounts	1,260	375	375	375	375	375
Plat Review Fees	75	150	150	150	150	150
Landlord Transfer Fee	420	250	250	250	250	250
Juror Fees	300	300	300	300	300	300
Subtotal: Other Operating Revenue Revenue	\$ 2,250,426	\$ 2,233,487	\$ 2,233,487	\$ 2,233,487	\$ 2,233,487	\$ 2,233,487
	<i>% Change</i>	<i>-0.8%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Nonoperating Revenue						
System Development Fees -Water (2)	\$ 3,455,467	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Interest Earned On Investments (3)	1,395,939	1,100,000	131,204	143,218	156,679	164,659
Subtotal: Nonoperating Revenue	\$ 4,851,406	\$ 3,100,000	\$ 2,131,204	\$ 2,143,218	\$ 2,156,679	\$ 2,164,659
	<i>% Change</i>	<i>-36.1%</i>	<i>-31.3%</i>	<i>0.6%</i>	<i>0.6%</i>	
Total: Water System Revenue	\$ 34,101,878	\$ 35,237,397	\$ 38,131,316	\$ 40,872,002	\$ 43,837,098	\$ 47,038,052
	<i>% Change</i>	<i>3.3%</i>	<i>8.2%</i>	<i>7.2%</i>	<i>7.3%</i>	<i>7.3%</i>

Notes:

- (1) User charges are calculated by multiplying the projected number of customers and water demand.
- (2) System development fees are one-time fees charged to new development to recoup costs of infrastructure that has been built and/or will be built to serve new development.
- (3) Interest earned on investment is based on the balance on the General Fund, which is estimated to yield a conservative rate of return.

Exhibit 10 (Continued): Estimated Annual Revenues – Wastewater Fund

Wastewater Revenue	Projected for Fiscal Year Ending June 30 th					
	FY 2024 (2)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<u>Operating Revenues</u>						
<i>User Charge Revenue (1)</i>						
Sewer Base Charge	\$ 4,343,928	\$ 6,687,714	\$ 7,628,843	\$ 8,702,412	\$ 9,770,197	\$ 10,667,102
Top Sail Flat Rate Customers	-	-	-	-	-	-
Sewer Volumetric Charge	4,821,683	6,365,135	7,190,375	8,122,607	9,030,715	9,764,009
Subtotal: User Charge Revenue	\$ 9,165,612	\$ 13,052,850	\$ 14,819,218	\$ 16,825,019	\$ 18,800,912	\$ 20,431,111
<i>% Change</i>		42.4%	13.5%	13.5%	11.7%	8.7%
<i>Other Operating Revenue</i>						
Connection/Suspension Fees	\$ 267,510	\$ 294,461	\$ 294,461	\$ 294,461	\$ 294,461	\$ 294,461
Late Fees	115,398	87,500	87,500	87,500	87,500	87,500
Meter Sales	45,900	43,750	43,750	43,750	43,750	43,750
Sewer Reservation Fees	227,491	227,491	227,491	227,491	227,491	227,491
Sewer Billing Fees	84,867	77,000	77,000	77,000	77,000	77,000
After Hours Calls	13,123	8,700	8,700	8,700	8,700	8,700
Application Fees	94,527	180,000	180,000	180,000	180,000	180,000
Service Call Fee	300	850	850	850	850	850
Miscellaneous	84,947	20,000	20,000	20,000	20,000	20,000
Property Leases	13,830	13,830	13,830	13,830	13,830	13,830
Tap Fees- Waste Water	1,334	5,500	5,500	5,500	5,500	5,500
Sale Of Surplus Property	25,192	10,000	10,000	10,000	10,000	10,000
Tampering Fees	-	500	500	500	500	500
Inspection Fees	4,928	7,450	7,450	7,450	7,450	7,450
Bad Check Fees	9,038	6,000	6,000	6,000	6,000	6,000
Service Charge(Admin)	2,300	1,300	1,300	1,300	1,300	1,300
Plan Review Fees	1,938	1,250	1,250	1,250	1,250	1,250
Line Flushing	1,635	900	900	900	900	900
Collections On Written Off Accounts	1,260	375	375	375	375	375
Plat Review Fees	75	150	150	150	150	150
Landlord Transfer Fee	420	250	250	250	250	250
Juror Fees	300	300	300	300	300	300
Subtotal: Other Operating Revenue	\$ 996,309	\$ 987,557	\$ 987,557	\$ 987,557	\$ 987,557	\$ 987,557
<i>% Change</i>		-0.9%	0.0%	0.0%	0.0%	0.0%
<u>Nonoperating Revenue</u>						
System Development Fees-Sewer (3)	\$ 2,102,314	\$ 1,500,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Interest Earned On Investments (4)	1,395,939	1,100,000	131,204	143,218	156,679	164,659
Subtotal: Nonoperating Revenue	\$ 3,498,253	\$ 2,600,000	\$ 1,131,204	\$ 1,143,218	\$ 1,156,679	\$ 1,164,659
<i>% Change</i>		-25.7%	-56.5%	1.1%	1.2%	0.7%
Total: Wastewater System Revenue	\$ 13,660,173	\$ 16,640,406	\$ 16,937,979	\$ 18,955,793	\$ 20,945,148	\$ 22,583,326
<i>% Change</i>		21.8%	1.8%	11.9%	10.5%	7.8%

Notes:

- (1) User charges are calculated by multiplying the projected number of customers and water demand.
- (2) Due to the acquisition, six months of revenues from the acquired private wastewater systems are reflected in FY 2024 and a full year is reflected in FY 2025.
- (3) System development fees are one-time fees charged to new development to recoup costs of infrastructure that has been built and/or will be built to serve new development.
- (4) Interest earned on investment is based on the balance on the General Fund, which is estimated to yield a conservative rate of return.

10. Cost of Service Comparison

One of the Authority’s key objectives is to maintain rates and charges at a level sufficient to recover existing costs and capital costs associated with the Proposed Series 2024 Bonds. The Authority adopted its present rates for both water and wastewater charges on July 1, 2024. Exhibit 11 shows a comparison of the water and wastewater rates for FY 2024 with other representative communities as of July 2023. The Authority’s projected monthly bill is based on the Authority’s typical retail customer using a 3/4” meter and 5,000 gallons of water per month.

As shown, the current combined water and wastewater bill for a residential customer using 5,000 is \$116.79 or \$1,401.48 per year. The Authority has an average overall median household income (“MHI”) of \$59,976.⁵ The ratio of the typical customer’s water and wastewater bill to MHI is approximately 2.3% for the current water / wastewater bill. This figure is considered to be at the low end of the mid-range residential indicator score as identified by the EPA’s Clean Water Act Financial Capability Assessment Guidance.⁶

Exhibit 11: Comparison of Rates with Other Representative Communities (Residential Customer Using 5,000 Gallons of Water per month)

Utility	Water	Sewer	Total
Greenville Utilities Commission	\$ 34.17	\$ 43.29	\$ 77.46
City of Jacksonville	\$ 29.63	\$ 53.75	\$ 83.38
Cape Fear Public Utility Authority	\$ 42.84	\$ 41.61	\$ 84.45
Fayetteville Public Works Commission	\$ 37.41	\$ 57.40	\$ 94.81
ONWASA - Current 2025	\$ 41.54	\$ 75.25	\$ 116.79
Orange Water and Sewer Authority (1)	\$ 63.97	\$ 72.62	\$ 136.59
Average	\$ 41.59	\$ 57.32	\$ 98.91
NC Median (2)	\$ 40.01	\$ 50.76	\$ 90.77

Notes:

- (1) These rates will become effective on October 1, 2024. All other bills in the comparison are based on rates that were implemented on July 1, 2024.
- (2) Information on the NC state median is based on the UNC Environmental Finance Center NC dashboard.

⁵ <https://www.census.gov/quickfacts/fact/table/onslowcountynorthcarolina,NC/DIS010220>

⁶ Clean Water Act Financial Capability Assessment Guidance; February 2023; Environmental Protection Agency

11. Fund Balances

As shown in Exhibit 12, the Authority is estimating an ending balance of \$44.1 million at the end of FY 2023 (which is the beginning position of FY 2024) in the General Fund. Contributions to this balance primarily come from net revenues from operations. While operating surpluses are anticipated over the forecast period, it is the Authority’s practice to use a portion of these funds to pay for capital projects in the capital improvement plan that are not debt funded or grant funded. The level of capital projects funded from net revenues from operations is shown over the forecast period.

It should be noted that investment income is calculated by applying a rate of return of 1% to the General Fund balance. The investment income reflected in revenues as shown in Explanatory Note 9 is based on conservative estimates, which are much lower than investment income realized in the past several years.

Exhibit 12: Expendable Net Position

General Fund	Unaudited	Projected for Fiscal Year Ending June 30 th				
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Beginning Balance	\$44,134,864	\$39,265,027	\$27,240,806	\$29,643,559	\$32,335,799	\$33,931,858
Transfer for Water Capital Projects (1)	-	(7,497,547)	(1,750,622)	(2,125,000)	(4,125,000)	(625,000)
Transfer for Sewer Capital Projects (1)	-	(7,583,233)	(1,425,000)	(1,125,000)	(875,000)	(1,625,000)
Previously appropriated capital projects	(15,298,380)					
O&M Surplus/(Deficit)	10,428,543	3,056,559	5,578,375	5,942,240	6,596,059	8,490,680
Ending Balance	\$39,265,027	\$27,240,806	\$29,643,559	\$32,335,799	\$33,931,858	\$40,172,538
20% of General Fund Balance in <i>That</i> Fiscal Year	\$ 7,853,005	\$ 5,448,161	\$ 5,928,712	\$ 6,467,160	\$ 6,786,372	\$ 8,034,508
20% of General Fund Balance in the <i>Prior</i> Fiscal Year	\$ 8,826,973	\$ 7,853,005	\$ 5,448,161	\$ 5,928,712	\$ 6,467,160	\$ 6,786,372

Notes:

- (1) These transfers represent transfers to fund water and wastewater capital projects.

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12. Additional Bonds Test

The Authority may issue additional bonds only if the requirements set forth in the General Indenture, detailed below, are met:

Either

- (1) (A) the Net Revenues for the most recent Fiscal Year, for which audited financial statements are available, adjusted in the manner described in paragraph (5) below, together with 20% of the balance in the General Fund at the end of such Fiscal Year, were at least equal to (a) 120% of (1.20 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued; (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year; (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in that Fiscal Year; and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in that Fiscal Year, AND

(B) the Net Revenues for the most recent Fiscal Year, for which audited financial statement are available, adjusted in the manner described in paragraph (5) below were at least equal to (a) 100% of (1.00 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued; (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year; (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in that Fiscal Year; and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in that Fiscal Year, **OR**

- (2) (A) the Authority has met the Rate Covenant set forth in the General Indenture as described above for the most recent Fiscal Year, for which audited financial statement are available, as certified by the Executive Director: AND

(B) the Net Revenues, as projected by a report of a Consulting Engineer filed with the Trustee, for the first two Fiscal Years following the later of (i) the date that the acquisition and construction of improvement to the Combined Enterprise System financed with the proceeds of the Series of Bonds to be issued are complete; or (ii) the date the proposed Series of Bond is issued, are at least equal to (a) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued for such Fiscal Years; (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness such Fiscal Years; (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in such Fiscal Years; (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in such Fiscal Years; and (e) all balances required to be maintained in the funds pursuant to the General Indenture are duly maintained; AND

- (3) No Event of Default under the General Indenture has occurred and is continuing; AND

- (4) Other than for the Series of refunding Bonds, the Consulting Engineer certifies that the amounts to be on deposit in the Construction and Acquisition Fund after the issuance of the Series of the Bonds is sufficient to pay the Costs of Construction related to such Series.
- (5) For purposes of calculating Net Revenues in paragraphs 1(A) or 2(B) above, if any rates, fees, or charges of the Combined Enterprise System have been increased since the date of such audited financial statements or will be increased on or before the date the proposed Series of Bonds is issued, the Executive Director may add to the Net Revenues his estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such rates, fees and charges had been in effect in such Fiscal Year and if users of the Combined Enterprise System have been added as a result of an acquisition of assets from another provider of services or as a result of a contract with another governmental unit, the Executive Director may add to the Net Revenues his estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the Combined Enterprise System as of the beginning of such Fiscal Year.

The Authority satisfies the additional bonds requirements in part 1(A) and 1(B) as shown below. It should be noted the Net Revenues in Exhibit 13 do not reflect additional revenues from rate increases implemented by the Authority on July 1, 2023 or July 1, 2024, though they are allowed for purposes of calculating the additional bonds test for part 1 (A).

Exhibit 13: Additional Bond Test

Part 1 (A) and 1 (B)		Audited FY 2023
Part 1 (A)		
Net Revenues	\$	17,600,434
Plus 20% of GF Balance at end of FY 2022	\$	8,000,908
Net Revenues Plus 20% of the GF Balance	\$	25,601,342
120% of Maximum Principal and Interest Requirements of the 2014, 2016, 2023, and 2024 Bonds	\$	11,637,171
100% of Principal and Interest Requirements for Subordinate Indebtedness	\$	590,866
Total Indebtedness for Part 1 (A)	\$	12,228,037
Debt Service Coverage Ratio Part 1 (A)		2.09
Part 1 (B)		
Net Revenues	\$	17,600,434
100% of Maximum Principal and Interest Requirements of the 2014, 2016, 2023, and 2024 Bonds	\$	9,697,643
100% of Principal and Interest Requirements for Subordinate Indebtedness	\$	590,866
Total Indebtedness for Part 1 (B)	\$	10,288,509
Debt Service Coverage Ratio Part 1 (B)		1.71

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APPENDIX E

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL INDENTURE
AND THE SERIES 2024 INDENTURE**

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APPENDIX E

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL INDENTURE AND THE SERIES 2024 INDENTURE

This summary does not purport to be complete and is qualified in its entirety by express reference to the General Indenture and the Series 2024 Indenture.

DEFINITIONS OF CERTAIN TERMS

“*Account*” or “*Fund*” means one of the special funds or accounts created and established pursuant to the General Indenture.

“*Accountant*” means a firm of independent certified public accountants as may be selected by the Authority and not unacceptable to the Trustee.

“*Accreted Value*” means (1) on a Compounding Date with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond at the date of delivery to the original purchasers thereof plus the interest accrued on such Capital Appreciation Bond from such date to that Compounding Date as shown in the Series Indenture under which it is issued, or (2) as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond at the date of delivery to the original purchasers thereof plus the interest accrued on such Capital Appreciation Bond from such date to the date of computation, calculated based on the assumption that Accreted Value as shown in the Series Indenture under which it is issued accrues during any period in equal daily amounts on the basis of a year of 360 days consisting of twelve months of thirty days each. For purposes of determining interest payable under remedies on default provisions in the General Indenture, the Accreted Value of a Capital Appreciation Bond will be treated as Interest.

“*Act*” means The State and Local Government Revenue Bond Act, General Statutes of North Carolina Section 159-80 et seq., and as the same may hereafter be amended.

“*Annual Budget*” means, as to the Water and Sewer System, the annual budget described in the General Indenture adopted by the Authority concerning the operation of the Water and Sewer System for the succeeding Fiscal Year, and as to any other portion of the Combined Enterprise System, the annual budget adopted by the Authority concerning the operation of such portion of the Combined Enterprise System for the succeeding Fiscal Year.

“*Authenticating Agent*” means with respect to any given Series of Bonds, the Registrar or any other entity appointed in the related Series Indenture to act as an authenticating agent for such Series of Bonds or a portion thereof.

“*Authority*” means the Onslow Water and Sewer Authority.

“*Authorized Denominations*” means \$5,000 or any integral multiple thereof.

“*Authorized Representative*” means the Executive Director, the Chairman of the Board or the Secretary of the Authority and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of the Authority then authorized to perform such act or discharge such duty.

“*Balloon Long-Term Indebtedness*” means fixed or variable rate Bonds, General Obligation Bonds, Other Indebtedness or Subordinate Indebtedness, as the case may be, 25% or more of the principal

payments of which are due in a single twelve-month period which portion of the principal is not required by the documents pursuant to which such indebtedness is incurred to be amortized by redemption or prepayment prior to the expiration of such period.

“Beneficial Owner” means the Person in whose name a 2024 Bond is recorded as beneficial owner of such 2024 Bond by the Securities Depository or a Participant or an Indirect Participant on the records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such Person’s subrogee.

“Bond Counsel” means an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Authority and not unacceptable to the Trustee.

“Bonds” means one of the obligations delivered pursuant to the General Indenture, including, without limitation, all Series of Bonds issued pursuant to a Series Indenture.

“Book-Entry Form” or *“Book-Entry System”* means a form or system, as applicable, under which physical 2024 Bond certificates in fully registered form are registered only in the name of the Securities Depository or its nominee, with the physical 2024 Bond certificates “immobilized” in the custody of the Securities Depository.

“Business Day” means any day other than (a) a day on which banking institutions in New York, New York, or in the State or in the cities in which the Trustee or the Paying Agent have their respective principal offices are authorized to close or (b) a day on which the New York Stock Exchange is closed.

“Capital Appreciation Bonds” means any Bonds, however denominated in the related Series Indenture, as to which interest is compounded periodically on each Compounding Date and which are payable in an amount equal to the then-current Accreted Value only at maturity, earlier redemption or other payment date therefor.

“Capital Lease Agreements” means the Capital Lease Agreements between each Member and the Onslow Water and Sewer Authority dated the date thereof.

“Certificate” means (1) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Indenture or (2) the report of an accountant as to audit or other procedures called for by the General Indenture.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code will be deemed to include the United States Treasury Regulations proposed or in effect with respect thereto.

“Combined Enterprise System” means (1) initially, the Water and Sewer System, and (2) thereafter any revenue-producing enterprise of the Authority which qualifies as a “revenue bond project” under §159-81(3) of the General Statutes of North Carolina, as amended from time to time and added to the Combined Enterprise System under the General Indenture, but (3) less any portion of the Combined Enterprise System removed from the Combined Enterprise System under the General Indenture.

“Compounding Date” means, with respect to any Capital Appreciation Bond, the dates set forth in the Series Indenture under which it is issued.

“*Construction and Acquisition Fund*” means the Fund so designated and established under the General Indenture.

“*Consulting Engineer*” means a firm of engineers or utilities consultants or other independent persons or firms with recognized expertise for advising governmental entities with respect to construction, maintenance, use or other matters for which it is employed related to the utilities systems from time to time employed by the Authority and not unacceptable to the Trustee, including, except with respect to the requirements of the General Indenture described under “**RATE COVENANT**” below, a Professional Engineer employed by the Authority.

“*Costs of Acquisition*” means the costs reasonably incurred in connection with the Combined Enterprise System or any portion thereof, including but not limited to the costs of (1) acquisition of all property, real or personal, tangible or intangible, and all interests in connection therewith including all rights-of-way and easements therefor, (2) physical construction, installation and testing, including the costs of labor, services, materials, supplies and utility services used in connection therewith, (3) architectural, engineering, legal, financial advisory and other professional services, (4) payments under the Capital Lease Agreements, (5) premiums for insurance policies taken out and maintained during construction, to the extent not paid for by a contractor for construction and installation, (6) any taxes, assessments or other charges which become due during construction, (7) expenses incurred by the Authority or on its behalf with its approval in seeking to enforce any remedy against any contractor or sub-contractor in respect of any default under a contract relating to construction, (8) principal of and premium, if any, and interest on any indebtedness of the Authority, other than the Bonds, incurred for Costs of Construction, (9) Costs of Issuance, (10) any capitalized interest, (11) miscellaneous expenses incidental thereto and (12) reimbursements of such Cost of Construction properly incurred prior to the issuance of the Bonds.

“*Costs of Issuance*” means all items of expense, directly or indirectly payable by or reimbursable to the Authority, related to the authorization, sale and issuance of Bonds.

“*Current Expenses*” means the current expenses of operation, maintenance and current repair of the Combined Enterprise System, as calculated in accordance with generally accepted accounting principles, except as otherwise provided herein, and includes, without limiting the generality of the foregoing: insurance premiums; any Rebate Deposits; fees and expenses of the Trustee and any Paying Agent; fees and expenses of any entity providing credit support or liquidity for any Series of the Bonds; administrative and engineering expenses of the Authority relating solely to the Combined Enterprise System; labor; executive compensation; the cost of materials and supplies used for current operations; and charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred as determined by the Authority in accordance with generally accepted accounting principles except as otherwise provided herein. “*Current Expenses*” will not include (1) any allowance for depreciation or replacements of capital assets of the Combined Enterprise System, (2) moneys payable as Interest on the Bonds and as interest on General Obligation Indebtedness, Subordinate Indebtedness or Other Indebtedness, (3) moneys deposited or transferred to the Reserve Fund pursuant to the applicable Series Indenture, (4) moneys deposited or transferred to the Debt Service Fund, Replacement Fund, Construction and Acquisition Fund, Reserve Fund, and General Fund pursuant to the General Indenture and (5) operating expenses that do not involve a current outlay of cash, but are attributable to accruals, such as accruals for pensions and other post-retirement benefits.

“*Debt Service Fund*” means the Fund so designated and established by the General Indenture.

“*Derivative Agreement*” means an interest rate swap, cap, collar, floor, forward, option, put, call or other agreement however denominated, relating to the Bonds.

“*Event of Default*” means any of the events specified in the General Indenture together with any other events specified as such in a Series Indenture.

“*Federal Securities*” means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged; (b) obligations issued by any agency controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of and interest on which is fully guaranteed as full faith and credit obligations of the United States of America (including any securities described in (a) or (b) issued or held in the name of the Trustee in book entry form on the books of the Department of Treasury of the United States of America), which obligations, in either case, are held in the name of the Trustee and are not subject to redemption or purchase prior to maturity at the option of anyone other than the Owner; (c) any bonds or other obligations of the State or of any agency, instrumentality or local governmental unit of the State which are (i) not callable prior to maturity or (ii) as to which irrevocable instructions have been given to the trustee or escrow agent of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified, and which are rated by Moody’s, if the Bonds are rated by Moody’s and S&P, if the Bonds are rated by S&P, within the highest rating category and which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) or (b) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; or (d) direct evidences of ownership of proportionate interests in future interest and principal payments on specified obligations described in (a) held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying obligations described in (a), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

“*Fiscal Year*” means a twelve-month period commencing on the first day of July of any year, or such other twelve-month period adopted as the Fiscal Year of the Authority.

“*Fitch Ratings*” means Fitch, Inc., its successors and assigns, and, if such entity for any reason no longer performs the function of a securities rating agency, “*Fitch Ratings*” will refer to any other nationally recognized securities rating agency designated by the Authority’s Executive Director by notice to the Trustee, and acceptable to the Local Government Commission.

“*General Fund*” means the fund so designated and established under the General Indenture.

“*General Indenture*” means the General Trust Indenture, dated as of June 15, 2004, between the Authority and the Trustee, as amended and supplemented.

“*General Obligation Indebtedness*” means (1) general obligation indebtedness incurred by the Authority which is payable from Net Revenues and the proceeds of which were or are to be used to provide for capital costs of the Combined Enterprise System, but excluding any general obligations indebtedness, debt service as to which the Authority designates in writing to be paid from sources other than Net Revenues, and (2) general obligation indebtedness of another governmental unit, the payment on which is assumed by the Authority in connection with acquisition of assets for the Combined Enterprise System.

“*Indenture*” means, collectively, the General Indenture and the Series 2024 Series Indenture.

“*Independent Insurance Consultant*” means a person or firm, appointed by the Authority and not unacceptable to the Trustee, qualified to survey risks and to recommend insurance coverage for facilities

of the type operated by the Authority and having a favorable reputation for skill and experience in such surveys and such recommendations, which insurance consultant, in the case of an individual, must not be an officer or employee of the Authority and, in the case of a firm, must not have a partner, director, officer or employee who is an officer or employee of the Authority.

“Interest” means (1) the amount designated as interest on any Bonds and (2) payments due from the Authority under a Derivative Agreement other than for the termination thereof.

“Interest Payment Date” means each June 1 and December 1, beginning December 1, 2024.

“Investment Securities” means (i) Federal Securities; (ii) obligations of the Federal Land Bank; (iii) obligations of the Federal Home Loan Bank; (iv) obligations of the Federal Intermediate Credit Bank; (v) obligations of the Central Bank for Cooperatives; (vi) obligations of the Federal Home Loan Mortgage Corporation; (vii) repurchase agreements of any national or state bank located within the State which have deposits insured by the Federal Deposit Insurance Corporation (including the repurchase agreements of any bank acting as a depository, custodian or trustee for any proceeds of the Bonds) to the extent permitted by Section 159-30 of the General Statutes of North Carolina; (viii) certificates of deposit of national or state banks located within the State which have deposits insured by the Federal Deposit Insurance Corporation (including the certificates of deposit of any bank acting as a depository, custodian or trustee for any proceeds of the Bonds); provided, however, that the portion of such certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation, if any, shall be secured by deposit with the Federal Reserve Bank of Charlotte, North Carolina, or with any national or state bank located within the State with a long-term rating of “Baa” or higher by Moody's, if the Bonds are rated by Moody's, and “BBB” or higher by S&P, if the Bonds are rated by S&P, of any of the obligations included in (i), (ii), (iii), (iv), (v) or (vi) above; (ix) any bonds or other obligations of the State or any agency, instrumentality or local governmental unit of the State which are rated “A” or better by Moody's, if the Bonds are rated by Moody's, and S&P, if the Bonds are rated by S&P; (x) shares of a tax exempt money market fund which is restricted by its terms to investment in obligations which are not subject to the federal alternative minimum tax and which carry the highest short-term rating of Moody's or S&P; (xi) shares of a taxable money market fund which is restricted by its terms to investment in obligations which constitute Federal Securities; (xii) the State Treasurer's Short-Term Investment Fund; and (xiii) any other investments permitted under Section 159-30 of the General Statutes of North Carolina, as it may be amended, for the investment of public funds which meet the requirements for the “A” rating category of Moody's, if the Bonds are rated by Moody's, and of S&P, if the Bonds are rated by S&P; provided, however, that all such Investment Securities are qualified under Section 159-30 of the General Statutes of North Carolina.

“Interest Subsidy Bonds” means Bonds that are issued under a program of the United States of America in which the federal government undertakes to provide payments to issuers of debt obligations to subsidize in whole or in part the interest payments to all due on such debt.

“Local Government Commission” or *“LGC”* means the Local Government Commission of North Carolina, a division of the Department of State Treasurer, and any successor or successors thereto, or its designated representative.

“Mail” means first-class United States mail, postage prepaid.

“Moody's” means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “Moody's” will be deemed to refer to any other nationally recognized rating agency designated by the Executive Director of the Authority by notice to the Trustee.

“*Net Revenues*” means the excess of Revenues over Current Expenses.

“*Operating and Maintenance Fund*” means the Fund so designated and established by the General Indenture.

“*Other Indebtedness*” means capital leases, installment financing agreements or other contracts used to provide capital improvements to the Combined Enterprise System, the payments under which are payable from Net Revenues after payment of the Principal of and Interest on the Bonds.

“*Outstanding*” means all Bonds which have been authenticated and delivered by the Trustee under the General Indenture, except:

- (a) Bonds canceled after purchase in the open market or because of payment (it being understood that a payment to an Owner of the purchase price of a Bond, as prescribed in the related Series Indenture, is not payment of a Bond) at or redemption prior to maturity or on acceleration;
- (b) Bonds deemed paid under the General Indenture;
- (c) Bonds for the payment of the principal of and interest on which Federal Securities have been set aside; and
- (d) Bonds in lieu of which other Bonds have been authenticated under the General Indenture.

“*Owner*” means any person in whose name any Outstanding Bond is registered on the books of the Registrar.

“*Parity Reserve Account*” means the account in the Reserve Fund so designated and established pursuant to the General Indenture.

“*Parity Reserve Requirement*” means as of any date of calculation an amount not greater than the lesser of (1) maximum Principal and Interest Requirements on the Bonds as to all Series of the Bonds secured by the Parity Reserve Account of the Reserve Fund, (2) 125% of the average annual Principal and Interest Requirements on the Bonds, calculated solely as to all Series of the Bonds secured by the Parity Reserve Account of the Reserve Fund, or (3) 10% of the stated principal amount of all Series of the Bonds secured by the Parity Reserve Account of the Reserve Fund, provided, however, that if any Series of the Bonds secured by the Parity Reserve Account of the Reserve Fund has original issue discount or premium that exceeds 2% of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriter’s compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the ten percent limitation.

“*Paying Agent*” means U.S. Bank Trust Company, National Association, and any successor paying agent or agents appointed in accordance with the General Indenture.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“*Principal*” means the principal amount of an Outstanding Bond (including as to Capital Appreciation Bonds, the Accreted Value thereof except with respect to the order of priority of payment of Bonds after an event of default under the General Indenture, in which case, “*Principal*” means the principal

amount of such Capital Appreciation Bonds on their date of delivery and the balance of the Accreted Value will be “Interest”) payable as a Sinking Fund Payment or at maturity.

“*Principal and Interest Requirements on the Bonds*” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all Interest payable on the Outstanding Bonds during such Fiscal Year excluding any capitalized interest payable from the proceeds of a Series of the Bonds, plus (2) any Principal Installments of the Outstanding Bonds during such Fiscal Year.

- (a) For purposes of computing “*Principal and Interest Requirements on the Bonds*,” other than Bonds that are Balloon Long-Term Indebtedness the rate of interest used to determine (1) above will be a rate per annum equal to (A) with respect to Bonds which bear Interest at a fixed rate, the rate of Interest borne or to be borne by such Bonds, and (B) with respect to Bonds which bear Interest at a variable or periodically determined rate of Interest, the rate which is equal to the greater of (i) the average of all the Interest rates in effect on the Bonds (or, as certified by a financial institution or investment banking firm acceptable to the Finance Officer, which would have been in effect on the Bonds had such Bonds been Outstanding) during the immediately preceding twelve-month period or (ii) the average of all the Interest rates in effect on the Bonds (or, as certified by a financial institution or investment banking firm acceptable to the Finance Officer, which would have been in effect on the Bonds had such Bonds been Outstanding) during the immediately preceding one-month period. If the Authority has entered into a Derivative Agreement under which it will receive payments calculated on a notional amount equal to all or a portion of the aggregate Principal amount of a Series of the Bonds and will make payments calculated on the same notional amount, the Interest used to calculate (1) above will be the amount to be paid by the Authority under the Derivative Agreement; otherwise, payments calculated on a variable or periodically determined basis under such an agreement will be calculated in accordance with clause (B) above.
- (b) For purposes of computing “*Principal and Interest Requirements on the Bonds*” other than Balloon Long-Term Indebtedness, the Principal Installments for each Series of Bonds used to determine (2) above will be the actual planned Principal Installments.
- (c) For purposes of computing “Principal and Interest Requirements on the Bonds,” for any Bonds that are Balloon Long-Term Indebtedness, the Principal and Interest Requirements for any Fiscal Year shall be the amount of principal and interest that would be payable in such Fiscal Year if such Balloon Long-Term Indebtedness were amortized from the date of incurrence over a period of twenty-five (25) years (or the actual number of years over which such Balloon Long Term Indebtedness is being amortized, if greater than twenty-five (25) years, but in no event greater than thirty (30) years) on a level debt service basis at an interest rate equal to the current market rate a Bond with such assumed amortization, as estimated by the Authority’s municipal advisor or a banking or investment banking institution knowledgeable in municipal utility finance delivered to the Trustee as the interest rate at which the Authority could reasonably expect to borrow by issuing Bonds with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity date of the Balloon Long-Term Indebtedness, the full amount of principal payable at maturity will be included in the calculation, unless the Authority certifies to the Trustee that it reasonably expects that it will be able to enter into an agreement with a banking or investment banking institution to provide financing to refinance such Balloon Long-Term Indebtedness on or prior to maturity and, then in such case the payment expected payment terms of such refinancing

Bonds will be utilized for purposes of calculating the Principal and Interest Requirements with respect to such Balloon Long-Term Indebtedness.

- (d) If any Bonds are Interest Subsidy Bonds, the Principal and Interest Requirements for a Fiscal Year shall be reduced by the amount of the payments actually received by the Authority during the Fiscal Year with respect to such interest. For purposes of meeting the requirements of Section 6.4 for the issuance of Bonds, the payment expected to be received with respect to any Interest Subsidy Bonds may be assumed to be received.

“Principal and Interest Requirements for General Obligation Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all Interest payable on the General Obligation Indebtedness during such Fiscal Year excluding any capitalized interest payable from the proceeds of General Obligation Indebtedness, plus (2) any principal of the General Obligation Indebtedness during such Fiscal Year. Principal and interest for purposes of this definition will be computed in the manner in which the Principal of and interest on the Bonds is calculated under the definition of *“Principal and Interest Requirements on the Bonds.”*

“Principal and Interest Requirements for Other Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of all payment obligations with respect to Other Indebtedness during such Fiscal Year excluding any capitalized interest payable from the proceeds of Other Indebtedness. If the payment obligation under any Other Indebtedness is stated in terms of principal and interest, such principal and interest will be computed for purposes of this definition in the manner in which the Principal of and interest on the Bonds is calculated under the definition of *“Principal and Interest Requirements on the Bonds.”*

“Principal and Interest Requirements for Subordinate Indebtedness” means, with respect to any particular Fiscal Year, an amount equal to the sum of (1) all interest payable on Subordinate Indebtedness during such Fiscal Year excluding any capitalized interest payable from the proceeds of Subordinate Indebtedness, plus (2) any principal of Subordinate Indebtedness during such Fiscal Year. Principal and interest for purposes of this definition will be computed in the manner in which the Principal of and interest on the Bonds is calculated under the definition of *“Principal and Interest Requirements on the Bonds.”*

“Principal Installment” means, as of any date of calculation, (1) the aggregate Principal amount of Outstanding Bonds (including as to Capital Appreciation Bonds, the Accreted Value thereof) due on a certain future date, reduced by the aggregate Principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the General Indenture of Sinking Fund Payments payable before such future date, plus (2) any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such Sinking Fund Payments.

“Principal Payment Date” means any date upon which a Principal Installment is due and payable.

“Qualified Reserve Fund Substitute” means (1) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose long-term debt obligations are rated by Moody’s and S&P in the highest rating category or (2) a surety bond issued by a financial institution whose long-term rating is in the highest rating category of Moody’s and S&P, (3) a policy of reserve fund insurance issued by an insurance company whose claims-paying ability is rated by Moody’s and S&P in the highest rating category, or (4) such other methods or financial obligation or arrangement acceptable in the bond marketplace as a substitution for qualified reserve fund and acceptable to the Local Government Commission.

“*Rate Covenant*” means the Authority’s covenant under the General Indenture, as summarized below under “**RATE COVENANT**”.

“*Rebate Deposit*” means the amount required to be deposited into the Rebate Fund as a result of the computation made pursuant to the General Indenture.

“*Rebate Fund*” means the Fund so designated and established pursuant to the General Indenture.

“*Record Date*” means the 15th day of the month next preceding the Interest Payment Date.

“*Redemption Date*” means the date on which 2024 Bonds are to be called for redemption under the Series 2024 Indenture.

“*Redemption Price*” means, with respect to any 2024 Bond, the principal amount thereof plus the applicable premium, if any, payable on redemption thereof plus accrued interest to the Redemption Date.

“*Registrar*” means U.S. Bank Trust Company, National Association, and any successor appointed in accordance with the General Indenture.

“*Replacement Fund*” means the Fund so designated and established under the General Indenture.

“*Reserve Fund*” means the Fund so designated and established pursuant to the General Indenture.

“*Reserve Requirement*” means, as of any date of calculation, the Parity Reserve Requirement or the Series Reserve Requirement, as applicable.

“*Revenue Fund*” means the Fund so designated and established pursuant to the General Indenture.

“*Revenues*” means all rates, fees (including any tap, capacity or impact fees), rentals, assessments or other charges or other money received by the Authority in connection with the ownership, management and operation of the Combined Enterprise System, and all parts thereof, including amounts received from the investment of moneys in any Fund or Account (but not including amounts received from interest or other investment income earned in the Construction and Acquisition Fund and the Rebate Fund and, during the construction period, the Reserve Fund), all as calculated in accordance with generally accepted accounting principles, but shall not include (1) net proceeds of insurance or condemnation awards or other extraordinary items, (2) any amounts collected by the Authority representing sales or use taxes which may be required by law or agreement to be paid to the State or a governmental unit thereof, (3) refundable deposits made by customers of the Combined Enterprise System or (4) any amounts otherwise included under this definition as “*Revenues*” but not permitted by law to be pledged under the General Indenture.

“*S&P*” means S&P Global Ratings, a division of The McGraw-Hill Companies, its successors and their assigns, and, if such entity for any reason no longer performs the functions of a securities rating agency, “*S&P*” will be deemed to refer to any other nationally recognized securities rating agency designated by the Executive Director of the Authority by notice to the Trustee.

“*Series of Bonds*” or “*Series*” means any series of Bonds or other obligation issued under the General Indenture pursuant to a Series Indenture.

“*Series Indenture*” means any indenture or other document supplementing the General Indenture, executed by the Authority and effective in accordance with the General Indenture, providing for the issuance of a Series of Bonds.

“*Series 2024 Indenture*” means Series Indenture, Number 13, dated as of September 1, 2024, between the Authority and the Trustee.

“*Series Reserve Account*” means the account in the Reserve Fund so designated and established in the General Indenture and any Series Indenture.

“*Series Reserve Requirement*” means, as of any date of calculation, the amount required to be on deposit in a Series Reserve Account as determined in the Series Indenture under which the Series of Bonds secured by that account in the Reserve fund is issued.

“*Service Area*” means the customers located primarily in the County of Onslow, North Carolina, and the towns of Swansboro, Richlands, North Topsail Beach and Holly Ridge, North Carolina.

“*Sinking Fund Payment*” means, as of any particular date of calculation, the amount required to be paid by the Authority on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Authority by reason of the maturity of a Bond or by call for redemption at the election of the Authority.

“*State*” means the State of North Carolina.

“*Subordinate Indebtedness*” means debt, other than General Obligation Indebtedness, the payment of the principal and interest on which is secured by a lien on Net Revenues that is subordinate to the lien on Net Revenues securing the payment of the Principal of and Interest on the Bonds.

“*Supplemental Indenture*” means any indenture supplemental to the General Indenture delivered pursuant thereto amending or supplementing the General Indenture.

“*Trustee*” means the Trustee with respect to the Bonds, currently U.S. Bank Trust Company, National Association, and any other person at any time substituted in its place as provided in the General Indenture.

“*Trust Estate*” means all property and rights conveyed by the Authority under the Granting Clauses of the General Indenture.

“*2024 Bonds*” means the Combined Enterprise System Revenue Bonds, Series 2024 to be issued under the Series 2024 Indenture.

“*2024 Project*” means the design and construction of a new 36,000 foot 18-inch sewer force main and the associated construction of two new pump stations and the rehabilitation of two existing pump stations, including the acquisition of associated land and rights of way and obtaining required permits for the operation of the same.

“*2024 Project Account*” means the Onslow Water and Sewer Authority Combined Enterprise System Revenue Bonds, Series 2024 Project Account created and so designated by the Series 2024 Indenture.

“*Water and Sewer System*” means the complete water and sewer utilities systems of the Authority, now existing or hereafter constructed or acquired either from the proceeds of the Bonds authorized by the General Indenture or from any other sources and includes all facilities of any nature or description, real or personal, now or hereafter owned, leased as lessee or used by the Authority in obtaining, conserving,

treating and distributing water for any public or private use or in the collection, treatment, purification or disposal of sewage.

ANNUAL BUDGET

The Authority has covenanted that it will adopt an Annual Budget covering the fiscal operations of the Water and Sewer System for the Fiscal Year not later than the first day of such Fiscal Year and will file the same with the Trustee. The Annual Budget for the Water and Sewer System will set forth for such Fiscal Year the estimated Revenues, the Principal and Interest Requirements on the Bonds due and payable or estimated to become due and payable during such Fiscal Year, and estimated Current Expenses in at least quarterly allotments. The Authority may at any time adopt and file with the Trustee an amended Annual Budget for the Water and Sewer System in the manner provided in the General Indenture for the adoption of the Annual Budget. Copies of the Annual Budget for the Water and Sewer System as then amended and in effect will be made available by the Trustee at normal business hours in the Trustee's principal corporate trust office for inspection by any Owner. If the Authority does not adopt an Annual Budget for the Water and Sewer System for a Fiscal Year on or before the first day of such Fiscal Year, the Annual Budget for the Water and Sewer System for the preceding Fiscal Year will be deemed to have been adopted and be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year has been adopted as above provided.

When the Combined Enterprise System includes more than the Water and Sewer System, the Authority has covenanted, under provisions similar to those set forth in the preceding paragraph, to adopt an Annual Budget covering the fiscal operations of the portion of the Combined Enterprise System other than the Water and Sewer System for the Fiscal Year not later than the first day of such Fiscal Year and will file the same with the Trustee.

The Authority will not expend for Current Expenses in any Fiscal Year a sum in excess of the reasonable or necessary amounts therefore.

RATE COVENANT

The Authority has covenanted that it will, before the commencement of each Fiscal Year, fix, establish or maintain or cause to be fixed, established and maintained such rates and charges for the provision of services of the Combined Enterprise System and revise or cause to be revised the same, as necessary, as will produce (a) Revenues which together with 20% of the balance in the General Fund at the end of the preceding Fiscal Year at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (v) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute for any amounts owing and (b) Revenues at least equal in such Fiscal Year to the total of (i) the Current Expenses budgeted for such Fiscal Year, as may be amended from time to time, plus (ii) 100% of (1.00 times) the Principal and Interest Requirements on the Bonds to become due during that Fiscal Year plus (iii) 100% of (1.00 times) the Principal and Interest Requirements on General Obligation Indebtedness and Subordinate Indebtedness to become due in such Fiscal Year plus (iv) 100% of (1.00 times) the Principal and Interest Requirements on Other Indebtedness to become due in such Fiscal Year plus (v) 100% of (1.00 times) the amount required to reimburse the provider of a Qualified Reserve Fund Substitute for any amounts owing.

The Authority may not render free services; all users, including political subdivisions and public bodies (State or federal) who receive services from the Combined Enterprise System will pay therefor at the established rates, fees and charges. The rates, fees and charges need not be uniform. On the Authority's acquisition of an enterprise system which constitutes an addition to the Combined Enterprise System, the Rate Covenant must be satisfied as to the Combined Enterprise System at the time of such acquisition.

If the Authority fails to satisfy the Rate Covenant set forth above, the Authority will, as promptly as possible, take all action necessary to increase Revenues and decrease expenses as necessary to satisfy such Rate Covenant in the following Fiscal Year, including promptly retaining a Consulting Engineer to make recommendations as to a revision of rates, fees and charges and possible reductions in expenses which will result in satisfying the Rate Covenant in the following Fiscal Year. The Authority will give written notification to the Trustee and the Local Government Commission upon retaining a Consulting Engineer to make such recommendations.

If the Authority fails to satisfy the Rate Covenant and the Revenues continue to be insufficient to meet the Rate Covenant by the following Fiscal Year beginning on the July 1 twelve months after the beginning of the Fiscal Year during which the Authority failed to meet such Rate Covenant, the Trustee may, in its sole discretion and without an Event of Default having occurred and if in the second such year Revenue coverage of Principal and Interest Requirements (after other required coverages) is less than 110% (1.10 times), take possession of the Revenue Fund and the Operating and Maintenance Fund and administer the application thereof. If the Trustee does so, it may disburse money in the Revenue Fund and the Operating and Maintenance Fund in such manner as it may determine, notwithstanding the other provisions of the General Indenture related to the disbursement of such moneys. If the Authority fails to satisfy the Rate Covenant and the Revenues continue to be insufficient to meet the Rate Covenant by the second Fiscal Year beginning on the July 1 twenty-four months after the beginning of the Fiscal Year during which the Authority failed to satisfy such Rate Covenant, an Event of Default shall be deemed to have occurred and the Trustee may in its sole discretion take possession of the Revenue Fund and the Operating and Maintenance Fund and administer the application thereof or a majority of the registered Owners of the Bonds may require the Trustee to take possession of the Revenue Fund and the Operating and Maintenance Fund. If the Trustee does so, it may disburse moneys in the Revenue Fund and the Operating and Maintenance Fund in such manner as it may determine, notwithstanding the other provisions of the General Indenture related to the disbursement of such moneys. The Trustee shall relinquish possession of the Revenue Fund and the Operating and Maintenance Fund only on the delivery of a written Certificate of the Consulting Engineer, retained by the Authority, or an Accountant certifying the Authority's compliance with the Rate Covenant.

ISSUANCE OF ADDITIONAL BONDS

The Authority has covenanted that except on the conditions and in the manner provided in the General Indenture, the Authority will not issue any other obligations payable from the Revenues having priority to or being on a parity with the lien of the Bonds issued pursuant to the General Indenture, nor voluntarily create or cause to be or suffer to be created any debt, lien, pledge, assignment, encumbrance or any other charge having priority to or being on a parity with the lien of the Bonds issued pursuant to the Indenture.

The Authority may issue Bonds to refund all or any principal amount of the Bonds if (i) the Principal and Interest Requirements on the Bonds for any fiscal year after the issuance of the refunding Bonds will not be greater than 110% of the Principal and Interest Requirements on the Bonds prior to the refunding for the corresponding fiscal year if scheduled debt service payments were due in such year or (ii) the requirements in the second to last paragraph under this caption are met.

The Authority may issue Bonds, in an amount not to exceed 10% of the principal amount of a Series of Bonds, the proceeds of which were used to acquire or construct any portion of the Combined Enterprise System, if such proceeds are insufficient to pay the Costs of Construction. Before the issuance of any Bonds under this paragraph, the Authority shall deliver to the Trustee a Certificate of a Consulting Engineer stating that the proceeds from the Bonds together with other available funds will be sufficient to pay the Costs of Construction of the portion of the Combined Enterprise System for which such Bonds are being issued.

The Authority may issue Bonds, in an amount not to exceed 10% of the principal amount of a Series of Bonds, the proceeds of which are to be used to acquire or construct any portion of the Combined Enterprise System.

The Authority has covenanted that no Series of Bonds, other than the initial Series of Bonds issued and the Bonds described in the four previous paragraphs, will be issued unless either:

(1) (A) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, together with 20% of the balance in the General Fund at the end of the such Fiscal Year, were at least equal to (a) 120% of (1.20 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in that Fiscal Year and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in that Fiscal Year, and

(B) the Net Revenues for the most recent Fiscal Year for which audited financial statements are available, adjusted in the manner hereinafter provided, were at least equal to (a) 100% of (1.00 times) the maximum Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness in that Fiscal Year, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness in that Fiscal Year and (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness in that Fiscal Year; or

(2) (A) the Authority has met the Rate Covenant for the most recent Fiscal Year for which audited financial statements are available, as certified by the Executive Director; and

(B) the Net Revenues, as projected by a report of a Consulting Engineer filed with the Trustee, for the first two Fiscal Years following the later of (I) the date that the acquisition and construction of improvements to the Combined Enterprise System financed with the proceeds of the Series of Bonds to be issued are complete or (II) the date the proposed Series of Bonds are issued, are at least equal to (a) 120% of (1.20 times) the Principal and Interest Requirements on the Bonds, including the Series of Bonds to be issued, for such Fiscal Years, (b) 100% of (1.00 times) the Principal and Interest Requirements for Subordinate Indebtedness to become due in such Fiscal Years, (c) 100% of (1.00 times) the Principal and Interest Requirements for General Obligation Indebtedness to become due in such Fiscal Years, (d) 100% of (1.00 times) the Principal and Interest Requirements for Other Indebtedness to become due in such Fiscal Years, and (e) all balances required to be maintained in the Funds pursuant to the General Indenture are duly maintained; and

(3) no Event of Default under the General Indenture has occurred and is continuing; and

(4) other than for a Series of refunding Bonds, the Consulting Engineer certifies that the amounts to be on deposit in the Construction and Acquisition Fund after the issuance of the Series of the Bonds is sufficient to pay the Costs of Construction related to such Series.

For purposes of calculating Net Revenues in paragraph (1) or paragraph (2)(B) above, (1) if any rates, fees or charges of the Combined Enterprise System have been increased since the date of such audited financial statements or will be increased on or before the date the proposed Series of Bonds is issued, the Executive Director may add to the Net Revenues his estimate of the additional Revenues that would have been included in the calculation of Net Revenues if such rates, fees and charges had been in effect in such Fiscal Year and (2) if users of the Combined Enterprise System have been added as a result of an acquisition of assets from another provider of services or as a result of a contract with another governmental unit, the Executive Director may add to the Net Revenues his estimate of the additional Net Revenues that would have been included in the calculation of Net Revenues if such users had been a part of the Combined Enterprise System as of the beginning of such Fiscal Year.

CONSTRUCTION; MAINTENANCE OF SYSTEM

The Authority has covenanted to complete or cause to be completed the additions, extensions and improvements of the Combined Enterprise System provided for in the General Indenture in accordance with plans and specifications approved by a registered professional engineer and in an economical and efficient manner with all practicable dispatch and thereafter will maintain or cause to be maintained the Combined Enterprise System in good condition and will continuously operate or cause to be operated the same in an efficient manner and at a reasonable cost as a municipal revenue-producing enterprise.

INSURANCE; CONDEMNATION

The Authority has covenanted to carry or cause to be carried such insurance with a reputable insurance carrier or carriers, such as is maintained or carried by similar utilities as the Combined Enterprise System, including, (1) public liability insurance against loss or damage by fire, explosion, hurricane, flood, cyclone, occupancy or other hazards and risks, and said property loss and damage insurance will at all times be in an amount sufficient to indemnify in amounts sufficient to repair the Combined Enterprise System for loss, but not less than the principal amount of the Bonds Outstanding, to the extent that such insurance is obtainable and (2) business interruption insurance in an amount to be determined under the General Indenture.

The Authority will deposit the proceeds of any insurance or condemnation with respect to the Combined Enterprise System in excess of \$100,000 in any given Fiscal Year (i) in the Construction and Acquisition Fund, to rebuild or replace the Combined Enterprise System or portion thereof giving rise to the referenced proceeds or (ii) in the Debt Service Fund, to redeem or pay Bonds pursuant to a Series Indenture. The Authority will deposit the proceeds of any business interruption insurance in the Revenue Fund.

LIENS OR CHARGES

The Authority may create or permit to be created a lien on the Combined Enterprise System in order to secure the issuance of Other Indebtedness as long as the Executive Director certifies at the time of the creation of the lien that (1) loss of the property secured by the lien will not materially adversely affect the ability of the Authority to meet its financial obligations under the General Indenture, including the ability of the Authority to meet its Rate Covenant and (2) the current value of all parts of the Combined Enterprise System subject to a lien securing Other Indebtedness, including property which may be added to the Combined Enterprise System as a result of issuance of the proposed Other Indebtedness, does not exceed 20% of the current net value of the Combined Enterprise System plant and equipment.

SALE OF THE SYSTEM

An enterprise within the Combined Enterprise System may be sold, mortgaged, leased or otherwise disposed of, in whole or in part, to another political subdivision or public agency of the State authorized by law to own and operate such systems only if there is filed with the Trustee a report prepared by the Consulting Engineer showing that there is no material adverse effect on the ability of the Combined Enterprise System to produce Revenues to satisfy the Rate Covenant, and written evidence from any rating agency then rating the Bonds that such sale will not adversely affect its rating of the Bonds and, for a disposition of the Combined Enterprise System in whole, if such political subdivision assumes all of the obligations of the Authority under the General Indenture.

An enterprise within the Combined Enterprise System may be sold, mortgaged, leased or otherwise disposed of to a private utility only as a whole or substantially as a whole, and only if (i) the net proceeds to be realized will be sufficient, together with other moneys available therefor, to discharge the lien of the General Indenture as described under the caption “**DEFEASANCE**” herein, and such moneys are so applied, and (ii) the Trustee has received an opinion of Bond Counsel to the effect that such disposition will not adversely effect the federal income tax treatment of the Interest on the Bonds.

The Authority has reserved the right to sell, lease or otherwise dispose of any of the property comprising a part of the Combined Enterprise System which it determines in the manner provided by the General Indenture to be no longer necessary, useful or profitable in the operation thereof. Before any such sale, lease or other disposition of such property, an Authorized Representative of the Authority will make

a finding in writing and concurred with by the Authority's consulting engineers, determining that such property comprising a part of the Combined Enterprise System is no longer necessary, useful or profitable in the operation thereof, and such finding must be approved by resolution of the Authority if the amount to be received therefor is in excess of 1/10th of 1% of the total assets of the Combined Enterprise System net of accumulated depreciation. All proceeds derived from the sale, lease or other disposition of any property comprising a part of the Combined Enterprise System as provided above, will be deposited in the Replacement Fund.

An enterprise may be added to or removed from the Combined Enterprise System if the Trustee receives (i) a certificate from the Consulting Engineer which states that the projected Revenues of the Combined Enterprise System as it will exist after the proposed addition or removal for each of the two Fiscal Years subsequent to the year in which the addition or removal is expected to be completed are projected to satisfy the Rate Covenant, (ii) an opinion of Bond Counsel to the effect that the addition or removal will not adversely affect the federal income tax treatment of the Interest on the Bonds and (iii) written evidence from any rating agency then rating the Bonds that such addition or removal will not adversely affect its rating then in effect on the Bonds.

DERIVATIVE AGREEMENTS

The Authority may enter into a Derivative Agreement relating to any Series of Bonds; provided, however, such Derivative Agreement must be approved by the Local Government Commission or its designated representative. The Authority may not terminate a Derivative Agreement without the approval of the Local Government Commission or a person designated by the Local Government Commission to approve a termination of a Derivative Agreement.

FUNDS AND ACCOUNTS

Pursuant to the General Indenture, the Authority establishes and creates the following trust funds:

1. Revenue Fund;
2. Operating and Maintenance Fund;
3. Debt Service Fund;
4. Replacement Fund;
5. Construction and Acquisition Fund;
6. Rebate Fund;
7. Reserve Fund; and
8. General Fund.

The Trustee or the Authority may also create such other Funds or Accounts as it deems necessary or desirable in the administration of the General Indenture. The Authority also establishes the Parity Reserve Account and may establish Series Reserve Accounts under Series Indentures.

The Debt Service Fund, the Reserve Fund and the Rebate Fund will be held by the Trustee. The Revenue Fund, the Operating and Maintenance Fund, the Construction and Acquisition Fund, the

Replacement Fund and the General Fund will be held by a financial institution from time to time determined by the Authority.

Revenue Fund. In addition to other amounts to be deposited in the Revenue Fund pursuant to the General Indenture, the Authority must cause all Revenues to be deposited in the Revenue Fund. Except for amounts collected by the Authority as (i) sales and use taxes and (ii) refundable deposits made by customers of the Combined Enterprise System, which have been deposited in the Revenue Fund, which may be paid out of the Revenue Fund in the amounts and at the times determined by the Authorized Representative, or during such time as the Trustee may hold the Revenue Fund as described above under “**RATE COVENANT**,” the Authority will cause disbursements to be made from the Revenue Fund in the following order of priority:

- FIRST: On the first day of each month and at such times during the month as may be required, to the Operating and Maintenance Fund an amount equal to the Current Expenses shown in the Annual Budget for the current Fiscal Year, plus any additional amount required to be transferred to the Operating and Maintenance Fund under the General Indenture;
- SECOND: On or prior to the due date set in the Series Indenture for each Series of Bonds, to the Trustee for deposit in the Debt Service Fund, an amount such that there will be in the Debt Service Fund an amount equal to the Interest on the Bonds of such Series due on the next Interest Payment Date;
- THIRD: On or prior to the due date set in the Series Indenture for each Series of Bonds, to the Trustee for deposit in the Debt Service Fund, an amount such that there will be in the Debt Service Fund an amount equal to the Principal Installment due on the next Principal Payment Date;
- FOURTH: On the date set for payment thereof, to the provider of any Qualified Reserve Fund Substitute, an amount sufficient to satisfy the then current obligations of the Authority incurred in connection therewith;
- FIFTH: On the first day of each month, to the Trustee for deposit in any account in the Reserve Fund (1) the amount necessary for the balance therein to equal the Reserve Requirement with respect to such account, but if the Revenues are insufficient therefor, to each account of the Reserve Fund *pro rata* or (2) if any account in the Reserve Fund is less than 90% of the Reserve Requirement with respect to such account as a result of a valuation of investments therein, the amount necessary for the balance therein to equal the applicable Reserve Requirement; provided, however, that in either the event of (1) or (2) above the Authority is not required to transfer in any month more than an amount such that if the same amount were deposited in equal monthly installments over the subsequent 11 months, the applicable account would equal the applicable Reserve Requirement;
- SIXTH: On the date set for the payment thereof, to the Persons entitled to payment on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing;
- SEVENTH: On the date set for the payment thereof, to the paying agent for any General Obligation Indebtedness, an amount necessary to fund the payment when due of principal, premium, if any, and interest on such General Obligation Indebtedness;

- EIGHTH: At any time as may be required, to the Persons entitled to payment with respect to Other Indebtedness, an amount equal to the payment then due and owing;
- NINTH: On the first day of each month, to the Replacement Fund, one-twelfth of the annual amount shown therefor in the Annual Budget; and
- TENTH: On the last Business Day of each Fiscal Year, to the General Fund, the balance remaining after the transfers described in FIRST through EIGHTH above.

Debt Service Fund. The Trustee will disburse amounts deposited in the Debt Service Fund as follows:

- (1) On each Interest Payment Date, to the Persons entitled thereto, Interest due on such date.
- (2) Subject to the provisions hereof requiring the application thereof to the payment or redemption of any particular Bond, on each Principal Payment Date, to the Owners, the amounts required for the payment of the Principal due on such date.
- (3) On each Redemption Date, to the Owners, the amount required for redemption of Bonds called for redemption.

If on an Interest Payment Date or a Principal Payment Date, the amounts in the Debt Service Fund are insufficient to pay in full the Interest or Principal, the amounts in the Debt Service Fund will be applied *pro rata* first to the Persons entitled to Interest and then to the Persons entitled to Principal. Except as otherwise specifically provided in the General Indenture or in any Series Indenture, the Trustee has no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price, the Principal amount or at any other price, and any arms' length purchase by the Trustee will conclusively be deemed fair and reasonable.

If on any Interest Payment Date or Principal Payment Date, there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following Funds and in the order or priority set forth below:

- (1) Revenue Fund;
- (2) General Fund;
- (3) Replacement Fund;
- (4) the account of the Reserve Fund securing a Series of Bonds to pay the principal of and Interest on such Bonds, to the extent such deficiency is attributable to the Series of Bonds secured by that account of the Reserve Fund;
- (5) Construction and Acquisition Fund; and
- (6) Operating and Maintenance Fund.

Operating and Maintenance Fund. Amounts in the Operating and Maintenance Fund will be (1) at the times and in the amounts provided in the General Indenture, transferred to the Rebate Fund to the

extent necessary to make any required Rebate Deposit; (2) applied to the payment of all other Current Expenses consistent with the Annual Budget, and (3) transferred to the Debt Service Fund to make up any deficiency therein in accordance with the order of priorities described under “--**Debt Service Fund**” above. In no event will the aggregate disbursements from the Operating and Maintenance Fund in each Fiscal Year, excluding any amounts transferred to the Debt Service Fund to make up any deficiency therein or the Rebate Fund as set forth above, exceed the amount provided therefor in the then-effective Annual Budget.

Rebate Fund. At the Authority’s direction, the Trustee will, at the times and in the manner required by the Code, pay to the United States from the Rebate Fund amounts sufficient to satisfy the requirements of the Code.

Replacement Fund. The Replacement Fund will be applied for the following purposes:

(1) 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 paying any extraordinary maintenance and repair or any expenses which are not Current Expenses;

(2) transfer to the Debt Service Fund to make up any deficiency therein in accordance with the order of priorities described under “--**Debt Service Fund**” above; and

(3) repayment of Subordinate Indebtedness, General Obligation Indebtedness and Other Indebtedness.

General Fund. Moneys held in the General Fund shall be applied in the following order of priority: (1) first, to the Operating and Maintenance Fund to make up any deficiency therein to meet the obligations therefor; (2) second, to pay the Person entitled thereto a termination payment under a Derivative Agreement; (3) third, to the Persons entitled to payment of any principal, premium, if any, or interest on any Subordinate Indebtedness, an amount equal to the principal, premium or interest then due and owing; (4) fourth, to the paying agent or directly to the registered owners of General Obligation Indebtedness in an amount necessary to pay when due the principal of, premium, if any, and interest on the General Obligation Indebtedness; (5) fifth, to the Persons entitled to payment with respect to any Other Indebtedness, an amount equal to the payment then due and owing; and (6) sixth, for any lawful purpose from time to time authorized by the Authority.

Construction and Acquisition Fund. There will be deposited from time to time in the Construction and Acquisition Fund all amounts required to be deposited therein pursuant to any Series Indenture and any other amounts available therefor and determined by the Authority to be deposited therein.

2024 Project Account Pursuant to the Series 2024 Indenture, the Authority has established and created the Onslow Water and Sewer Authority Combined Enterprise System Revenue Bonds, 2024 Project Account. There will be deposited into the 2024 Project Account (1) that portion of the proceeds of the 2024 Bonds as set forth in the Series 2024 Indenture and (2) all other moneys received by the Trustee under this Indenture and the General Indenture accompanied by directions from the Authority that such moneys are to be deposited into the 2024 Project Account.

The 2024 Project Account will be applied for any of the following purposes:

(1) the payment of Costs of Issuance;

(2) the payment of Costs of Acquisition of the 2024 Project; and

(3) the transfer to the Debt Service Fund to make up any deficiency therein in accordance with the General Indenture.

On the filing from time to time with the Trustee of a voucher or other appropriate document signed by a Representative of the Authority stating the purpose for which each disbursement is to be made and that such acquisition was actually effected and acquired, the Trustee will make or cause to be made a disbursement from the 2024 Project Account for the payment of such Costs of Acquisition.

Reserve Fund. The Trustee will transfer amounts held in the appropriate account of the Reserve Fund to the Debt Service Fund to make up any deficiency therein with respect to any Series of Bonds secured by that account in the Reserve Fund, in accordance with the order of priorities described under “--**Debt Service Fund**” above; but if a Qualified Reserve Fund Substitute is in place, the Trustee will first use moneys on hand in the appropriate account in the Reserve Fund and then use moneys made available by the provider of the Qualified Reserve Fund Substitute.

The 2024 Bonds will not be secured by the Parity Reserve Account or any Special Reserve Account.

INVESTMENTS

The Trustee will invest moneys held in the Debt Service Fund, the Construction and Acquisition Fund, the Reserve Fund and the Rebate Fund, at the direction of the Authority, in Investment Securities. The Authority will invest all Funds and Accounts held by it pursuant to the General Indenture in such Investment Securities as it determines in its sole discretion. The proceeds of any remarketing of a Series of the Bonds will be held uninvested or will be invested in Federal Securities maturing not later than the earlier of 30 days or the date needed for payment.

The Trustee will deposit earnings from investment of moneys in the Rebate Fund immediately on receipt thereof into the Rebate Fund and from investment of moneys in the Construction and Acquisition Fund immediately on receipt thereof into the Construction and Acquisition Fund. All earnings from the investment of moneys held in any other fund and account will be credited to the Debt Service Fund.

VALUATION

In computing the amount in any Fund or Account, obligations purchased as an investment of moneys therein will be valued at the market value on the last day of each Fiscal Year unless an earlier date is required in the General Indenture or in a Series Indenture. The Trustee shall value each Account of the Reserve Fund separately for purposes of determining if the Account is in the amount required by the Series Indenture under which it was created.

BONDS NOT DELIVERED FOR PAYMENT

If any Bond is not presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, or if any Interest check is not cashed, if funds sufficient to pay such Bond have been made available by the Authority to the Trustee or any Paying Agent for the benefit of the Owner of such Bonds, all liability of the Authority to such Owner for the payment of such Bond will forthwith cease, terminate and be completely discharged, and it will then be the duty of the Trustee and any Paying Agent to hold such funds in trust, uninvested and without liability for Interest thereon, for the benefit of the Owner of such Bond who will thereafter be restricted exclusively to such funds for any claim of whatever nature on his part under the General Indenture or on, or with respect to, said Bond. Any money that is so set aside or transferred and that remains unclaimed by the Owners for a period of five and one-half years after such payment has become due and payable will be treated as

abandoned property under the General Statutes of North Carolina, as amended, and the Trustee or Paying Agent will report and remit this property to the Escheat Fund according to the requirements of the General Statutes of North Carolina, as amended. Thereafter, the Owners may look only to the Escheat Fund for payment and then only to the extent of the amounts so received without any interest thereon, and the Authority and the Trustee or Paying Agent will have no responsibility with respect to such money.

DEFAULTS AND REMEDIES

Events of Default. Any of the following events will be deemed an “Event of Default” under the General Indenture:

(a) A failure to pay the principal of or premium, if any, on any Bond when the same becomes due and payable, whether at the stated maturity thereof or on proceedings for redemption including sinking fund redemptions;

(b) A failure to pay any installment of Interest when the same becomes due and payable; and

(c) A failure by the Authority to observe and perform any covenant, condition, agreement or provision (other than as described in subsections (a) and (b) above) contained in the Bonds or in the General Indenture on the part of the Authority to be observed or performed, which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the Authority by the Trustee, which may give such notice in its discretion and must give such notice at the written request of Owners of not less than 25% of principal amount of the Bonds, unless the Trustee, or the Trustee and Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice, as the case may be, agrees in writing to an extension of such period prior to its expiration.

The Trustee is not deemed to have, or be required to take, notice of a default described in (c) above unless specifically notified in writing by the Owners of not less than 25% of the principal amount of the Bonds or unless the Trustee has actual notice thereof.

Remedies on Default. On the occurrence and continuance of an Event of Default, the Trustee may, or if required by the Owners of not less than a majority of the principal amount of the Bonds, must, declare the Bonds to be immediately due and payable, whereupon they will, without further action, become due and payable, anything in the General Indenture or in the Bonds to the contrary notwithstanding.

The provisions described in the preceding paragraph are subject to the condition that if, after the principal of any of the Bonds has been so declared to be due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered as hereinafter described, the Authority causes to be deposited with the Trustee a sum sufficient to pay all matured installments of the principal of and Interest on all Bonds which will have become due otherwise than by reason of such declaration (with Interest on such overdue installments of Interest, at the rate per annum borne by the respective Bonds) and such amount as is sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default under the General Indenture other than nonpayment of the principal of the Bonds which have become due by said declaration have been remedied, then, in every such case, such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee will promptly give written notice of such waiver, rescission or annulment to the Authority and will give notice thereof by Mail to all Owners; but no such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

On the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and on the written direction of Owners of not less than a majority in principal amount of the Bonds and receipt of indemnity, to its satisfaction, must, in its own name and as the trustee of an express trust:

- (1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners of the Bonds, and require the Authority to carry out any agreements with or for the benefit of the Owners of the Bonds and to perform its duties under the General Indenture;
- (2) take whatever action at law or in equity may appear necessary or desirable to enforce its rights against the Authority.

On the occurrence and continuance of any Event of Default, the Trustee may, or if required by Owners of not less than a majority in principal amount of the Bonds or the provisions described under “**RATE COVENANT**” above, must, take possession of the Revenue Fund and the Operating and Maintenance Fund and any moneys therein and administer the application thereof. If the Trustee does so, it may disburse money in the Revenue Fund and the Operating and Maintenance Fund in such manner as it may determine, notwithstanding the provisions of the General Indenture.

No right or remedy is intended to be exclusive of any other rights or remedies, but each and every such right or remedy will be cumulative and in addition to any other remedy given under the General Indenture or now or hereafter existing at law or in equity or by statute. If any Event of Default has occurred and if requested by the Owners of at least a majority in aggregate principal amount of Bonds and indemnified as provided in the General Indenture, the Trustee will be obligated to exercise such one or more of the rights and powers conferred by the General Indenture as the Trustee, being advised by counsel, deems most expedient in the interests of the Owners.

Priority of Payment After Default. If, on the happening and continuance of any Event of Default, the funds held by the Trustee are insufficient for the payment of the principal or Redemption Price then due of and Interest then due on the Bonds, such funds (other than funds held for the payment of particular Bonds which have theretofore become due at maturity or by redemption) and any other amounts received or collected by the Trustee acting pursuant to the General Indenture, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of its duties under the General Indenture, will be applied, as follows:

- (1) Unless the principal of all of the Bonds has become or has been declared due and payable:

FIRST: To the payment to the persons entitled thereto of all installments of Interest then due in the order of the maturity of such installments, and, if the amounts available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

SECOND: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Bonds due, then to the payment thereof ratably, according to the amounts of principal or

Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

THIRD: To be held for the payment to the persons entitled thereto, as the same become due, of the principal or Redemption Price of and Interest on the Bonds which thereafter become due and, if the amounts available are not sufficient to pay in full all the Bonds due on any date, together with such Interest, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds has become or has been declared due and payable, to the payment of the principal and Interest then due and unpaid on the Bonds without preference or priority of principal over Interest or of Interest over principal, or of any installment of Interest over any other installment of Interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and Interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of Interest specified in the Bonds.

Owners' Right to Direct Proceedings. Anything in the General Indenture to the contrary notwithstanding, the owners of at least a majority in aggregate principal amount of the Bonds will have the right, at any time, to the extent permitted by law, by instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the General Indenture, or for the appointment of a receiver, and any other proceedings thereunder; provided that such direction may not be otherwise than in accordance with the provisions of the General Indenture. The Trustee will not be required to act on any direction given to it until the indemnity provided in the General Indenture is furnished to it by such Owners.

Limitation on Rights of Owners. No Owner will have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the General Indenture, for the protection or enforcement of any right under the General Indenture unless such Owner has given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than 25% in principal amount of the Bonds have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the General Indenture or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there has been offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are in every such case, at the option of the Trustee, conditions precedent to the execution of the powers under the General Indenture or for any other remedy thereunder or by law. No one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the General Indenture, or to enforce any right under the General Indenture or under law with respect to the Bonds or the General Indenture, except in the manner therein provided, and all proceedings at law or in equity must be instituted, had and maintained in the manner therein provided and for the benefit of all Owners. Nothing contained in the General Indenture as described under this subheading will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and Interest on its Bonds at the time and place expressed in said Bond.

Each Owner by its acceptance of a Bond is deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Indenture or any

Series Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant. The provisions of this paragraph will not apply to any suit instituted by the Trustee, to any suit instituted by owners of at least 25% in principal amount of the Bonds, or to any suit instituted by any Owner for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Subordination of Claims for Interest. No claim for interest appertaining to any of the Bonds which in any way at or after maturity has been transferred or pledged separate and apart from the Bond to which it appertains will, unless accompanied by such Bond, be entitled, in case of an Event of Default, to any benefit by or from the General Indenture, except after the prior payment in full of the principal of all of the Bonds then due and of all claims for interest then due not so transferred or pledged.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Effective On Filing With the Trustee. A Supplemental Indenture of the Authority may be executed and delivered, which, on the filing with the Trustee of a copy thereof certified by an Authorized Representative of the Authority and execution by the Trustee, will be fully effective in accordance with its terms:

- (a) to close the General Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the General Indenture on, the delivery of Bonds;
- (b) to add to the covenants and agreements of and the limitations and restrictions on the Authority in the General Indenture other covenants and agreements or limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the General Indenture as theretofore in effect;
- (c) to surrender any right, power or privilege reserved to or conferred on the Authority by the terms of the General Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the General Indenture;
- (d) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the General Indenture of the Trust Estate, including the Net Revenues or any other revenues or assets;
- (e) to modify any of the provisions of the General Indenture in any respect whatsoever, but only if (i) such modification will be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Indenture cease to be Outstanding and (ii) such Supplemental Indenture will be specifically referred to in the text of all Bonds delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;
- (f) to provide for the delivery of a Qualified Reserve Fund Substitute; and
- (g) to include additional utility facilities, property or equipment within the definition of "Combined Enterprise System" and the revenues therefrom within the definition of "Revenues;"

provided that any of the above changes do not, in the opinion of Bond Counsel, adversely affect the interests of the owners of the Bonds.

Supplemental Indentures Effective On Consent of Trustee. A Supplemental Indenture may be executed and delivered, which, on (i) the filing with the Trustee of a copy thereof certified by an Authorized Representative and (ii) the filing with the Trustee and the Authority of an instrument in writing, made by the Trustee consenting thereto, will be fully effective in accordance with its terms:

- (a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the General Indenture; or
- (b) to insert such provisions clarifying matters or questions arising under the General Indenture as are necessary or desirable and are not contrary to or inconsistent with the General Indenture as theretofore in effect.
- (c) to effectuate such changes which do not adversely affect the interests of the Owners.

Any such Supplemental Indenture may also contain one or more of the purposes described under “~~Supplemental Indentures Effective On Filing With the Trustee~~” above and, in that event, the consent of the Trustee described under this caption will be applicable only to those provisions of such Supplemental Indenture as contain one or more of the purposes set forth in subparagraphs (i), (ii) or (iii) above.

Supplemental Indentures Effective On Consent of Owners. Exclusive of Supplemental Indentures already described above, the written consent of the owners of not less than a majority in aggregate principal amount of the Bonds Outstanding, will be required for the execution by the Authority and the Trustee of any indenture or indentures supplemental to the General Indenture;

- (a) A change in the terms of redemption or maturity of the principal amount of or the interest on any Outstanding Bond, or a reduction in the principal amount of or premium payable on any redemption of any outstanding Bond or the rate of interest thereon;
- (b) The deprivation of the Owner of any Bond Outstanding of the lien created by the General Indenture (other than as originally permitted thereby);
- (c) A privilege or priority of any Bond over any other Bond; or
- (d) A reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture.

If at any time the Authority requests the Trustee to enter into a Supplemental Indenture for which the consent of the Owners is required as described above, the Trustee will, on being satisfactorily indemnified with respect to expenses, give notice to such Owners pursuant to the General Indenture. If, within 60 days (or such longer period prescribed by the Authority) following the giving of such notice, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such Supplemental Indenture have consented to and approved the execution thereof as provided in the General Indenture, no Owner will have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

General Provisions. As a condition to the effectiveness of any Supplemental Indenture, an opinion of Bond Counsel must be delivered to the Trustee stating that such Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of the General Indenture, is authorized or permitted by the General Indenture, is valid and binding on the Authority, and does not adversely affect the tax treatment of Interest on the Bonds.

No Supplemental Indenture may change or modify any of the rights or obligations of the Trustee without its written consent thereto.

Nothing contained in the General Indenture as described under the caption “**SUPPLEMENTAL INDENTURES**” will affect or limit the right of the Authority to enter into Series Indentures in connection with the issuance of additional Series of Bonds.

AMENDMENT OF SERIES 2024 INDENTURE

The Series 2024 Indenture and the rights and obligations of the Authority and the Owners may be modified or amended at the same times, in the same manner and for the same purposes as described under the caption “**SUPPLEMENTAL INDENTURES**” above, but if the modification or amendment affects only the 2024 Bonds, the percentage to be applied under “*--Supplemental Indentures Effective On Consent of Owners*” will be applied only to the Outstanding 2024 Bonds.

Before the Authority and the Trustee enter into any supplemental indenture, there must have been delivered to the Trustee and the Authority an opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Series Indenture, complies with the terms thereof, will, on the execution and delivery thereof, be valid and binding on the Authority in accordance with its terms and will not adversely affect the exclusion from the gross income of the recipients thereof of interest on the 2024 Bonds for federal income tax purposes.

DEFEASANCE

If the Authority pays or causes to be paid or is deemed to have paid to the Owner of any Bond the principal of and Interest due and payable, and thereafter to become due and payable on such Bond, or any portion of such Bond in any integral multiple of the Authorized Denomination thereof, such Bond or portion thereof will cease to be entitled to any lien, benefit or security under the General Indenture. If the Authority pays or causes to be paid the principal of, premium, if any, and interest due and payable on all Outstanding Bonds, pays or causes to be paid all other sums payable by the Authority, including all fees, expenses and other amounts payable to the Trustee and any Paying Agent and all amounts owing to the provider of a Qualified Reserve Fund Substitute, then the right, title and interest of the Trustee in and to the Trust Estate will thereupon cease, terminate and become void.

Any Bond will be deemed to be paid within the meaning and for all purposes of the General Indenture when (a) payment of the principal of such Bond plus Interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption) either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment, (1) moneys, sufficient to make such payment or (2) non-callable Federal Securities maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment, (b) all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee, and (c) in the event of an advance refunding, an opinion of Bond Counsel confirming that based on the verification report submitted by a verification agent selected by the Authority

and approved by the Trustee, that such Bonds are duly defeased. At such times as a Bond is deemed to be paid under the General Indenture, such Bond will no longer be secured by or entitled to the benefits of the General Indenture, except for the purposes of any such payment from such moneys or Federal Securities.

Notwithstanding the preceding paragraph, no deposit under clause (a)(ii) of such paragraph will be deemed a payment of such Bonds as aforesaid until (a) proper notice of redemption of such Bonds has been previously given in accordance with the applicable Series Indenture, or if said Bonds are not to be redeemed within the next 35 days, until the Authority has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of such Bonds in accordance with the applicable Series Indenture, that the deposit required by (a)(ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the General Indenture and stating the maturity or redemption date on which moneys are to be available for the payment of the principal of said Bonds plus Interest thereon to the due date thereof, or (b) the maturity of such Bonds.

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

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APPENDIX F

[Form of Opinion of Bond Counsel]

September __, 2024

Onslow Water and Sewer Authority
Jacksonville, North Carolina

We have examined, as bond counsel to the Onslow Water and Sewer Authority (the “Authority”), (i) the Constitution and laws of the State of North Carolina, including The State and Local Government Revenue Bond Act, as amended (the “Act”), (ii) certified copies of the proceedings of the Authority showing the adoption of an order authorizing the issuance by the Authority of its \$29,100,000 Combined Enterprise System Revenue Bonds, Series 2024, dated the date hereof (the “2024 Bonds”) and (iii) other proofs submitted relative to the issuance and sale of the 2024 Bonds. The 2024 Bonds are being issued under and pursuant to a General Trust Indenture, dated as of June 15, 2004, as amended from time to time (the “General Indenture”), between the Authority and U.S. Bank Trust Company, National Association, as successor trustee (the “Trustee”) and a Series Indenture, Number 13, dated as of September 1, 2024 (the “Series Indenture”), between the Authority and the Trustee.

The 2024 Bonds bear interest from their date and mature, subject to redemption prior to their maturities, as provided in the Series Indenture.

The 2024 Bonds are being issued to provide funds to (a) pay the costs of the 2024 Project (as defined in the Series Indenture) and (b) pay the costs and expenses incurred in connection with the issuance of the 2024 Bonds.

The Authority has heretofore issued under the General Indenture twelve series of Bonds. In addition, the General Indenture provides for the issuance, under the conditions, limitations and restrictions therein set forth, of additional revenue bonds to provide funds for paying the cost of (a) constructing any expansion or improvement of the Combined Enterprise System (as defined in the General Indenture) or (b) refunding all or any principal amount of obligations issued under the General Indenture. The Bonds previously issued and outstanding under the General Indenture, the 2024 Bonds and any additional revenue bonds issued under the General Indenture are herein collectively referred to as the “Bonds.”

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The General Indenture provides that the payment of any Series of Bonds may be secured by (a) the Parity Reserve Account, which secures all Bonds designated by the Authority as secured by the Parity Reserve Account or (b) a Series Reserve Account that secures only the Series of Bonds so designated to be secured by the Series Reserve Account. The 2024 Bonds are not secured by the Parity Reserve Account or any Special Reserve Account.

As to matters of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on such examination, we are of the opinion, as of the date hereof and under existing law, that:

1. The 2024 Bonds have been duly authorized, executed and delivered.
2. The General Indenture and the Series Indenture have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, are valid and binding agreements enforceable against the Authority in accordance with their terms.
3. The 2024 Bonds, together with any other Bonds heretofore or hereafter issued by the Authority under the General Indenture are, to the extent provided in the General Indenture, secured by a pledge, charge and lien upon Net Revenues (as defined in the General Indenture).
4. The 2024 Bonds are valid and binding special obligations of the Authority secured by a pledge, charge and lien upon, and the principal of, and the premium, if any, and interest on which are payable from, the funds and the income from the investment thereof in the respective subaccounts of the Debt Service Fund (as defined in the General Indenture).
5. The Authority is not obligated to pay the principal of, premium, if any, or the interest on the 2024 Bonds except as provided in the General Indenture and the Series Indenture. The principal of and interest on the 2024 Bonds are not payable from the general funds of the Authority, nor do the 2024 Bonds constitute a legal or equitable pledge, charge, lien or encumbrance upon the income, receipts or revenues of the Authority except for the funds which are pledged under the General Indenture and the Series Indenture. Neither the faith and credit nor the taxing power of the State of North Carolina or the Authority is pledged to the payment of the principal of, premium, if any, or interest on the 2024 Bonds, and no holder of the 2024 Bonds has the right to compel the exercise of the taxing power by the State of North Carolina or the Authority, or the forfeiture of the Authority's property other than the funds which are pledged under the General Indenture and the Series Indenture, in connection with any default with respect to the 2024 Bonds. The Authority has no taxing power.
6. Assuming continuing compliance by the Authority with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding, among other matters, use, expenditure and investment of Bond proceeds, and the timely payment of certain investment earnings to the United States Treasury, interest on the 2024 Bonds is not includable in the gross income of the owners thereof for purposes of federal income taxation. Interest on the 2024 Bonds is not a specific preference item for purposes of the alternative minimum tax imposed by the Code; however, interest on the 2024 Bonds held by certain corporations is included in the computation of "adjusted financial statement income" for purposes of the federal alternative minimum tax imposed on such corporations.



7. Interest on the 2024 Bonds is exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the 2024 Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the 2024 Bonds and the enforceability thereof and of the General Indenture and the Series Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the 2024 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

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APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

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APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

Beneficial ownership interests in the 2024 Bonds will be available only in a book-entry system. The actual purchasers of the 2024 Bonds (the “*Beneficial Owners*”) will not receive physical bonds representing their interests in the 2024 Bonds purchased. So long as The Depository Trust Company (“*DTC*”), New York, New York, or its nominee is the registered owner of the 2024 Bonds, references in this Official Statement to the Owners of the 2024 Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners.

THE FOLLOWING DESCRIPTION OF DTC, OF PROCEDURES AND RECORD KEEPING ON BENEFICIAL OWNERSHIP INTERESTS IN THE 2024 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS WITH RESPECT TO THE 2024 BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2024 BONDS, AND OR OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

The Depository Trust Company
a subsidiary of The Depository Trust & Clearing Corporation

DTC will act as securities depository for the 2024 Bonds. The 2024 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity will be issued for the 2024 Bonds, in the aggregate principal amount of the issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of the 2024 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has a Standard & Poor’s rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2024 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2024 Bonds on DTC’s records. The ownership interest of each actual purchaser of the 2024 Bonds (“*Beneficial Owner*”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their

purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2024 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in the 2024 Bonds, except in the event that use of the book-entry system for the 2024 Bonds is discontinued.

To facilitate subsequent transfers, all 2024 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2024 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2024 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2024 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2024 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2024 Bonds, such as redemptions, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the 2024 Bonds may wish to ascertain that the nominee holding the 2024 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2024 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2024 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2024 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the 2024 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the Trustee's responsibility, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. THE

AUTHORITY AND THE TRUSTEE CAN GIVE NO ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the 2024 Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information concerning DTC and DTC's book-entry system has been obtained from sources the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

THE AUTHORITY AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE 2024 BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS ON ANY PARTIAL REDEMPTION OF THE 2024 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE 2024 BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

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