



ORANGE WATER AND SEWER AUTHORITY

Quality Service Since 1977

AGENDA
ANNUAL MEETING OF THE OWASA BOARD OF DIRECTORS
THURSDAY, SEPTEMBER 27, 2007, 7:00 P.M.
CHAPEL HILL TOWN HALL

In compliance with the "Americans with Disabilities Act," interpreter services are available with five days prior notice. If you need this assistance, please call the Clerk to the Board at 537-4217 or aorbich@owasa.org.

7:00 PM

Announcements

1. Announcements by the Chair
 - A. Any Board member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time.
 - B. **Resolution of Appreciation for Elonnie Alston, OWASA Solids Handling Supervisor**
 - C. Update on the September 20, 2007 Assembly of Governments Meeting
2. Announcements by Board Members
 - A. Update on the Budget and Financial Planning Committee meeting held on September 27, 2007 (Gordon Merklein)
 - B. Ad Hoc Art Committee will meet on Thursday, October 11, 2007 at 5:00 PM in the OWASA Boardroom to discuss the Atrium Art Project
3. Announcements by Staff
 - A. Rate Changes and Increases take effect on October 1, 2007 (Greg Feller)
 - B. OWASA joins the U.S. Environmental Protection Agency's (EPA's) WaterSense Program (Greg Feller)
 - C. Festifall Street Fair: Sunday, October 7, 2007 from 1:00 P.M. – 6:00 P.M., West Franklin Street in Chapel Hill (Greg Feller)

7:15 PM

Petitions and Requests

1. Public
2. Board
3. Staff

7:20 PM

Election of Officers

1. **Report of the Nominating Committee (Marge Anders Limbert)**
2. **Election of Officers:**
 - A. **Chair of the Board**
 - B. **Vice Chair of the Board**
 - C. **Secretary**

7:30 PM **Presentation of Annual Report**

3. A. Executive Director's Comments
- B. Finance Director's Comments
- C. McGladrey & Pullen's Comments

7:50 PM **CONSENT AGENDA**
Information and Reports

4. Update on Plans for Carolina North – Implications for OWASA (Patrick Davis)

Minutes (Andrea Orbich)

5. Approval of the Minutes of the August 23, 2007 Board Meeting
6. Approval of the Minutes of the September 13, 2007 Closed Session for the Purpose of Discussing a Human Resources Matter

Action

7. Resolution Adopting a Revised Purchasing and Contracting Policy, dated September 27, 2007 (Jan Bryant-Berry)

REGULAR AGENDA
Information and Reports

- 7:55 PM 8. Meeting of the Waters Interceptor and Reclaimed Water System Update (Alexandra Jones)
- 8:15 PM 9. Update on Installation of New Biosolids Dewatering System and Biosolids Composting Services agreement with McGill (Vishnu Gangadharan)

Discussion

- 8:30 PM 10. Recommended Declaration of Stage 1 Water Shortage (Ed Kerwin)

Discussion and Action

- 8:45 PM 11. Resolution Reappointing Robert Epting as General Counsel to the Orange Water and Sewer Authority (Marge Anders Limbert)

CLOSED SESSION

- 8:50 PM 12. Closed Session for the Purpose of Discussing a Human Resources Matter (Marge Anders Limbert)

Item 1

AGENDA ITEM

- REPORT OF THE NOMINATING COMMITTEE

BACKGROUND

- The Bylaws of Orange and Sewer Authority state that officers shall be elected at each Annual Meeting of the Authority, and shall hold office until the next Annual Meeting or until their successors are elected and qualified.
- At the August 23, 2007 Board of Directors meeting, the Chair of the Board appointed a Nominating Committee consisting of the following Board members:

Marge Anders Limbert, Chair
Mac Clarke
William Stott

- The purpose of the Nominating Committee is to propose a slate of officers for election for the 2007-08 corporate year:

Chair of the Board
Vice Chair of the Board
Secretary of the Board

ACTION NEEDED

- Election of officers by the Board of Directors.

September 27, 2007

MEMORANDUM

TO: Board of Directors

FROM: Marge Anders Limbert

DATE: September 4, 2007

SUBJECT: Nominating Committee Report

After careful consultation with all Board members, due consideration of all members who desired to hold office, and a thorough gauging of the support that various candidates might receive, the Nominating Committee makes the following recommendations:

Chair – Randy Kabrick
Vice Chair – Gordon Merklein
Secretary – Braxton Foushee

Submitted by: Marge Anders Limbert

ELECTION OF OFFICERS

Board of Directors to elect a Chair, Vice Chair and
Secretary

(Marge Anders Limbert)

September 27, 2007

PRESENTATION OF ANNUAL REPORT

3.
 - A. Executive Director's Comments
 - B. Finance Director's Comments
 - C. McGladrey & Pullen's Comments

September 27, 2007

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Kevin M. Ray

DATE: September 20, 2007

SUBJECT: Orange Water and Sewer Authority *Comprehensive Annual Financial Report* for the Year Ended June 30, 2007

I am pleased to provide the attached *Draft Comprehensive Annual Financial Report* (CAFR) for the year ended June 30, 2007, and to provide commentary on OWASA's financial performance during Fiscal Year (FY) 2007 at OWASA's September 27, 2007 annual meeting. The auditors have issued once again an unqualified opinion.

In spite of continued revenue deficits arising from long-term water demand reduction, OWASA's overall net worth increased by more than \$8.3 million during the year, with net operating income, less depreciation, approaching \$9.0 million. With the addition of nonoperating revenues and Series 2006 bond proceeds, OWASA completed approximately \$20.0 million in capital projects, while maintaining a less than desirable, yet comfortable debt service coverage of ratio of 1.54.

The report is currently in draft form. The audit field work was completed in mid-September with the auditors' sign-off on the "numbers" on September 14. OWASA is responsible for the content of the report and while we do not anticipate any material changes in the basic financial statements, staff continues to review the draft report, and prepare the transmittal letter and the required *Management's Discussion and Analysis* section based on the draft numbers. As a component unit of the Town of Chapel Hill for reporting purposes, we are also required to include certain supplemental information from their CAFR that is not yet available. We will provide the completed printer's version to the Board of Directors in October after a review by the Local Government Commission.

Kevin M. Ray
Director of Finance and Customer Service

Attachment

Orange Water and Sewer Authority
Carrboro, North Carolina

(A component unit of the Town of
Chapel Hill, North Carolina)

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2007

PRELIMINARY DRAFT
for Review and Discussion
--Subject to Change--
Not to be Reproduced

Prepared by:

Finance Department of Orange Water and Sewer Authority

Orange Water and Sewer Authority
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2007

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ORANGE WATER AND SEWER AUTHORITY

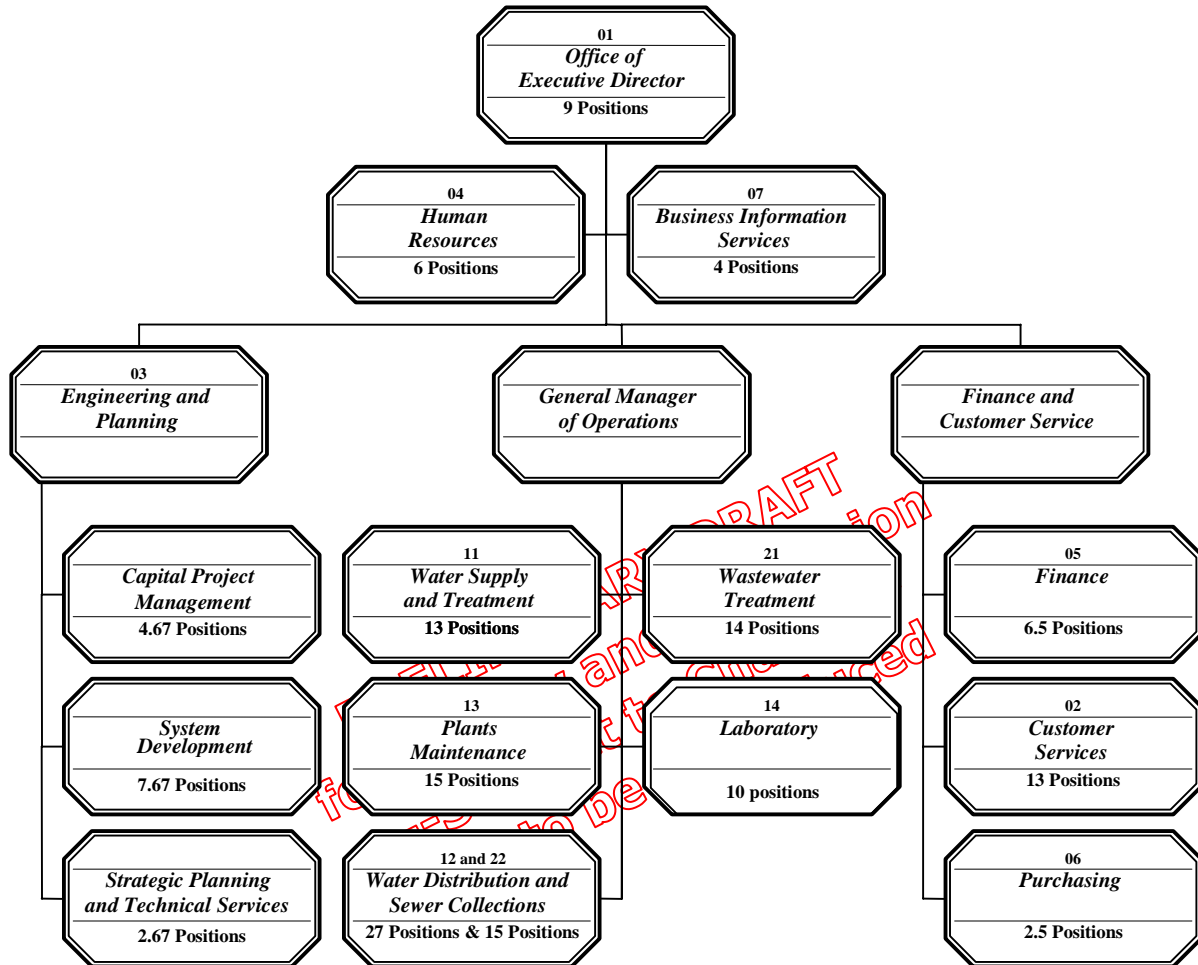
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GFOA Certificate of Achievement

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Orange Water and Sewer Authority Staff/Department Structure



Total: 150 Positions

**ORANGE WATER AND SEWER AUTHORITY
FISCAL YEAR 2006-2007
OFFICERS**

Michael A. (Mac) Clarke, Chair
Randolph M. Kabrick, P.E., Vice Chair
Gordon Merklein, Secretary

BOARD OF DIRECTORS

<u>Member</u>	<u>Appointed By</u>	<u>Term Expiration</u>
Fred Battle	Orange County	2009
Michael A. Clarke	Chapel Hill	2008
Braxton Foushee	Carrboro	2008
Randolph M. Kabrick, P. E.	Chapel Hill	2007
Marge Anders Limbert	Orange County	2008
Gordon Merklein	Chapel Hill	2007
Gene Pease	Chapel Hill	2009
Penny Rich	Chapel Hill	2007
William Scott	Carrboro	2009

SENIOR MANAGEMENT TEAM

Sandra Bradshaw, Laboratory Manager
Tammy Brown, Customer Service Manager
Jan Bryant-Berry, CLGPO, Procurement Manager
Gwen Burston, S.P.H.R., Director of Human Resources
F. Stuart Carson, P.E., Engineering Manager – Capital Projects
Mason Crum, Director of Engineering and Planning
Mary Darr, P.E., Operations Engineer
Patrick K. Davis, Utility Manager
Greg Feller, Public Affairs Administrator
Stephanie Glasgow, MESH, PHR, Safety and Training Administrator
Walter Gottschalk, Wastewater Treatment and Biosolids Recycling Manager
Thurman Green, P.E., Distribution and Collection Systems Manager
John Greene, P.E., General Manager of Operations
Edward Holland, A.I.C.P., Director of Planning and Development
Johnny Johnson, Plants Maintenance Manager
Ed Kerwin, Executive Director
Ken Loflin, Water Supply and Treatment Manager
Andrea Orbich, Executive Assistant
Dan Przybyl, Director of Business Information Services
Kevin M. Ray, Director of Finance and Customer Service
Judy Weller, Accounting Manager

GENERAL COUNSEL

Robert Epting, Esquire Epting and Hackney

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Orange Water and Sewer Authority
Carrboro, North Carolina

We have audited the accompanying financial statements of Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the years ended June 30, 2007 and 2006, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Authority as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September XX, 2007 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages XX through XX is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules listed in the table of contents, as well as the accompanying schedule of expenditures of state awards as required by the State Single Audit Implementation Act, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Greensboro, North Carolina
September XX, 2007

Orange Water and Sewer Authority

Statements of Net Assets
June 30, 2007 and 2006

Assets	2007	2006
Current Assets		
Cash and cash equivalents	\$ 33,488	\$ 801,354
Investments, Authority	6,985,000	6,615,746
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately \$115,325 for 2007 and \$58,590 for 2006)	2,961,439	2,765,661
Interest	-	4,933
Other	644,158	819,324
Inventory, materials and supplies	669,415	609,485
Prepaid expenses	21,003	271,007
Restricted cash, cash equivalents and investments:		
Cash and cash equivalents, Trustee	5,991,959	5,792,668
Total current assets	17,306,462	17,680,178
Noncurrent Assets		
Restricted Cash, Cash Equivalents and Investments		
Cash and cash equivalents, Authority	1,127,192	1,656,500
Cash and cash equivalents, Trustee	8,272,997	286,927
Total restricted cash, cash equivalents and investments	9,400,189	1,943,427
Capital assets:		
Non-depreciable	95,152,622	79,819,842
Depreciable	177,061,466	172,403,648
Total capital assets net of accumulated depreciation	272,214,088	252,223,490
Patent, net of accumulated amortization of \$844,779 for 2007 and \$824,173 for 2006	-	20,606
Unamortized bond expenses, net of accumulated amortization of \$485,284 for 2007 and \$409,788 for 2006	1,103,483	927,620
	1,103,483	948,226
Total noncurrent assets, net	282,717,760	255,115,143
Total assets	\$ 300,024,222	\$ 272,795,321

See Notes to Financial Statements.

Liabilities and Net Assets	2007	2006
Current Liabilities		
Payable from current assets:		
Trade and construction contracts payable	\$ 3,530,506	\$ 4,179,249
Customer deposits and advances	643,665	423,180
Accrued expenses	724,891	683,189
Payable from restricted cash, cash equivalents and investments:		
Accrued interest	2,181,392	1,750,509
Current maturities of bonds payable	3,810,567	4,042,159
Total current liabilities	10,891,021	11,078,286
Noncurrent Liabilities		
Long-term debt	111,461,797	92,365,723
Total liabilities	122,352,818	103,444,009
Net Assets		
Invested in capital assets, net of related debt	161,812,115	160,813,755
Restricted for maintenance reserve and power funds	1,127,192	1,894,497
Restricted for future capital projects	8,093,307	-
Restricted for debt service	185,258	31,088
Unrestricted	6,453,532	6,611,972
Total net assets	\$ 177,671,404	\$ 169,351,312

PRELIMINARY DRAFT
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Orange Water and Sewer Authority

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
Water	\$ 14,218,387	\$ 13,946,421
Sewer	10,272,920	9,682,210
Service initiation fees	142,086	153,670
Other	777,767	649,081
Total operating revenues	25,411,160	24,431,382
Operating expenses:		
Water supply and treatment	2,261,394	2,159,244
Water distribution	1,961,162	1,710,117
Sewer treatment	2,865,782	3,042,830
Sewer collections	1,539,591	1,352,661
General and administrative	4,420,873	3,809,200
Customer relations	714,639	966,972
Maintenance	1,979,957	1,860,938
Laboratory	890,108	821,955
Depreciation and amortization	6,950,774	6,871,350
Total operating expenses	23,584,280	22,595,267
Operating income	1,826,880	1,836,115
Nonoperating revenues (expenses):		
Customer fees	2,514,450	2,308,651
Investment income, net of fair value of investment adjustment	995,354	742,010
Interest expense	(4,361,911)	(2,724,951)
Amortization of bond expense and patent	(96,898)	(141,579)
Other	16,431	(58,846)
Income before contributions	894,306	1,961,400
Capital contributions:		
Capital grants and contributions	650,097	153,232
Contribution in aid of construction	6,775,689	3,306,603
Total capital contributions	7,425,786	3,459,835
Increase in net assets	8,320,092	5,421,235
Net assets:		
Beginning	169,351,312	163,930,077
Ending	\$ 177,671,404	\$ 169,351,312

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See Notes to Financial Statements.

Orange Water and Sewer Authority

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Receipts from customers	\$ 24,437,615	\$ 24,450,175
Payments to suppliers	(7,784,681)	(6,123,673)
Payments to employees	(9,266,271)	(8,930,475)
Other receipts	952,933	734,895
Net cash provided by operating activities	8,339,596	10,130,922
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of property, plant and equipment	(20,004,651)	(21,712,438)
Proceeds from sale of property, plant and equipment	132,137	17,288
Principal paid on bond maturities and other long-term debt	(4,060,000)	(3,290,000)
Proceeds from the issuance of bonds	22,924,165	-
Interest paid on bond maturities on other long-term debt	(4,207,766)	(3,648,745)
Customer fees received	2,734,935	2,236,399
Capital grants and contributions	650,097	153,232
Bond issuance costs and capitalized expenses	(251,359)	(3,394)
Net cash used in capital and related financing activities	(2,082,442)	(26,247,658)
Cash Flows From Investing Activities		
Proceeds from sale and maturities of investment securities	994,400	29,897,261
Amount paid for purchase of investments	(1,368,000)	(29,982,824)
Interest and dividends on investments	1,004,633	977,553
Net cash provided by investing activities	631,033	891,990
Net increase (decrease) in cash and cash equivalents	6,888,187	(15,224,746)
Cash and cash equivalents:		
Beginning	8,537,449	23,762,195
Ending	\$ 15,425,636	\$ 8,537,449
Reconciliation of Cash and Cash Equivalents:		
Current assets	\$ 33,488	\$ 801,354
Restricted assets:		
Authority	1,127,192	1,656,500
Trustee	14,264,956	6,079,595
	\$ 15,425,636	\$ 8,537,449

(Continued)

Orange Water and Sewer Authority

Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2005
Reconciliation of Operating Income to Net Cash		
Provided By Operating Activities		
Operating income	\$ 1,826,880	\$ 1,836,115
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,950,295	6,871,350
Changes in assets and liabilities:		
Trade accounts receivable	(195,778)	667,874
Other receivables	175,166	85,814
Inventory	(59,930)	(86,840)
Prepaid expenses	250,004	5,507
Trade and construction contracts payable	(648,743)	774,265
Accrued expenses	41,702	(23,163)
Net cash provided by operating activities	\$ 8,339,596	\$ 10,130,922
Supplemental Schedule of Noncash Capital and Related Financing Activities, Noncapital Financing Activities and Investing Activities		
Property, plant and equipment contributed by private developers	\$ 6,775,689	\$ 3,306,603
Capitalized interest, net of investment earnings	\$ 276,738	\$ 1,298,437
Amortization of bond expenses, bond discounts, deferred refunding gains and losses, and a wastewater phosphorus removal process patent	\$ 96,898	\$ 141,579
Increase (decrease) in the fair value of the Authority's investments	\$ 4,346	\$ (225,575)

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

a. Reporting entity

Orange Water and Sewer Authority (the "Authority") was created pursuant to Chapter 162A of the North Carolina General Statutes by the Board of Commissioners of Orange County, and the Boards of Aldermen of the Towns of Chapel Hill and Carrboro in June 1975, as a public entity, politic and corporate, for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems serving the above governmental jurisdictions and certain contiguous areas. The Authority is a separate governmental unit granted independent authority by the North Carolina General Statutes to allow the Authority's Board of Directors to set rates, fees and charges without oversight, supervision, or direction from any other state or local entity or agency.

Because the Town Council of Chapel Hill appoints a majority of the Authority's Board of Directors, and may remove them without cause, the Authority falls within the definition of a "Component Unit" provided in applicable accounting standards. For this reason, the Authority's financial data is incorporated into the Comprehensive Annual Financial Report of the Town of Chapel Hill.

b. Measurement focus, basis of accounting, and financial statement presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Authorities also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

c. Assets, liabilities, and net assets

1. Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All deposits of the Authority are made in board-designated official depositories and are secured as required by State statute. The Authority may designate, as an official depository, any bank or savings 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 authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC-registered mutual fund.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Authority's investments with a maturity of more than one year at acquisition and nonmoney market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities, a SEC-register (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade receivables that are determined to be uncollectible by the client are based on their knowledge of collection history for similar customers.

3. Inventory – materials and supplies

Materials and supplies are valued at average cost.

4. Restricted assets

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "maintenance reserve and power fund" accounts are used to report resources set aside to subsidize potential deficiencies from the Authority's operation that could adversely affect debt service payments. The "future capital projects" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

5. Other assets

The cost of patents is being amortized on a straight-line basis over its remaining estimated useful life, not to exceed fifteen years.

Unamortized bond expenses represent the difference between the reacquisition price and the net carrying amount of debt that is being deferred and amortized when new debt is issued for current or advanced refunding of existing debt. Costs incurred attributable to the issuance of revenue bonds have been deferred and are being amortized over the life of the bonds using the effective interest method.

6. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable business-type activities in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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 Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Property, plant and equipment is depreciated using the straight-line method by groups or classes of property over the following expected service lives:

	Years
Water treatment and distribution	20 - 60
Sewer collection and treatment	40 - 60
Fixtures and equipment	5 - 20

Assets under capitalized lease obligations are recorded at the discounted present value of the future minimum lease payments at the inception of the respective leases. The amounts capitalized are being amortized by the straight-line method over the lesser of the term of the lease or the estimated life of the asset. Amortization of these assets is included in depreciation expense.

7. Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements, but is limited to thirty days. At June 30, 2007 and 2006, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$404,146 and \$410,063, respectively.

8. Long-Term Debt

Long-term debt is reported net of applicable bond premium or discount, which are deferred and amortized over the life of the bonds using the effective interest method.

9. Net Assets

Invested in capital assets, net of related debt net assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets for maintenance reserve and power fund and future capital projects represent the Authority's portion of net assets that are restricted by externally imposed constraints by creditors that relate to the Authority's revenue bonds.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

10. 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. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expense for the Authority includes 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 Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

11. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Stewardship and Accountability – Budgetary Information

Annual budgets are adopted on a basis consistent with provisions of the Local Government Budget and Fiscal Control Act, which is the modified accrual method of accounting. All annual appropriations lapse at fiscal year end.

In March of each year, the Authority requests information from various departments to project the amount of appropriations for each department so that a budget may be prepared. The proposed budget is presented to the Authority's board for review and approval before the end of April.

Budgeted revenues are reflected by source and budgeted expenses by department. On a periodic basis, as required by changing conditions, the budgeted amounts are amended. The budgeted amounts shown in the supplemental schedules reflect the governing board's amendments through the fiscal year end.

Note 3. Cash, Cash Equivalents and Investments

Deposits - All of the Authority's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the unit's name. Under the pooling method, which is a 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 Authority, these deposits are considered to be held by the Authority's agent in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for noninterest-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 Authority or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the pooling method, the potential exists for undercollateralization, 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.

At June 30, 2007, the Authority's deposits had a carrying amount of \$1,160,105 and a bank balance of \$1,464,600. Of the bank balance, \$204,803 was covered by federal depository insurance and \$1,259,797 in interest-bearing deposits were covered by collateral held under the pooling method. The Authority had cash on hand of \$575 at June 30, 2007.

Orange Water and Sewer Authority

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

Cash Equivalents and Investments:

At June 30, 2007 and 2006, the Authority's cash equivalents and investment balances at fair value were as follows:

	2007	2006
Commercial Paper	\$ 6,985,000	\$ 6,615,746
The North Carolina Capital Management Trust, a mutual fund	14,264,956	5,841,598
	<u>\$ 21,249,956</u>	<u>\$ 12,457,344</u>

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the Authority's maturities for the US Government Treasuries and commercial paper are less than six months. The North Carolina Capital Management Trust has a weighted average maturity of 0.9 years as of June 30, 2007.

Credit risk. The Authority has no policy regarding credit risk. The investments in US Government Treasuries are rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations ("NRSROs"). As of June 30, 2007, the Authority's investments in commercial paper were rated F1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The Authority's investment in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2007.

At June 30, 2007 and 2006, cash, cash equivalents and investments administered by the Authority consist of the following:

	2007	2006
Authority:		
Current:		
General Fund	\$ 6,925,515	\$ 7,345,929
Revenue Fund	92,973	71,171
Total current	<u>\$ 7,018,488</u>	<u>\$ 7,417,100</u>
Restricted:		
Capital Reserve Fund	\$ 1,127,192	\$ 1,656,500
Power Account Fund	-	237,997
Total restricted	<u>\$ 1,127,192</u>	<u>\$ 1,894,497</u>
Trustee:		
Restricted:		
Construction Fund	\$ 8,093,307	\$ -
Bond Service Fund	6,171,649	5,841,598
Total restricted	<u>\$ 14,264,956</u>	<u>\$ 5,841,598</u>

Orange Water and Sewer Authority

Notes to Financial Statements

Note 4. Capital Assets

Capital assets activity consists of the following for the years ended June 30, 2007 and 2006:

	July 1, 2006 Beginning Balance	Increases	Decreases	June 30, 2007 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 17,289,624	\$ 2,705,254	\$ -	\$ 19,994,878
Construction in progress	62,530,218	12,981,103	353,577	75,157,744
Total capital assets, not being depreciated	79,819,842	15,686,357	353,577	95,152,622
Capital assets, being depreciated:				
Water treatment and distribution	108,722,751	6,247,665	1,198	114,969,218
Sewer collection and treatment	99,056,458	3,141,496	-	102,197,954
Fixtures and equipment	33,880,647	2,335,137	133,321	36,082,463
Assets under capital lease obligations	260,596	-	-	260,596
Total capital assets, being depreciated	241,920,452	11,724,298	134,519	253,510,231
Less accumulated depreciation for:				
Water treatment and distribution	28,258,182	2,667,997	-	30,926,179
Sewer collection and treatment	25,979,991	2,388,441	-	28,368,432
Fixtures and equipment	15,018,035	1,894,336	18,813	16,893,558
Assets under capital lease obligations	260,596	-	-	260,596
Total accumulated depreciation	69,516,804	6,950,774	18,813	76,448,765
Total capital assets, being depreciated, net	172,403,648			177,061,466
Total capital assets, net	\$ 252,223,490			\$ 272,214,088
	July 1, 2005 Beginning Balance	Increases	Decreases	June 30, 2006 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 14,698,207	\$ 591,417	\$ -	\$ 17,289,624
Construction in progress	42,897,990	20,787,144	1,154,916	62,530,218
Total capital assets, not being depreciated	59,596,197	21,378,561	1,154,916	79,819,842
Capital assets, being depreciated:				
Water treatment and distribution	105,811,097	2,937,771	26,117	108,722,751
Sewer collection and treatment	96,731,521	2,326,437	1,500	99,056,458
Fixtures and equipment	33,408,377	829,626	357,356	33,880,647
Assets under capital lease obligations	260,596	-	-	260,596
Total capital assets, being depreciated	236,211,591	6,093,834	384,973	241,920,452
Less accumulated depreciation for:				
Water treatment and distribution	25,669,009	2,599,914	10,741	28,258,182
Sewer collection and treatment	23,637,303	2,342,688	-	25,979,991
Fixtures and equipment	13,387,384	1,928,748	298,097	15,018,035
Assets under capital lease obligations	260,596	-	-	260,596
Total accumulated depreciation	62,954,292	6,871,350	308,838	69,516,804
Total capital assets, being depreciated, net	173,257,299			172,403,648
Total capital assets, net	\$ 232,853,496			\$ 252,223,490

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Orange Water and Sewer Authority

Notes to Financial Statements

Note 5. Long-Term Debt

Long-term debt as of June 30, 2007 and 2006 consists of the following:

	2007	2006
Revenue bonds payable, Series 2006 Revenue Serial Bonds in the amount of \$15,500,000, issued October 26, 2006, with coupon rates of 4.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$622,121 at June 30, 2007; Revenue bonds payable, Series 2006 Revenue Term Bonds in the amount of \$6,785,000, issued October 26, 2006, with an interest rate of 5.0%, due in full July 2031	\$ 22,907,121	-
Revenue and revenue refunding bonds payable, Series 2005 Revenue and Revenue Refunding Bonds, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized discount of \$223,587 at June 30, 2007	18,451,412	\$ 18,434,213
Revenue bonds payable, Series 2004A Revenue Bonds in the amount of \$21,265,000, issued June 1, 2004, with coupon rates of 3.0% and 5.25%, final maturity July 2021, net of unamortized premium of \$590,683 at June 30, 2007; Revenue bonds payable, Series 2004B Revenue Bonds in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (4% at June 30, 2007), final maturity July 2029	40,810,683	41,898,127
Revenue and revenue refunding bonds payable, Series 2003 Revenue and Revenue Refunding Bonds, issued April 9, 2003, with coupon rates of 2.5% to 5.0%, final maturity July 2016, net of unamortized premium and deferred refunding loss of \$470,187 at June 30, 2007	9,009,813	10,477,571
Revenue and revenue refunding bonds payable, Series 2001 Revenue and Revenue Refunding Bonds, issued September 13, 2001, with coupon rates of 3.5% to 5.0%, final maturity July 2026, net of unamortized premium and deferred refunding loss of \$56,812 at June 30, 2007	22,056,812	22,934,968
Revenue and revenue refunding bonds payable, Series 1999 Revenue and Revenue Refunding Bonds, issued April 15, 1999, with coupon rates of 4.0% to 5.25%, final maturity July 2009, net of unamortized premium of \$11,523 at June 30, 2007	2,036,523	2,663,003
	<u>115,272,364</u>	<u>96,407,882</u>
Less current maturities:		
Bonds payable, net of unamortized premiums and deferred refunding gains and losses	3,810,567	4,042,159
Long-term portion	<u>\$ 111,461,797</u>	<u>\$ 92,365,723</u>

Orange Water and Sewer Authority

Notes to Financial Statements

Note 5. Long-Term Debt (Continued)

Debt maturities are as follows:

Year	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2008	\$ 3,805,000	\$ (5,567)	\$ 3,810,567	\$ 3,880,387
2009	4,840,000	(5,567)	4,845,567	4,755,033
2010	4,835,000	(5,567)	4,840,567	4,570,845
2011	5,230,000	(1,726)	5,231,726	4,374,964
2012	5,450,000	(1,726)	5,451,726	4,148,876
2013-2017	26,900,000	(60,861)	26,960,861	17,353,018
2018-2022	25,375,000	(258,258)	25,633,258	11,466,509
2023-2027	23,860,000	(137,306)	23,997,306	6,038,920
2028-2032	14,390,000	(110,786)	14,500,786	1,589,250
Total	\$ 114,685,000	\$ (587,364)	\$ 115,272,364	\$ 58,177,802

In 2006, the Authority issued \$22,285,000 of debt, at a premium of \$639,165, in Series 2006 Water and Sewer System Revenue Bonds to finance construction and improvements.

In 2005, the Authority issued \$18,675,000, net of a discount of \$257,985, in Series 2005 Revenue and Revenue Refunding Bonds to provide for a partial refunding of Series 2001 and Series 1999 Revenue Bonds. The Authority irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the Series 2001 and Series 1999 Revenue Bonds as they become due.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1,000,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, this gain, net of accumulated amortization, is reported in the accompanying financial statements and is being amortized over the life of the new debt, using the effective interest method.

In 2004, the Authority issued \$41,265,000 of debt, at a premium of \$721,553 in Series 2004 Revenue Bonds to finance construction and improvements.

In 2003, the Authority issued \$13,875,000 of debt, at a premium of \$683,018 in Series 2003 Revenue Refunding Bonds to refund all but two installments of the remaining Series 1993 Revenue Bonds. The Authority irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the refunded bonds as they become due. As of June 30, 2005, the refunded Series were fully redeemed.

In 2001, the Authority issued \$34,540,000 of debt, at a premium of \$318,749 in Series 2001 Revenue and Revenue Refunding Bonds to finance construction and improvement projects, as well as provide for the refunding of \$3,995,000 in Series 1993 Revenue Bonds. The Authority irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the refunded bonds as they become due. As of June 30, 2005, the refunded Series were fully redeemed.

Notes to Financial Statements

Note 6. Pension Plan Obligations (Continued)

Funding policy: Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate is 6.82% of annual covered payroll. The contribution requirements of members and the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2007, 2006 and 2005 were \$332,113, \$322,323 and \$307,420, respectively. The contributions made by the Authority equaled the required contributions for each year.

Note 7. Risk Management and Commitments

Risk management: The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has property, general liability, workers' compensation, and employee health coverages. Claims have not exceeded coverage in any of the past three fiscal years.

Commitments: The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately \$ [REDACTED] at June 30, 2007.

Note 8. Net Assets

At June 30, 2007 and 2006, the Board of Directors had approved the use of a portion of the restricted and unrestricted net assets for the following future project ordinances:

	2007	2006
Raw water supply sources	478,000	5,012,000
Water filtration	222,000	272,000
Water transmission and distribution	2,074,000	2,077,000
Wastewater pumping stations and force mains	1,563,000	941,000
Wastewater collection	8,086,000	4,238,000
Wastewater treatment and disposal	7,124,000	13,823,000
Finished water pumping	50,000	931,000
Information services	330,000	490,000
Finished water storage	160,000	30,000
	\$ 20,087,000	\$ 27,814,000

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis)
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:				
Water	\$ 15,423,000	\$ 15,423,000	\$ 14,218,387	\$ (1,204,613)
Sewer	10,785,000	10,785,000	10,272,920	(512,080)
Service initiation fees	145,000	145,000	142,086	(2,914)
Other	688,900	688,900	777,767	88,867
Total operating revenues	27,041,900	27,041,900	25,411,160	(1,630,740)
Nonoperating revenues:				
Interest income	1,000,000	1,000,000	995,354	(4,646)
Customer fees	2,538,506	2,538,506	2,514,450	(24,056)
Grants and contributions	-	-	650,097	650,097
Contributions in aid of construction	-	-	6,775,689	6,775,689
Total nonoperating revenues	3,538,506	3,538,506	10,935,590	7,397,084
Total revenues	30,580,406	30,580,406	36,346,750	5,766,344
Expenditures:				
Water supply and treatment:				
Salaries and wages	649,296	649,296	637,808	11,488
Fringe benefits	266,222	266,222	234,634	31,588
Chemicals	840,750	840,750	799,697	41,053
Materials and supplies	42,325	42,325	29,485	12,840
Utilities	418,900	418,900	401,279	17,621
Maintenance	25,275	25,275	29,035	(3,760)
Professional services	62,600	62,600	58,540	4,060
Insurance	71,921	71,921	56,643	15,278
Communication	200	200	578	(378)
Printing and production	100	100	-	100
Education and development	6,525	6,525	8,343	(1,818)
Miscellaneous	8,670	8,670	5,352	3,318
Total water supply and treatment	2,392,784	2,392,784	2,261,394	131,390

(Continued)

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) (Continued)
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Water distribution:				
Salaries and wages	\$ 1,173,411	\$ 1,173,411	\$ 1,055,038	\$ 118,373
Fringe benefits	551,852	491,852	435,486	56,366
Materials and supplies	82,327	82,327	74,881	7,446
Utilities	238,300	238,300	171,000	67,300
Maintenance	612,600	524,600	479,462	45,138
Professional Services	20,000	20,000	12,010	7,990
Insurance	11,635	11,635	8,071	3,564
Communication	400	400	627	(227)
Printing and reproduction	1,500	1,500	109	1,391
Education and development	14,345	14,345	8,757	5,588
Miscellaneous	2,700	2,700	4,467	(1,767)
Construction credit	(233,165)	(233,165)	(288,746)	55,581
Total water distribution	2,475,905	2,327,905	1,961,162	366,743
Sewer treatment:				
Salaries and wages	684,133	684,133	689,850	(5,717)
Fringe benefits	296,683	296,683	304,517	(7,834)
Chemicals	706,001	706,001	729,725	(23,724)
Materials and supplies	78,500	78,500	52,801	25,699
Utilities	937,000	937,000	885,930	51,070
Maintenance	45,500	45,500	53,243	(7,743)
Professional services	40,000	40,000	15,664	24,336
Insurance	90,832	90,832	73,934	16,898
Communication	600	600	822	(222)
Printing and reproduction	250	250	-	250
Education and development	7,050	7,050	3,637	3,413
Miscellaneous	47,000	47,000	55,659	(8,659)
Total sewer treatment	2,933,549	2,933,549	2,865,782	67,767

(Continued)

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) (Continued)
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Sewer collections:				
Salaries and wages	\$ 546,915	\$ 546,915	\$ 591,003	\$ (44,088)
Fringe benefits	248,249	248,249	252,878	(4,629)
Chemicals	261,700	261,700	316,323	(54,623)
Materials and supplies	55,000	55,000	57,400	(2,400)
Utilities	141,000	141,000	103,951	37,049
Maintenance	299,500	299,500	238,418	61,082
Professional services	-	-	600	(600)
Insurance	12,697	12,697	7,438	5,259
Communication	800	800	1,229	(429)
Printing and reproduction	1,000	1,000	190	810
Education and development	10,700	10,700	7,746	2,954
Miscellaneous	4,600	4,600	3,605	995
Construction credit			(41,190)	41,190
Total sewer collections	1,582,161	1,582,161	1,539,591	42,570
General and administrative:				
Salaries and wages	2,392,626	2,392,626	2,457,540	(64,914)
Fringe benefits	807,412	807,412	783,807	23,605
Materials and supplies	82,509	82,509	88,152	(5,643)
Utilities	182,200	182,200	168,029	14,171
Maintenance	247,100	247,100	201,821	45,279
Professional services	574,280	574,280	623,015	(48,735)
Insurance	48,411	48,411	37,954	10,457
Communication	104,936	104,936	102,167	2,769
Printing and reproduction	13,660	13,660	13,030	630
Education and development	80,825	80,825	45,087	35,738
Miscellaneous	123,675	123,675	114,677	8,998
Construction credit	(171,754)	(171,754)	(214,406)	42,652
Total general and administrative	4,485,880	4,485,880	4,420,873	65,007

(Continued)

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) (Continued)
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Customer relations:				
Salaries and wages	\$ 313,992	\$ 313,992	\$ 282,646	\$ 31,346
Fringe benefits	108,387	108,387	105,731	2,656
Materials and supplies	2,600	2,600	4,212	(1,612)
Professional services	80,000	80,000	76,111	3,889
Insurance	3,072	3,072	2,152	920
Communication	73,000	73,000	87,029	(14,029)
Printing and reproduction	5,000	5,000	2,152	2,848
Education and development	5,800	5,800	5,209	591
Miscellaneous	35,460	123,460	149,397	(25,937)
Total customer relations	627,311	715,311	714,639	672
Maintenance:				
Salaries and wages	660,338	660,338	633,746	26,592
Fringe benefits	276,742	276,742	250,705	26,037
Materials and supplies	40,087	40,087	37,954	2,133
Utilities	1,000	1,000	717	283
Maintenance	893,076	953,076	1,037,579	(84,503)
Professional Services	20,000	20,000	-	20,000
Insurance	19,749	19,749	15,819	3,930
Communication	1,000	1,000	358	642
Education and development	11,950	11,950	2,789	9,161
Miscellaneous	-	-	290	(290)
Total maintenance	1,923,942	1,983,942	1,979,957	3,985
Laboratory:				
Salaries and wages	409,096	409,096	433,500	(24,404)
Fringe benefits	161,886	161,886	159,084	2,802
Materials and supplies	229,900	229,900	198,634	31,266
Utilities	500	500	-	500
Maintenance	50,930	50,930	53,296	(2,366)
Professional services	24,100	24,100	22,173	1,927
Insurance	9,411	9,411	7,671	1,740
Communication	7,500	7,500	7,374	126
Printing and reproduction	100	100	-	100
Education and development	6,035	6,035	5,644	391
Miscellaneous	2,800	2,800	2,732	68
Total laboratory	902,258	902,258	890,108	12,150

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis) (Continued)
 Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Debt service:				
Bonded debt service	\$ 9,477,000	\$ 9,477,000	\$ 8,267,766	\$ 1,209,234
Capital outlay	27,940,000	27,940,000	26,780,340	1,159,660
Total expenditures	54,740,790	54,740,790	51,681,612	3,059,178
Deficiency of revenues under expenditures	\$ (24,160,384)	\$ (24,160,384)	(15,334,862)	\$ 8,825,522

Reconciliation of modified accrual
 to full accrual basis:

Principal payments on bonded debt	4,060,000
Capital interest	276,738
Change in interest accrual for bonded debt	(430,883)
Depreciation and amortization	(6,950,774)
Amortization of bond expense and patent	(96,898)
Gain on sale of equipment and other revenues	16,431
Capital outlay	26,780,340
Net income - accrual basis	\$ 8,320,092

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Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Project Funds
Year to Date - Ended June 30, 2007

	Project Budget	Cumulative Totals to June 30, 2007	Unexpended Balance as of June 30, 2007
Raw water supply sources:			
Revenues, General Fund	\$ 5,012,000	\$ 9,138,830	\$ (4,126,830)
Expenditures:			
Watershed Preservation	\$ 2,360,000	\$ 6,499,492	\$ (4,139,492)
Stone Quarry Pump Station 2006 Rebid	2,465,000	1,570,643	894,357
Stone Quarry Acquisition	15,000	550,409	(535,409)
University Lake Pump Station Improvements	107,000	9,600	97,400
Raw Water Security Improvements	53,000	472,793	(419,793)
Jordan Lake Raw Water Supply Intake/Pump Facility	12,000	9,776	2,224
Total expenditures	\$ 5,012,000	\$ 9,112,713	\$ (4,100,713)
Water treatment:			
Revenues, General Fund	\$ 272,000	\$ 13,261,008	\$ (12,989,008)
Expenditures:			
Water Treatment Plant Instrumentation & Construction	\$ 25,000	\$ 13,042,110	\$ (13,017,110)
Water Treatment Plant Rehabilitation Projects	182,000	-	182,000
Water Treatment Plant Security Improvements	55,000	61,124	(6,124)
Jones Ferry WTP - Secondary Containment	10,000	101,297	(91,297)
Total expenditures	\$ 272,000	\$ 13,204,531	\$ (12,932,531)
Finished water pumping:			
Revenues, General Fund	\$ 931,000	\$ 225,422	\$ 705,578
Expenditures:			
Booster Pump Station at I 40	756,000	212,094	543,906
Booster Pump Station at Barbee Chapel Road	175,000	13,314	161,686
Total expenditures	\$ 931,000	\$ 225,408	\$ 705,592

(Continued)

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Project Funds (Continued)
 Year to Date - Ended June 30, 2007

	Project Budget	Cumulative Totals to June 30, 2007	Unexpended Balance as of June 30, 2007
Finished water storage:			
Revenues, General Fund	\$ 30,000	\$ 71,749	\$ (41,749)
Expenditures:			
Finished Water Storage Security Improvements	30,000	-	30,000
Total expenditures	\$ 30,000	\$ -	\$ 30,000
Water transmission and distribution:			
Revenues - General Fund	\$ 2,077,000	\$ 1,486,741	\$ 590,259
Expenditures:			
Water Main Road Improvements	\$ 242,000	\$ 37,378	\$ 204,622
Water Line Rehabilitation/Replacement	1,233,000	398,054	834,946
Reinforcement Projects	277,000	930,685	(653,685)
Abbey Road/Booth Road Water Main Replacement	205,000	28,366	176,634
Water Distribution System Hydraulic Model Update	75,000	-	75,000
Fordham Boulevard 12"	30,000	38,234	(8,234)
Dobbins Drive 16"	15,000	54,024	(39,024)
Total expenditures	\$ 2,077,000	\$ 1,486,741	\$ 590,259
Wastewater collection lines:			
Revenues - General Fund	\$ 4,238,000	\$ 2,681,933	\$ 1,556,067
Expenditures:			
Bolin Creek Interceptor Phase III	\$ 955,000	\$ 163,854	\$ 791,146
Morgan Creek Interceptor	60,000	224,672	(164,672)
Bolin Creek Basin Rehabilitation	1,689,000	807,180	881,820
Booker Creek Basin	158,000	294	157,706
Sewer Line Rehabilitation and Replacement	220,000	423,351	(203,351)
Meeting of the Waters Interceptor	1,156,000	343,428	812,572
Total expenditures	\$ 4,238,000	\$ 1,962,779	\$ 2,275,221

(Continued)

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Project Funds (Continued)
 Year to Date - Ended June 30, 2007

	Project Budget	Cumulative Totals to June 30, 2007	Unexpended Balance as of June 30, 2007
Wastewater pump stations and force mains:			
Revenues, General Fund	\$ 941,000	\$ 2,764,574	\$ (1,823,574)
Expenditures:			
Pump Station Improvements	\$ 30,000	\$ 103,688	\$ (73,688)
Heritage Hills Pump Station and Force Main Repl.	69,000	568,409	(499,409)
Lloyd Street/Starlight Pump Station Phaseout	431,000	61,416	369,584
Clayton Road Pump Station Phaseout	310,000	79,700	230,300
Tinkerbelle Pump Station Phaseout	10,000	614,778	(604,778)
Piney Mountain Pump Station	91,000	11,855	79,145
Total expenditures	\$ 941,000	\$ 1,439,846	\$ (498,846)
Wastewater treatment and disposal:			
Revenues, General Fund	\$ 13,823,000	\$ 43,548,649	\$ (29,725,649)
Expenditures:			
Mason Farm 14.5 MGD Upgrade and Expansion	\$ 9,359,000	\$ 40,429	\$ 9,318,571
Mason Farm 18.5 MGD Upgrade and Expansion	100,000	42,892,867	(42,792,867)
Biosolids Dewatering Facilities at Mason Farm	1,960,000		
Mason Farm Odor Control Project	300,000		
Mason Farm Flood Protection Enhancement	50,000		
Mason Farm Rehabilitation/Improvement Projects	128,000	163,864	(35,864)
Reclaimed Water Treatment, pumping and Storage	566,000	305,535	260,465
Reclamation and Reuse Transmission System	1,360,000	113,303	1,246,697
Total expenditures	\$ 13,823,000	\$ 43,515,998	\$ (32,002,998)

(Continued)

Orange Water and Sewer Authority

Schedule of Revenues and Expenditures - Project Funds (Continued)
 Year to Date - Ended June 30, 2007

	Project Budget	Cumulative Totals to June 30, 2007	Unexpended Balance as of June 30, 2007
Information services:			
Revenues, General Fund	\$ 490,000	\$ 564,898	\$ (74,898)
Expenditures, Information Services	\$ 490,000	\$ 564,898	\$ (74,898)

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Orange Water and Sewer Authority

Net Assets by Component
 Last Four Fiscal Years
 (accrual basis of accounting)

	Fiscal Year			
	2007	2006	2005	2004
Invested in capital assets, net of related debt	\$ 161,812,115	\$ 160,813,755	\$ 137,441,321	\$ 110,634,726
Restricted for maintenance reserve and power fund	1,127,192	1,894,497	2,320,261	265,052
Restricted for future capital projects	8,093,307	-	16,794,642	34,552,532
Restricted for debt service	185,258	31,088	-	-
Unrestricted	6,453,532	6,611,972	7,373,853	15,468,674
	<u>\$ 177,671,404</u>	<u>\$ 169,351,312</u>	<u>\$ 163,930,077</u>	<u>\$ 160,920,984</u>

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Orange Water and Sewer Authority

Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2007	2006	2005	2004
Operating revenues:				
Water	\$ 14,218,387	\$ 13,946,421	\$ 12,489,800	\$ 11,873,860
Sewer	10,272,920	9,682,210	8,563,004	8,619,485
Service initiation fees	142,086	153,670	134,958	132,294
Other	777,767	649,081	703,905	530,853
Total operating revenues	25,411,160	24,431,382	21,891,667	21,156,492
Operating expenses:				
Water supply and treatment	2,261,394	2,159,244	1,935,704	1,822,522
Water distribution	1,961,162	1,710,117	1,917,141	1,733,384
Sewer treatment	2,865,782	3,042,830	2,080,670	1,954,191
Sewer collections	1,539,591	1,352,661	1,342,978	1,329,066
General and administrative	4,420,873	3,809,200	3,689,846	3,468,158
Customer relations	74,839	966,972	961,862	830,284
Maintenance	1,979,957	1,860,938	1,600,231	1,623,525
Lab	890,108	821,955	780,707	722,984
Depreciation and amortization	6,950,774	6,871,350	6,538,782	6,312,316
Total operating expenses	23,584,280	22,595,267	20,847,921	19,796,430
Operating income	1,826,880	1,836,115	1,043,746	1,360,062
Nonoperating revenues (expenses):				
Customer fees	2,514,450	2,308,651	1,872,820	2,716,555
investment adjustment	995,354	742,010	821,194	211,708
Interest expense	(4,361,911)	(2,724,951)	(3,140,164)	(1,216,166)
patent	(96,898)	(141,579)	(115,063)	(163,362)
Other	16,431	(58,846)	(39,569)	44,588
Income before contributions	\$ 894,306	\$ 1,961,400	\$ 442,964	\$ 2,953,385

(Continued)

Orange Water and Sewer Authority

Changes in Net Assets
 Last Four Fiscal Years
 (accrual basis of accounting)
 (Continued)

	Fiscal Year			
	2007	2006	2005	2004
Capital contributions:				
Capital grants and contributions	\$ 650,097	\$ 153,232	\$ 336,404	\$ 537,571
Contribution in aid of construction	6,775,689	3,306,603	2,229,725	3,821,839
Total capital contributions	7,425,786	3,459,835	2,566,129	4,359,410
Increase in net assets	8,320,092	5,421,235	3,009,093	7,312,795
Net assets:				
Beginning	169,351,312	163,930,077	160,920,984	153,608,189
Ending	\$ 177,671,404	\$ 169,351,312	\$ 163,930,077	\$ 160,920,984

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Orange Water and Sewer Authority

Water Processed and Wastewater Treated
(thousands of gallons)
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Water Processed and Pumped to System	Portion of Processed Water Pumped to Hillsborough	Wastewater Treated
1998	3,023,279	-	2,924,826
1999	3,149,261	-	2,733,971
2000	3,247,807	1,337	3,162,218
2001	3,418,741	-	3,107,328
2002	3,822,000	-	2,922,000
2003	2,945,900	-	2,955,127
2004	3,067,524	-	2,831,033
2005	3,053,404	-	2,982,831
2006	3,142,494	-	2,721,662
2007		-	

Source: Orange Water And Sewer Authority's Records

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Orange Water and Sewer Authority

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

Fiscal Year Ended June 30,	Customer Estimate	Net Operating Revenues	Debt Service Requirements	Net Bonded Debt	Ratio of Net Operating Revenues to Debt Service Requirements	Net Bonded Debt Per Customer
1998	15,560	7,307,604	3,126,460	27,100,000	2.34	1,741.65
1999	16,577	7,547,469	3,060,113	40,790,000	2.47	2,460.64
2000	16,963	7,777,972	3,463,240	39,355,000	2.25	2,320.05
2001	17,696	7,535,344	3,821,600	37,365,000	1.97	2,111.49
2002	18,436	10,785,421	5,527,785	65,845,000	1.95	3,571.54
2003	18,844	7,573,425	5,970,183	63,570,000	1.27	3,373.49
2004	19,229	10,645,229	5,936,269	101,770,000	1.79	5,292.53
2005	19,467	10,236,973	7,317,151	81,075,000	1.40	4,164.74
2006	19,687	11,758,126	8,073,572	76,740,000	1.46	3,898.00
2007		12,287,458	4,984,962	72,645,000	2.46	#DIV/0!

Note: Before fiscal year ended June 30, 2001, net operating revenues were calculated as operating income before depreciation and amortization plus investment income. In 2002, the Authority's new bond order defined net operating revenues as income before contributions plus depreciation, amortization and interest expense.

Orange Water and Sewer Authority

Principal Water and Sewer Customers
For the Fiscal Year Ended June 30, 2007

	Percent of Water Sales 2007
University of North Carolina at Chapel Hill	*27%
Abbey Court Condos	<1%
Carol Woods Retirement Center	<1%
University Mall	<1%
The Villages Apartments	<1%
Triangle Communities	<1%
Granville Towers (student housing)	<1%
Chapel Hill - Carrboro Schools	<1%
Tarheel Manor Associates	<1%

* Approximate

Source: Orange Water and Sewer Authority Records

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Orange Water and Sewer Authority

Town of Chapel Hill, NC Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Original Levy		Amount	Percentage of Adjusted Levy
1998	\$ 14,935,217	\$ 14,840,691	99.37%	*	*	*
1999	15,534,727	15,413,292	99.22%	*	*	*
2000	16,598,182	16,453,207	99.13%	*	*	*
2001	17,594,559	17,466,542	99.27%	*	*	*
2002	20,417,001	20,271,201	99.29%	*	*	*
2003	23,067,472	22,919,205	99.36%	*	*	*
2004	23,775,375	23,653,530	99.49%	704,063	23,757,593	99.93%
2005	25,615,621	25,480,324	99.47%	94,172	25,574,796	99.84%
2006	27,718,753	27,578,410	99.49%	-	27,578,410	99.49%
2007						

* Data not available. The Town contracts with the counties to maintain the tax records and must rely on the records provided.

Notes:

(1) This represents the total delinquent taxes for years 2003 and prior

Outstanding
Delinquent
Taxes

*
*
*
*
*

330,090 (1)
17,782
40,825
140,343

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Orange Water and Sewer Authority

Town of Chapel Hill, NC Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Combined Real Property	Personal Property	Public Service Companies (3)
1998 (1)	*	*	\$ 2,362,338,074	\$ 348,375,791	\$ 57,982,816
1999	*	*	2,457,855,819	365,092,224	60,078,208
2000	*	*	2,501,345,508	381,872,039	60,948,410
2001	*	*	2,589,768,417	388,087,936	61,660,255
2002 (2)	*	*	3,556,294,528	403,959,196	60,873,428
2003	*	*	3,688,289,625	415,023,471	63,868,306
2004	*	*	3,791,942,402	455,906,761	57,587,809
2005	*	*	3,918,233,860	482,128,300	57,774,008
2006 (1)	3,956,681,069	783,355,893	4,740,036,962	498,524,879	60,840,533
2007					

* The breakdown between residential and commercial property is not available for fiscal years prior to 2007

Notes:

- (1) Revaluation year
- (2) Increase due to revaluation and the addition of \$200 million from a major annexation
- (3) Public service companies valuations are provided by the North Carolina Department of Revenue. These amounts include both real and personal property
- (4) Per \$100 of value. Includes taxes for general fund and transportation fund.
- (5) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (6) Source is the Property Tax Division of the North Carolina Department of Revenue.

Total Assessed Value	Total Direct Tax Rate (4)	Estimated Actual Taxable Value (5)	Ratio of Assessed Value to Estimated Actual Value (6)
\$ 2,768,696,681	\$ 0.538	\$ 2,380,088,434	96.46%
2,883,026,251	0.538	2,974,214,993	93.09%
2,944,165,957	0.563	3,258,393,141	88.48%
3,039,516,608	0.578	3,546,333,362	83.02%
4,021,127,152	0.504	3,145,846,210	96.62%
4,167,181,402	0.553	4,459,990,186	90.16%
4,305,436,972	0.553	4,725,767,070	88.18%
4,458,136,168	0.575	5,139,473,525	83.97%
5,299,402,374	0.522	4,664,298,146	95.58%
-			

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Orange Water and Sewer Authority

Town of Chapel Hill, NC Direct and Overlapping Property Tax Rates (Per \$100 of Assessed Value)
Last Ten Fiscal Years

	Year Taxes Payable									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Chapel Hill Within Orange County:										
General Fund	0.495	0.498	0.524	0.535	0.461	0.510	0.502	0.516	0.474	
Transportation	0.043	0.040	0.039	0.043	0.043	0.043	0.051	0.059	0.048	
Orange County	0.873	0.902	0.919	0.929	0.805	0.845	0.880	0.868	0.843	
Total	1.411	1.440	1.482	1.507	1.309	1.398	1.433	1.443	1.365	-
Chapel Hill Within Durham County:										
General Fund	0.495	0.498	0.524	0.535	0.504	0.510	0.502	0.516	0.474	
Transportation	0.043	0.040	0.039	0.043	0.043	0.043	0.051	0.059	0.048	
Durham County	0.960	0.940	0.930	0.930	0.729	0.753	0.763	0.790	0.809	
Total	1.498	1.478	1.493	1.508	1.276	1.306	1.316	1.365	1.331	-

* Revaluation year

Source: County tax departments

Orange Water and Sewer Authority

Town of Chapel Hill, NC Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population (1)	Per Capita Personal Income (2)	Median Age (2)	School Enrollment (3)	Unemployment Rate % (4)
1998	43,423	\$ 16,288	24.8	32,375	1.6
1999	43,977	16,288	24.8	32,375	1.3
2000	46,019	16,288	24.8	33,520	1.2
2001	48,902	16,288	24.8	34,462	1.8
2002	50,542	24,133	24.0	34,628	3.1
2003	51,005	24,133	24.2	37,012	4.0
2004	51,485	24,133	24.2	37,587	3.0
2005	51,519	24,133	24.2	37,308	4.0
2006	52,397	24,133	24.2	35,260	3.9
2007					

Notes:

(1) N.C. State Data Center. Estimates are as of beginning of fiscal year.

(2) U.S. Department of Commerce, most recent available census data.

(3) Chapel Hill-Carrboro Public Schools and University of North Carolina at Chapel Hill

(4) N.C. Employment Security Commission.

Personal income data is not provided in this table as it is not available broken out in a way that is meaningful for Town

Orange Water and Sewer Authority

Miscellaneous Statistical Data
For the Fiscal Year Ended June 30, 2007

Year Founded and Incorporated	1975
Size of Service Area:	
Square Miles	31
Miles of Water Pipe	346
Miles of Wastewater Collection Pipe	296
Customer Accounts	19,229
Budgeted Employee Positions	150
Water Treatment Plant Capacity (in MGD):	
Capacity	20.0
Production Average, FY 2006 - 2007	9.0
Production Peak, FY 2006 - 2007	12.0
Wastewater Treatment Plant Capacity (in MGD):	
Capacity	12.0
Average Daily Flow, FY 2006 - 2007	8.8
Peak Day Flow, FY 2006 - 2007	15.5
Number of Water Supply Resources	3
Total Capacity of Water Supply Resources:	
Cane Creek Reservoir (Billions of gallons)	3
University Lake (Millions of Gallons)	450
Quarry Reservoir (Millions of Gallons)	200

Source: Orange Water and Sewer Authority Records

Orange Water and Sewer Authority

Full Time Equalivants
Last Four Fiscal Years

Department	Fiscal Year			
	2007	2006	2005	2004
General and Administrative				
Office of the Executive Director	9	9	9	9
Engineering	15	15	15	15
Human Resources	6	6	6	6
Finance	7	7	7	7
Purchasing	3	2	2	2
Business Information Services	4	4	4	4
Operations				
Customer Service	8	13	13	13
Water Supply and Treatment	13	13	13	13
Water Distribution	32	27	27	27
Plants Maintenance	15	15	15	15
Laboratory	10	10	10	10
Wastewater Treatment	14	14	14	14
Sewer Collection	15	15	15	15
Total FTE's	150	150	150	150

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

To the Board of Directors
Orange Water and Sewer Authority
Carrboro, North Carolina

We have audited the accompanying financial statements of Orange Water and Sewer Authority (the "Authority"), as of and for the year ended June 30, 2007, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated September 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 07-01, 07-02 and 07-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that finding 07-01 and 07-02 to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, members of the Board of Directors, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report on
Compliance with Requirements Applicable to Each
Major State Program and on Internal Control over Compliance in
Accordance with Applicable Sections of OMB Circular A-133 and the
State Single Audit Implementation Act**

To the Board of Directors
Orange Water and Sewer Authority
Carrboro, North Carolina

Compliance

We have audited the compliance of Orange Water and Sewer Authority, North Carolina (the "Authority"), with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to the major State program for the year ended June 30, 2007. The Authority's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major State program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of the State Single Audit Implementation Act. Those standards and applicable sections of the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to the major State program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by any entity's internal control..

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, members of the Board of Directors, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Orange Water and Sewer Authority, North Carolina

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

State Awards

Internal control over major state program:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for the major state program: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act yes no

Identification of major state program: NC Clean Water Management Trust Fund

Section II. Financial Statement Findings

Finding 07-01

Criteria:

Adequate internal control structure requires regular reconciliations to be performed to ensure proper recording and reporting of transactions and balances.

Condition and Context:

During the course of the audit we noted several significant balance sheet accounts did not have their reconciliations performed in a timely manner or that these reconciliations were not prepared prior to closing of the year end trial balance.

Effect:

Several differences between the Authority's trial balance and our audit work performed was noted which required investigation by the Authority and resulted in additional entries in the original trial balance.

Cause:

No procedures are established by the Authority to require timely reconciliations of certain accounts and supervisor review of reconciliations that are prepared for other accounts.

Recommendation:

We recommend that the Authority's adopt a policy requiring reconciliations to be prepared for all significant accounts prior to month end and annual closing of the trial balance which includes a review of these reconciliations by a supervisor in the accounting department and review of documentation supporting these accounts. By implementing this policy and performing these reconciliations, journal entries to correct errors should be eliminated and more accurate financial information will be available for the Authority's management and Board members.

Views of responsible officials:

Completion:

Finding 07-02

Criteria:

Accounting principles generally accepted in the United States require that lease agreements that meet certain criteria to be recorded as an asset and a liability for the present value of future lease payments.

In addition, General Statutes 159 of North Carolina requires that all disbursements made by governmental entities to have a pre-audit performed to ensure that the Authority has enough available funds to cover the disbursements and that certain bidding procedures are being performed to ensure that the Authority is dealing with vendors who can provide required services or product.

Condition and Context:

While reviewing new contracts entered into by the Authority during the year, we noted that several contracts for leased equipment were not evaluated for capital lease versus operating lease status.

Effect:

In reviewing the capital lease criteria for these leases, it was determine that several leases in the amount of approximately \$47,000 did qualify as capital leases. In addition, some of these lease agreements were only signed by the department manager and not approved by the Authority's Finance Director as required by current purchase policies.

Cause:

The Authority did not have established procedures and policies requiring an evaluation of all lease agreements to determine whether they qualify as a capital lease or an operating lease.

Also, attention by the department head was insufficient to ensure that the required purchasing procedures and policies were being performed on these leases prior to signing the lease agreements with the vendor.

Recommendation:

We recommend that the Authority establish policies and procedures to evaluate all lease agreements for determining if these agreements meet the criteria of capital leases.

We also recommend that the Authority review and evaluate the current purchasing processes relating to these contract types to make sure they are being reviewed by the appropriated personnel and that North Carolina bidding requirements are being followed before they are signed.

Views of responsible officials:

Completion:

Finding 07-03

Criteria:

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Fiduciary responsibility requires assigned individuals to monitor certain activity to ensure that they are being applied in accordance with the Authority's established policies and procedures and accounting principles generally accepted in the United States.

Condition and Context:

During the course of auditing the Authority's capital assets, we identified that certain Construction in Process (CIP) accounts were being depreciated before they were formally placed into service.

Effect:

Based on an analysis of the Authority's capital asset records, approximately \$29,000 in depreciation was recorded by the Authority during the year.

Cause:

Assigned individual was inadequately trained to performed required duties relating to capital assets.

Recommendation:

We recommend that the Authority provide additional training to accounting personnel assigned to maintain and account for capital assets to ensure that these assets are being recorded at the appropriate amounts and proper treatment.

Views of responsible officials:

Completion:

Section III. Findings and Questioned Costs for State Awards

None

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**ORANGE WATER AND SEWER AUTHORITY, NORTH CAROLINA
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2007**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>State/ Pass-through Grantor's Number</u>	<u>State Expenditures</u>
State Grants:		
Cash Assistance:		
<u>N.C. Clean Water Management Trust Fund</u> Grant # 2004A-509	DENR-4	\$ 524,174

Notes to the Schedule of Expenditures of State Financial Awards:

- The accompanying schedule of expenditures of state awards includes the state grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the State Single Audit Implementation Act.

PRELIMINARY DRAFT
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October __, 2007

To the Board of Directors
Orange Water and Sewer Authority
Carrboro, North Carolina

This letter is intended to inform the Board of Directors of Orange Water and Sewer Authority (the "Authority") about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Board.

In addition to our report on your financial statements, we have provided, under separate cover, a letter, dated September __, 2007, concerning significant deficiencies and material weaknesses in internal control that we noted during our audit of the Authority's financial statements for the year ended June 30, 2007.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

The Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of Orange Water and Sewer Authority for the year ended June 30, 2007 was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the provisions of the Single Audit Act, OMB Circular A-133 and OMB's Compliance Supplement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls over internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Authority's internal control over financial reporting or on compliance and other matters.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include unbilled service revenues, lives for depreciable assets, allowance for uncollectible accounts and accruals for certain payroll items. The Board of Directors may wish to monitor throughout the year the process used to compute and record these accounting estimates.

Audit Adjustments

There were eight audit adjustments made to the original trial balance presented to us at the beginning of our audit. Of those adjustments, none, in our judgment, either individually or in the aggregate, would had a significant effect on the Authority's financial reporting process.

Uncorrected Misstatements

We also accumulated three uncorrected misstatements which were discussed with management and were determined by management to be immaterial, both individually and in the aggregate, to the opinion units of the financial statements. Therefore, the adjustments to correct these misstatements were not made to the financial statements. These uncorrected misstatements are summarized in the accompanying schedule.

Accounting Policies and Alternative Treatments

Management and the Board of Directors have the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. Following is a description of significant accounting policies or their application which was initially selected during the year.

GASB issued Statement No. 48, *Sales and pledges of receivables and future revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that the Authority will use to ascertain whether certain transactions should be regarded as revenue generated sale or as collateralized borrowings. This statement also includes disclosure requirements for future revenues that are pledged or sold.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing Audited Financial Statements

In connection with the Authority's Comprehensive Annual Financial Report ("CAFR"), we did not perform any procedures or corroborate other information included in this report. However, we read the Authority's CAFR and Management's Discussion and Analysis and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the Authority.

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed With Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Orange Water and Sewer Authority.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

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Orange Water and Sewer Authority
SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS
 June 30, 2007

DESCRIPTION	ASSETS	LIABILITIES	Debit (Credit) EQUITY	REVENUE	EXPENSES
<u>CURRENT YEAR MISSTATEMENTS:</u>					
<i>Known Errors:</i>					
Unrecorded capital leases	44,094	(47,159)			3,065
Unknown difference between the general ledger and accounts receivable subsidiary ledger.	50,477			(50,477)	
Depreciation incorrectly taken on assets located in CIP	29,380				(29,380)
			(76,792)	\$ (50,477)	\$ (26,315)
Total Cumulative Misstatement Errors	\$ 123,951	\$ (47,159)	\$ (76,792)		

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McGladrey & Pullen

Certified Public Accountants

To the Board of Directors
Orange Water and Sewer Authority
Carrboro, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America, the general purpose financial statements of Orange Water and Sewer Authority (the "Authority") as of and for the year ended June 30, 2007, and have issued our report thereon, dated September __, 2007.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the terms, covenants, provisions, or conditions of Section 7.04 contained in the amended and restated bond order, dated September 13, 2001 with Bank of New York and the North Carolina Local Government Commission, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Boards of Directors and management of the Authority, Bank of New York and the North Carolina Local Government Commission and is not intended to be and should not be used by anyone other than these specified parties.

Greensboro, North Carolina
September __, 2007

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for Review and Discussion
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MEMORANDUM

TO: Board of Directors
THROUGH: Ed Kerwin
FROM: Ed Holland
DATE: September 21, 2007
SUBJECT: Update on Plans for Carolina North – Implications for OWASA

Background

University officials will request approval of the Carolina North concept plan by the UNC Board of Trustees next week and are scheduled to submit the plan to the Town of Chapel Hill in October. A large amount of Carolina North information, including maps and tables, is available online at <http://research.unc.edu/cn/index.php> and associated links.

University staff and the Carolina North consultant team have provided periodic planning updates at a series of public meetings held since early 2007. Slides from the most recent meeting (August 28, 2007) can be viewed at http://research.unc.edu/cn/community_meeting_8-28-2007.pdf.

Issues of particular interest to OWASA have included water and sewer demand projections, opportunities for reclaimed water (RCW) use, advanced water efficiency and sustainable management measures, and the potential impacts on existing or needed water, sewer, and RCW infrastructure. Our staff has worked closely with UNC's Carolina North planning team to ensure that the proposed development will be as water-efficient as practical and that the preliminary plans and conceptual layouts do not preclude or constrain future options for reclaimed water. At this time, no details have been developed beyond the preliminary or concept level.

Demand Forecasts

UNC's consultants estimate average-day potable water demands of 2.5 million gallons per day (mgd) at Carolina North buildout in 50 years, but the application of current University conservation practices, including wastewater reuse, is proposed to reduce this to a buildout demand of 1.5 mgd. This conservation demand projection is consistent with the 1.6 mgd placeholder demand that we have used in our own long-term water demand and wastewater flow forecasts for Carolina North.

OWASA staff will continue to work closely with the planning team to review these estimates and better understand the potential water use efficiency measures to be incorporated as they are specified in the future.

Reclaimed Water

Although it appears unlikely that the RCW system now being developed to serve UNC's main campus will be extended to serve Carolina North, the University is evaluating the feasibility of other strategies for using reclaimed water at Carolina North.

Current plans include a concept-level proposal for a satellite RCW facility that would withdraw raw wastewater from OWASA's nearby Bolin Creek interceptor sewer and treat it for nonpotable reuse at Carolina North. This is consistent with conceptual satellite RCW layouts proposed by Pat Davis several years ago during UNC's Carolina North Infrastructure Advisory Committee deliberations. During the August 28 meeting, the Carolina North utility consultant indicated that an RCW facility might not be constructed for another "10 to 20 years," but University officials have indicated to OWASA staff that this decision has not yet been made and will be somewhat dependent on plans for central energy, heating, and cooling facilities needed to serve Carolina North. Regardless of the actual timing of the availability of reclaimed water, UNC recognizes the importance of designing utility corridors and the overall development to accommodate the future development and use of a RCW system to serve Carolina North.

We are currently engaged in discussions with UNC staff and consultants regarding potential plans and timing for RCW. These plans will determine and affect the feasibility of providing reclaimed water for use beyond the Carolina North project, such as for athletic field irrigation, landscapes, and so forth at nearby schools, parks and private developments in the northwestern part of our service area.

Existing and Needed Water and Sewer Infrastructure

Consistent with OWASA policy, it is expected that the University will provide, at their expense, any needed upgrades or expansion of other OWASA water and sewer utilities needed to serve Carolina North and will also pay all service availability fees for the development. We have shared detailed technical information with the utility consultants about the location and capacity of existing infrastructure and the expected improvements that are either programmed in our Capital Improvements Plan or otherwise anticipated for the future.

Summary

Plans for Carolina North are emerging on schedule, but remain at the preliminary or concept level. Utility plans are similarly general and high level at this time, but our staff has seen no significant departures or impacts on OWASA's anticipated ability to meet the long-term needs of our service area, including Carolina North.



Edward A. Holland, AICP
Planning Director

Draft

ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

AUGUST 23, 2007

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met in regular session on Thursday, August 23, 2007, at 7:00 P.M., at the Chapel Hill Town Hall.

Directors present: Michael A. (Mac) Clarke, Chair; Randolph M. Kabrick, P.E., Vice Chair; Gordon Merklein, Secretary; Fred Battle; Braxton Foushee; Marge Anders Limbert; Gene Pease; Alan Rimer; and William R. Stott.

OWASA staff: Ed Kerwin; John Greene; Patricia Abernathy; Sandy Beckham; Gwen Burston; Mason Crum; Patrick Davis; Greg Feller; Stephanie Glasgow; Ed Holland; Kenneth Loflin; Andrea Orbich; Dan Przybyl; Kevin Ray; Paula Thomas; and Robert Epting, Epting and Hackney.

Others present: Ray DuBose, Director of Energy Services and Meg Holton, Water, Wastewater, and Stormwater Manager, University of North Carolina at Chapel Hill; Milton Heath; Penny Rich, Christopher Voorhees, Mikko Rich Voorhees and Brody Rich Voorhees; Don Brewer, Lake Forest Association; Kirsten Kruhm, American Red Cross; Matt Garofalo, Daily Tar Heel; and Daniel Goldberg, Chapel Hill Herald.

There being a quorum present, Chair Mac Clarke called the meeting to order.

MOTIONS ACTED UPON

1. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the "Resolution of Appreciation for Penny Rich." (Resolution so titled attached hereto and made a part of these minutes. Motion made by Braxton Foushee, seconded by Gene Pease, and carried by unanimous vote.)

2. Alan Rimer made a motion to approve the Minutes of the June 14, 2007 Board meeting with the noted change; the motion was seconded by Fred Battle and unanimously approved.

3. Alan Rimer made a motion to approve the Minutes of the July 9, 2007 Board meeting; the motion was seconded by Fred Battle and unanimously approved.

4. Alan Rimer made a motion that OWASA declare a Water Supply Advisory for OWASA's service area; the motion was seconded by Gene Pease and was approved with a vote of eight to one with Braxton Foushee voting against the motion because he believes OWASA should declare a Stage One Shortage.

5. Braxton Foushee moved that the Policy for the Collection of Fees for Water and/or Sewer Service by Orange Water and Sewer Authority be abolished on August 23, 2007. Fred Battle seconded the motion and the motion failed with a vote of three to six with Mac Clarke, Randy Kabrick, Marge Anders Limbert, Gordon Merklein, Alan Rimer and William Stott voting no.

6. Alan Rimer moved that the Policy for the Collection of Fees for Water and/or Sewer Service by Orange Water and Sewer Authority be abolished effective October 1, 2007; it was seconded by William Stott and passed with a vote of six to three with Fred Battle, Braxton Foushee and Gene Pease voting against the motion.

7. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt the "Resolution of the Board of Directors of Orange Water and Sewer Authority to Amend Articles III and VIII of the Bylaws regarding Conflict of Interest and Voting." (Resolution so titled attached hereto and made a part of these minutes. Motion made by Marge Anders Limbert, seconded by William Stott, and approved with a vote of seven to two with Fred Battle and Braxton Foushee voting against the motion because they believe the Board Members with a conflict of interest should not be able to participate in the Board's deliberations.)

8. Braxton Foushee made a motion that the Board convene in a closed session for the purpose of discussing a claim out of which litigation may be expected. The motion was seconded by Marge Anders Limbert and carried by a unanimous vote.

* * * * *

ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Mac Clarke said any Board Member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time. There were none.

RESOLUTION OF APPRECIATION FOR PENNY RICH, FORMER BOARD MEMBER

Mac Clarke read aloud a resolution of appreciation honoring the service of former Board Member Penny Rich.

The Board expressed its sincere appreciation to Ms. Rich for her leadership and service to OWASA and the community.

Braxton Foushee made a motion to adopt the Resolution of Appreciation for Penny Rich; seconded by Gene Pease, and carried by unanimous vote. Please see Motion No. 1 above.

UPDATE ON THE JOINT MEETING OF ORANGE AND CHATHAM COUNTY OFFICIALS

Mac Clarke said that this meeting was held on August 14, 2007, to discuss regional water issues; transportation issues; joint planning; open space and parks. One topic discussed was the potential for shared use of OWASA's land for a potential Jordan Lake Intake.

COMMITTEE MEETINGS

Gordon Merklein said the Budget and Financial Planning Committee met prior to the Board meeting. The Committee asked staff to provide additional information on how to improve expense management and budget forecasting.

Gordon Merklein said the Ad Hoc Art Committee will meet on Thursday, September 13, 2007 at 5:00 P.M. in the OWASA Boardroom with artist Jane Eckenrode to discuss the atrium art project.

Marge Anders Limbert said that she will coordinate a meeting of an Ad Hoc Committee of the Board to discuss goal setting for the organization and how those goals would relate to the Executive Director's work plan.

OWASA'S 25TH ANNIVERSARY OF COMMUNITY BLOOD DRIVES WITH THE AMERICAN RED CROSS

Kirsten Kruhm, from the Carolinas Region of the American Red Cross, recognized OWASA for 25 years of cooperation with the Orange County Chapter of the American Red Cross for Community Blood Drives. Ms. Kruhm also thanked OWASA, particularly OWASA employees Sandy Beckham (25 years of support for blood drives at OWASA) and Stephanie Glasgow (more than 17 years), for their leadership. Ms. Kruhm presented a plaque of appreciation for the successful blood drives at OWASA.

WALTER J. COURMAN SAFETY AWARD

Stephanie Glasgow announced that OWASA is the recipient of the 2007 N.C. American Water Works Association's Walter J. Courman Safety Award for OWASA's exemplary safety record and accomplishments at the Jones Ferry Road Water Treatment Plant. Kenneth Loflin, Water Supply and Treatment Manager, received the award for OWASA.

PATRICIA ABERNATHY

Dan Przybyl introduced Patricia Abernathy, OWASA's new Network/Database Administrator.

2006-07 REPORT ON PERFORMANCE OF THE WASTEWATER SYSTEM

Greg Feller said the 2006-07 annual report on the performance of the wastewater collection, treatment and recycling system has been distributed to the Board and OWASA customers.

SUSTAINABLE LAWN CARE WORKSHOPS

Paula Thomas announced that workshops to help customers learn more about effective and sustainable lawn care principles and practices will be held on September 11 and 12, 2007 in OWASA's Community Room.

ITEM TWO: PETITIONS AND REQUESTS FROM THE PUBLIC

Milton Heath submitted additional comments on the State's proposed water supply nutrient management strategy for the B. Everett Jordan Reservoir.

The Board referred Mr. Heath's letter to staff and general counsel.

Don Brewer petitioned the Board to pay the Lake Forest Association \$1,088.27 for water leak repair expenses related to poor workmanship by an independent contractor in December 2001.

Robert Epting said that it is appropriate for the Board to refer this matter to staff as well as continue discussion among the Board in the Closed Session at the end of the Board meeting this evening.

Alan Rimer asked staff to consider acting as an advocate for the Lake Forest Association in trying to collect the money.

The Board referred the petition to staff.

ITEM THREE: PETITIONS AND REQUESTS FROM THE BOARD

Mac Clarke asked for petitions and requests from the Board. There were none.

ITEM FOUR: PETITIONS AND REQUESTS FROM THE STAFF

Mac Clarke asked for petitions and requests from the staff. There were none.

ITEM FIVE: EQUAL EMPLOYMENT OPPORTUNITY/AFFIRMATIVE ACTION REPORT FOR FY 06

Fred Battle requested that staff include demographics from local cities in this report.

ITEM SIX: EMPLOYEE RECOGNITION AND SUGGESTION REPORT – FISCAL YEAR FROM JULY 1, 2006 – JUNE 30, 2007

The Board received this report as an information item.

ITEM SEVEN: FY 2007 ANNUAL REPORT ON EMERGENCY WATER LOSS ADJUSTMENTS OF BILLING CHARGES TO CUSTOMER ACCOUNTS

The Board received this report as an information item.

ITEM EIGHT: ANNUAL REPORT TO THE BOARD ON THE TASTE OF HOPE CUSTOMER ASSISTANCE PROGRAM

The Board received this report as an information item.

ITEM NINE: STATUS REPORT ON THE MASON FARM WASTEWATER TREATMENT PLANT EXPANSION

The Board received this report as an information item.

ITEM TEN: MINUTES

Mac Clarke noted a minor change in the Minutes of the June 14, 2007 Meeting of the Board of Directors as follows:

RESOLUTION OF APPRECIATION

Kevin Ray and the Board expressed sincere appreciation to Marie Moss McLaughlin for her dedicated service to OWASA for ~~33 years~~ more than 30 years.

Alan Rimer made a motion to approve the Minutes of the June 14, 2007 Board meeting with the noted change; the motion was seconded by Fred Battle and unanimously approved. Please see Motion No. 2 above.

Alan Rimer made a motion to approve the Minutes of the July 9, 2007 Board meeting; the motion was seconded by Fred Battle and unanimously approved. Please see Motion No. 3 above.

ITEM ELEVEN: VERBAL UPDATE ON RECOVERY EFFORTS RELATED TO A SMALL FIRE AT THE JONES FERRY ROAD TREATMENT PLANT

John Greene updated the Board on a small fire in the electrical room at the Jones Ferry Road Water Treatment Plant on the morning of August 8, 2007. Four of the six finished water pumps and a backwash pump were temporarily out of service due to the fire. Staff arranged to rewire one finished water pump, obtain a new backwash pump motor and control center, and installed a stand-by diesel engine pump to act as additional finished water pump back-up. By

August 15, 2007 the Water Treatment Plant's finished water pumping and filter backwash capabilities were normal.

Mr. Greene noted that reports are forthcoming from OWASA's consultant engineer and insurance carrier. Staff is also reviewing the possibility of adding more smoke detectors and other fire detection/suppression systems.

Mr. Greene expressed his thanks to the fire departments that responded as well as Hazen & Sawyer, Via Electric, UNC Electric and OWASA staff.

ITEM TWELVE: RECOMMENDED DECLARATION OF WATER SUPPLY ADVISORY

Ed Holland updated the Board on the current water supply and customer demand and recommended that the Board declare a Water Supply Advisory per OWASA's Water Conservation Standards adopted in 2003.

Gene Pease requested that staff update the Board on water supply and demand on a monthly basis.

Braxton Foushee recommended that OWASA declare a Stage One Shortage.

Alan Rimer moved that OWASA declare a Water Supply Advisory for OWASA's service area; the motion was seconded by Gene Pease, and approved with a vote of eight to one with Braxton Foushee voting against the motion because he believes a Stage One Shortage should be declared. Please see Motion No. 4 above.

ITEM THIRTEEN: RECOMMENDED OWASA POLICY AND APPROACH REGARDING THE USE OF RAINWATER HARVESTING AND OTHER NON-POTABLE WATER SUPPLY SYSTEMS WITH POTENTIAL TO DISCHARGE TO THE OWASA SANITARY SEWER SYSTEM

Paula Thomas summarized staff's written response to the Board's July 9, 2007 questions regarding the use of rainwater harvesting systems and other non-potable water systems that result in discharges to the sewer system. Ms. Thomas referred to staff's new draft resolution (page 10.11) for the Board's consideration.

Mac Clarke asked how OWASA would know when there is such a system is installed in the community. Mr. Clarke said he was leaning towards the position that OWASA should not collect a fee for the wastewater discharge from these systems; he said it is desirable that people install rainwater harvesting systems as a conservation measure and the amount of money OWASA is likely to collect is small.

Ms. Thomas said that the Engineering Department has begun a project fact sheet for developers and builders who are interested in using rainwater harvesting systems.

Braxton Foushee said he feels OWASA should charge this fee, since OWASA cannot provide free service.

Alan Rimer said he agreed with Mr. Clarke's suggestion not to charge a fee for the interim period because rainwater harvesting is such a good program. Mr. Rimer stated that at some point in the future, OWASA could review the process and then decide whether or not to establish a fee system.

Alan Rimer moved to adopt the resolution with a modification to not charge a fee for this service for a period of five years.

William Stott said he would like to see the word "permaculture" incorporated into this agenda item, as rainwater harvesting and other small-scale strategies are important to achieving sustainability.

Marge Anders Limbert said that if there is no fee, the resolution may not be needed.

Patrick Davis noted that while some small scale systems are coming in, there are other larger systems already built, under construction or design. An example is the Greenbridge project, which would serve 100 condominium units that have two bathrooms per unit. If rainwater is used for toilet flushing, and the resolution as proposed by Mr. Rimer is approved, the sewer service associated with flushing rainwater would be provided free of charge.

Robert Epting said that this is a service and OWASA should charge for the service.

Gene Pease suggested that this information be remanded to staff and updated for a future Board meeting with the concerns of the Board addressed.

Mr. Rimer withdrew his initial motion.

The Board agreed to continue this discussion at a future meeting.

ITEM FOURTEEN: FOLLOW-UP ON PREVIOUS DISCUSSIONS RELATING TO
EVALUATION OF THE OWASA POLICY THAT ALLOWS
PREPAYMENT OF WATER AND SEWER SERVICE AVAILABILITY
(CONNECTION) FEES

Mason Crum summarized the potential revenue loss from allowing prepayment of water and sewer service availability (connection) fees by the University as well as other developers.

Braxton Foushee moved that the Policy for the Collection of Fees for Water and/or Sewer Service by Orange Water and Sewer Authority be abolished on August 23, 2007. Fred Battle seconded the motion, and the motion failed with a vote of three to six with Mac Clarke, Randy Kabrick, Marge Anders Limbert, Gordon Merklein, Alan Rimer and William Stott voting no. Please see Motion No. 5 above.

Alan Rimer moved that the Policy for the Collection of Fees for Water and/or Sewer Service by Orange Water and Sewer Authority be abolished effective October 1, 2007; the motion was seconded by William Stott and passed with a vote of six to three with Fred Battle, Braxton Foushee and Gene Pease voting against the motion. Please see Motion No. 6 above.

ITEM FIFTEEN: PROPOSED AMENDMENT TO THE OWASA BYLAWS REGARDING CONFLICTS OF INTEREST AND VOTING

Fred Battle said that he believes if a Board Member is going to be recused from a vote then the Board Member should not participate in the Board's deliberations.

Marge Anders Limbert made a motion to adopt a Resolution of the Board of Directors of Orange Water and Sewer Authority to Amend Articles III and VIII of the Bylaws regarding Conflicts of Interest and Voting; the motion was seconded by William Stott and was approved with a vote of seven to two, with Fred Battle and Braxton Foushee voting against the motion because they believe Board Members with a conflict of interest should not be able to participate in the Board's deliberation of an issue in which they cannot vote. Please see Motion No. 7 above.

ITEM SIXTEEN: APPOINTMENT OF THE NOMINATING COMMITTEE

Mac Clarke appointed the following Board Members to the Committee to make nominations for the upcoming election of officers:

- Marge Anders Limbert, Chair
- Mac Clarke
- William Stott

The Board agreed with the proposed Nominating Committee and the election of new officers will occur at the Annual Meeting of the Board of Directors on September 27, 2007.

ITEM SEVENTEEN: PROPOSED TRANSFER OF WASTEWATER FROM THE CITY OF DURHAM TO OWASA FOR THE BLENHEIM WOODS DEVELOPMENT

The Board asked staff to report back on whether additional developments in Durham may be connected to OWASA's sewer system if OWASA agrees to receive wastewater from the Blenheim Woods development.

ITEM EIGHTEEN: CLOSED SESSION

Braxton Foushee made a motion that the Board convene in a closed session for the purpose of discussing a claim out of which litigation may be expected. The motion was seconded by Marge Anders Limbert and carried by unanimous vote. Please see Motion No. 8 above.

Draft

There being no further business to come before the Board, the meeting was adjourned at 10:30 P.M.

Respectfully submitted,

Draft

Andrea Orbich
Executive Assistant

Encs.

DRAFT

ORANGE WATER AND SEWER AUTHORITY

CLOSED SESSION OF THE BOARD OF DIRECTORS

SEPTEMBER 13, 2007

The Board of Directors of Orange Water and Sewer Authority met in Closed Session on Thursday, September 13, 2007, following the regularly scheduled Meeting of the Board of Directors.

Directors present: Michael A. (Mac) Clarke, Chair; Gordon Merklein, Secretary; Fred Battle; Marge Anders Limbert; Gene Pease; and William Stott. Directors absent: Randolph M. Kabrick, P.E., Vice Chair; and Braxton Foushee.

Other present: Ed Kerwin, Executive Director.

ITEM ONE

The Board of Directors met in Closed Session for the purpose of evaluating the annual performance of the General Counsel for the current fiscal year.

No official action was taken at the meeting.

DRAFT

Marge Anders Limbert, Chair
Human Resources Committee

AGENDA ITEM

- RESOLUTION ADOPTING A REVISED PURCHASING AND CONTRACTING POLICY, DATED SEPTEMBER 27, 2007

BACKGROUND

- OWASA's current Purchasing and Contracting Policy was adopted by the Board of Directors in May 1996 and was last updated on August 25, 2005.
- On August 23, 2007 the Governor signed into law House Bill 73 which changes the North Carolina General Statutes for purchasing. In general, it increased the formal bidding threshold for construction to from \$300,000 to \$500,000.
- The Executive Director will be making other changes in the Policy, consistent with his authority to do so as stated in the August 25, 2005 revision, and in the Administrative Guide, as required to conform to the other changes in the statute.

ACTION RECOMMENDED

- Approve the attached resolution adopting the revised Purchasing and Contracting Policy, effective September 27, 2007.

September 27, 2007

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Jan Bryant-Berry

DATE: September 21, 2007

SUBJECT: Resolution Adopting a revised Purchasing and Contracting Policy

OWASA's current Purchasing and Contracting Policy was adopted by the Board of Directors in May, 1996 and amended on August 25, 2005. The August 25, 2005, resolution delegated to the Executive Director the authority to make additions, adjustments, and clarifications to the policy as deemed necessary. For any substantial changes, notice to the Board must be provided and identify the revisions prior to their taking effect.

On August 23, 2007 the Governor signed into law House Bill 73 which changes the North Carolina General Statutes for purchasing. In general, it increased the threshold for the formal bidding limit for construction from \$300,000 to \$500,000.

Staff is requesting that the Board approve the resolution adopting the revised Purchasing and Contracting Policy for OWASA to reflect this new change making the policy consistent with current North Carolina General Statutes.

Jan Bryant-Berry, CLGPO
Procurement Manager

**RESOLUTION ADOPTING A REVISED PURCHASING AND CONTRACTING
POLICY DATED SEPTEMBER 27, 2007**

WHEREAS, OWASA's current Purchasing and Contracting Policy was adopted by the Board of Directors in May 1996, and was last amended on August 25, 2005; and

WHEREAS, the present policy reflects the previous statutory provision that formal bidding procedures must be followed for construction projects costing in excess of \$300,000; and

WHEREAS, on August 23, 2007, the Governor signed into law House Bill 73 which increases the formal bidding threshold for construction from \$300,000 to \$500,000; and

WHEREAS, the Board of Directors wishes to amend the OWASA's policy so that the bidding threshold is consistent with the recently revised statute, to make the bidding threshold \$500,000, as reflected in the Purchasing and Contracting Policy;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Board of Directors adopts the revised Purchasing and Contracting Policy, effective September 27, 2007.

Adopted this 27th day of September 2007.

Chair

ATTEST:

Secretary

AGENDA ITEM

- MEETING OF THE WATERS INTERCEPTOR AND RECLAIMED WATER SYSTEM UPDATE

PURPOSE

- To provide an overview of project history as well as an update on the current status of design, schedule and grant funding for the Meeting of the Waters Interceptor and Reclaimed Water Transmission Main Project (CIP 276-33 and 278-31, respectively) and the Reclaimed Water Facilities Project (CIP 278-30).

BACKGROUND

- The Reclaimed Water (RCW) System will deliver highly treated wastewater from the Mason Farm Wastewater Treatment Plant to the University of North Carolina for various non-potable uses.
- The reclaimed water transmission main will be co-located and co-constructed with the new Meeting of the Waters Interceptor. The reclaimed water treatment, pumping and storage facilities will be constructed at the WWTP.
- Design work for the projects will be complete in late September 2007. Major construction is expected to be underway by early March 2008, and the work will be substantially complete by March 2009 (includes operation of the RCW System and use of the new MWI). All work is expected to be complete by August 2009.
- OWASA has been awarded two grants for the RCW system: a \$1.866 million grant from the North Carolina Clean Water Management Trust Fund, and a \$625,500 State and Tribal Assistance Grant Program grant from the U.S. Environmental Protection Agency.

ACTION NEEDED

- None at this time.

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: E. Alexandra Jones

DATE: September 20, 2007

SUBJECT: Meeting of the Waters Interceptor and Reclaimed Water System Update

The purpose of this memorandum is to provide a brief history and update on the current status of design, schedule and grant funding for the Meeting of the Waters Interceptor (MWI) Project and the Reclaimed Water Transmission Main and the Reclaimed Water Facilities Projects. The Reclaimed Water Transmission Main and the Reclaimed Water Facilities projects along with distribution piping installed by the University of North Carolina (UNC) comprise the Reclaimed Water (RCW) System.

We are pleased to report that we are very close to final design and bidding of these challenging and very important projects.

OVERVIEW OF PROJECTS

The Reclaimed Water (RCW) System will deliver highly treated wastewater from the Mason Farm Wastewater Treatment Plant (WWTP) to the main campus of the University of North Carolina at Chapel Hill (UNC), where it will be used to meet certain non-potable water needs. The RCW System will initially serve chiller facilities at UNC's main campus, but could be expanded to serve other uses and customers in the future.

Initial pilot testing and feasibility studies for the RCW System began in 2003, and additional planning efforts took place through late 2005. OWASA retained the services of a consultant, Hazen and Sawyer (H&S), to complete the design work for both the RCW transmission main and the RCW facilities. Brown and Caldwell (BC) was retained as the design consultant for the MWI. Detailed, final design for both projects began in March 2006.

UNC and OWASA signed a contract agreeing on the responsibilities both have for the final design, construction, funding, and operation of the RCW system on April 10, 2006.

The RCW transmission main will be co-located with the new Meeting of the Waters Interceptor (MWI), and the two pipelines will be bid as a single construction contract. The RCW treatment, pumping and storage facilities will be constructed at the WWTP and bid as a separate construction contract. OWASA will award and oversee the contracts. Under our contract with UNC, UNC will reimburse us for the costs to construct the RCW transmission main and the RCW facilities.

The MWI project consists of approximately 5,200 feet of 36-inch sewer interceptor which will be co-located and co-constructed with the 24-inch RCW transmission main from the WWTP, along Old Mason Farm Road, and along the existing sewer route in the Coker Pinetum to Manning Drive. There will be an additional length of approximately 2,000 feet of 24-inch RCW transmission main installed along Skipper Bowles Drive. The existing 8-inch asbestos cement water lines along Old Mason Farm Road and Fern Lane will also be replaced as part of the RCW-MWI pipeline project.

The pumping and storage facilities will consist of: a 300,000 or 600,000 gallon storage tank for reclaimed water filled via transfer pumps from the UV filter complex; transmission pumps to convey reclaimed water from the storage tank through the distribution lines; a chemical treatment system; and monitoring and control equipment. The facilities are being designed to be readily expanded to meet additional demands. Construction bids will be requested for the two different storage tank capacities, and the actual capacity of the storage tank to be initially constructed will be determined once construction bids are received and UNC selects what they consider to be the most cost-effective option.

As part of the planning and design process for the pipeline projects, OWASA invited over 200 stakeholders to participate in a series of public meetings to provide feedback and comment on the design. The process included five neighborhood meetings, two OWASA-led site walks of the pipeline route, and several updates to the OWASA Board which took place between July 2005 and July 2006. One of the key issues discussed were the route alternatives for the RCW transmission main and MWI project; the final route was approved by the Board in January 2006 which included a list of mitigation measures to protect the environmentally sensitive areas along the pipeline route through the North Carolina Botanical Garden (NCBG) and the Coker Pinetum. These measures were incorporated into the RCW and MWI pipelines contract documents, including: a full-time inspector to ensure that the contractor follows the requirements of the contract documents; a licensed arborist company hired to perform tree pruning and advise and train the contractor; a six-foot tall chain link fence for tree protection in wooded areas; and use of the WWTP facility rather than easements for materials storage. We will continue to communicate and coordinate with the NCBG, and additional public meetings will be held during the construction and site restoration process so that we may continue to receive feedback and comments from the community.

Design work for the projects will be complete in late-September 2007. Selection of pre-qualified contractors for each project was completed earlier this year, and we expect to issue the projects for bids in October 2007. Bids will be opened in November 2007, and the contract amount must be approved by UNC prior to award. We expect to make recommendation of award to the OWASA Board in January 2008.

Major construction is expected to be underway in March 2008, and the work is scheduled for substantial completion by March 2009 (includes operation of the RCW System and use of the new MWI). All work is expected to be complete by August 2009.

STATUS OF GRANT FUNDING

OWASA has been awarded two grants for the RCW system: a \$1.866 million grant from the North Carolina Clean Water Management Trust Fund (CWMTF), and a \$625,500 (net proceeds) State and Tribal Assistance Grant Program (STAG) grant from the U.S. Environmental Protection Agency (EPA).

OWASA's and UNC's actual engineering and design costs for the project are well below those originally projected when we submitted our CWMTF grant application. In July 2007, we formally requested that the CWMTF Board of Trustees extend the grant agreement to June 30, 2009 and amend the agreement to allow the remaining funds to be used to reimburse OWASA and UNC for project construction inspection and administration services and actual construction costs. On March 1, 2007, we also submitted a grant application to the CWMTF for an additional \$1.412 million in funding for actual construction of the project. The CWMTF Board is scheduled to consider our requests in October 2007.

The STAG grant funding was made possible through the strong support of Congressman David Price. The EPA issued its environmental approval of the project in June 2007, upon which we were able to submit the actual grant application. Upon EPA's recommendation, our application proposes that the STAG funds be used to fund construction of the reclaimed water facilities. We are hoping to soon receive EPA Region 4's approval of our grant application.

CLOSING

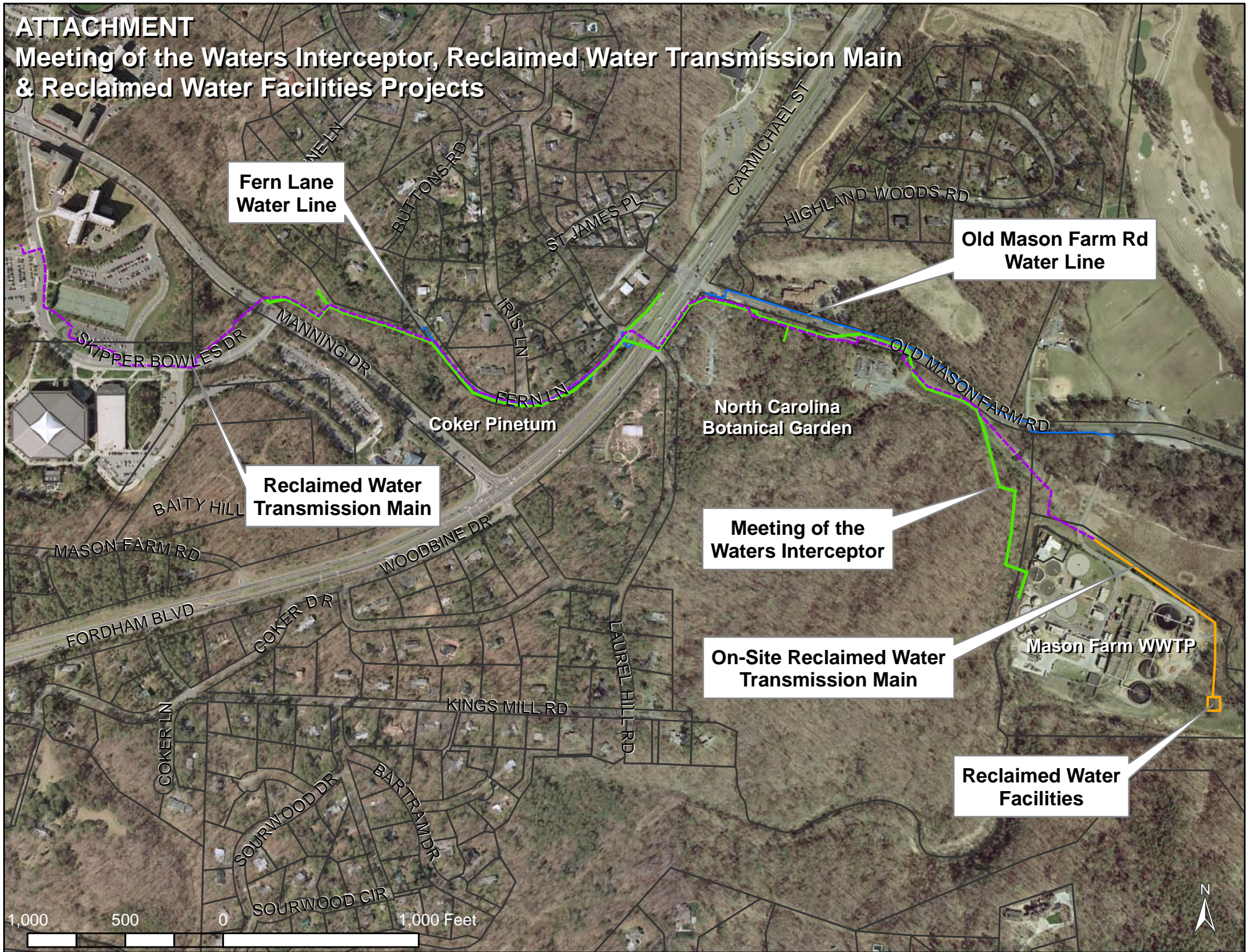
We will continue to keep the Board apprised of the status and any significant issues that arise with these high priority projects. Please feel free to contact me if you have any questions or require additional information. Thank you.

E. Alexandra Jones, P. E.
Utilities Engineer / Project Manager

Attachment – Project Map

ATTACHMENT

Meeting of the Waters Interceptor, Reclaimed Water Transmission Main & Reclaimed Water Facilities Projects



Item 9

AGENDA ITEM

- UPDATE ON INSTALLATION OF NEW BIOSOLIDS DEWATERING SYSTEM AND BIOSOLIDS COMPOSTING SERVICES AGREEMENT WITH MCGILL

PURPOSE

- To update the Board on the status of (a) installation of the new biosolids dewatering system at the Mason Farm Wastewater Treatment Plant (WWTP), and (b) contract service arrangements with McGill Environmental Systems of NC, Inc. for transporting and composting our dewatered biosolids.

BACKGROUND

- On February 8, 2007, the Board of Directors approved contracts for construction of a new biosolids dewatering system at the WWTP, as authorized in the Five-Year Capital Improvements Budget (CIP #278-08) and the Capital Project Resolution for Wastewater Collection and Treatment Improvements.
- The new dewatering system has been installed and placed into service – essentially on-time and under the amount authorized for the project. It is now producing a high quality dewatered biosolids cake that is more than 20 percent solids.
- We do not own any equipment for loading, transport, or land application of dewatered biosolids. Therefore, we must rely on contractor services to transport and manage that material.
- As agreed to by the Board, staff has negotiated a five-year biosolids composting services agreement with McGill Environmental Systems of NC, Inc. McGill will pick up filled containers from OWASA and transport them for processing at McGill's composting facility located in Chatham County. The financial terms of the agreement are within the cost assumptions upon which the Annual Budget for Fiscal Year 2008 was based.
- McGill has initiated container pick-up and transport services and composting services as specified in the contract.
- As we gain experience with the operation of the press and better understand the transport economics, staff will evaluate the benefits and costs of OWASA taking on the transport services in-house. The contract with McGill is structured to allow this arrangement.

ACTION NEEDED

- None

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Patrick Davis
Vishnu Gangadharan

DATE: September 21, 2007

SUBJECT: INFORMATIONAL REPORT: UPDATE ON INSTALLATION OF NEW BIOSOLIDS DEWATERING SYSTEM AND BIOSOLIDS COMPOSTING SERVICES AGREEMENT WITH MCGILL

Purpose

This memorandum provides a status report on (1) the installation of the new biosolids dewatering system at the Mason Farm Wastewater Treatment Plant (WWTP), and (2) the contract arrangements with McGill Environmental Systems (McGill) for transporting and composting our dewatered biosolids.

Our New Biosolids Dewatering System

On February 8, 2007 the Board of Directors approved a contract for construction of a biosolids dewatering system in an existing building at the WWTP. Notice to Proceed was issued to Seaside Environmental Constructors, Inc. on March 12, 2007. We are pleased to report that:

- ✓ The new Fournier Rotary Press and associated improvements have been installed and the Consulting Engineer certified the press for operation as of September 13, 2007. The construction contractor is expected to complete the final minor punch-list items by the end of this month.
- ✓ The project has been accomplished within budget and very close to the contract schedule. Construction delays resulted primarily from the pavement work at the WWTP, and were generally beyond the control of the dewatering project contractor.
- ✓ Based on the construction contract amount and subsequent change orders, we project the total construction cost will be \$1,358,316. That is less than one percent more than the original contract amounts. Engineering services costs are projected to total \$339,081, for a total project cost of \$1,697,397. That is about four percent below the total funding included for this project (CIP #278-08) in our Board-approved Capital Improvements Budget and Capital Project Resolution for Wastewater Collection and Treatment Improvements.

- ✓ Performance testing was successfully completed for biosolids flow-through rates from 38 to 56 gallons per minute (gpm). For comparison, our current rate of liquid biosolids production at the WWTP is about 30 gpm. Due to low percent solids content in our liquid biosolids, and at no fault of the contractor, we could not conduct performance testing at the unit's high-rate of operation (72 gpm). We expect to soon be able to complete the high-rate performance testing.
- ✓ During the week of September 12th, we began operating the new press on a continuous basis at the normal flow rate. As of September 19th, we were producing a high quality dewatered biosolids product with a solids content of more than 20 percent.
- ✓ Our WWTP staff has been provided preliminary training on press operation. Our experience to date confirms that very little staff time is required to operate the press.
- ✓ Our dewatered biosolids are now being loaded into a roll-off container inside the building, and McGill is picking up and transporting those containers, and composting our dewatered biosolids at its facility in Chatham County.
- ✓ Our air handling system captures air from within the dewatering building and transports it to the existing chemical scrubber for control of odors.

We do not own roll-off containers or trucks required to load and transport dewatered biosolids. We also do not own any equipment required to transport and land apply dewatered biosolids to agricultural lands. As part of our biosolids planning process, we will evaluate the benefits and costs of developing an in-house capability to load, transport, and land apply dewatered biosolids.

Following are photographs of the new rotary press, the conveyor system, the dewatered biosolids, and the roll-off truck and container.

The dewatering system is housed within the old Dissolved Air Flotation Thickener Building at the Mason Farm WWTP.



The new Fournier Rotary Press can meet our needs for a long time to come, as it has the capacity to meet our needs until the WWTP reaches a capacity of 18.5 MGD.



Dewatered biosolids, or "cake," are loaded into a roll-off container inside the building. The cake shown here has a solids content of about 20 percent.



A special truck is required to load and off-load the roll-off containers at the dewatering building, and to transport the containers to McGill.



Biosolids Composting Services Contract With McGill

As agreed to previously by the Board, staff has successfully negotiated a five-year biosolids management services contract with McGill. The contract includes the following key provisions:

- ✓ The term of the contract is five years, and it is renewable annually for up to an additional five years at our discretion. We will be able to terminate the contract for convenience upon 120 days prior notice to McGill, without any penalty to us (McGill will not have the ability to terminate the contract for convenience).
- ✓ McGill has agreed to accept and process dewatered biosolids for a fee of \$26 per wet ton. That is below the \$30 per wet ton charge they originally proposed, and that we assumed in developing the Annual Budget for FY 2008. McGill agreed to this lower fee because they know the quality and moisture content of the dewatered biosolids we will produce, and they want to provide an incentive for us to send more dewatered biosolids to them.
- ✓ McGill will initially pick-up the containers of dewatered biosolids and transport them to its facility in Chatham County. The transportation costs are projected to account for almost half of the total contract services costs. For this reason, we structured the contract to allow us to do the transport services with our own staff and equipment or through another transportation services provider if we can find someone who can do the work at a lower cost. As we gain actual experience with the transportation services, schedule, and associated costs, we will evaluate the benefits and costs of taking over the transportation tasks.
- ✓ McGill has provided a \$50,000 performance bond as surety for performance of the contract. Such a provision is unusual for services contracts, and this is the first services contract for which we have required such a provision. If McGill is unable to perform, we

will be able to use the funds provided under the bond to pay for biosolids management services. We estimate that this amount will cover our costs for two to three months.

- ✓ McGill is responsible for any spills or accidents involving the transport of our biosolids by their (or their subcontractors') employees and equipment.

To address suggestions made by the Natural Resources and Technical Systems Committee during discussions of the potential services arrangement with McGill, we obtained an environment, health and safety audit of the facility that was completed by another party in July, 2006. That audit indicated that McGill has had a good performance record, and that it has the financial capacity and stability to continue its composting facility operations for the foreseeable future.

Next Steps

We will complete the high-rate performance testing of the press in the near future. As we gain experience with the operation of the press, the treatment of the filtrate return, and the container loading and transport schedule, we will evaluate and pursue opportunities to optimize the dewatering system and transport operation to achieve cost-savings.

We hope that this update is of assistance. Please let us know if you would like to tour the new dewatering system, or if you have any questions or need any additional information relating to the new biosolids dewatering system or our biosolids management services contract with McGill.

Patrick Davis
Utility Manager Generalist

Vishnu Gangadharan, P.E.
Utilities Engineer

AGENDA ITEM

- RECOMMENDED DECLARATION OF STAGE 1 WATER SHORTAGE

PURPOSE

- To consider the formal declaration of a Stage 1 Water Shortage per OWASA Conservation Standards and local ordinances.

BACKGROUND

- The drought has persisted, and water supply and demand conditions have not improved since the Board of Directors declared a Water Supply Advisory on August 23, 2007. University Lake and the Cane Creek Reservoir are currently 60 percent full, with approximately 2.0 billion gallons (BG) of supply remaining. At our current withdrawal rate of approximately 10 mgd and evaporation of 2 mgd, this represents about 170 days of water in storage.
- OWASA's water supply model, which is based on 81 years of historical streamflow data, indicates that the risk of drawing down the reservoirs to below 20 percent is still low, but we are aware that the model may not adequately reflect additional uncertainties of global climate change and that ongoing drought conditions may yet exceed the extremes of the 81-year record.
- Governor Easley has asked local communities to further reduce water consumption, and many of our neighbors have recently invoked stricter conservation measures. A more precautionary approach may be appropriate for OWASA.
- The principle features of Stage 1 Water Shortage are: (a) reduction of spray irrigation from three days to one day per week; (b) application of a rate surcharge to residential customers using more than 10,000 gallons per month; and (c) total water use restricted to 30,000 gallons per month for each residential customer account.
- OWASA's new block rate structure for individually metered residential customers will go into effect on October 1, 2007 regardless of drought conditions.

ACTION NEEDED

- Review and discuss attached materials.

STAFF RECOMMENDATION

- Staff recommends that the Board declare a Stage 1 Water Shortage, but defer implementing the water rate surcharges applicable to residential customers using more than 10,000 gallons per month.

Although our water supply model indicates that the risk of drawing down reservoir storage to below 20 percent is still low, staff recognizes that other non-technical considerations may appropriately influence the Board's decision about a Stage 1 Water Shortage at this time. A single definitive answer is not clear.



ORANGE WATER AND SEWER AUTHORITY

Quality Service Since 1977

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Ed Holland

DATE: September 21, 2007

SUBJECT: Recommended Declaration of Stage 1 Water Shortage

Background

The Board of Directors declared a Water Supply Advisory on August 23, 2007, alerting customers that additional water use restrictions might be needed if supply/demand conditions did not improve in the coming months. The drought has persisted, and our Cane Creek and University Lake reservoirs, which have received virtually no inflow since mid-August, continue to lose approximately 2 million gallons per day (mgd) to evaporation. As of this writing (September 21), the reservoirs are 60 percent full, with approximately 2.0 billion gallons (BG) of supply remaining. Assuming our current withdrawal rate of about 10 mgd and evaporation of 2 mgd, this represents about 170 days of storage (assuming no rainfall).

OWASA's water supply management model, which is based on actual and simulated daily inflows for the past 81 years, indicates that the risk of critical reservoir drawdowns to 20 percent of capacity or less during the next 18 months is unchanged from last month and remains low. This is depicted on Exhibit 1, which anticipates that storage remaining on October 1 will be about 56 or 57 percent of the reservoirs' 3.36 BG capacity.

We are aware that OWASA's historically-based risk model may not adequately reflect more recently recognized uncertainties of global climate change, and that ongoing drought conditions may yet exceed the extremes of the 81-year streamflow record.

Currently available forecasts for the southeastern United States anticipate a general lessening of the drought during the coming months, but the National Oceanic & Atmospheric Administration recently reported that La Nina conditions appear to be re-emerging and may contribute to a drier than normal winter. We also note that Governor Easley has asked local communities to further reduce water consumption and that many of our neighbors have invoked stricter conservation measures. A more precautionary approach may be appropriate for OWASA. A summary of local water restrictions in place as of September 20 is provided in Exhibit 2.

For these reasons, staff recommends that the Board declare a Stage 1 Water Shortage, but that we defer initiating Stage 1 commodity rate surcharges until/unless conditions worsen during the coming months.

Stage 1 Water Shortage Restrictions

OWASA's Conservation Standards and the corresponding local ordinances provide for the declaration of a Stage 1 Water Shortage as follows:

Drought Condition Shortage

OWASA shall base its determination of existing or potential water shortage conditions on its analysis of reservoir levels, streamflow, existing and anticipated demand, availability of supplemental supplies, as well as other elements of reasonable professional judgment and management. The determination of drought shortage conditions shall be guided by periodic estimates of the risk (i.e., probability) that water stored in OWASA's reservoir system will decline to unacceptably low levels within the foreseeable future. Until improved or alternative criteria are developed, such guidance shall be based on a five percent or greater risk that total reservoir storage will decline to 20 percent or less of total storage capacity within an 18 month period. This guidance shall apply to the initial declaration of a Water Supply Shortage or Emergency and shall inform subsequent declarations of more or less severe Water Supply Shortages or Emergencies.

Stage One (1) Water Shortage

In the event that OWASA declares a Stage One Water Shortage, OWASA shall advise the Mayors of Carrboro and Chapel Hill and the Chair of the Orange County Board of Commissioners of its declaration and shall request that they issue Proclamations of Water Supply Shortage. Upon OWASA's declaration of a Stage One Water Shortage, the following actions shall be taken with the goal of reducing overall water demand by ten (10) percent:

- 1. Water use by individually metered residential customer accounts and by individually metered irrigation-only accounts shall be limited to no more than an average of one thousand (1,000) gallons per day during any monthly billing cycle beginning after the declaration of a Water Supply Shortage or Water Supply Emergency and ending while such restrictions are still in effect.*
- 2. Spray irrigation using OWASA-supplied potable water shall not occur more than one day per week with a maximum of one-half inch of water applied to plant material in any given week. Even-numbered properties shall be allowed to spray irrigate only on Tuesdays; odd-numbered properties shall be allowed to spray irrigate only on Thursdays. Spray irrigation shall occur only between the hours of 8:00 p.m. and 9:00 a.m. These restrictions shall not apply to the watering of containerized plants and commercial plant stock in trade.*

3. *Irrigation by underground, drip irrigation, micro spray, low precipitation bubblers, soaker hose systems with automatic shutoffs, or by hand held hoses or watering cans may occur at any time or frequency, but shall be limited to a maximum of one-half inch of water applied to plant material in any given week.*
4. *No OWASA-supplied potable water may be used to re-fill ornamental fountains, ponds, and like devices.*
5. *No OWASA-supplied potable water may be used for the routine cleaning or washing of paved areas, such as sidewalks, decks, driveways, roadways, or parking lots. This restriction shall not apply to the pressure cleaning of exterior building surfaces.*

Stage 1 Commodity Rate Surcharges

In addition to the restrictions described above, OWASA's recently adopted schedule of rates, fees, and charges includes provisions for a surcharge of 50 percent above the normal Block 4 rate of \$7.46 per thousand gallons for residential customers using 11,000 gallons or more per month and a surcharge of 100 percent above the normal residential Block 5 rate of \$13.05 per thousand for customers using 16,000 gallons or more per. That is, residential customers would pay $1.5 \times \$7.46 = \11.19 per thousand for water use in the range of 11,000 to 15,999 gallons per month and $2.0 \times \$13.05 = \26.10 per thousand for 16,000 gallons or more per month if the Stage 1 surcharge were applied. Additional details are provided in Exhibit 3.

Discussion

Stage 1 Use Restrictions – The most significant difference between OWASA's year-round conservation requirements in place under the current Water Supply Advisory and Stage 1 Water Shortage is the reduction of spray irrigation from three days to one day per week. Most irrigation will cease by the end of December, and the actual demand reduction resulting from the lower one-day per week restriction will be relatively modest.

It is evident that OWASA's long-term demand management program that began with seasonal rates in 2002 and year-round water use restrictions in 2003 has successfully reduced much of our customers' discretionary use during the past five years. One result of this success is that fewer options remain for reducing customer demand during shorter term drought situations such as we are now experiencing.

A Stage 1 Shortage would also impose a 1,000 gallon per day use limit for residential customers. We would likely apply this through letters of warning to any residential customers using more than 30,000 gallons per month that they are subject to service termination if that level of use continues while Stage 1 restrictions remain in effect.

New Block Rate Structure – OWASA's recently adopted block rate structure for individually metered residential customers will go into effect for the first time on October 1 –

independent of drought conditions. Per the predictions of our consultant, the new rates are expected to “deliver a stronger conservation signal” and reduce residential consumption several percent below what might otherwise occur. Because this reduction was anticipated during last spring’s rate and budget deliberations, the financial effects of demand reductions due to the new block rate structure are expected to be revenue neutral. That is, the new rates are expected to reduce demand somewhat, but with no loss of budgeted revenue.

During the October through December 2005 billing period, when summer and fall reservoir drawdown rates and storage levels were similar to this year’s, an average of 1,850 residential customers used more than 10,000 gallons of water per month, representing an average “discretionary” consumption of 0.23 mgd, or about 3 percent of total customer demand for that period. If all residential use above 10,000 gallons per month had been discontinued during that period, OWASA would have saved a total of 21 million gallons, or slightly more than two days of supply. The total water and sewer revenues associated with such a reduction (assuming October 1, 2007 block rates, including the 15,000-gallon sewer cap) is about \$540,000. We are not able to predict what the effect would be on these users if stricter conservation measures are imposed at this time.

Stage 1 Rate Surcharge – If 2005 consumptions patterns recurred this year, the maximum amount of revenue that could be generated by the rate surcharge between the beginning of October 1 and the end of December – assuming that no reduction of residential use occurred at all – would be about \$835,000.

From these calculations it is reasonable to estimate that the most extreme revenue effects of additional conservation measures imposed during the next three months would be a potential loss in the range of \$540,000 if all residential use above 10,000 gallons per month were eliminated, versus a potential gain of approximately \$835,000 if the rate surcharge were applied but no reduction of residential use occurred at all.

Staff notes the following concerns about applying the Stage 1 rate surcharge at this time:

- The simultaneous implementation of Stage 1 use restrictions (primarily the reduction of spray irrigation from three days to once per week) and application of the new block rate structure on October 1 are expected to result in modest demand reductions. We believe that the additional “punch” of a rate surcharge applicable to residential customers using more than 10,000 gallons per month might be reserved and applied more effectively at a later time, perhaps next spring if additional conservation is warranted.
- Implementing the new rate surcharge concurrently with rolling out the new block rate structure represents a formidable, but achievable, technical and administrative challenge. Deferring the surcharge might reduce the number of billing problems, computer errors, customer questions and complaints, as well as other administrative issues that inevitably arise with the startup of a new system.

Staff Recommendation

Although our water supply management model based on the 81-year historical streamflow record indicates that the risk of drawing down our reservoir storage to below 20 percent is still low, we recognize that other non-technical considerations may appropriately influence the Board's decision about declaring a Stage 1 Water Shortage at this time. A single definitive answer is not clear.

In view of the information and discussion presented above, staff recommends that the Board declare a Stage 1 Water Shortage, but defer implementing the Stage 1 water rate surcharges applicable to residential customers using more than 10,000 gallons a month. If the Board agrees, we will proceed to notify the Carrboro and Chapel Hill Mayors and Chair of the Orange County Board of Commissioners. Staff will prepare and issue appropriate media releases, public notices, and so forth.

A handwritten signature in black ink, appearing to read "Ed Holland", written over a horizontal line.

Edward A. Holland, AICP
Planning Director

Attachments

EXHIBIT 1.

Reservoir Drawdown Frequency and Guidelines for Conservation Triggers, Average Demand = 9.15 mgd

Number of times (or percent of years) during the 77-year streamflow record in which reservoir storage would have declined to 20% or less during the following 18 months.

		Jan 8.0 mgd	Feb 8.2 mgd	Mar 8.0 mgd	Apr 8.3 mgd	May 9.2 mgd	Jun 9.8 mgd	Jul 10.5 mgd	Aug 10.6 mgd	Sep 10.3 mgd	Oct 9.8 mgd	Nov 9.0 mgd	Dec 8.1 mgd
Water Remaining in University Lake and Cane Creek Reservoirs (% Full and Million Gallons)	100% 3358	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
	95% 3190	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
	90% 3022	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%	1 1%	0 0%	0 0%	0 0%	0 0%
	85% 2854	0 0%	0 0%	0 0%	0 0%	2 3%	0 0%	0 0%	1 1%	0 0%	0 0%	0 0%	0 0%
	80% 2686	0 0%	0 0%	0 0%	0 0%	2 3%	3 4%	2 3%	1 1%	1 1%	0 0%	0 0%	0 0%
	75% 2519	0 0%	0 0%	0 0%	0 0%	2 3%	3 4%	2 3%	1 1%	1 1%	0 0%	0 0%	0 0%
	70% 2351	0 0%	0 0%	0 0%	0 0%	2 3%	3 4%	3 4%	3 4%	1 1%	1 1%	0 0%	0 0%
	65% 2183	0 0%	0 0%	0 0%	2 3%	4 5%	4 5%	4 5%	3 4%	1 1%	1 1%	0 0%	0 0%
	60% 2015	0 0%	0 0%	1 1%	4 5%	6 8%	10 13%	6 8%	5 6%	3 4%	1 1%	1 1%	0 0%
	55% 1847	0 0%	1 1%	2 3%	4 5%	13 17%	12 16%	12 16%	7 9%	3 4%	2 3%	1 1%	0 0%
	50% 1679	0 0%	1 1%	2 3%	6 8%	15 19%	18 23%	16 21%	9 12%	6 8%	3 4%	1 1%	1 1%
	45% 1511	1 1%	1 1%	3 4%	7 9%	17 22%	21 27%	22 29%	17 22%	8 10%	3 4%	2 3%	1 1%
	40% 1343	1 1%	1 1%	3 4%	8 10%	24 31%	29 38%	26 34%	25 32%	18 23%	5 6%	3 4%	1 1%
	35% 1175	1 1%	3 4%	5 6%	12 16%	25 32%	34 44%	34 44%	31 40%	27 35%	15 19%	3 4%	2 3%
	30% 1007	1 1%	4 5%	6 8%	14 18%	27 35%	38 49%	39 51%	39 51%	40 52%	25 32%	7 9%	3 4%
25% 839	3 4%	4 5%	6 8%	17 22%	33 43%	45 58%	48 62%	46 60%	50 65%	40 52%	19 25%	5 6%	

Conservation Stages and Risk Levels

NORM	ADV	#1	#2	#3	EMRG
0-1%	1-3%	3-8%	8-21%	21-47%	48+%

2002 Reservoir Levels

2006 Reservoir Levels

2007 Reservoir Levels

Each cell of the table contains an integer and a percentage, which represent the probability that reservoir levels will decline to 20 percent or less of full capacity during the following 18 months. These were calculated from spreadsheet model runs of 77+ years of daily streamflow data, updated through January 2003, and driven by monthly water demand and reservoir storage at the beginning of each month. Calculations were based on an average annual raw water demand of 9.15 mgd, adjusted by observed monthly ratios, which are reflected in monthly demands shown at the top of the table.

Each column of the table corresponds to a month, and each row corresponds to reservoir storage at the beginning of that month. Storage is subdivided into increments of 5% and also expressed as million gallons (MG).

Colors indicate the corresponding conservation and risk levels proposed for each condition. Cells highlighted in **black**, **blue**, or **orange** represent actual reservoir storage conditions at the beginning of that month during the **severe drought year of 2002 (black)**, **last year 2006 (blue)**, or **the current year (orange)**.

EXHIBIT 2. Summary of Local Water Use Restrictions

	OWASA	Raleigh	Durham	Cary	Chatham Co.	Greensboro
Stage	Advisory (year-round restrictions in effect)	Stage 2	Stage 3 (mandatory)	Year-round restrictions in effect	Stage 3 (mandatory) effective as of September 24, 2007	Stage IIA, Level I Warning (mandatory) as of August 27, 2007
Spray Irrigation	3 days/week	1 day/week except 2 days/week for City-certified irrigation systems	2 days/week	3 days/week	Not allowed; irrigation banned except by hand-held container	1 day/week
Watering hours	Before 9AM and after 8 PM	Irrigation systems: 12 a.m. – 10 a.m.; hose-end sprinklers: 6 a.m.-10 a.m. and 6 p.m.-10 p.m.	between 5:00 and 9:00 am or 5:00 and 9:00 pm		No restriction on hours or days of watering by hand-held container.	May water golf courses and athletic fields between 10 pm and 5 am. Water use must be reduced 40%.
Quantity limit	1" per week					
New planting exceptions	30 day exception for new plantings and sod; 6 month exception for newly seeded turf	45 day New Landscape Establishment Permit available		3-week exceptions for new plantings, registration required		
Hand watering	Any day, any time, 1" max per week for all irrigation as noted above	2 days/week; 6 a.m.-10 a.m. and 6 p.m.-10 p.m.	Same as for spray irrigation	Any day of the week	Use of hand-held containers (not hoses) is allowed for watering trees, shrubs and garden plants.	Any day other than spray irrigation day
Drip irrigation	Any day, any time, 1" max per week	Low volume drip irrigation allowed at any time	Same as for spray irrigation	3 days/week	Not allowed	Any day other than spray irrigation day
Car washing		Saturday and Sunday	Not unless use a private well, 50% of water recycled or <30 gallons used		No washing of vehicles, boats, airplanes.	
Washing patios, sidewalks, driveways, building exteriors, decks, etc.		Saturday and Sunday only	No washing of outside sidewalks, patios, driveways, etc.		No washing of building exteriors, streets, driveways, decks, parking lots, etc.	
Swimming pools			No water addition to wading or swimming pools except to replenish losses		No filling or filling of swimming or wading pools	
Restaurants	Serve tap water only on request	Serve tap water only on request	Serve tap water only on request			
Hotels, motels	Replace linens upon guest change, on guest's request, every 5 days	Guests asked to use linens and towels more than once				
Water waste	Off-site run-off, ponding prohibited		Not use water unnecessarily or intentionally		Avoid waste of County water	

No water use restrictions in effect for the Town of Hillsborough as of September 20, 2007

Individually Metered Residential Accounts

Individually metered residential accounts will be billed under an increasing block rate structure designed to encourage efficient water use by applying increasing commodity charges (rate per thousand gallons) to incremental increases in water use.

	<u>Volume of Use (1,000s of Gallons)</u>	<u>Calculated Commodity Rate per 1,000 Gallons</u>
Block 1	0 to 2,999	\$1.98
Block 2	3,000 to 5,999	\$4.70
Block 3	6,000 to 10,999	\$5.53
Block 4	11,000 to 15,999	\$7.46
Block 5	All use 16,000 and up	\$13.05

Non-residential Accounts

To achieve demand reduction during peak water use periods, a seasonal conservation rate structure will be applied to non-residential accounts. A reduced commodity charge is in effect during lower demand months (October through April), and a higher commodity charge is in effect during high demand months (May through September).

Off-peak rate per 1,000 gallons (October through April)	\$3.08
Peak seasonal rate per 1,000 gallons (May through September)	\$5.85

Conservation Water Commodity Charges Under Mandatory Water Use Restrictions

Water commodity charges applicable to individually-metered residential accounts will be temporarily increased during periods of mandatory water use restrictions regardless of the time of year. These applicable surcharges are summarized in the following table.

**WATER COMMODITY SURCHARGES
APPLICABLE UNDER MANDATORY WATER USE RESTRICTIONS**

	Individually-Metered Residential Accounts						Non-Residential
Block:	Res. Block 1	Res. Block 2	Res. Block 3	Res. Block 4	Res. Block 5	Cutoff Block	
Use Level:	0 to 2,999	3,000 to 5,999	6,000 to 10,999	11,000 to 15,999	16,000 and up		All
Stage 1 Mandatory	No surcharge	No surcharge	No surcharge	1.5 times normal Block 4 rate	2 times normal Block 5 rate	>1,000 gallons per day	Non-Peak Period: No surcharge Peak Period: No surcharge
Stage 2 Mandatory	No surcharge	No surcharge	1.5 times normal Block 3 rate	2 times normal Block 4 rate	3 times normal Block 5 rate	>800 gallons per day	Non-Peak Period: No surcharge Peak Period: No surcharge
Stage 3 Mandatory and Emergency	No surcharge	1.25 times normal Block 2 rate	2 times normal Block 3 rate	3 times normal Block 4 rate	4 times normal Block 5 rate	>600 gallons per day	Non-Peak Period: 1.25 times peak seasonal rate Peak Period: 1.25 times peak seasonal rate

Item 11

AGENDA ITEM

- RESOLUTION REAPPOINTING ROBERT EPTING AS GENERAL COUNSEL TO THE ORANGE WATER AND SEWER AUTHORITY

PURPOSE

- General Counsel is appointed annually by the Board of Directors to provide legal services to the Board of Directors and staff, to observe the general operation and management of OWASA from a legal perspective, to assist in the establishment of policy and the administration and operations of the business and affairs of OWASA, to initiate legal comment and advice on matters before OWASA or relating to OWASA, so that due regard may be given to pertinent laws, regulations, and statutes.

BACKGROUND

- Robert Epting, Esquire, and the firm of Epting and Hackney, has capably served as General Counsel to OWASA since October 1, 1984.
- The hourly rate for services of General Counsel remains unchanged.

STAFF RECOMMENDATION

- Adopt Resolution Reappointing Robert Epting as General Counsel to the Orange Water and Sewer Authority.

September 27, 2007

**RESOLUTION REAPPOINTING ROBERT EPTING AS GENERAL COUNSEL
TO THE ORANGE WATER AND SEWER AUTHORITY**

WHEREAS, the Orange Water and Sewer Authority is a public, corporate entity organized and operated under the laws and statutes of the State of North Carolina and is engaged in the provision of public water and sewer services within its service area; and

WHEREAS, the Board of Directors of Orange Water and Sewer Authority finds that it is necessary and appropriate to provide for and obtain general legal counsel and services to assist in the establishment of policy and the administration and operations of the business and affairs of OWASA so that due regard may be given to the pertinent laws, regulations, and statutes; and

WHEREAS, Robert Epting has served as General Counsel to OWASA since October 1, 1984, and has rendered competent and appropriate legal services in that regard, and the Board of Directors wishes to continue his services as General Counsel;

**NOW, THEREFORE, BE IT RESOLVED BY THE OWASA BOARD OF
DIRECTORS:**

1. That Robert Epting of the firm of Epting and Hackney, Chapel Hill, N.C., is hereby reappointed General Counsel of Orange Water and Sewer Authority in accordance with the terms and conditions set out in his letter dated September 4, 2007 to the Executive Director.

2. That as General Counsel, Robert Epting will serve under the general direction of the Board of Directors and upon the request of the Executive Director, subject to his ultimate responsibility to the Board of Directors.

3. That this reappointment will be effective October 1, 2007, and shall continue, subject to annual review by the Board of Directors prior to the time of the Annual Meeting or until terminated by either the Board of Directors or Robert Epting, in accordance with the terms and conditions of the said letter dated September 4, 2007.

Adopted this 27th day of September, 2007.

Chair

ATTEST:

Secretary

CLOSED SESSION

Following the Meeting of the Board of Directors the Board will convene in a Closed Session for the Purpose of Discussing a Human Resources Matter

(Marge Anders Limbert)

September 27, 2007