ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

AGENDA
ANNUAL MEETING OF THE OWASA BOARD OF DIRECTORS
THURSDAY, SEPTEMBER 24, 2015, 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 contact the Clerk to the Board at 919-537-4217 or aorbich@owasa.org.

The Board of Directors appreciates and invites the public to attend and observe its meetings. Public comment is invited either by petition upon topics not on the Board's agenda, or by comments upon items appearing on the Board's agenda. Speakers are invited to submit more detailed comments via written materials, ideally submitted at least three days in advance of the meeting to the Clerk to the Board via email or US Postal Service (aorbich@owasa.org/400 Jones Ferry Road, Carrboro, NC 27510).

Public speakers are encouraged to organize their remarks for delivery within a four minute time frame allowed each speaker. Additional time may be allowed at the discretion of the Board of Directors.

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. Appointment of Barbara M. Foushee, Orange County Appointee, to the OWASA Board of Directors
2. Announcements by Board Members
3. Announcements by Staff

Petitions and Requests

1. Public
2. Board
3. Staff

PRESENTATION OF ANNUAL REPORT

1. A. Executive Director's Comments (Ed Kerwin)
   - B. Finance and Customer Service Director's Comments (Stephen Winters)
   - C. Martin Starnes & Associates, CPAs, P.A.'s Comments (Crystal Roberts)

CONSENT AGENDA

Information and Reports

2. Equal Employment Opportunity/Affirmative Action Report for Fiscal Year 2015 (Stephanie Glasgow)
3. Annual Report on Disposal of Surplus Personal Property (Kevin Ray)

Action

4. Resolution Honoring the Service of Michael M. Hughes, P.E., to the Chapel Hill-Carrboro-Orange County Community as a Member of the Orange Water and Sewer Authority (John Young)
5. Approval of the Minutes of the August 27, 2015 Meeting of the Board of Directors (Andrea Orbich)
6. Approval of the Minutes of the August 27, 2015 Closed Session of the Board of Directors (Michael Hughes)
7. Approval of the Minutes of the September 10, 2015 Work Session of the Board of Directors (Andrea Orbich)
8. Approval of the Minutes of the September 10, 2015 Closed Session of the Board of Directors (Michael Hughes)

REGULAR AGENDA

Discussion

9. Advanced Metering Infrastructure – Interview Findings and Technology/Strategy Review (Todd Taylor/Dan Przybyl)

Discussion and Action

10. Resolution Reappointing the Firm of Epting and Hackney as General Counsel to the Orange Water and Sewer Authority (Michael Hughes)
11. Nomination and Election of the Vice Chair (John Young)

Summary of Board Meeting Action Items

12. Executive Director will summarize the key action items from the Board meeting and note significant items for discussion and/or action expected at the next meeting

Closed Session

13. The Board of Directors will Convene in a Closed Session immediately following the Board Meeting for the Purpose of Discussing a Personnel Matter (Michael Hughes)

PRESENTATION OF ANNUAL REPORT

Executive Director Comments ..... Ed Kerwin

Director of Finance and Customer Service Comments ..... Stephen Winters

Martin, Starnes & Associates ..... Crystal Roberts

September 24, 2015

ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Stephen Winters, CPA

DATE: September 18, 2015

SUBJECT: Draft of Orange Water and Sewer Authority Comprehensive Annual Financial Report for the year ended June 30, 2015.

A draft of the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2015 will be provided at the September 24, 2014 Board Meeting. Martin, Starnes & Associates has completed its audit and has issued an unqualified opinion.

Unqualified Opinion explained

An unqualified audit opinion means that in the independent auditor's judgment, a company's financial records and statements are fairly and appropriately presented, and in accordance with Generally Accepted Accounting Principles (GAAP). It is issued when the independent auditor believes that the company's financial statements are sound; that is, the statements are free from material misstatements. This is different from a qualified opinion which is issued when the independent auditor discovers something in the financial statements that is subject to major concern.

Draft Version of CAFR

The financial results for Fiscal Year 2015 have been presented to the Board in previous meetings and no significant changes to the information resulted from the audit.

The report is currently in draft form. In addition to correcting any typographical errors, we will insert additional supplemental information in the report. As a component unit of the Town of Chapel Hill for reporting purposes, we are required to include information from the Town's CAFR that is not yet available. We will provide the final version to the Board of Directors in October after a mandatory review by the North Carolina Local Government Commission.

Stephen Winters, CPA
Director of Finance and Customer Service

ORANGE WATER AND SEWER AUTHORITY

(A COMPONENT UNIT OF THE TOWN OF CHAPEL HILL, NORTH CAROLINA)

AUDITED FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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Prepared by:

Orange Water and Sewer Authority

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ORANGE WATER AND SEWER AUTHORITY

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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ORANGE WATER AND SEWER AUTHORITY

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Orange Water and Sewer Authority (A Component Unit of the Town of Chapel Hill, North Carolina), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Orange Water and Sewer Authority as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange Water and Sewer Authority's basic financial statements. The budgetary schedules and the accompanying Schedule of Expenditures of Federal and State Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the budgetary schedules and the Schedule of Expenditures of Federal and State Awards, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 23, 2015

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Management's Discussion and Analysis

The management of the Orange Water and Sewer Authority (OWASA) offers the following discussion and analysis as a supplement to the organization's financial position and activities for the fiscal years ended June 30, 2015 and 2014. This presentation is intended to enhance the readers' understanding of the financial statements which follow and should be read in conjunction with those statements and the introductory letter of transmittal found on pages i–viii.

Financial Highlights

- At June 30, 2015, OWASA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $246 million.
- OWASA's total net position increased by $7.1 million, primarily resulting from income realized from operating activities.
- Due to the condition and capacity of OWASA's system, over 80% of the organization's $7.3 million capital expenditures for Fiscal Year (FY) 2015 were invested in replacing and rehabilitating existing infrastructure.
- Non-current liabilities increased by about $800,000. This net change consisted of an increase due to an interest-free loan from the state of North Carolina and a decrease due to principal payments on long-term debt.
- OWASA's credit ratings from Standard and Poor's and Fitch of AA+, and Aa1 from Moody's, remain unchanged.

Overview of the Financial Statements

OWASA's primary mission is to provide water, sewer, and reclaimed water services to Chapel Hill, Carrboro, and portions of southeastern Orange County. OWASA does not provide other general purpose government services or programs. OWASA's operations, capital improvements program, and debt payments are funded almost entirely through rates, fees and other charges for water, sewer, and reclaimed water services. OWASA is considered to be, and therefore presents its financial report, as a stand-alone enterprise fund.

As a stand-alone enterprise fund, OWASA's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position* and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short- and long-term financial information about OWASA's financial position. Presentations of two-year and three-year comparative data in these schedules are intended to enhance the reader's ability to gauge OWASA's fiscal strength and provide useful trend information. *Notes to the Financial Statements* and a *Schedule of Revenues and Expenditures – Budget and Actual* appear immediately following the basic financial statements. In addition, other supplementary information, generally statistical and demographic in nature, is presented.

The *Statement of Net Position* presents OWASA's basic financial position through disclosure of information about OWASA's assets and liabilities. Net position represents the difference between total assets and deferred outflows of resources and total liabilities. Over time, net position may serve as a useful indicator of OWASA's financial condition.

The *Statement of Revenues, Expenses and Changes in Net Position* provides information regarding OWASA's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net position, which links this statement to the *Statement of Net Position.*

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

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

Orange Water and Sewer Authority
Schedule of Net Position
($ millions)

	Fiscal Year Ended			Percentage of Change (2014 to 2015)
	2015	**2014**	**2013**	
Current assets	$38.6	$30.1	$38.3	28.2%
Capital and other long-term assets	300.9	299.9	291.7	0.3
Total assets	339.5	330.0	330.0	2.9
Total deferred outflows of resources	3.1	2.3	2.6	34.8
Current liabilities	12.1	11.4	13.5	6.1
Non-current liabilities	83.3	82.5	87.0	1.0
Total liabilities	95.4	93.9	100.5	1.6
Net position				
Invested in capital assets, net of related debt	218.4	219.5	206.1	(0.5)
Restricted	0.2	0.2	0.1	0.0
Unrestricted	26.9	18.7	25.9	43.9
Total net position	$245.5	$238.4	$232.1	3.0

OWASA's assets exceeded liabilities by $246 million at June 30, 2015, compared to $238 million and $232 million at June 30, 2014 and 2013, respectively. OWASA's overall financial position strengthened between FY 2013 and 2015 as net position increased by $13.4 million. Total assets increased during the same period by $9.5 million. These trends indicate that a significant portion of recent infrastructure improvements has been funded through cash rather than debt.

Net capital assets comprised about 88% of total assets for the comparative years of 2013 through 2015. These capital assets are essential in providing water and sewer services to customers and are not available for future spending. The resources needed to repay the related debt must be provided by other sources. At June 30, 2015, these other unrestricted resources totaled $26.9 million and may be used for any lawful purpose.

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Non-current liabilities increased by approximately 4.3% or $3.7 million during the same period reflecting decreases from principal payments on long-term debt and an increase due to an interest-free loan from the state of North Carolina.

OWASA anticipates continued increases in net position arising from its planned capital improvements program and projected excess of revenues and contributions over expenditures.

Orange Water and Sewer Authority
Revenues, Expenses and Change in Net Position
($ Millions)

	Fiscal Year Ended			Percentage of Change (2014 to 2015)
	2015	2014	2013	
Operating revenues				
Water, wastewater, reclaimed water	$35.4	$34.5	$34.3	2.6%
Other	1.5	1.3	1.2	15.4
Total operating revenues	36.9	35.8	35.5	3.1
Operating expenses	28.8	29.0	29.3	(0.7)
Operating income	8.1	6.8	6.2	19.1
Non-operating revenues (expenses)	(1.5)	(1.4)	(0.5)	7.1
Income before contributions	6.6	5.4	5.7	22.2
Capital contributions	1.4	0.9	0.4	55.6
Increase (decrease) in net position	8.0	6.3	6.0	27.0
Net position, July 1	238.4	232.1	226.9	2.7
Change in accounting principles / restatement (see Note 7)	(0.9)		(0.9)	
Net position, June 30	$245.5	$238.4	$232.1	3.0

The above condensed three-year comparison of Revenues, Expenses and Change in Net Position, combined with the following discussion provides additional insight regarding changes net position.

- **Operating Revenues:** OWASA is not empowered to levy or collect taxes, nor does OWASA receive funding from the taxing authorities within its service area. OWASA's operations, capital improvements program and debt service are funded almost entirely from fees charged to customers for water, sewer, and reclaimed water services, and other related services. As a result, OWASA's revenue stream is impacted by fluctuations in demand for services and other economic factors.

  Revenues derived from water, sewer, and reclaimed water services are comprised of two components; a fixed monthly service charge based on the size of the installed water meter and a monthly volume usage (commodity) charge per thousand gallons of water consumed. The sewer commodity charge is measured based on water consumption. However, for residential customers, the sewer commodity charge incorporates the assumption that not all water consumed is returned to the sewer system. Sewer billings for residential customers are capped at 15,000 gallons per month. All rates, fees and charges are calculated under a cost-of-service rate-making methodology.

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Potable water sales volume declined each year from FY 2003 through FY 2013. In FY 2015 and FY 2014, potable water volume sales were 6.2 average million gallons per day. The downward trend in potable water demand reflects OWASA's and its customers' continued commitment to water conservation, the conservation signal delivered through the increasing block rate and seasonal pricing structures for residential and commercial customers, respectively, and the use of reclaimed water by the University. With no rate increase during the year and the stabilization in the volume of water sold, Operating revenues for FY 2015 were about 3.1% higher than the previous year or $36.9 million.

- **Operating Expenses**: Operating expenses were $28.8 million or about 0.7% and 1.7% less than FY 2014 and FY 2013, respectively. The lack of an increase in costs from FY 2013 to FY 2015 reflects OWASA's ongoing efforts to streamline processes and improve efficiencies. OWASA's department managers expended about 1.7% or $345,000 less than the amount budgeted for FY 2015. Operating expenses includes a $9.4 million charge for depreciation and a $373,000 charge for post-employment benefits. OWASA's ability to meet operating expenses and adequately cover debt service remained positive.

- **Non-Operating Revenues (Expenses):** Non-operating revenues are comprised primarily of customer (service availability) fees, interest earnings, and gains (or losses) from the sale of surplus property. Customer fees, similar to impact fees, are calculated to recover from new customers a share of the cost of system capacity when a new connection is made to the system. Non-operating expenditures are made up primarily of interest expense on debt and amortization of bond expenses.

  Customer fees of $1.4 million represented a 27% increase from FY 2014 and a 22% decrease from FY 2013. Interest earnings remained low in FY 2015 totaling about $15,000. Investments remained in safe and liquid secured deposits.

- **Capital Contributions**: Capital contributions totaled approximately $1.4 million for the year and were comprised of construction costs of developer dedicated facilities. Contributions in aid of construction in the form of dedicated service lines are classified as contributions after net income. Although OWASA receives such contributions annually, these transactions are not cash or cash equivalents and are not included in the budget under the modified accrual method.

Capital Assets

Each year, OWASA expands or places into service new and renewed capital assets. Capital assets net of depreciation decreased by about 0.5% in FY 2015. The net decrease consisted of additions totaling $8.6 million and a reduction due to deprecation of $9.4 million. The asset additions included the rehabilitation or replacement of various water and sewer mains and improvements to the Jones Ferry Road Water Treatment Plant and the Mason Farm Wastewater Treatment Plant.

The majority of OWASA's capital expenditures over the next 15 years are expected to be invested in replacing and rehabilitating existing assets. System capacity is expected to be sufficient to meet the community's needs well into the future. Please refer to page 24 for additional information on capital assets.

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Orange Water and Sewer Authority Capital Assets ($ Millions)				
	Fiscal Year Ended			Percentage of Change (2014 to 2015)
	2015	2014	2013	
Land	$17.6	$17.6	$17.6	0.0%
Construction in progress	26.0	25.2	13.1	3.2
Water treatment and distribution	103.7	102.2	104.0	1.5
Sewer collection and treatment	140.7	142.5	143.4	(1.3)
Fixtures and equipment	12.0	12.2	13.5	(1.6)
Total	$300.0	$299.7	$291.6	0.1

Debt Administration

OWASA policy stipulates that at least 30% of annual capital improvements projects be funded with cash from operations. At June 30, 2015, 2014 and 2013, OWASA's outstanding debt totaled $79.1 million, $78.7 million, and $83.8 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of a $6.2 million interest-free loan from the state of North Carolina, and water and sewer system revenue and refunding bonds issued in fiscal years 2003, 2004, 2005, 2006, 2010 and 2014. At year end, OWASA owed an accrued debt service liability of approximately $6.1 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2015.

OWASA's credit ratings for its bonds are Aa1 by the Moody's rating agency. Standard & Poor's and Fitch rate OWASA's creditworthiness as AA+. These "double A" ratings reflect OWASA's strong fiscal policy and standards and are considered excellent for an entity that does not have taxing authority.

Please refer to page 26 in the Notes to Financial Statements section for greater detail on OWASA's outstanding debt obligations.

Economic Factors

OWASA's location in Orange County, North Carolina includes a number of factors that benefit the organization and, thereby, its customers.

- The University of North Carolina at Chapel Hill (UNC) is OWASA's largest customer and accounts for approximately 22% of total water sales.
- The Carrboro-Chapel Hill economy benefits from the size and strength of UNC and UNC Healthcare: public entities that serve the entire state. The University continues to actively plan and develop new facilities and infrastructure.
- There are no major industries in the service area that are subject to significant changes in economic conditions.
- Orange County's unemployment rate has historically been better than the State and National average.

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OWASA encourages water conservation through public education, voluntary and mandatory water use restrictions, and pricing structures. Reduced water use through conservation provides many benefits to the community including extending the life of OWASA's water supply and system capacity. The organization continues to strive to improve efficiencies and reduce costs to limit rate increases without adversely impacting services levels.

FY 2016 Budget Highlights

For the fourth consecutive year, OWASA's Board of Directors approved a budget that includes no increase in the monthly rates charged for water, sewer and reclaimed water services. Additionally, there will be no increase in the fees charged for new connections to OWASA's system. The FY 2016 budget for Operating expenses is about five percent greater than the FY 2015 budget. Capital improvement expenditures are budgeted to be approximately $10.6 million.

Requests for Information

This report is designed to provide an overview of Orange Water and Sewer Authority's finances. Questions concerning any of the information found in this report or requests for additional information may be directed to the Director of Finance and Customer Service, 400 Jones Ferry Road, Carrboro, North Carolina 27510-2001.

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ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015 AND 2014

	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents	$ 24,421,987	$ 16,656,145
Receivables:		
Trade accounts (net of allowances for uncollectible accounts of approximately $85,000 for 2015 and 2014)	4,263,327	3,951,505
Other	959,285	627,438
Inventory, materials, and supplies	902,288	969,451
Prepaid expenses	18,422	81,647
Restricted cash and cash equivalents:		
Cash and cash equivalents	1,545,726	1,421,139
Cash and cash equivalents, trustee	6,528,297	6,414,697
Total current assets	38,639,332	30,122,022
Non-current assets:		
Restricted cash and cash equivalents	222,470	187,910
Net pension asset	709,819	-
Capital assets:		
Non-depreciable	43,620,491	42,757,047
Depreciable	256,383,976	256,918,869
Total capital assets, net of accumulated depreciation	300,004,467	299,675,916
Total non-current assets, net	300,936,756	299,863,826
Total assets	339,576,088	329,985,848
Deferred Outflows of Resources:		
Contributions to pension plan in current fiscal year	519,888	-
Pension deferrals	47,246	-
Deferred charge on refunding	2,496,464	2,254,961
Total deferred outflows of resources	3,063,598	2,254,961

The accompanying notes are an integral part of the financial statements.

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ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015 AND 2014

	2015	2014
Liabilities:		
Current liabilities:		
Payable from current assets:		
Trade and construction contracts payable	1,309,877	2,289,191
Accrued expenses	441,201	398,483
Payable from restricted cash and cash equivalents:		
Accrued interest	1,643,914	1,378,584
Customer deposits and advances	1,545,726	1,421,139
Current maturity of note payable	328,000	-
Current maturities of bonds payable	6,396,696	5,416,696
Current portion of compensated absences	420,000	450,000
Total current liabilities	12,085,414	11,354,093
Non-current liabilities:		
Note payable	5,904,000	-
Bonds payable	71,450,479	76,991,467
Compensated absences	96,863	41,731
OPEB liability	5,829,195	5,456,202
Total non-current liabilities	83,280,537	82,489,400
Total liabilities	95,365,951	93,843,493
Deferred Inflows of Resources:		
Pension deferrals	1,730,002	-
Total deferred outflows of resources	1,730,002	-
Net Position:		
Net investment in capital assets	218,421,756	219,522,714
Restricted for capital reserve	222,470	187,910
Unrestricted	26,899,507	18,686,692
Total net position	$ 245,543,733	$ 238,397,316

The accompanying notes are an integral part of the financial statements.

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ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Operating Revenues:		
Water	$ 18,291,453	$ 17,533,580
Sewer	16,739,718	16,589,072
Service initiation fees	167,410	167,615
Reclaimed water	411,122	435,939
Other	1,351,139	1,116,826
Total operating revenues	36,960,842	35,843,032
Operating Expenses:		
Water supply and treatment	4,553,491	4,267,802
Water distribution	2,782,489	2,720,838
Sewer treatment	4,457,289	4,721,294
Sewer collections	1,254,390	1,224,941
General and administrative	5,951,983	5,662,788
Depreciation and amortization	9,384,310	9,393,739
Other post-employment benefits	372,993	1,012,532
Total operating expenses	28,756,945	29,003,934
Operating income (loss)	8,203,897	6,839,098
Non-Operating Revenues (Expenses):		
Customer fees	1,429,244	1,069,551
Investment income, net of fair value of investments adjustment	15,133	14,755
Interest expense	(2,637,681)	(2,644,155)
Amortization of bond and lease expense	(177,021)	107,636
Gain (Loss) on disposal of capital assets	(145,273)	23,591
Total non-operating revenues (expenses)	(1,515,598)	(1,428,622)

The accompanying notes are an integral part of the financial statements.

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ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Income (loss) before capital contributions	6,688,299	5,410,476
Capital Contributions:		
Capital grants and contributions	2,320	-
Contributions in aid of construction	1,372,391	849,325
Total capital contributions	1,374,711	849,325
Change in net position	8,063,010	6,259,801
Net Position:		
Beginning of year - July 1	238,397,316	232,137,515
Restatement	(916,593)	-
Beginning of year, restated	237,480,723	232,137,515
End of year - June 30	$ 245,543,733	$ 238,397,316

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The accompanying notes are an integral part of the financial statements.

ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities:		
Receipts from customers	$ 34,966,034	$ 35,065,892
Payments to suppliers	(9,702,242)	(10,103,627)
Payments to employees	(10,542,020)	(10,200,602)
Other receipts	1,475,726	1,041,012
Net cash provided (used) by operating activities	16,197,498	15,802,675
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(8,494,433)	(16,728,673)
Proceeds from sale of property, plant, and equipment	8,690	72,508
Principal paid on bond maturities and other long-term debt	(21,788,000)	(5,597,746)
Interest paid on bond maturities and other long-term debt	(3,467,706)	(2,418,775)
Customer fees received	1,252,223	1,177,187
Proceeds from issuance of debt	24,312,864	-
Capital grants and contributions	2,320	-
Net cash provided (used) by capital and related financing activities	(8,174,042)	(23,495,499)
Cash Flows from Investing Activities:		
Interest and dividends on investments	15,133	14,755
Net increase (decrease) in cash and cash equivalents	8,038,589	(7,678,069)
Cash and Cash Equivalents:		
Beginning of year - July 1	24,679,891	32,357,960
End of year - June 30	$ 32,718,480	$ 24,679,891

The accompanying notes are an integral part of the financial statements.

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ORANGE WATER AND SEWER AUTHORITY

STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	$ 8,203,897	$ 6,839,098
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	9,384,310	9,393,739
Pension (benefit) expense	56,343	-
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	(311,822)	438,883
(Increase) decrease in other receivables	(331,847)	(99,197)
(Increase) decrease in inventory	67,163	(43,227)
(Increase) decrease in prepaid expenses	63,226	187,190
Increase (decrease) in trade and construction contracts payable	(979,314)	(1,992,594)
Increase (decrease) in customer deposits	124,587	(75,814)
Increase (decrease) accrued expenses	42,718	142,065
Increase (decrease) compensated absences	25,132	
Increase (decrease) in deferred outflows of resources for pensions	(519,888)	-
Increase (decrease) in other post-employment benefits	372,993	1,012,532
Net cash provided (used) by operating activities	$ 16,197,498	$ 15,802,675
Non-Cash Capital and Related Financing Activities:		
Property, plant, and equipment contributed by private developers	$ 1,372,391	$ 849,325

The accompanying notes are an integral part of the financial statements.

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ORANGE WATER AND SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies

The accounting policies of the Orange Water and Sewer Authority conform to generally accepted accounting principles as they apply to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The 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 Town Council of Chapel Hill and the Board of Aldermen of the Town of 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. Basis of Presentation

The business-type activities are financed in whole or in part by fees charged to external parties. All activities of the Authority are considered business-type activities.

Fund Financial Statements. The fund financial statements provide information about the Authority's funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions. The Authority has one fund category - proprietary funds.

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Enterprise Fund

The Enterprise Fund is used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Authority operates as a singular enterprise fund.

The Enterprise Fund is considered a major fund for the year ended June 30, 2015.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Authority are maintained during the year using the modified accrual basis of accounting.

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

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

The Authority begins developing its budget in the second quarter of each year and the Board of Directors approves the budget in early June after public hearings are held.

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. Expenditures may not legally exceed appropriations at the object level.

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E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Authority are made in board-designated official depositories and are secured as required by G.S. 159-31.

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 money market accounts and certificates of deposits.

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC-registered mutual fund.

The Authority's investments with a maturity of more than one year at acquisition and non-money 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.

Cash and Cash Equivalents

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.

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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 Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the Authority before any services were supplied are restricted to the service for which the deposits were collected. Capital reserve amounts restricted by for future maintenance and repairs.

Orange Water and Sewer Authority Restricted Cash:	
Business-Type Activities:	
Bond service	$ 6,528,297
Capital reserve	222,470
Customer deposits	1,545,726
Total business-type activities	$ 8,296,493

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. The Authority grants credit to residential, business and industrial customers, substantially all of whom are local to the Orange County, North Carolina area.

Allowance for Doubtful Accounts

The Authority historically experiences uncollectible accounts, and accounts receivable is shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The allowance was $85,000 at June 30, 2015 and June 30, 2014.

Inventory and Prepaid Items

Materials and supplies are valued at average cost and are held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position and expensed as the items are used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported 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 one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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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.

Property, plant, and equipment are 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has several items that meet this criterion, an unamortized loss on bond defeasance for Water and Sewer Refunding bonds, pension related deferrals, and contributions made to the pension plan in the current fiscal year. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The authority has one item that meets this criterion in the current year – pension related deferrals.

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. At June 30, 2015 and 2014, the Authority had recorded a liability for accrued vacation and the salary-related payments of $516,863 and $491,731, respectively.

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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.

Net Position

Net position in the proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Net position classified as net investment in capital 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 for Capital Reserve – represents a portion of net position that is restricted by revenue source for future maintenance and capital.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

F. 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 non-operating revenues and expenses.

G. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and 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 period. Actual results could differ from these estimates.

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H. Defined Benefit Pension Plans

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

2. Detail Notes On All Funds

Assets

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 their agents in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the 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 undercollaterization, 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 but relies on the State Treasurer to enforce Standards for minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the Authority's deposits had a carrying amount of $26,141,191 and a bank balance of $26,248,464. Of the bank balance, $2,280,139 was covered by federal depository insurance, and $23,968,325 in deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of $2,696 at June 30, 2015.

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At June 30, 2014, the Authority's deposits had a carrying amount of $18,221,113 and a bank balance of $18,271,875. Of the bank balance, $2,276,610 was covered by federal depository insurance, and $15,995,265 in interest-bearing deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of $2,590 at June 30, 2014.

Cash Equivalents

At June 30, 2015 and 2014, the Authority's cash equivalents balances at fair value were as follows:

	2015	2014
The North Carolina Capital Management Trust, a mutual fund	$ 6,574,593	$ 6,456,188

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. The NCCMT had a weighted-average maturity of 36 days or less as of June 30, 2015 and 2014.

Credit Risk. The Authority has no policy regarding credit risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations ("NRSROs"). The Authority's investment in the NCCMT Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2015 and 2014.

Receivables

Receivables, net of allowances for uncollectible accounts, at June 30, 2015 and 2014 were as follows:

	2015	2014
Utility accounts receivable	$ 4,263,327	$ 3,951,505
Other receivable	959,285	627,438
Total receivables, net	$ 5,222,612	$ 4,578,943

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Capital Assets

A summary of changes in the Authority's capital assets follows:

	Balance July 1, 2014	Increases	Decreases	Transfers	Balance June 30, 2015
Non-Depreciable Assets:					
Land	$ 17,605,354	$ -	$ -	$ -	$ 17,605,354
Construction in progress	25,151,693	7,715,971	-	(6,852,527)	26,015,137
Total non-depreciable assets	42,757,047	7,715,971	-	(6,852,527)	43,620,491
Depreciable Assets:					
Water treatment and distribution	155,949,936	796,058	(358,380)	4,363,482	160,751,096
Sewer collection and treatment	197,654,384	658,950	-	1,945,603	200,258,937
Fixtures and equipment	41,862,800	695,845	(13,500)	543,442	43,088,587
Total depreciable assets	395,467,120	2,150,853	(371,880)	6,852,527	404,098,620
Less Accumulated Depreciation:					
Water treatment and distribution	53,728,977	3,565,786	(210,596)	-	57,084,167
Sewer collection and treatment	55,244,614	4,325,594	-	-	59,570,208
Fixtures and equipment	29,574,660	1,492,930	(7,321)	-	31,060,269
Total accumulated depreciation	138,548,251	$ 9,384,310	$ (217,917)	$ -	147,714,644
Total depreciable assets	256,918,869				256,383,976
Capital assets, net	$ 299,675,916				$ 300,004,467

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	Balance July 1, 2013	Increases	Decreases	Transfers	Balance June 30, 2014
Non-Depreciable Assets:					
Land	$ 17,587,841	$ 17,513	$ -	$ -	$ 17,605,354
Construction in progress	13,072,882	16,603,715	-	(4,524,904)	25,151,693
Total non-depreciable assets	30,660,723	16,621,228	-	(4,524,904)	42,757,047
Depreciable Assets:					
Water treatment and distribution	154,190,679	339,661	-	1,419,596	155,949,936
Sewer collection and treatment	194,369,851	179,225	-	3,105,308	197,654,384
Fixtures and equipment	41,501,846	437,884	(76,930)	-	41,862,800
Total depreciable assets	390,062,376	956,770	(76,930)	4,524,904	395,467,120
Less Accumulated Depreciation:					
Water treatment and distribution	50,198,324	3,530,653	-	-	53,728,977
Sewer collection and treatment	50,986,962	4,257,652	-	-	55,244,614
Fixtures and equipment	27,997,239	1,605,434	(28,013)	-	29,574,660
Total accumulated depreciation	129,182,525	$ 9,393,739	$ (28,013)	$ -	138,548,251
Total depreciable assets	260,879,851				256,918,869
Capital assets, net	$ 291,540,574				$ 299,675,916

Net Investment in Capital Assets

The total net investment in capital assets is composed of the following elements:

	2015	2014
Capital assets	$ 300,004,467	$ 299,675,916
Total debt, gross	(84,079,175)	(82,408,163)
Deferred charge related to debt	2,496,464	2,254,961
Net investment in capital assets	$ 218,421,756	$ 219,522,714

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Long-Term Debt

Long-term debt as of June 30, 2015 and 2014 consists of the following:

	2015	2014
Revenue Bonds:		
Revenue bonds payable, Series 2014 Refunding Revenue Serial Bonds, in the amount of $15,695,000, issued December 18, 2014, with coupon rates of 3.0% and 5.0%, final maturity July 2031, net of unamortized premium of $1,496,256 at June 30, 2015	$ 15,695,000	$ -
Revenue bonds payable, Series 2010 Refunding Revenue Serial Bonds, in the amount of $21,645,000, issued September 30, 2010, with coupon rates of 3.0% and 5.0%, final maturity July 2026, net of unamortized premium of $1,132,264 at June 30, 2015	20,195,000	21,437,728
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 $417,587 at June 30, 2015; 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	1,485,000	19,058,154
Revenue and revenue refunding bonds payable, Series 2005, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized premium and deferred refunding loss of $85,995, at June 30, 2015	13,335,000	15,256,805

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	2015	2014
Revenue Bonds (continued):		
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; 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 (0.37% at June 30, 2010), final maturity July 1, 2029	20,000,000	21,395,000
Revenue and revenue refunding bonds payable, Series 2003, 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 $52,243 at June 30, 2015	2,200,000	3,005,514
	$ 72,910,000	$ 80,153,201

	2015	2014
Note Payable:		
Note payable to NCDENR in the amount of $6,560,000 issued October 4, 2014, interest at 0%, Federal Revolving Loan, beginning May 2015, payable in annual installments of $328,000, with a final payment due in May 2034	$ 6,232,000	$ -

Bond payable maturities are as follows:

Year Ending June 30	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2016	$ 6,010,000	$ 7,987	$ 6,017,987	$ 7,410,875
2017	5,050,000	140,258	5,190,258	7,146,525
2018	4,700,000	197,421	4,897,421	7,581,319
2019	4,915,000	197,421	5,112,421	7,322,100
2020	5,165,000	197,421	5,362,421	7,061,409
2021-2025	22,535,000	1,073,100	23,608,100	29,580,169
2026-2030	21,815,000	548,392	22,363,392	12,224,204
2031-2032	2,720,000	78,711	2,798,711	257,050
Total	$ 72,910,000	$ 2,440,711	$ 75,350,711	$ 78,583,651

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Note payable maturities are as follows:

Year Ending June 30	Maturities	Interest	Total
2016	$ 328,000	$ -	$ 328,000
2017	328,000	-	328,000
2018	328,000	-	328,000
2019	328,000	-	328,000
2020	328,000	-	328,000
2021-2025	1,640,000	-	1,640,000
2026-2030	1,640,000	-	1,640,000
2031-2034	1,312,000	-	1,312,000
Total	$ 6,232,000	$ -	$ 6,232,000

Advance Refunding

On December 18, 2014, the Authority issued $15,695,000 of Series 2014 revenue bonds to provide resources that were placed in an irrevocable trust to be used for all future debt service payments of $16,430,000 of Series 2006 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by $561,010. This amount is being amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next 17 years by $1,984,121 and resulted in an economic gain of $1,596,310.

Long-term liability activity for the years ended June 30, 2015 and 2014 is as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
Notes Payable	$ -	$ 6,560,000	$ 328,000	$ 6,232,000	$ 328,000
Bonds Payable:					
Revenue bonds	78,675,000	15,695,000	21,460,000	72,910,000	6,010,000
For issuance premiums	3,733,163	2,057,864	853,852	4,937,175	386,696
Compensated absences	491,731	435,560	410,428	516,863	420,000
Net Pension Liability (LGERS)	1,433,202	-	1,433,202	-	-
OPEB	5,456,202	594,245	221,252	5,829,195	-
Total	$ 89,789,298	$ 25,342,669	$ 24,706,734	$ 90,425,233	$ 7,144,696

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	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Bonds Payable:					
Revenue bonds	$ 83,845,000	$ -	$ 5,170,000	$ 78,675,000	$ 5,030,000
For issuance premiums	4,160,909	-	427,746	3,733,163	386,696
Compensated absences	481,203	454,550	444,022	491,731	450,000
OPEB	4,443,670	1,169,656	157,124	5,456,202	-
Total	$ 92,930,782	$ 1,624,206	$ 6,198,892	$ 88,356,096	$ 5,866,696

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay $72,910,000 in revenue bonds issued in 2001, 2003, 2004, 2005, 2006, 2010, and 2014. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Annual principal and interest payments are expected to require less than 23% of net revenues. Principal and interest on the bonds are payable through 2032, solely from the water and sewer customer net revenues. The total principal and interest remaining to be paid on the bonds is $151,493,651. Principal and interest paid in the years ended June 30, 2015 and 2014 were $7,248,946 and $8,492,935, respectively and total customer net revenues for the years ended June 30, 2015 and 2014 were $36,960,842 and $35,843,032, respectively

The Authority is in compliance with the covenants to rates, fees, rentals, and charges in the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2001, 2003, 2004, 2005, 2006, 2010, and 2014. The Bond Order requires the debt service coverage ratio to be no less than 120% of the debt service requirements for parity indebtedness.

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

Operating revenues and charges for services	$ 38,405,219
Operating expenses*	18,999,642
Income available for debt service	$ 19,405,577
Debt service, principal and interest paid	$ 7,248,946
Debt service coverage ratio for parity debt	267.70%

*Per rate covenants, this does not include depreciation, amortization, interest expense, or OPEB

The above debt service amount for principal and interest paid excludes partial refunding in the current year. At June 30, 2015, the Authority was in compliance with the bond covenants described above.

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3. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Authority is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

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Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2015, was 7.07% of compensation for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were $519,888, for the year ended June 30, 2015.

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

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

At June 30, 2015, the Authority reported an asset of $709,819 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension asset was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Authority's proportion was .1204%, which was an increase of .0015% from its proportion measured as of June 30, 2013.

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For the year ended June 30, 2015, the Authority recognized pension expense of $56,343. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 77,560
Net difference between projected and actual earnings on pension plan investments	-	1,652,442
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,246	-
Employer contributions subsequent to the measurement date	519,888	-
Total	$ 567,134	$ 1,730,002

$519,888 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	$ (420,708)
2017	(420,708)
2018	(420,708)
2019	(420,632)
	$ (1,682,756)

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

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

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

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The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

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

Sensitivity of the Authority's proportionate share of the net pension asset to changes in the discount rate. The following presents the Authority's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Authority's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Sensitivity of the net pension liability (asset) to changes in the discount rate	$ 2,409,431	$ (709,819)	$ (3,336,126)

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

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Other Post-Employment Benefits (OPEB)

Plan Description. The Authority administers a single-employer defined benefit plan (the OPEB plan) that provides health and life insurance benefits to eligible retirees. An employee who retires with 30 or more years of service, or is at least age 60 with at least 10 years of service may continue in the Authority's group health plan until death. Eligible retirees are also provided life insurance coverage of $5,000. Retiree cost sharing is as follows: For retirees age 60 with 10 to 15 years of service, the retiree pays 50% of the retiree premium. For retirees age 60 with 15 to 20 years of service, the retiree pays 25% of the retiree premium. For retirees age 60 with 20 or more years of service, the retiree pays 0% of the retiree premium. There is no spousal coverage provided. The Authority may amend the benefit provisions at any time. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. A separate stand-alone report is not issued.

All active full-time employees are eligible for membership. At December 31, 2014, the plan membership consisted of:

Members	
Inactive	31
Active	126
Total	157

Funding Policy. The Authority plan members pay their share of the cost of coverage (premiums) for healthcare benefits provided to qualified retirees. The Authority has chosen to fund the plan benefits on a pay-as-you-go basis. The Authority contributed $221,252 or 3.1% and $157,124 or 2.2% of the annual covered payroll during the years ending June 30, 2015 and 2014, respectively.

The current annual required contribution (ARC) rate is 8% of annual covered payroll. For the current year, the Authority contributed $221,252 or 3.1% of annual covered payroll. The Authority obtains healthcare coverage through private insurers. There were no contributions made by employees. The Authority's obligation to contribute to the Plan is established and may be amended by the Board of Directors.

Summary of Significant Accounting Policies. Post-employment expenses are made from the Enterprise Fund, which is maintained on the accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

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Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

	2015	2014
Employer annual required contribution	$ 584,492	$ 1,163,000
Interest paid on OPEB obligation	218,248	199,965
Adjustment to annual required contribution	(208,495)	(193,309)
Annual OPEB cost	594,245	1,169,656
Employer contributions made for current fiscal year	221,252	157,124
Increase in net OPEB obligation	372,993	1,012,532
Net OPEB obligation:		
Beginning of year - July 1	5,456,202	4,443,670
End of year - June 30	$ 5,829,195	$ 5,456,202

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

Year Ended June 30	Annual Plan Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation End of Year
2013	$ 1,166,553	10.98%	$ 3,410,521
2014	1,168,108	11.55%	4,443,670
2015	594,245	37.23%	5,829,195

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Funded Status and Funding Progress. As of December 31, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was $9,341,682. The covered payroll (annual payroll of active employees covered by the plan) was $7,247,100, and the ratio of UAAL to the covered payroll was 128.9 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions included a 4% investment rate of return which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 7.5% to 5% annually. Both rates included a 3% inflation assumption. There are no assets set aside for these benefits. The plan is funded on a pay-as-you-go basis. The actuarial value of assets, if any, was determined using techniques that spread the efforts of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was 30 years.

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4. Deferred Outflows and Inflows of Resources

The Authority has several deferred outflows of resources comprised of the following:

Deferred Outflows:		
Contributions to pension plan in current fiscal year	$	519,888
Pension deferrals		47,246
Charge on refunding		2,496,464
Total	$	3,063,598

Deferred inflows of resources at year-end are comprised of $1,730,002 of pension deferrals.

5. 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 coverage. Claims have not exceeded coverage in any of the past three fiscal years. The Authority currently does not carry flood insurance.

In accordance with G.S. 159-29, the Authority's employees that have access to $100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for $200,000. The remaining employees that have access to funds are bonded under a blanket bond for $200,000.

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 $2,692,105 at June 30, 2015.

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6. Net Position

At June 30, 2015 and 2014, the Board of Directors had approved the use of the unrestricted net position for the following purposes:

	2015	2014
Operating reserve	$ 8,642,600	$ 8,642,600
Other reserves	3,900,000	3,900,000
Capital projects	14,356,907	6,144,092
Total	$ 26,899,507	$ 18,686,692

7. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

The Authority has received proceeds from federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provisions have been made in the accompanying financial statements for the refund of grant monies.

8. Change in Accounting Principles/Restatement

The Authority implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions* (*an amendment of GASB Statement No. 27*), in the fiscal year ending June 30, 2015. The implementation of the statement required the Authority to record beginning net pension liability and the effects on net position of contributions made by the Authority during the measurement period (fiscal year ending June 30, 2014). As a result, net position decreased by $916,593.

It was not practical for the Authority to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions, as applicable, at the beginning of the period when the provisions of GASB statement 68 was adopted. The June 30, 2014 financial statements and related notes have not been restated. The cumulative effect of applying GASB statement 68 is reported as a restatement to the July 1, 2014 beginning net position.

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ORANGE WATER AND SEWER AUTHORITY

OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Funding Progress

Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b)-(a))/(c)
07/01/2007	$ -	$ 9,918,000	$ 9,918,000	0.00%	$ 6,375,000	155.60%
07/01/2009	-	12,597,000	12,597,000	0.00%	5,924,000	212.60%
12/31/2011	-	6,741,739	6,741,739	0.00%	7,074,967	95.29%
12/31/2014	-	9,341,682	9,341,682	0.00%	7,247,100	128.90%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
06/30/2010	$ 944,000	6.00%
06/30/2011	1,124,000	17.00%
06/30/2012	1,163,000	11.00%
06/30/2013	1,163,000	11.60%
06/30/2014	1,163,000	11.60%
06/30/2015	584,492	37.85%

Notes to the Required Schedules:
The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation date	12/31/2014	
Actuarial cost method	Projected unit credit	
Amortization method	Level percentage of pay, open	
Remaining amortization period	30 years	
Asset valuation method	Market value of assets	
Actuarial assumptions:		
Investment rate of return *	4.00%	* Includes inflation at 3%
Medical cost trend rate	7.50-5.00%	
Year of Ultimate trend rate	2020	

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ORANGE WATER AND SEWER AUTHORITY

PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS *

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	2015	2014
Authority's proportion of the net pension liability (asset) (%)	0.1204%	0.1189%
Authority's proportion of the net pension liability (asset) ($)	$ (709,819)	$ 1,433,202
Authority's covered-employee payroll	$ 7,297,821	$ 6,909,854
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(9.73%)	20.74%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

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

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ORANGE WATER AND SEWER AUTHORITY

CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	2015	2014
Contractually required contribution	$ 519,888	$ 516,608
Contributions in relation to the contractually required contribution	519,888	516,608
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 7,352,374	$ 7,297,821
Contributions as a percentage of covered-employee payroll	7.07%	7.08%

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ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015

	Final Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Water	$ 17,859,444	$ 18,291,453	$ 432,009
Sewer	16,637,114	16,739,718	102,604
Reclaimed water	458,816	411,122	(47,694)
Service initiation fees	166,269	167,410	1,141
Other	1,028,089	1,351,139	323,050
Total operating revenues	36,149,732	36,960,842	811,110
Non-operating revenues:			
Interest income	13,763	15,133	1,370
Customer fees	653,117	1,429,244	776,127
Grants and contributions	-	2,320	2,320
Total non-operating revenues	666,880	1,446,697	779,817
Total revenues	36,816,612	38,407,539	1,590,927
Expenditures:			
Water supply and treatment:			
Salaries and wages	1,320,856	1,271,399	49,457
Fringe benefits	533,541	467,982	65,559
Materials and supplies	162,629	132,991	29,638
Chemicals	1,057,465	1,075,224	(17,759)
Utilities	387,842	372,716	15,126
Maintenance	1,030,392	952,382	78,010
Professional services	162,900	141,410	21,490
Insurance	-	105,546	(105,546)
Communication	5,000	2,011	2,989
Education and development	10,000	19,672	(9,672)
Miscellaneous	14,500	12,158	2,342
Total water supply and treatment	4,685,125	4,553,491	131,634

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ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015

	Final Budget	Actual	Variance Over/Under
Water distribution:			
Salaries and wages	1,352,842	1,381,692	(28,850)
Fringe benefits	614,691	574,373	40,318
Materials and supplies	85,863	67,510	18,353
Utilities	178,400	183,265	(4,865)
Maintenance	453,020	619,295	(166,275)
Professional services	8,800	-	8,800
Insurance	-	6,614	(6,614)
Communication	1,500	2,720	(1,220)
Printing and reproduction	1,000	1,009	(9)
Education and development	12,070	9,040	3,030
Miscellaneous	4,100	2,002	2,098
Total water distribution	2,712,286	2,847,520	(135,234)
Construction credits	(128,750)	(65,031)	(63,719)
Wastewater treatment:			
Salaries and wages	1,281,901	1,259,431	22,470
Fringe benefits	523,420	461,506	61,914
Materials and supplies	295,641	176,841	118,800
Chemicals	670,558	736,550	(65,992)
Utilities	972,080	908,012	64,068
Maintenance	862,071	691,769	170,302
Professional services	227,400	29,168	198,232
Insurance	-	132,957	(132,957)
Communication	9,100	7,346	1,754
Education and development	20,000	17,303	2,697
Miscellaneous	32,000	36,406	(4,406)
Total wastewater treatment	4,894,171	4,457,289	436,882

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ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015

	Final Budget	Actual	Variance Over/Under
Sewer collections:			
Salaries and wages	476,015	482,938	(6,923)
Fringe benefits	226,019	197,669	28,350
Materials and supplies	49,639	35,793	13,846
Chemicals	200,000	198,613	1,387
Utilities	139,687	128,312	11,375
Maintenance	203,608	201,983	1,625
Professional services	8,800	-	8,800
Insurance	-	7,783	(7,783)
Communication	700	747	(47)
Printing and distribution	500	-	500
Education and development	10,240	7,265	2,975
Miscellaneous	3,900	3,021	879
Total sewer collections	1,319,108	1,264,124	54,984
Construction credits	-	(9,734)	9,734
General and administrative:			
Salaries and wages	2,943,987	2,957,647	(13,660)
Fringe benefits	1,225,484	1,091,688	133,796
Materials and supplies	140,190	111,085	29,105
Utilities	190,791	199,288	(8,497)
Maintenance	306,705	280,522	26,183
Professional services	1,127,875	921,186	206,689
Insurance	-	34,303	(34,303)
Communication	141,597	147,378	(5,781)
Printing and reproduction	7,200	3,650	3,550
Education and development	88,700	72,935	15,765
Miscellaneous	125,867	207,580	(81,713)
Total general and administrative	6,298,396	6,027,262	271,134
Construction credits	(36,549)	(50,147)	13,598

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ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015

	Final Budget	Actual	Variance Over/Under
Debt Service:			
Principal	-	5,358,000	-
Interest	-	3,184,276	-
Total debt service	7,885,325	8,542,276	(656,951)
Capital outlay	16,515,000	8,213,168	8,301,832
Total expenditures	44,144,112	35,780,218	8,363,894
Revenues over (under) expenditures	(7,327,500)	2,627,321	9,954,821
Other Financing Sources (Uses):			
Refunding bonds issued	-	15,695,000	(15,695,000)
Bond refunding premium	-	2,057,864	(2,057,864)
Payment to bondholders-retired debt	-	(17,907,193)	17,907,193
Long-term debt issued	-	6,560,000	-
Appropriated fund balance	7,327,500	-	7,327,500
Total other financing sources (uses)	7,327,500	6,405,671	921,829
Net change in fund balance	$ -	9,032,992	$ 9,032,992

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ORANGE WATER AND SEWER AUTHORITY

ENTERPRISE FUND - WATER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015

	Final Budget	Actual	Variance Over/Under
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Principal payments debt		5,358,000	
Refunding bonds issued		(15,695,000)	
Bond refunding premium		(2,057,864)	
Payment to bondholders - retired debt		17,907,193	
Long-term debt issued		(6,560,000)	
Capital interest		281,265	
Change in interest accrual for bonded debt		265,330	
Depreciation and amortization		(9,384,310)	
Change in compensated absences		25,132	
Other post-employment benefits		(372,993)	
Amortization of bond expense and patent		(177,021)	
Capital outlay		8,213,168	
Gain on disposal of capital asset		(145,273)	
Capital contributions		1,372,391	
Change in net position		$ 8,063,010	

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2015

	Project Budget	Cumulative Total to June 30, 2015	Unexpended Balance as of June 30, 2015
Raw Water Supply Sources:			
Revenues:			
General Fund	$ 3,081,741	$ 2,390,336	$ 691,405
Expenditures:			
Jordan Lake raw water supply intake and pumping facility	$ 317,558	$ 324,854	$ (7,296)
Stone quarry acquisition	321,545	102,012	219,533
Cane Creek dock improvements	236,000	108,349	127,651
Cane Creek dam repairs	2,119,638	1,789,289	330,349
Raw water permanganate study	87,000	65,832	21,168
Total expenditures	$ 3,081,741	$ 2,390,336	$ 691,405
Water Treatment:			
Revenues:			
General Fund	$ 1,249,500	$ 1,093,904	$ 155,596
Expenditures:			
Water treatment plant rehabilitation projects	$ 395,500	$ 325,394	$ 70,106
HVAC unit replacement	29,000	31,557	(2,557)
Water treatment plant superpulsator	647,000	644,319	2,681
Water treatment plant secondary containment	178,000	92,634	85,366
Total expenditures	$ 1,249,500	$ 1,093,904	$ 155,596
Finished Water Pumping:			
Revenues:			
General Fund	$ 481,000	$ 489,289	$ (8,289)
Expenditures:			
Calvander pump station improvements	$ 481,000	$ 489,289	$ (8,289)
Finished Water Storage:			
Revenues:			
General Fund	$ 24,900	$ 25,961	$ (1,061)
Expenditures:			
Nunn Mt. Anchor Bolts	$ 24,900	$ 25,961	$ (1,061)

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2015

	Project Budget	Cumulative Total to June 30, 2015	Unexpended Balance as of June 30, 2015
Water Transmission and Distribution:			
Revenues:			
General Fund	$ 7,622,547	$ 5,471,478	$ 2,151,069
Expenditures:			
FA water line rehabilitation	$ -	$ 63,796	$ (63,796)
Water main - road improvement projects	404,000	3,351	400,649
Water line rehabilitation, replacement projects	2,652,547	2,334,105	318,442
Unnamed water rehab project	-	1,256	(1,256)
Cameron Avenue water line replacement	984,000	1,315,717	(331,717)
South Estes and Willow Water Line	2,262,000	1,753,253	508,747
Distribution system pressure monitoring	32,000	-	32,000
Advanced meter infrastructure	1,225,000	-	1,225,000
Galvanized water main replacement	63,000	-	63,000
Total expenditures	$ 7,622,547	$ 5,471,478	$ 2,151,069
Wastewater Collection Lines:			
Revenues:			
General Fund	$ 12,530,000	$ 6,600,982	$ 5,929,018
Expenditures:			
Sanitary sewer condition evaluation	$ 1,620,000	$ 1,318,615	$ 301,385
Service Area sewer line rehabilitation and replacement projects	3,786,000	2,261,198	1,524,802
Friday Center interceptor	3,770,000	1,930,233	1,839,767
Bolinwood Drive interceptor	144,000	368	143,632
Little Creek interceptor	1,124,000	183,285	940,715
Tom's Creek/Morgan Creek aerial crossings	1,609,000	709,776	899,224
Gravity Sewer Creek Crossings	278,000	45,269	232,731
Rogers Road sanitary sewer	130,000	134,418	(4,418)
Easement Acquisition Program	69,000	17,820	51,180
Total expenditures	$ 12,530,000	$ 6,600,982	$ 5,929,018

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2015

	Project Budget	Cumulative Total to June 30, 2015	Unexpended Balance as of June 30, 2015
Wastewater Pumping Stations and Force Mains:			
Revenues:			
General Fund	$ 2,063,000	$ 1,308,077	$ 754,923
Expenditures:			
Pump station improvements	$ 312,000	$ 248,462	$ 63,538
Force Main Condition Evaluation	936,000	389,687	546,313
Oaks 3 and Tinkerbell pump station	719,000	635,547	83,453
Rogerson Drive Pump Station rehabilitation	96,000	34,381	61,619
Total expenditures	$ 2,063,000	$ 1,308,077	$ 754,923
Wastewater Treatment and Disposal:			
Revenues:			
General Fund	$ 15,513,886	$ 15,513,319	$ 567
Expenditures:			
Mason Farm wastewater treatment plant flood protection enhancement	$ 785,000	$ 452,529	$ 332,471
Mason Farm wastewater treatment plant rehabilitation and improvement project	1,597,000	1,859,426	(262,426)
Mason Farm wastewater treatment plant phosphorous removal	329,886	250,422	79,464
Mason Farm wastewater treatment plant odor control and aeration	11,107,000	11,695,653	(588,653)
Mason Farm wastewater treatment plant digesters #1 and #2	533,000	210,375	322,625
Mason Farm wastewater treatment plant IPS rehabilitation and replacement	100,000	9,565	90,435
Mason Farm wastewater treatment plant SCADA upgrade	209,000	269,384	(60,384)
Mason Farm Comprehensive Coatings Program	429,000	660,462	(231,462)
Mason Farm wastewater treatment plant biosolids and recycling	250,000	105,503	144,497
Mason Farm wastewater treatment plant polymer feed/gravity belt thickener	174,000	-	174,000
Total expenditures	$ 15,513,886	$ 15,513,319	$ 567

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES -
PROJECT FUNDS
FROM INCEPTION THROUGH JUNE 30, 2015

	Project Budget	Cumulative Total to June 30, 2015	Unexpended Balance as of June 30, 2015
Facility Improvements:			
Revenues:			
General Fund	$ 434,000	$ 137,852	$ 296,148
Expenditures:			
Administration building HVAC controls	$ 84,000	$ 86	$ 83,914
Asset management development	350,000	137,766	212,234
Total expenditures	$ 434,000	$ 137,852	$ 296,148

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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the authority's basic financial statements, and have issued our report thereon dated September 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 23, 2015

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Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In Accordance with OMB Circular A-133; And the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Orange Water and Sewer Authority's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, which could have a direct and material effect on each of the Orange Water and Sewer Authority's major federal programs for the year ended June 30, 2015. The Orange Water and Sewer Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Orange Water and Sewer Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Orange Water and Sewer Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Orange Water and Sewer Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Orange Water and Sewer Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2015 and 2014.

Report on Internal Control Over Compliance

Management of the Orange Water and Sewer Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Orange Water and Sewer Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 23, 2015

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	____ Yes	X No	
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	X None reported	
Non-compliance material to financial statements noted?	____ Yes	X No	

Federal Awards

Internal control over major Federal programs:			
• Material weakness(es) identified?	____ Yes	X No	
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	X None reported	
Type of auditor's report issued on compliance for major Federal programs	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	____ Yes	X No	

Identification of major Federal programs:

Program Name	CFDA#
Capitalization Grants for Clean Water State Revolving Funds	66.458

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	No

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

2. Findings Related to the Audit of the Basic Financial Statements

None reported

3. Findings and Questioned Costs Related to the Audit of Federal Awards

None reported

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ORANGE WATER AND SEWER AUTHORITY

SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None.

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ORANGE WATER AND SEWER AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures
Federal Grants:				
U.S. Environmental Protection Agency				
Passed-through the N.C. Department of Environmental and Natural Resources:				
Capitalization Grants for Clean Water State Revolving Funds	66.458 [1]		$ 6,560,000	$ -
Total N.C. Department of Environmental and Natural Resources			6,560,000	-
Total assistance - federal programs			$ 6,560,000	$ -
Total assistance			$ 6,560,000	$ -

Notes to the Schedule of Expenditures of Federal and State Awards:

1. The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Orange Water and Sewer Authority and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Loans Outstanding
   Orange Water and Sewer Authority had the following loan balances outstanding at June 30, 2015. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	CFDA Number	Pass-through Grantor's Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458 [1]		$ 6,560,000

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REPORT OF INDEPENDENT AUDITORS ON REVENUE BOND COVENANT COMPLIANCE

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 statements of net position of the Orange Water and Sewer Authority (the "Authority"), a component unit of the Town of Chapel Hill, North Carolina, as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 23, 2015.

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 the Bank of New York and the North Carolina Local Government Commission, insofar as the relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors and management of the Authority, the 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 23, 2015

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ORANGE WATER AND SEWER AUTHORITY
A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow

DATE: September 18, 2015

SUBJECT: **Equal Employment Opportunity/Affirmative Action (EEO) Report for Fiscal Year 2015**

Each year OWASA examines the recruiting practices along with the race and gender make-up of our workforce to ensure we maintain a healthy balance of workplace diversity. This report is a summary of our finding for FY 2014-2015.

Recruiting Efforts

When a vacancy becomes available within OWASA, the position is posted internally as well as externally using the following methods:

- NC Department of Commerce – Division of Employment Security
- OWASA Website and Twitter
- Newspapers and other Publications
- Web Advertising
- Minority Organizations
- Colleges and Universities
- Churches
- Other Organizations (Vocational Rehabilitation, Coalition for Family Peace)

Diversity in our Workforce

Ending fiscal year 2014-2015, OWASA was made up of 20.8% Women and 79.2% Men. Our workforce was 79.2% White, 13.6% Black, 7.2% Other (Hispanic/Latino, Asian, Native Hawaiian, Pacific Islander, or Two or More Races).

Below is a chart detailing the race and gender distribution of the OWASA workforce based on EEO job classifications which indicate the type of job held by the employee.

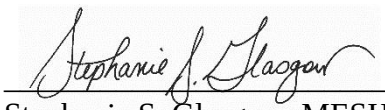
OWASA Workforce Race and Gender Distribution By EEO Classification on June 30, 2015					
Classification	**Male**	**Female**	**Black/ African American**	**White**	**Other** (Hispanic/Latino, Asian, Native Hawaiian, Other Pacific Islander, Two or More Races)
Officials and Administrators	**10**	**4**		**13**	**1**
Professionals	**9**	**3**		**11**	**1**
Technicians	**10**	**3**		**12**	**1**
Protective Service Workers	**2**			**2**	
Paraprofessionals	**2**	**4**	**2**	**2**	**2**
Administrative Support		**11**	**6**	**5**	
Skilled Craft Workers	**42**	**1**	**4**	**35**	**4**
Service-Maintenance	**24**		**5**	**19**	
Total	**99**	**26**	**17**	**99**	**9**
Percentage	**79.2%**	**20.8%**	**13.6%**	**79.2%**	**7.2%**

Below is a chart detailing the race and gender distribution of OWASA's applicants for FY 2015. OWASA recruited for 15 positions during FY2015 and received 1020 applications.

OWASA Applicant Race and Gender Distribution By EEO Classification July 1, 2014 – June 30, 2015						
Classification	**Male**	**Female**	**Black / African American**	**White**	**Other (Hispanic/Latino, Asian, Native Hawaiian, Other Pacific Islander, Two or More Races)**	**Information Not Provided by Applicant**
Officials and Administrators	**43**	**6**	**8**	**38**	**3**	**14**
Professionals	**86**	**38**	**17**	**89**	**18**	**41**
Technicians						
Protective Service Workers						
Paraprofessionals						
Administrative Support	**56**	**385**	**163**	**218**	**60**	**79**
Skilled Craft Workers	**55**	**3**	**10**	**44**	**4**	**16**
Service-Maintenance	**152**	**9**	**29**	**118**	**14**	**37**
Total	**392**	**441**	**227**	**507**	**99**	**187**
Percentage	**38.4%**	**43.2%**	**22.2%**	**49.7%**	**9.7%**	**18.4%**

Conclusion:

Filling vacancies with the best candidates, based on the skills and qualifications needed for the position remains the focus of our hiring practices. In fulfilling this goal, we seek to encourage and promote diversity within our organization. We will continue to advertise in a wide variety of venues to attract a diverse candidate base. We will pursue opportunities to recruit employees at all levels by participating in outreach efforts to make more potential applicants aware that OWASA is a good place to work.



Stephanie S. Glasgow, MESH, MPM, PHR
Director of Human Resources and Safety

ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Kevin M. Ray

DATE: September 16, 2015

SUBJECT: Annual Report on Disposal of Surplus Personal Property

The OWASA Purchasing and Contracting Policy authorizes the Executive Director to declare as surplus and to sell personal property that is no longer needed or useful in the operation of OWASA's water and sewer systems. Personal property is broadly defined as fixtures and equipment and excludes land.

The policy authorizes five methods of personal property disposal: trade-in, public auction, advertisement for bid, direct negotiation and sale, and scrap. Items having no residual value that remain unsold after an auction or other sale procedure, or that pose a potential threat to the public health or safety, may be donated to charitable organizations or treated as scrap or trash regardless of their original acquisition cost.

The policy requires the Executive Director to report to the Board of Directors at least annually on the disposal of personal property.

The following surplus personal property was sold or otherwise disposed of during Fiscal Year 2015:

Disposal Method	Items Sold	Proceeds
Web-based public auction	Obsolete computer & communication equipment	$1,142
Advertised sealed bid	Motor vehicles	1,875
Direct sale	Miscellaneous small items (boats, furniture, service equipment, etc.)	3,590
Scrap	Scrap metal	8,104
Donated or scrapped	Miscellaneous office furniture and equipment, scrap wood, etc.	0
	Total proceeds	**$14,711**

This report is provided for information purposes only and no action is necessary.

Kevin M. Ray
Finance and Procurement Manager

AGENDA ITEM

- RESOLUTION HONORING THE SERVICE OF MICHAEL M. HUGHES, P.E., TO THE CHAPEL HILL-CARRBORO-ORANGE COUNTY COMMUNITY AS A MEMBER OF THE ORANGE WATER AND SEWER AUTHORITY'S BOARD OF DIRECTORS

BACKGROUND

- Since inception of Orange Water and Sewer Authority, the Board of Directors has adopted Resolutions of Appreciation for the service of a retiring member of the Board.

- The adopted resolution would be specially printed and framed for presentation to Michael M. Hughes, P.E.

STAFF RECOMMENDATION

- Adopt the Resolution Honoring the Service of Michael M. Hughes, P.E. to the Chapel Hill-Carrboro-Orange County Community as a Member of the Orange Water and Sewer Authority's Board of Directors.

September 24, 2015

RESOLUTION HONORING THE SERVICE OF MICHAEL M. HUGHES, P.E., TO THE CHAPEL HILL-CARRBORO-ORANGE COUNTY COMMUNITY AS A MEMBER OF THE ORANGE WATER AND SEWER AUTHORITY'S BOARD OF DIRECTORS

WHEREAS, on June 19, 2012, the Orange County Board of Commissioners appointed Michael M. Hughes, P.E., to serve on the Board of Directors of the Orange Water and Sewer Authority (OWASA); and

WHEREAS, Mr. Hughes served on the OWASA Board from August 23, 2012, to September 24, 2015, including terms as Secretary of the Board of Directors from July 1, 2013, to June 30, 2014 and Vice Chair of the Board of Directors from July, 2014 to September 24, 2015; and

WHEREAS, Mr. Hughes served on four committees during his service, Community Engagement, Human Resources, Finance, and Natural Resources and Technical Systems Committees, and Chaired the Human Resources Committee from July 2014 to September 2015; and

WHEREAS, Mr. Hughes gave freely of his time, energy, and talent in serving the community and OWASA customers with unselfish dedication and compassionate concern; and

WHEREAS, Mr. Hughes brought to OWASA exceptional analytical skills with which he contributed to the Board's deliberations and decisions in many areas including employee compensation, project management, engineering, environmental protection, financial management, planning, and community engagement; and he shared insight which was succinct, timely and of great value;

NOW, THEREFORE, BE IT RESOLVED BY THE ORANGE WATER AND SEWER AUTHORITY BOARD OF DIRECTORS:

1. That the Board of Directors expresses to Michael M. Hughes, P.E., the Board's sincere appreciation and deep gratitude for his outstanding service, leadership and stewardship as a Member of the OWASA Board; and the Board wishes for Mr. Hughes much happiness in the years ahead.

2. That this resolution be recorded in the minutes of the OWASA Board of Directors and be part of the permanent records of OWASA, and that a copy of this resolution be transmitted to Orange County.

Adopted this 24th day of September 2015.

_____
John A. Young, Chair

ATTEST:

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Heather Payne, Secretary

ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

AUGUST 27, 2015

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held a regular business meeting on Thursday, August 27, 2015, at 7:00 PM in Council Chambers at the Chapel Hill Town Hall, 405 Martin Luther King Jr. Boulevard.

Board Members present: Michael M. Hughes, P.E., Vice Chair; Heather Payne, Secretary; Terri Buckner; Jeff Danner; David (Dave) Moreau; Robert Morgan; and Ruchir Vora. Board Members absent: John A. Young, Chair; and Quinton Harper.

OWASA staff present: Ed Kerwin; Denise Battle; Mary Darr; Patrick Davis; Vishnu Gangadharan; Stephanie Glasgow; Andrea Orbich; Ruth Rouse; Kelly Satterfield; Todd Taylor; Mary Tiger; Stephen Winters; and Robert Epting, Epting and Hackney.

Others present: Ben Poulson, Associate Director of Energy Services and Meg Holton, Water, Wastewater, and Stormwater Manager, University of North Carolina (UNC) at Chapel Hill; Michael Burton and Andy Burnham, Burton and Associates; Mark Marcoplos, Orange County Living; and Shadi Eskaf, UNC School of Government Environmental Finance Center.

There being a quorum present, Vice Chair Michael Hughes called the meeting to order.

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MOTIONS ACTED UPON

1. BE IT RESOLVED THAT the Orange Water and Sewer Authority Board of Directors adopts the Resolution Honoring the Service of Amy Witsil to the Chapel Hill-Carrboro-Orange County Community as Member if the Orange Water And Sewer Authority's Board of Directors. (Resolution so titled attached hereto and made a part of these minutes. Motion by Terri Buckner, second by Ruchir Vora and unanimously approved.)

2. Terri Buckner made a motion to approve the Minutes of the June 25, 2015 Meeting of the Board of Directors; second by Ruchir Vora and unanimously approved.

3. Terri Buckner made a motion to approve the Minutes of the July 9, 2015 Work Session of the Board of Directors; second by Ruchir Vora and unanimously approved.

4. Terri Buckner made a motion to approve the Minutes of the July 9, 2015 Closed Session of the Board of Directors; second by Ruchir Vora and unanimously approved.

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ANNOUNCEMENTS

Conflict Of Interest

Michael Hughes 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.

Meetings

Terri Buckner said that on August 4, 2015, a Community Energy Forum meeting was held to discuss potential opportunities for collaboration. The next meeting will be September 2, 2015, at 5:30 PM in the OWASA Board Room.

Heather Payne said that the Chapel Hill Town Council's OWASA Committee and the Chapel Hill Appointees to the OWASA Board will meet on Thursday, September 10, 2015 at 8:00 AM in the OWASA Board Room; an agenda will be determined.

Mary Tiger and Vishnu Gangadharan

Ed Kerwin introduced Mary Tiger, OWASA's new Sustainability Manager.

Mary Darr introduced Vishnu Gangadharan, OWASA's new Engineering Manager for Capital Projects.

Annual Report on Collection, Treatment and Recycling of Wastewater and Biosolids

Todd Taylor, General Manager of Operations, said that staff distributed an annual report to accountholders on the operation of the wastewater collection and treatment systems and on the treatment and recycling of biosolids. This report was also distributed to local officials and media, and posted on OWASA's website. Staff has surpassed the treated wastewater quality standards for our Mason Farm Wastewater Treatment Plant (WWTP). The phosphorus level in our treated wastewater was 57% below the limit and nitrogen was 71% below the limit. We treated and recycled 1,597 dry tons of wastewater biosolids. Improvements at the WWTP include completion of a project to reduce electricity use per gallon of wastewater by about 30% that resulted in a $250,000 annual savings. The improvements will help OWASA meet future standards for treated wastewater and further eliminate off-site odor. Mr. Taylor expressed appreciation to staff for hard work to exceed goals at the WWTP.

PETITIONS AND REQUESTS

Mark Marcoplos, a volunteer with Orange County Living Wage, requested that the Board support OWASA's participation in completing the 2015-2016 Employer Certification Application. This program certifies businesses and organizations that provide a living wage to

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employees. The criterion for certification is $12.75 per hour or $11.25 per hour if the employer pays 50% or more in health insurance benefits. Interns, apprentices, and minors are exempt.

The Board accepted and concurred with Mr. Marcoplos' request and directed staff to complete the 2015-2016 Employer Certification Application.

Michael Hughes asked for petitions and requests from the Board and staff; there were none.

ITEM ONE: QUARTERLY REPORT ON ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Board received this report as an information item.

ITEM TWO: RESOLUTION HONORING THE SERVICE OF AMY WITSIL TO THE CHAPEL HILL-CARRBORO-ORANGE COUNTY COMMUNITY AS MEMBER OF THE ORANGE WATER AND SEWER AUTHORITY'S BOARD OF DIRECTORS

Terri Buckner made a motion to approve the resolution; second by Ruchir Vora and unanimously approved. Please see Motion No. 1 above.

ITEM THREE: MINUTES

Terri Buckner made a motion to approve the Minutes of the June 25, 2015 Meeting of the Board of Directors; second by Ruchir Vora and unanimously approved. Please see Motion No. 2 above.

ITEM FOUR: MINUTES

Terri Buckner made a motion to approve the Minutes of the July 9, 2015 Work Session of the Board of Directors; second by Ruchir Vora and unanimously approved. Please see Motion No. 3 above.

ITEM FIVE: MINUTES

Terri Buckner made a motion to approve the Minutes of the July 9, 2015 Closed Session of the Board of Directors; second by Ruchir Vora and unanimously approved. Please see Motion No. 4 above.

ITEM SIX: DISCUSSION OF WATER AND SEWER RATE STRUCTURE ALTERNATIVES AND TRENDS

Stephen Winters, Director of Finance and Customer Service, provided an overview of the discussions the Board has had over the last several years regarding potential modifications to OWASA's water and sewer rate structure. He introduced Michael Burton, President, and Andy

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Burnham, Senior Vice-President, with Burton and Associates, who presented water industry rate-making trends and considerations.

Mary Tiger, OWASA's Sustainability Manager (formerly of UNC School of Government Environmental Finance Center (EFC)), and Shadi Eskaf, UNC School of Government EFC, presented findings from an applied research project conducted by the EFC on emerging and innovative rate structure models for the water industry. The EFC's research modeled rate structure alternatives for single-family, individual metered residences of four NC utilities, including OWASA, and was funded by the North Carolina Urban Water Consortium (of which OWASA is a member). Ms. Tiger's and Mr. Eskaf's presentation focused on the application of two of the rate structure alternatives: the Peak Set Base Model and Customer Select Model.

The Board received this information and decided to continue its discussion on September 10, 2015. Staff will provide the Board copies of the presentations.

ITEM SEVEN: PRELIMINARY FINANCIAL REPORT FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2015

The Board received this report as an information item.

ITEM EIGHT: SEMI-ANNUAL STATUS REPORT FOR VARIOUS CAPITAL IMPROVEMENT PROJECTS

The Board received this report as an information item.

ITEM NINE: EXECUTIVE DIRECTOR WILL SUMMARIZE THE KEY ACTION ITEMS FROM THE BOARD MEETING AND NOTE SIGNIFICANT ITEMS FOR DISCUSSION AND/OR ACTION EXPECTED AT THE NEXT BOARD MEETING

Ed Kerwin summarized the meeting as follows:

- Staff will complete Orange County Living Wage's 2015-2016 Employer Certification Application;
- Staff will provide the Board presentations from the discussion of water and sewer rate structure alternatives and trends;
- The September 10, 2015 Work Session will include the following;
  - Discussion of additional recreation activities at the Cane Creek Reservoir including public comments and feedback;
  - Discussion of Fiscal Year 2016 employee merit pay; and
  - Continue discussion of potential water and sewer rate structure modifications.

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ITEM TEN: CLOSED SESSION

Without objection, the Board of Directors convened in a Closed Session in the First Floor Conference Room for the purpose of discussing two personnel matters.

The meeting was adjourned at 10:00 PM.

Respectfully submitted,

Andrea Orbich
Executive Assistant/Clerk to the Board

Attachments

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ORANGE WATER AND SEWER AUTHORITY

CLOSED SESSION OF THE BOARD OF DIRECTORS

AUGUST 27, 2015

The Board of Directors of Orange Water and Sewer Authority met in Closed Session on Thursday, August 27, 2015, following the regular Board meeting.

Board Members present: Michael M. Hughes, P.E., Vice Chair; Heather Payne, Secretary; Terri Buckner; Jeff Danner; David (Dave) Moreau; Robert Morgan; and Ruchir Vora. Board Members absent: John A. Young, Chair, and Quinton Harper.

Staff present: Robert Epting, General Counsel; Ed Kerwin, Executive Director; Stephanie Glasgow, Director of Human Resources and Safety; and Todd Taylor, General Manager of Operations.

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ITEM ONE

The Board of Directors and staff met in Closed Session to discuss a personnel matter.

ITEM TWO

The Board of Directors met in Closed Session without staff to evaluate the annual performance review of OWASA's General Counsel.

No official action was taken at the meeting.

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Michael M. Hughes, P.E., Chair
Human Resources Committee

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ORANGE WATER AND SEWER AUTHORITY

WORK SESSION OF THE BOARD OF DIRECTORS

SEPTEMBER 10, 2015

The Board of Directors of the Orange Water and Sewer Authority (OWASA) held a Work Session on Thursday, September 10, 2015 at 6:00 PM in OWASA's Community Room at 400 Jones Ferry Road, Carrboro.

Board Members present: John A. Young, Chair; Michael M. Hughes, P.E., Vice Chair; Heather Payne, Secretary; Terri Buckner; Jeff Danner; David (Dave) Moreau; Bob Morgan and Ruchir Vora. Board Member absent: Quinton Harper.

OWASA staff present: Ed Kerwin; Mary Darr; Patrick Davis; Greg Feller; Stephanie Glasgow; Kenneth Loflin; Andrea Orbich; Johnny Riley; Kelly Satterfield; Todd Taylor; Mary Tiger; Stephen Winters; and Robert Epting, Esq., Epting and Hackney.

Others present: Ben Poulson, Associate Director of Energy Services and Meg Holton, Water, Wastewater, and Stormwater Manager, University of North Carolina at Chapel Hill; Lucretia Kinney, Carrboro resident; Beverly Frassinelli, North Carolina Bluebird Society; Virginia and Ray Dickie; Loren Hintz, Catherine Kronk, Casey Nordell, Edward Mann, Mark Anley, Mary Sonis, and Jan Hansen, Chapel Hill residents; Beth Gregory, Hillsborough resident; and Joel Bulkley.

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MOTIONS ACTED UPON

1. Terri Buckner made a motion to allow birdwatching at the Cane Creek Reservoir as follows: Wednesday's from November 18 – March 16 (excluding holidays) at no cost to the public and opening the gate from 7:00 AM until 11:00 AM; participants will be required to sign in at the Recreation Office to track data; a sign will be placed at the main entrance notifying users that Cane Creek Reservoir is open for the sole purpose of birdwatching; during severe weather or other emergency events, staff may decide to close the reservoir without prior notice; and this activity will be reevaluated in 2016. The Motion was seconded by Michael Hughes and unanimously approved.

2. Jeff Danner made a motion that the Board not schedule a night event at the Cane Creek Reservoir, but that the Board is open to considering a request for such an event; second by Robert Morgan and unanimously approved.

3. BE IT RESOLVED THAT the Orange Water and Sewer Authority Board of Directors adopts the Resolution Authorizing Merit Pay Increases for Eligible Employees. (Resolution so titled attached hereto and made a part of these minutes. Motion by Robert Morgan, second by Jeff Danner and Resolution passed with a vote of seven to two with Terri Buckner and Ruchir Vora opposed.)

ANNOUNCEMENTS

John Young 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. There were none.

Heather Payne, Dave Moreau and Ruchir Vora reported on their meeting with the Chapel Hill Town Council's OWASA Committee on September 10, 2015.

Mr. Young announced the following Standing Committees of the Board of Directors:

- Community Engagement: Ruchir Vora, Chair; Quinton Harper; Terri Buckner; and Robert Morgan
- Finance: Heather Payne, Chair; Jeff Danner; and Dave Moreau
- Human Resources: Robert Morgan, Chair; Jeff Danner; and Heather Payne
- Natural Resources and Technical Systems: Dave Moreau, Chair; Terri Buckner; and Ruchir Vora

Michael Hughes announced his resignation effective following the September 24, 2015 Board Meeting.

Terri Buckner reported on the September 2, 2015 meeting of the Ad Hoc Working Group regarding collaboration on energy management and renewables. She said the group has decided not to hold a public forum but to focus on collaboration opportunities.

ITEM ONE: ADDITIONAL RECREATION ACTIVITIES AT THE CANE CREEK RESERVOIR

After receiving comments and feedback from the public (30 written comments were provided to the Board and speakers at the Board meeting included: Roy Dickie, Jan Hansen, Beth Gregory, Loren Hintz, and Mary Sonis), the Board was in agreement to allow birdwatching at the Cane Creek Reservoir.

Terri Buckner made a motion to allow birdwatching at the Cane Creek Reservoir as follows: Wednesday's from November 18 – March 16 (excluding holidays) at no cost to the public and opening the gate from 7:00 AM until 11:00 AM; participants will be required to sign in at the Recreation Office to track data; a sign will be placed at the main entrance notifying users that Cane Creek Reservoir is open for the sole purpose of birdwatching; during severe weather or other emergency events, staff may decide to close the reservoir without prior notice; and this activity will be reevaluated in 2016. The Motion was seconded by Michael Hughes and unanimously approved. Please see Motion 1 above.

Jeff Danner made a motion that the Board not schedule a night event at the Cane Creek Reservoir, but that the Board is open to considering a request for such an event; second by Robert Morgan and unanimously approved. Please see Motion 2 above.

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ITEM TWO: DISCUSSION OF POTENTIAL WATER AND SEWER RATE STRUCTURE MODIFICATIONS

The Board continued its discussions on potential modifications to OWASA's water and sewer rate structure. Staff presented background information and recommended a cost allocation study as the next step. The Board generally agreed but requested that staff first provide a work plan that outlines the process ahead. Staff will present the work plan at the Board's October 8, 2015 meeting.

ITEM THREE: APPROVE EMPLOYEE MERIT PAY FOR FISCAL YEAR (FY) 2016

Robert Morgan made a motion to approve the Resolution Authorizing Merit Pay Increases for Eligible Employees and that employees rated as "Successful" in their October 2015 annual performance review will receive a merit pay increase of 3% and employees rates as "Exceptional" in their October 2015 annual performance review will receive a merit pay increase of 6% effective November 2, 2015; second by Jeff Danner and the motion passed with a vote of seven to two with Terri Buckner and Ruchir Vora opposed. Please see Motion 3 above.

ITEM FOUR: REQUEST(S) BY BOARD COMMITTEES, BOARD MEMBERS AND STAFF

Dave Moreau requested information on water billing increments; staff will follow up with Mr. Moreau.

ITEM FIVE: REVIEW 12 MONTH BOARD MEETING SCHEDULE

The Board agreed to elect a new Vice Chair on September 24th and the Advance Metering Infrastructure agenda item will include a project charter and community engagement information. On October 8th the Board will continue discussion on potential rate structure modifications and present information about customer classes and water use; and receive a report on legal duties with respect to expectations of OWASA resources. The 2016 Recreation Fees and Activities agenda item was removed from the October 22nd meeting, not to be rescheduled.

ITEM SIX: SUMMARY OF BOARD WORK SESSION ITEMS

Ed Kerwin summarized the key action items for staff as follows:

- Staff will inform Cane Creek neighbors and other stakeholders of the Board's approval for bird watching at the Cane Creek reservoir;
- Staff with follow up with Dave Moreau regarding his inquiry about water billing increments; and
- Staff will provide alternatives ways to reflect information on the 12 Month Board Meeting Schedule that include future Board decisions that will be preceded by active community engagement.

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ITEM SEVEN: CLOSED SESSION FOR THE PURPOSE OF DISCUSSING TWO PERSONNEL MATTERS

Without objection, the Board of Directors convened in a Closed Session for the purpose of discussing two personnel matters.

The meeting was adjourned at 9:30 PM.

Respectfully submitted by:

Andrea Orbich
Executive Assistant/Clerk to the Board

Attachment

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ORANGE WATER AND SEWER AUTHORITY

CLOSED SESSION OF THE BOARD OF DIRECTORS

SEPTEMBER 10, 2015

The Board of Directors of Orange Water and Sewer Authority met in Closed Session on Thursday, September 10, 2015, following the regular Board meeting.

Board Members present: John A. Young, Chair; Michael M. Hughes, P.E., Vice Chair; Heather Payne, Secretary; Terri Buckner; Jeff Danner; David (Dave) Moreau; Robert Morgan; and Ruchir Vora. Board Member absent: Quinton Harper.

Staff present: Robert Epting, General Counsel.

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ITEM ONE

The Board of Directors met in Closed Session to evaluate the annual performance review of OWASA's General Counsel.

ITEM TWO

The Board of Directors met in Closed Session without staff to evaluate the annual performance review of OWASA's Executive Director.

No official action was taken at the meeting.

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Michael M. Hughes, P.E., Chair
Human Resources Committee

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AGENDA ITEM

- **ADVANCED METERING INFRASTRUCTURE (AMI) FEASIBILITY STUDY UPDATE – INTERVIEW FINDINGS & TECHNOLOGY/STRATEGY REVIEW**

BACKGROUND

- On July 1, OWASA signed the contract with Dr. Schlenger & Associates (DS&A) to officially begin work on the AMI Feasibility Study.

- During the week of July 20, Dr. Schlenger and his associates were on-site Wednesday through Friday. DS&A conducted the project kick-off meeting and Dr. Schlenger and Linda Vaughn conducted one-on-one interviews with key staff members. On Friday, Dr. Schlenger presented the interview findings to the group and conducted a technology workshop to provide staff with a better understanding of AMI technology and systems.

- Dr. Schlenger has provided a write-up of the findings and alternative implementation scenarios (continue meter reading and replacement as currently configured, AMI/Automatic Meter Reading hybrid, etc.) as the first project deliverables. These deliverables are being presented to the Board of Directors for review and discussion.

ACTION NEEDED

- Board concurrence with the implementation scenarios being evaluated by DS&A.

- Board feedback and guidance on next steps and community engagement.

September 24, 2015

ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: Board of Directors

THROUGH: Ed Kerwin

FROM: Todd Taylor and Daniel Przybyl

DATE: September 18, 2015

SUBJECT: Advanced Metering Infrastructure (AMI) Feasibility Study Update – Interview Findings & Technology/Strategy Review

PURPOSE

To receive a presentation by Dr. Schlenger and Associates covering the first deliverables from the AMI Feasibility Study:

- Findings from interviews with key staff members.
- Proposed metering infrastructure implementation scenarios for analysis

The presentation will also include an overview of AMI technology/strategy.

Staff will also discuss and receive the Board's guidance on next steps and community engagement.

BACKGROUND

On July 1, 2015, OWASA signed the contract with Dr. Schlenger & Associates (DS&A) to officially begin work on the AMI Feasibility Study. Prior to July 1, Dr. Schlenger provided an extensive list of requested documents and data for staff to compile and provide to Dr. Schlenger. The week of July 20, 2015, Dr. Schlenger and his associates were on-site Wednesday through Friday. DS&A conducted the project kick-off meeting and Dr. Schlenger and Linda Vaughn conducted one-on-one interviews with key staff members. On Friday, Dr. Schlenger presented the interview findings to the group and conducted a technology workshop to provide staff with a better understanding of AMI technology and systems.

DS&A has provided a write-up of the findings and alternative implementation scenarios (continue meter reading and replacement as currently configured with Automatic Meter Reading (AMR) meters, AMI/AMR hybrid, etc.) as the first project deliverables. These deliverables are being presented to the Board for review and concurrence on the proposed scenarios to be evaluated (Attachments 1 & 2).

DS&A returned to OWASA the week of August 17, 2015 to conduct business process workshops with staff. The purpose of those interviews was to identify potential cost-savings through more efficient business processes that would then be incorporated into the financial models for the various implementation scenarios.

NEXT STEPS AND COMMUNITY ENGAGEMENT

DS&A will again be onsite at OWASA September 23 and 24, 2015 to review the preliminary Economic & Financial Analysis and conduct workshops for:

- Non-Economic Benefits/Costs
- Implementation Considerations
- Risk and Organizational Readiness Assessment

Dr. Schlenger is scheduled to present the preliminary Economic & Financial Analysis to the Board of Directors at their October 22, 2015 meeting. The AMI Feasibility Study Tasks Flowchart (Attachment 3) identifies the tasks included in the Feasibility Study that have been completed and the remaining tasks to be completed.

Looking forward to the completion of the AMI Feasibility Study later this year, the AMI 12-month schedule has been revised to accommodate an extensive community engagement effort as may be determined by the Board. Highlights of the revised 12-month schedule are:

1. Presentation to the Board of the draft study report at the November 12, 2015 Board Work Session.

2. Presentation to the Board of the final study report at the December 10, 2015 Board Work Session.

3. The January 2016 work session will be an opportunity for the Board to discuss and decide the direction of the project following the presentation of the final AMI Feasibility Study report at the December 2015 Board meeting. At this meeting, it is anticipated that the Board may adopt one of two possible approaches based upon the findings of the report:

    a. The Board may decide, based on the AMI Feasibility Study, to select a specific recommended implementation approach (e.g., AMI, AMR, hybrid AMI/AMR) and focus the community engagement on informing the community of the Board's decision including the benefits of the selected option.

    b. The Board may decide, based on the AMI Feasibility study, to solicit public input before making a decision on whether or not to pursue an alternative meter reading solution and, if needed, which AMR/AMI solution to implement. In this event, the focus of the community engagement plan will be to solicit the community's opinions and concerns regarding the various implementation options and utilize the community's feedback to make a final decision.

4. The February through June 2016 timeframe will consist of the community engagement phase (either 1a or 1b above).

5. The procurement phase of the AMI project is rescheduled to begin in July 2016. Funds will be included in the FY2017 CIP budget in anticipation of the need for Dr. Schlenger's services to assist in the procurement process.

6. The implementation phase of the AMI project would be anticipated to begin in July 2017 with funding included in the FY2018 budget.

ACTION NEEDED

Request Board concurrence with the alternative implementation scenarios being evaluated by DS&A.

Todd Taylor, P.E.
General Manager of Operations

Daniel Przybyl
Director of Information Technology

Attachments: 1 – AMI Feasibility Study Interviews Summary
2 – AMR/AMI Strategy Alternatives for Modeling and Evaluation
3 – AMI Feasibility Study Tasks Flowchart

DS&A

ADVANCED METERING INFRASTRUCTURE FEASIBILITY STUDY INTERVIEWS SUMMARY

In a series of confidential interviews, key OWASA staff in the areas related to metering and customer service were asked about the challenges and opportunities that might be influenced or addressed by an advanced metering infrastructure (AMI) system. Some important themes from the interviews include:

- OWASA employees may not be utilizing the capabilities of OWASA's existing AMR system nor the features of its Cogsdale customer information system as efficiently as they could. There is a tendency to stick with "tried and true" approaches. Among public utilities, motivating, empowering and maintaining morale among customer service employees, for whom dealing with customers' issues is a big part of the job, is typically a challenge. To ensure employees are performing effectively, OWASA needs to provide them with sufficient training on its systems and business processes, establish and monitor relevant performance metrics, and ensure procedures are being followed. Its managers need to ensure that employees understand how to use the current systems to provide cost-effective customer service and have the soft skills to work through challenging issues. OWASA's recruitment and hiring process also needs to ensure that new employees have sufficient computer and analytical skills.

- OWASA's Customer Service and Operations employees need to work more collaboratively to ensure that OWASA is providing efficient and cost-effective customer service. They need to use all the information available to them and coordinate their efforts to resolve customer requests and problems.

- OWASA is very sensitive to the needs of its customers. However, the extent of the effort expended may result in inefficient practices. There is a tendency to send a field representative to a customer's home when the issue could be resolved with information provided by a knowledgeable customer service representative in the office. Currently OWASA will help customers identify leaks in their homes or their in-ground irrigation systems at no charge. Because the home visit is free, some customers call OWASA first, rather than contact their irrigation system service company or plumber. As a result, customers not making these requests subsidize such services to others. Additionally, there is a tendency for senior managers to become involved in individual customer issues. While the intent is to help the customer, this is an inefficient use of senior managers' time. OWASA staff need to be conscious that providing quality service needs to be balanced with reasonable customer expectations.

- While broad-banded jobs provide an opportunity for advancement, meter reading, customer field service and meter management are considered entry level positions. While overall turnover at OWASA is low, turnover in these specific positions results in employees who have insufficient knowledge and experience in field service, meter maintenance, etc.

OWASA managers were asked what they thought were the greatest needs for a metering system. Responses fell into the following categories:

- Timely and accurate meter data in which staff and customers can be confident.

- This information could be used to make customers aware of consumption anomalies that could result in high bills, and help them manage water usage.

- An AMI system would reduce operational problems in the field, such as being unable to locate a meter. It would also enable OWASA to reduce the number of truck rolls for re-reads, final reads, collections reads, and high consumption investigations.

OWASA managers were asked what they thought were the most significant concerns related to implementing an AMI system. The most persistent themes were:

- With AMI, OWASA can resolve many customer issues without rolling trucks, but Customer Service employees must rely on the metering system to be accurate and well maintained.

- An AMI system must be carefully deployed to ensure that it is done correctly; it must also be managed so that everyone is confident in the accuracy of the system.

- Project implementation will require dedicated OWASA staff resources for project management, software integration, field inspection, etc. Additional time will be needed for training users and testing to ensure competency in performing tasks. OWASA staff are concerned about having sufficient resources to carry out the project while handling the normal workload.

- The staff that implement and manage an AMI system, as well as the staff that use the data and maintain the system, must be well-trained and supported. This will go a long way in ensuring confidence and trust in the system.

- The organization must be prepared to handle and use the greatly increased volume of data created by an AMI system. Failure to do this would result in not realizing the benefits and savings of the investment, and could even bottleneck operations.

- The system must include features (such as a web portal) to enable employees and customers to access and fully use the information. Staff must be trained first and comfortable in using the system before making the system available to customers, as customer service employees will need to guide customers in using the system's information.

- AMI-generated information can provide insights to help address customer consumption issues. However, this would require training, motivating and empowering OWASA employees to become more analytical and skilled in critical thinking. It will also require changes to some procedures to take advantage of this information. Change management (tied to job content and training, the use of technology, changes to processes and policies, and even corporate culture) would need to be an integral part of any project.

DS&A

OWASA AMI Feasibility Study

AMR/AMI Strategy Alternatives for Modeling and Evaluation

The core of the Advanced Metering Infrastructure (AMI) Feasibility Study is developing economic analyses of the costs and benefits of key strategic metering alternatives for OWASA, as well as considering the non-economic benefits and costs of these alternatives.

OWASA has recently been installing AMR devices (Mueller HotRod radios) tied to the replacement of its small meters under a 20-year age change-out program and in conjunction with other meter replacements. Continuing this approach will result in the eventual (after another dozen years or so) saturation of OWASA's meters with AMR, although AMR radios of varying ages will be intermixed throughout the service territory. This approach can be considered the "base" case against which alternative strategies will be compared for the economic analyses.

Based on the data provided by OWASA staff, the results of employee interviews during July 22-24 and further discussions with OWASA managers, as well as our own experience, DS&A proposes three metering system scenarios for which benefit/cost analyses will be developed. These are:

1. **Rapid deployment of mobile AMR throughout the OWASA service territory.** Field deployment would probably take 6-12 months. This can be evaluated both with using the existing Mueller drive-by units, or replacing everything with a new system.

   This option is meant to capture the benefits of AMR implementation in a reasonable payback period. Under the current baseline approach of "slow AMR" the benefits of the AMR system will be realized incrementally over the next approximately 12 years with some meters continuing to be read manually until the project is complete. With rapid AMR, the entire service area would be converted to mobile reads with the resulting benefits realized years sooner.

2. **Rapid deployment of advanced metering infrastructure (AMI) throughout the OWASA service territory.** This deployment will be similar to AMR, except that instead of mobile AMR meter reading devices, fixed data collection units would be installed to cover the entirety of OWASA's service territory. New radios would be required, and field deployment would probably take 6-12 months.

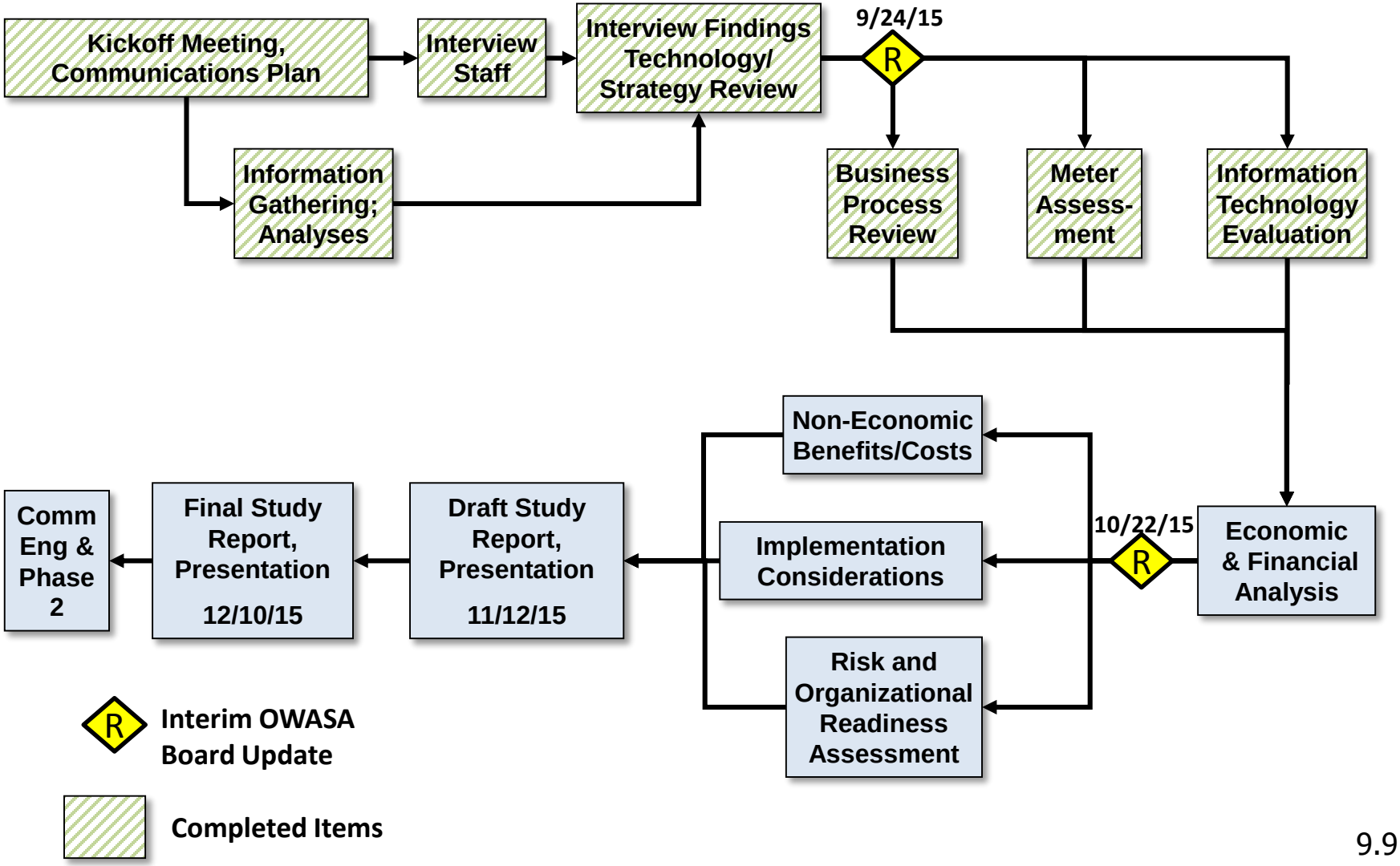
   This option is meant to capture the full benefits of AMI across the entire OWASA service area within the shortest period of time. This includes the fixed network for reading meters, customer portal, meter database management system, etc, and represents the opposite end of the spectrum from the baseline "slow AMR" scenario.

3. **Deployment of a limited AMI network covering the meters of the UNC main campus and medical institutions as well as the Chapel Hill/Carrboro central business district.** This network

would encompass most of the high cost-to-read water meters as well as meters of many (student) rental housing units, which tend to require more field visits by OWASA service representatives. The remaining meters not covered by this network would eventually be converted to AMR under OWASA's existing program.

This option captures the benefits of AMI in the most densely populated and meter-dense part of the service area. It captures the benefits of AMI for the vast majority of the vault meters which require two-man reading crews and are more expensive to read.

OWASA AMI Feasibility Study Tasks



AGENDA ITEM

- RESOLUTION REAPPOINTING THE FIRM OF EPTING AND HACKNEY 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

- 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.
- Maintain monthly retainer at $10,000.

RECOMMENDATION

- Reappoint Epting and Hackney as General Counsel to the Orange Water and Sewer Authority in accordance with the terms and conditions set out in his letter dated September 3, 2015 to the Executive Director (attached).

September 24, 2015

RESOLUTION REAPPOINTING EPTING AND HACKNEY 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, sewer and reclaimed water 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, General Partner of the firm Epting and Hackney, 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 their services as General Counsel;

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

1. That 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 Robert Epting's letter dated September 3, 2015 to the Executive Director.

2. That as General Counsel, the he and his firm will serve under the general direction of the Executive Director, subject to the ultimate authority of the Board of Directors.

3. That this reappointment will be effective October 1, 2015, and shall continue until terminated as provided in Mr. Epting's said letter dated September 3, 2015.

Adopted this 24th day of September, 2015.

_____
John A. Young, Chair

ATTEST:

_____
Heather Payne
Secretary

EPTING AND HACKNEY
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OF COUNSEL:
ELIZABETH LACKEY JACOBS
ELLEN B. SCOUTEN

September 3, 2015

Mr. Ed Kerwin
Executive Director
Orange Water and Sewer Authority
Carrboro, NC 27510

General Counsel Engagement Letter

Dear Mr. Kerwin:

I appreciate the privilege of having been appointed to serve as General Counsel to the Orange Water and Sewer Authority since 1984. As General Counsel is appointed to serve on an annual basis from October 1 through September 30, I write to suggest the terms upon which I propose to continue in this capacity, should the Board of Directors choose to continue my appointment at its annual meeting.

First though, I want to thank you and the staff, and each of the members of the Board of Directors, for the support given my work as General Counsel. Surely few public agency lawyers have the advantage of working with so qualified and cooperative an administrative and support staff, or to report to as dedicated a governing Board, as I enjoy at OWASA.

Today most of the matters I handle directly as OWASA's General Counsel are things I believe benefit from the scope of my training and experience as an environmental lawyer for more than thirty years, and as one who has that many years of experience serving on and working with our local governments, and with state and federal agencies. In that work, for other clients, my hourly rate is now $300.00 per hour, and up, depending upon the complexity of the matter.

I am willing and would be pleased to continue to serve as General Counsel upon the terms and conditions of our present understanding, under which I am paid $150.00 per hour, and under which it is understood and agreed that I will devote most of my forty hour work week to OWASA matters, as a priority. When I do work for other clients, I will subtract the time involved in those services from the remainder of my work week, and the balance will be billed to OWASA for our representation and services.

The amount of my work for OWASA has increased over the years to more than eighty percent of all my work, and the total bill has gone up accordingly. But we are constantly looking for ways to educate staff to be able to minimize legal costs, and I am satisfied that OWASA obtains a fair bargain for our services. I am proud of our efforts on OWASA's behalf, and I continue to enjoy the work and very prompt payment for this representation.

Again, we propose to continue to serve in the coming year upon the same terms and conditions as last year, which are set out below.

1. Appointment and Service as General Counsel.

As General Counsel, we would undertake and agree to exercise our best professional judgment and to provide our best efforts in that service, including, as necessary the services of my partners, associates, and firm employees and contractors under our direction and supervision, to the Authority, its Board and staff, as to the legal affairs, rights, and responsibilities of the Authority.

Appointment of General Counsel would be made and accepted anticipating and engaging our legal services on an operating year basis, that is, from October 1, 2015 through September 30, 2016, subject to such reviews, renewal, or termination as the Board of Directors may deem appropriate; provided, that such appointment will be deemed to continue in full effect until terminated as provided herein by either of the parties.

The Authority Board of Directors shall have the right to terminate, or not to renew, this appointment upon not less than ninety days written notice to me as General Counsel, or with the payment of the monthly retainer for at least three months past the effective termination date, along with such other fees and charges as may be due at the date of termination.

I will also retain the right to end my service as General Counsel should that necessity arise. Unless that termination or retirement is caused by health or other circumstances beyond my control, I would endeavor to give the Board not less than one year's notice in advance of any termination on my part. And, for so long as my health allowed after my retirement, I would always remain available to confer and consult with OWASA representatives as they might find useful, upon such terms and conditions as may be agreed in that event.

While serving as General Counsel, I will continue in the general practice of law as a partner in the firm of EPTING & HACKNEY, or otherwise, as I might choose. And, I would avoid in that practice the representation of any clients whose interests might be in conflict with those of OWASA.

2. Specific Services.

As General Counsel, I will be available generally for consultations and assignments as noted above. I will attend regular Board meetings and such other meetings and work sessions as requested. Whenever I may be unable to attend such meetings, one of my partners, Elizabeth Lackey Jacobs or Joe Hackney, will attend in my place. I will be available regularly in my firm office, or in OWASA's offices as requested, and at any other time by telephone and electronic messaging means, for regular consultations by Board and staff.

3. Compensation by Monthly Retainer; Other Compensation.

For my primary professional availability and the services provided as General Counsel, the Authority will pay to me as a retainer the sum of Ten Thousand Dollars ($10,000.00) per month, on or before the first business day of each month.

The monthly retainer will be applied against the fees charged for our time in the month for which the retainer is paid. An invoice for the net due for time and services beyond those paid by the retainer will be provided on a monthly basis, and the net due will be paid promptly to me.

For such time and services as may be devoted hereunder to my representation of the Authority, where such time exceeds the hours devoted per month multiplied by the hourly rate provided for under the monthly retainer, the Authority will compensate the firm at the rate of $150.00 per hour for my services and those of my partners Joe Hackney and Elizabeth Lackey Jacobs.

4. Expenses.

The Authority will also reimburse me for the reasonable and necessary expenses incurred in the performance of my duties as General Counsel. These would include, among others:

a) The costs of supplies and copies, when incurred for copies made, or for supplies necessary for our services to the Authority and devoted solely to its use;

b) The costs of our Clerks' time and related expenses, insofar as expended or incurred solely on behalf of the Authority, at a rate not to exceed $25.00 per hour;

c) The costs of non-local travel (distance exceeding 25 miles), meals and lodging when incurred in the service of the Authority; automobile expenses for personal vehicles to be reimbursed at the IRS-allowed rate, currently 61 cents per mile; and the expenses and fees for continuing education authorized and approved by the Executive Director of the Authority;

d) Such other costs as may be authorized by the Authority and incurred by reason of my appointment and service as General Counsel.

5. Other Services.

Matters involving opinions upon title and closing in the acquisition or disposal of real property by the Authority will be charged for and compensated on a parcel-by-parcel basis, in accordance with factors including the time expended and the consideration involved. Unless unusual effort and time are required in our closing of such matters for the Authority, our fees for title examination and the transactional closing would not normally exceed one percent of the purchase price, subject to a minimum of five hundred dollars per parcel.

I will be happy to provide such further information or response as you or the Board may wish with regard to this proposal.

I remain grateful and proud to have served the Authority as its General Counsel, and I hope that the Board of Directors will find this proposal acceptable to the end that I might continue in this capacity.

With kindest regards, I remain

Sincerely yours,

Robert Epting

AGENDA ITEM

- **NOMINATION AND ELECTION OF THE VICE CHAIR**

PURPOSE

- Take and discuss nominations for a new Vice Chair and elect the Vice Chair for Board.

BACKGROUND

- Michael Hughes has served as Vice Chair of the Board since June 11, 2015. On August 28, 2015, he submitted his resignation as an OWASA Board Member and as Vice Chair effective as of the end of the September 24, 2015 meeting.

- At the September 10, 2015 Board Work Session, the Board agreed that it would accept nominations and elect a new Vice Chair on September 24, 2015.

ACTION NEEDED

- Take nominations and elect a new Vice Chair of the Board.